

Univar Inc.
Form 10-Q
November 06, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 001-37443

Univar Inc.
(Exact name of registrant as specified in its charter)

Delaware	26-1251958
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3075 Highland Parkway, Suite 200 Downers Grove, Illinois	60515
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (331) 777-6000	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At October 22, 2018, 141,633,516 shares of the registrant's common stock, \$0.01 par value, were outstanding.

Table of Contents

Univar Inc.
Form 10-Q
For the quarterly period ended September 30, 2018
TABLE OF CONTENTS

	Page
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Statements of Operations	<u>1</u>
Condensed Consolidated Statements of Comprehensive Income	<u>2</u>
Condensed Consolidated Balance Sheets	<u>3</u>
Condensed Consolidated Statements of Cash Flows	<u>4</u>
Condensed Consolidated Statements of Changes in Stockholders' Equity	<u>5</u>
Notes to Condensed Consolidated Statements	<u>6</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>26</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>41</u>
Item 4. Controls and Procedures	<u>42</u>
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>42</u>
Item 1A. Risk Factors	<u>42</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>42</u>
Item 3. Defaults Upon Senior Securities	<u>42</u>
Item 4. Mine Safety Disclosures	<u>42</u>
Item 5. Other Information	<u>42</u>
Item 6. Exhibits	<u>43</u>
Signatures	<u>44</u>

Table of ContentsPART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

Univar Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

(in millions, except per share data)	Note	Three months ended		Nine months ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net sales		\$2,130.7	\$2,048.7	\$6,661.3	\$6,294.5
Cost of goods sold (exclusive of depreciation)		1,662.0	1,593.9	5,205.5	4,933.9
Operating expenses:					
Outbound freight and handling		82.7	74.8	248.5	217.7
Warehousing, selling and administrative		229.0	230.7	710.9	695.2
Other operating expenses, net	4	12.4	11.8	37.0	55.8
Depreciation		31.5	32.5	93.8	102.5
Amortization		13.5	16.8	40.7	50.0
Total operating expenses		\$369.1	\$366.6	\$1,130.9	\$1,121.2
Operating income		\$99.6	\$88.2	\$324.9	\$239.4
Other (expense) income:					
Interest income		0.6	0.9	2.7	2.6
Interest expense		(32.8)	(39.3)	(101.8)	(112.6)
Loss on extinguishment of debt		—	—	—	(0.8)
Other income (expense), net	6	2.5	(4.4)	3.0	(20.4)
Total other expense		\$(29.7)	\$(42.8)	\$(96.1)	\$(131.2)
Income before income taxes		69.9	45.4	228.8	108.2
Income tax expense	8	20.3	6.5	57.7	15.4
Net income		\$49.6	\$38.9	\$171.1	\$92.8
Income per common share:					
Basic	9	\$0.35	\$0.28	\$1.21	\$0.66
Diluted	9	0.35	0.28	1.20	0.66
Weighted average common shares outstanding:					
Basic	9	141.2	140.4	141.1	140.0
Diluted	9	142.3	141.4	142.1	141.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

1

Table of Contents

Univar Inc.
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)

(in millions)	Note	Three months ended		Nine months ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income		\$49.6	\$38.9	\$171.1	\$92.8
Other comprehensive income (loss), net of tax:					
Impact due to adoption of ASU 2017-12 ⁽¹⁾	10	—	—	0.5	—
Foreign currency translation	10	2.0	56.9	(61.0)	120.1
Derivative financial instruments	10	(0.1)	0.9	9.3	0.9
Pension and other postretirement adjustment	10	—	(0.1)	0.1	(0.2)
Total other comprehensive income (loss), net of tax		\$1.9	\$57.7	\$(51.1)	\$120.8
Comprehensive income		\$51.5	\$96.6	\$120.0	\$213.6

Adjusted due to the adoption of Accounting Standards Update (“ASU”) 2017-12 “Targeted Improvements to (1) Accounting for Hedging Activities” on January 1, 2018. Refer to “Note 2: Significant accounting policies” for more information.

The accompanying notes are an integral part of these condensed consolidated financial statements.

2

Table of ContentsUnivar Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except per share data)	Note	September 30, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents		\$ 85.9	\$ 467.0
Trade accounts receivable, net		1,261.0	1,062.4
Inventories		843.6	839.5
Prepaid expenses and other current assets		164.8	149.6
Total current assets		\$ 2,355.3	\$ 2,518.5
Property, plant and equipment, net	12	960.7	1,003.0
Goodwill		1,807.1	1,818.4
Intangible assets, net	12	254.2	287.7
Deferred tax assets		20.7	22.8
Other assets		99.1	82.3
Total assets		\$ 5,497.1	\$ 5,732.7
Liabilities and stockholders' equity			
Current liabilities:			
Short-term financing	11	\$ 8.7	\$ 13.4
Trade accounts payable		920.8	941.7
Current portion of long-term debt	11	57.3	62.0
Accrued compensation		91.1	100.7
Other accrued expenses		251.9	301.6
Total current liabilities		\$ 1,329.8	\$ 1,419.4
Long-term debt	11	2,543.7	2,820.0
Pension and other postretirement benefit liabilities		239.6	257.1
Deferred tax liabilities		49.9	35.4
Other long-term liabilities		103.4	110.7
Total liabilities		\$ 4,266.4	\$ 4,642.6
Stockholders' equity:			
Preferred stock, 200.0 million shares authorized at \$0.01 par value with no shares issued or outstanding as of September 30, 2018 and December 31, 2017		\$ —	\$ —
Common stock, 2.0 billion shares authorized at \$0.01 par value with 141.6 and 141.1 million shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively		1.4	1.4
Additional paid-in capital		2,321.6	2,301.3
Accumulated deficit		(762.7) (934.1)
Accumulated other comprehensive loss	10	(329.6) (278.5)
Total stockholders' equity		\$ 1,230.7	\$ 1,090.1
Total liabilities and stockholders' equity		\$ 5,497.1	\$ 5,732.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

Univar Inc.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Note	Nine months ended September 30,	
		2018	2017
Operating activities:			
Net income		\$171.1	\$92.8
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization		134.5	152.5
Amortization of deferred financing fees and debt discount		5.8	5.9
Amortization of pension credit from accumulated other comprehensive loss		0.1	(0.2)
Loss on extinguishment of debt		—	0.8
Deferred income taxes		8.9	(4.0)
Stock-based compensation expense	4	17.7	16.0
Other		(0.8)	(0.2)
Changes in operating assets and liabilities:			
Trade accounts receivable, net		(216.3)	(198.3)
Inventories		(11.9)	1.5
Prepaid expenses and other current assets		(13.3)	(15.4)
Trade accounts payable		(7.3)	58.1
Pensions and other postretirement benefit liabilities		(32.6)	(34.6)
Other, net		(58.5)	(39.1)
Net cash (used) provided by operating activities		\$(2.6)	\$35.8
Investing activities:			
Purchases of property, plant and equipment		\$(59.9)	\$(58.0)
Purchases of businesses, net of cash acquired		(20.0)	(24.4)
Proceeds from sale of property, plant and equipment		8.7	3.2
Other		(0.1)	(1.2)
Net cash used by investing activities		\$(71.3)	\$(80.4)
Financing activities:			
Proceeds from issuance of long-term debt	11	\$267.7	\$2,234.0
Payments on long-term debt and capital lease obligations	11	(558.1)	(2,267.6)
Short-term financing, net	11	(2.3)	(18.9)
Financing fees paid		—	(4.4)
Taxes paid related to net share settlements of stock-based compensation awards		(3.7)	(8.0)
Stock option exercises		5.7	32.1
Contingent consideration payments		—	(3.2)
Other		0.6	0.5
Net cash used by financing activities		\$(290.1)	\$(35.5)
Effect of exchange rate changes on cash and cash equivalents		\$(17.1)	\$37.6
Net decrease in cash and cash equivalents		(381.1)	(42.5)
Cash and cash equivalents at beginning of period		467.0	336.4
Cash and cash equivalents at end of period		\$85.9	\$293.9
Supplemental disclosure of cash flow information:			
Non-cash activities:			
Additions of property, plant and equipment included in trade accounts payable and other accrued expenses		\$11.5	\$7.3
Additions of property, plant and equipment under a capital lease obligation		19.2	17.0

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

Table of Contents

Univar Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(in millions)	Common stock (shares)	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
Balance, December 31, 2016	138.8	\$ 1.4	\$2,251.8	\$ (1,053.4)	\$ (389.9)	\$809.9
Impact due to adoption of ASU, net of tax \$0.2 (1)	—	—	0.7	(0.5)	—	0.2
Net income	—	—	—	119.8	—	119.8
Foreign currency translation adjustment, net of tax (\$2.1)	—	—	—	—	107.1	107.1
Pension and other postretirement benefits adjustment, net of tax \$0.6	—	—	—	—	(2.4)	(2.4)
Derivative financial instruments, net of tax (\$4.3)	—	—	—	—	6.7	6.7
Restricted stock units vested	0.8	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(0.3)	—	(8.5)	—	—	(8.5)
Stock option exercises	1.8	—	36.5	—	—	36.5
Employee stock purchase plan	—	—	1.1	—	—	1.1
Stock-based compensation	—	—	19.7	—	—	19.7
Balance, December 31, 2017	141.1	\$ 1.4	\$2,301.3	\$ (934.1)	\$ (278.5)	\$1,090.1
Impact due to adoption of ASU's, net of tax (\$0.3) (2)	—	—	—	0.3	0.5	0.8
Net income	—	—	—	171.1	—	171.1
Foreign currency translation adjustment, net of tax (\$0.1)	—	—	—	—	(61.0)	(61.0)
Pension and other postretirement benefits adjustment, net of tax \$0.0	—	—	—	—	0.1	0.1
Derivative financial instruments, net of tax (\$3.1)	—	—	—	—	9.3	9.3
Restricted stock units vested	0.3	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(0.1)	—	(3.7)	—	—	(3.7)
Stock option exercises	0.3	—	5.7	—	—	5.7
Employee stock purchase plan	—	—	0.6	—	—	0.6
Stock-based compensation	—	—	17.7	—	—	17.7
Balance, September 30, 2018	141.6	\$ 1.4	\$2,321.6	\$ (762.7)	\$ (329.6)	\$1,230.7

(1) Adjusted due to the adoption of ASU 2016-09 "Improvement to Employee Share-Based Payment Accounting" on January 1, 2017.

(2) Adjusted due to the adoption of ASU 2014-09 "Revenue from Contracts with Customers" and ASU 2017-12 "Targeted Improvements to Accounting for Hedging Activities" on January 1, 2018. Refer to "Note 2: Significant accounting policies" for more information.

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

Table of Contents

Univar Inc.

Notes to Condensed Consolidated Financial Statements

As of September 30, 2018 and

For the Three and Nine Month Periods Ended September 30, 2018 and 2017

(Unaudited)

1. Nature of operations

Headquartered in Downers Grove, Illinois, Univar Inc. (“the Company” or “Univar”) is a leading global chemicals and ingredients distributor and provider of specialty chemicals. The Company’s operations are structured into four operating segments that represent the geographic areas under which the Company manages its business:

• Univar USA (“USA”)

• Univar Canada (“Canada”)

• Univar Europe, the Middle East and Africa (“EMEA”)

• Rest of World (“Rest of World”)

Rest of World includes certain developing businesses in Latin America (including Brazil and Mexico) and the Asia-Pacific region.

2. Significant accounting policies

Basis of presentation

The condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to interim financial reporting. Unless otherwise indicated, all financial data presented in these condensed consolidated financial statements are expressed in US dollars. These condensed consolidated financial statements, in the Company’s opinion, include all adjustments consisting of normal recurring accruals necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, comprehensive income, cash flows and changes in stockholders’ equity. The results of operations for the periods presented are not necessarily indicative of the operating results that may be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as recast to the extent provided in the Current Report on Form 8-K and the exhibits attached thereto, filed with the Securities and Exchange Commission (the “SEC”) on November 1, 2018.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated if the Company has a controlling financial interest, which may exist based on ownership of a majority of the voting interest, or based on the Company’s determination that it is the primary beneficiary of a variable interest entity (“VIE”) or if otherwise required by US GAAP. The Company did not have any material interests in VIEs during the periods presented in these condensed consolidated financial statements. All intercompany balances and transactions are eliminated in consolidation.

The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ materially from these estimates.

Recently issued and adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606). On January 1, 2018, the Company adopted the new Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

In August 2017, the FASB issued ASU 2017-12 “Derivatives and Hedging” (Topic 815) - “Targeted Improvements to Accounting for Hedging Activities.” The ASU better aligns hedge accounting with the Company’s risk management activities, simplifies the application of hedge accounting, and improves transparency as to the scope and results of

hedging programs. The Company early adopted the new pronouncement effective January 1, 2018, using the modified retrospective approach by recognizing the cumulative effect of initially applying the new pronouncement as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Table of Contents

The cumulative effect of the changes made to our January 1, 2018 condensed consolidated balance sheet for the adoption of ASU 2014-09 “Revenue from Contracts with Customers” (Topic 606) and ASU 2017-12 “Derivatives and Hedging” (Topic 815) - “Targeted Improvements to Accounting for Hedging Activities” is as follows:

(in millions)	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Adjustments due to ASU 2017-12	Balance at January 1, 2018
Assets				
Trade accounts receivable, net	\$ 1,062.4	\$ 41.3	\$ —	\$ 1,103.7
Inventories	839.5	(2.1)	—	837.4
Prepaid expenses and other current assets	149.6	1.8	—	151.4
Liabilities				
Trade accounts payable	\$ 941.7	\$ 7.0	\$ —	\$ 948.7
Other accrued expenses	301.6	33.2	—	334.8
Equity				
Accumulated deficit	\$(934.1)	\$ 0.8	\$ (0.5)	\$(933.8)
Accumulated other comprehensive loss	(278.5)	—	0.5	(278.0)

The following tables summarize the impact of adopting the new revenue standard upon the Company’s condensed consolidated balance sheet and statement of operations as of and for the three and nine months ended September 30, 2018:

(in millions)	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	As reported	Balances without adoption of ASC 606	Effect of change higher/(lower)	As reported	Balances without adoption of ASC 606	Effect of change higher/(lower)
Net sales	\$ 2,130.7	\$ 2,129.5	\$ 1.2	\$ 6,661.3	\$ 6,660.6	\$ 0.7
Cost of goods sold (exclusive of depreciation)	1,662.0	1,660.9	1.1	5,205.5	5,204.9	0.6
Income tax expense	\$ 20.3	\$ 20.3	\$ —	\$ 57.7	\$ 57.7	\$ —
Net income	49.6	49.5	0.1	171.1	171.0	0.1
	September 30, 2018					
(in millions)	As reported					