

CAMBREX CORP
Form 10-Q
August 02, 2018

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 June 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 1-10638

CAMBREX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE 22-2476135
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

ONE MEADOWLANDS PLAZA, EAST RUTHERFORD, NEW JERSEY 07073

(Address of principal executive offices)

(201) 804-3000

(Registrant's telephone number, including area code)

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 and posted pursuant to Rule 405 of Regulation S-T 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

As of July 31, 2018, there were 33,258,256 shares outstanding of the registrant's Common Stock, \$.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

Table of Contents

	Page No.
Part I <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Income Statements</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37

Part II Other Information

Item 1.	<u>Legal Proceedings</u>	38
Item 1A.	<u>Risk Factors</u>	38
Item 6.	<u>Exhibits</u>	38
	<u>Signatures</u>	39

Forward-Looking Statements

This document contains “forward-looking statements,” including statements or tables regarding expected performance. These and other forward-looking statements may be identified by the fact that they use words such as “guidance,” “expects,” “anticipates,” “intends,” “estimates,” “believes” or similar expressions. Any forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations. The factors described in Item 1A of Part I of the Company’s Annual Report on Form 10-K for the period ended December 31, 2017 captioned “Risk Factors,” or otherwise described in the Company’s filings with the SEC provide examples of such risks and uncertainties that may cause the Company’s actual results to differ materially from the expectations the Company describes in its forward-looking statements, including, but not limited to, the possibility that conditions to closing the Halo Pharma transaction could not be met or that the benefits from the acquisition may not be as anticipated, customer and product concentration, the Company’s ability to win new customer contracts and renew existing contracts on favorable terms, significant declines in sales of products to our customers, pharmaceutical outsourcing trends, competitive pricing or product developments, market acceptance and adoption rate of its customers’ products, government legislation and regulations (including those pertaining to environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, including the outcome of outstanding litigation, environmental matters, changes in foreign exchange rates, uncollectible receivables, the timing and/or volume of orders or shipments and the Company’s ability to meet its production plan and customer delivery schedules, expected timing of completion of capacity expansions, our ability to successfully integrate acquired businesses, loss on disposition of assets, cancellations or delays in renewal of contracts, lack of suitable raw materials, the Company’s ability to receive regulatory approvals for its products, continued demand in the U.S. for late stage clinical products and the successful outcome of the Company’s investment in new products.

For further details and a discussion of these and other risks and uncertainties, investors are encouraged to review the Cambrex Annual Report on Form 10-K for the fiscal year ended December 31, 2017, including the Forward-Looking Statement sections therein, and other filings with the SEC. The Company cautions investors and potential investors not to place undue reliance on the forward-looking statements contained in this Quarterly Report on Form 10-Q and to give careful consideration to the risks and uncertainties listed above and contained in the Company’s SEC filings. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date of this document, and the Company undertakes no obligation to update or revise any of these statements.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 171,348	\$ 183,284
Trade receivables, net	100,224	75,144
Contract assets	107,083	-
Other receivables	15,417	20,891
Inventories, net	99,562	138,542
Prepaid expenses and other current assets	10,589	4,217
Total current assets	504,223	422,078
Property, plant and equipment, net	266,075	254,299
Goodwill	42,864	43,626
Intangible assets, net	12,753	13,868
Deferred income taxes	1,448	3,198
Other non-current assets	3,532	3,496
Total assets	\$ 830,895	\$ 740,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 51,596	\$ 35,017
Contract liabilities, current	8,153	4,707
Taxes payable	3,388	43
Accrued expenses and other current liabilities	33,304	42,774
Total current liabilities	96,441	82,541
Contract liabilities, non-current	39,000	39,000
Deferred income taxes	9,377	7,806
Accrued pension benefits	38,444	41,141
Other non-current liabilities	24,306	25,213
Total liabilities	207,568	195,701
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued		
34,477,144 and 34,270,975 shares at respective dates	3,448	3,427
Additional paid-in capital	172,480	165,979
Retained earnings	510,522	429,826
Treasury stock, at cost, 1,273,888 and 1,424,153 shares at respective dates	(10,860)	(12,140)

Edgar Filing: CAMBREX CORP - Form 10-Q

Accumulated other comprehensive loss	(52,263)	(42,228)
Total stockholders' equity	623,327	544,864
Total liabilities and stockholders' equity	\$ 830,895	\$ 740,565

See accompanying notes to unaudited consolidated financial statements.

3

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Income Statements

(unaudited – in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Gross sales	\$ 147,214	\$ 134,487	\$ 286,344	\$ 238,198
Commissions, allowances and rebates	192	649	401	1,243
Net sales	147,022	133,838	285,943	236,955
Other revenues, net	5,024	716	7,200	2,605
Net revenue	152,046	134,554	293,143	239,560
Cost of goods sold	87,254	76,995	177,496	135,126
Gross profit	64,792	57,559	115,647	104,434
Operating expenses:				
Selling, general and administrative expenses	16,007	18,120	32,862	33,511
Research and development expenses	4,133	4,467	7,752	8,357
Total operating expenses	20,140	22,587	40,614	41,868
Operating profit	44,652	34,972	75,033	62,566
Other expenses/(income):				
Interest expense, net	17	388	99	654
Unrealized gain on investment in equity securities	(5,146)	-	(5,146)	-
Other expenses, net	181	286	445	687
Income before income taxes	49,600	34,298	79,635	61,225
Provision for income taxes	8,748	9,174	14,534	14,986
Income from continuing operations	40,852	25,124	65,101	46,239
Loss from discontinued operations, net of tax	(433)	(94)	(624)	(1,344)
Net income	\$ 40,419	\$ 25,030	\$ 64,477	\$ 44,895
Basic earnings/(loss) per share of common stock:				
Income from continuing operations	\$ 1.23	\$ 0.77	\$ 1.97	\$ 1.42
Loss from discontinued operations, net of tax	\$(0.01)	\$(0.00)	\$(0.02)	\$(0.04)
Net income	\$ 1.22	\$ 0.77	\$ 1.95	\$ 1.38
Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	\$ 1.21	\$ 0.75	\$ 1.94	\$ 1.38
Loss from discontinued operations, net of tax	\$(0.01)	\$(0.00)	\$(0.02)	\$(0.04)
Net income	\$ 1.20	\$ 0.75	\$ 1.92	\$ 1.34
Weighted average shares outstanding:				
Basic	33,085	32,629	32,990	32,542
Effect of dilutive stock based compensation	557	840	628	874
Diluted	33,642	33,469	33,618	33,416

See accompanying notes to unaudited consolidated financial statements.

4

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited – in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$40,419	\$25,030	\$64,477	\$44,895
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(13,465)	10,279	(10,536)	12,747
Pension plan amortization of net actuarial loss and prior service cost/credit, net of tax of \$69, \$117, \$177 and \$232 at respective dates	206	243	501	487
Comprehensive income	\$27,160	\$35,552	\$54,442	\$58,129

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited – in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$64,477	\$44,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,019	14,827
Non-cash deferred revenue	(1,114)	(4,115)
Increase in inventory reserve	4,202	2,318
Unrealized gain on investment in equity securities	(5,146)	-
Unrealized gain on foreign currency contracts	(1,724)	(1,069)
Stock based compensation	3,203	4,033
Deferred income tax provision	3,729	1,969
Other	(76	