

CAMBREX CORP
Form 10-Q
November 08, 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 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 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 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, 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 October 31, 2018, there were 33,560,061 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>	
<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
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
	44

Controls and
Procedures

Part II Other
Information

Legal
Proceedings 45

Risk Factors
1A. 45

Exhibits
6. 45

Signatures 46

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 the benefits from the acquisition of Halo Pharma 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 the Company’s 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)

	September 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 97,135	\$ 183,284
Trade receivables, net	71,582	75,144
Contract assets	112,845	-
Other receivables	14,824	20,891
Inventories, net	103,648	138,542
Prepaid expenses and other current assets	16,776	4,217
Total current assets	416,810	422,078
Property, plant and equipment, net	352,947	254,299
Goodwill	271,424	43,626
Intangible assets, net	191,959	13,868
Deferred income taxes	11,557	3,198
Other non-current assets	3,192	3,496
Total assets	\$ 1,247,889	\$ 740,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 38,205	\$ 35,017
Contract liabilities, current	10,269	4,707
Taxes payable	2,727	43
Accrued expenses and other current liabilities	40,578	42,774
Total current liabilities	91,779	82,541
Long-term debt	325,000	-
Contract liabilities, non-current	43,379	39,000
Deferred income taxes	66,231	7,806
Accrued pension benefits	38,429	41,141
Other non-current liabilities	23,793	25,213
Total liabilities	588,611	195,701
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued		
34,813,949 and 34,270,975 shares at respective dates	3,481	3,427
Additional paid-in capital	181,435	165,979
Retained earnings	537,251	429,826
Treasury stock, at cost, 1,273,888 and 1,424,153 shares at		
respective dates	(10,860)	(12,140)
Accumulated other comprehensive loss	(52,029)	(42,228)

Edgar Filing: CAMBREX CORP - Form 10-Q

Total stockholders' equity	659,278	544,864
Total liabilities and stockholders' equity	\$ 1,247,889	\$ 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		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Gross sales	\$104,231	\$112,233	\$390,575	\$350,431
Commissions, allowances and rebates	240	225	641	1,468
Net sales	103,991	112,008	389,934	348,963
Other revenues, net	627	611	7,827	3,216
Net revenue	104,618	112,619	397,761	352,179
Cost of goods sold	71,893	65,676	249,389	200,802
Gross profit	32,725	46,943	148,372	151,377
Operating expenses:				
Selling, general and administrative expenses	14,514	17,167	47,037	50,678
Research and development expenses	4,191	4,233	11,943	12,590
Acquisition and integration expenses	7,388	-	7,727	-
Total operating expenses	26,093	21,400	66,707	63,268
Operating profit	6,632	25,543	81,665	88,109
Other expenses/(income):				
Interest expense, net	725	337	824	991
Unrealized gain on investment in equity securities	(5,611)	-	(10,757)	-
Other expenses, net	109	432	554	1,119
Income before income taxes	11,409	24,774	91,044	85,999
(Benefit)/provision for income taxes	(15,406)	7,498	(872)	22,484
Income from continuing operations	26,815	17,276	91,916	63,515
(Loss)/income from discontinued operations, net of tax	(86)	20	(710)	(1,324)
Net income	\$26,729	\$17,296	\$91,206	\$62,191
Basic earnings/(loss) per share of common stock:				
Income from continuing operations	\$0.80	\$0.53	\$2.77	\$1.95
Loss from discontinued operations, net of tax	\$(0.00)	\$0.00	\$(0.02)	\$(0.04)
Net income	\$0.80	\$0.53	\$2.75	\$1.91
Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	\$0.79	\$0.52	\$2.73	\$1.90
Loss from discontinued operations, net of tax	\$(0.00)	\$0.00	\$(0.02)	\$(0.04)
Net income	\$0.79	\$0.52	\$2.71	\$1.86
Weighted average shares outstanding:				
Basic	33,406	32,749	33,130	32,612
Effect of dilutive stock based compensation	486	763	573	839
Diluted	33,892	33,512	33,703	33,451

See accompanying notes to unaudited consolidated financial statements.

4

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited – in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$26,729	\$17,296	\$91,206	\$62,191
Other comprehensive income/(loss):				
Foreign currency translation adjustments	32	7,006	(10,504)	19,753
Pension plan amortization of net actuarial loss and prior service cost, net of tax of \$69, \$118, \$246 and \$350 at respective dates	202	250	703	737
Comprehensive income	\$26,963	\$24,552	\$81,405	\$82,681

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited – in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$91,206	\$62,191
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	24,203	23,023
Non-cash deferred revenue	(1,116)	(4,991)
Increase in inventory reserve	5,687	3,217
Unrealized gain on investment in equity securities	(10,757)	-
Unrealized gain on foreign currency contracts	(1,582)	-
Stock based compensation	4,106	6,321
Deferred income tax provision	(14,025)	1,087
Other	(146)	516
Changes in assets and liabilities:		
Account receivables	12,144	35,995
Contract assets	(58,147)	-
Inventories	1,747	(38,245)
Prepaid expenses and other current assets	6,446	(70)
Accounts payable and other current liabilities	(17,476)	(16,422)
Contract liabilities, current	471	512
Other non-current assets and liabilities	(3,338)	(2,282)
Discontinued operations:		
Non-current liabilities	898	2,418
Net cash used in discontinued operations	(557)	(1,185)
Net cash provided by operating activities	39,764	72,085
Cash flows from investing activities:		
Capital expenditures	(43,545)	(38,241)
Proceeds from sale of business	-	2,836
Acquisition of business, net of cash acquired	(418,963)	-
Net cash used in investing activities	(462,508)	(35,405)
Cash flows from financing activities:		
Borrowings	325,000	-
Proceeds from stock options exercised	12,685	3,448
Net cash provided by financing activities	337,685	3,448
Effect of exchange rate changes on cash and cash equivalents	(1,090)	4,134
Net (decrease)/increase in cash and cash equivalents	(86,149)	44,262
Cash and cash equivalents at beginning of period	183,284	74,141
Cash and cash equivalents at end of period	\$97,135	\$118,403

See accompanying notes to unaudited consolidated financial statements.

6

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(1) Basis of Presentation

Unless otherwise indicated by the context, "Cambrex" or the "Company" means Cambrex Corporation and subsidiaries.

On September 12, 2018, the Company acquired Halo Pharma ("Halo"). The results of Halo have been included in the consolidated results since the acquisition date. As a result of the acquisition of Halo, the Company now reports its results in two segments, Active Pharmaceutical Ingredients ("API's") and Finished Dosage Form ("FDF"). See Note 4 for additional information on the Halo acquisition.

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with U.S. generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2017.

The results of operations of any interim period are not necessarily indicative of the results expected for the full year.

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation at sites of divested businesses.

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

(2) Impact of Recently Issued Accounting Pronouncements

The following accounting pronouncements became effective for the Company January 1, 2018:

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 which introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the new accounting standard ASC Topic 606, Revenue from Contracts with Customers and all the related amendments ("new revenue standard") to all contracts not completed as of January 1, 2018 using the modified retrospective method. The cumulative effect of initially applying the new revenue standard was \$16,219 and has been recorded as an adjustment to increase the opening balance of retained earnings. The cumulative effect adjustment relates primarily to the recognition of revenue and costs for contracts that transfer promised goods or services over time. Gross sales, cost of goods sold, and tax expense of \$51,896, \$31,347, and \$4,330 respectively, were recorded as part of the cumulative effect adjustment. The comparative information has not

been restated and is reported in accordance with accounting standard Topic 605, which was in effect for those periods.

7

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

The adoption of the new revenue standard impacted the consolidated financial statements as follows:

Income Statement

	For the Three Months		
	Ended September 30, 2018		
			Amount
			Without
	As	Effect	Adoption of
	Reported	of	ASC 606
	Change	ASC 606	
Gross sales	\$ 104,231	\$ 1,914	\$ 102,317
Net revenue	104,618	1,914	102,704
Cost of goods sold			