

Univar Inc.
Form 10-Q
November 04, 2016
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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, 2016

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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 25, 2016, 138,300,104 shares of the registrant's common stock, \$0.01 par value, were outstanding.

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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, 2016	2015	September 30, 2016	2015
Net sales		\$1,999.7	\$2,206.3	\$6,261.2	\$7,015.5
Cost of goods sold (exclusive of depreciation)		1,561.6	1,755.8	4,947.4	5,636.2
Gross profit		438.1	450.5	1,313.8	1,379.3
Operating expenses:					
Outbound freight and handling		76.2	81.4	220.8	247.4
Warehousing, selling and administrative		216.0	212.9	664.8	661.4
Other operating expenses, net	5	12.1	10.2	29.1	57.3
Depreciation		42.4	34.3	113.9	104.0
Amortization		22.5	22.0	67.8	66.3
Impairment charges	13	133.9	—	133.9	—
Total operating expenses		503.1	360.8	1,230.3	1,136.4
Operating (loss) income		(65.0)	89.7	83.5	242.9
Other (expense) income:					
Interest income		1.1	1.2	3.0	3.9
Interest expense		(40.6)	(40.8)	(123.5)	(169.8)
Loss on extinguishment of debt		—	(4.8)	—	(12.1)
Other expense, net	7	(3.1)	(25.6)	(10.8)	(30.9)
Total other expense		(42.6)	(70.0)	(131.3)	(208.9)
(Loss) income before income taxes		(107.6)	19.7	(47.8)	34.0
Income tax (benefit) expense	8	(44.6)	7.6	(38.6)	14.6
Net (loss) income		\$(63.0)	\$12.1	\$(9.2)	\$19.4
(Loss) income per common share:					
Basic	9	\$(0.46)	\$0.09	\$(0.07)	\$0.17
Diluted	9	(0.46)	0.09	(0.07)	0.17
Weighted average common shares outstanding:					
Basic	9	137.7	137.6	137.7	113.6
Diluted	9	137.7	138.4	137.7	114.2

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

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

(in millions)	Note	Three months ended		Nine months ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net (loss) income		\$(63.0)	\$12.1	\$(9.2)	\$19.4
Other comprehensive income (loss), net of tax:					
Foreign currency translation	10	(20.3)	(82.5)	46.4	(178.8)
Pension and other postretirement benefit adjustment	10	—	(1.8)	(3.0)	(5.5)
Derivative financial instruments	10	—	—	—	3.7
Total other comprehensive (loss) income, net of tax		(20.3)	(84.3)	43.4	(180.6)
Comprehensive (loss) income		\$(83.3)	\$(72.2)	\$34.2	\$(161.2)

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

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Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except per share data)	Note	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		\$ 267.1	\$ 188.1
Trade accounts receivable, net		1,127.6	1,026.2
Inventories		753.6	803.4
Prepaid expenses and other current assets		152.3	178.6
Total current assets		2,300.6	2,196.3
Property, plant and equipment, net	12	1,030.6	1,082.5
Goodwill		1,795.9	1,745.1
Intangible assets, net	12	361.8	518.9
Deferred tax assets		28.1	3.5
Other assets		79.9	66.1
Total assets		\$ 5,596.9	\$ 5,612.4
Liabilities and stockholders' equity			
Current liabilities:			
Short-term financing	11	\$ 26.1	\$ 33.5
Trade accounts payable		890.3	836.0
Current portion of long-term debt	11	108.0	59.9
Accrued compensation		67.1	62.8
Other accrued expenses		244.5	301.3
Total current liabilities		1,336.0	1,293.5
Long-term debt	11	2,993.6	3,057.4
Pension and other postretirement benefit liabilities		246.5	251.8
Deferred tax liabilities		24.8	58.0
Other long-term liabilities		133.2	135.0
Commitment and contingencies	17	—	—
Stockholders' equity:			
Preferred stock, 200.0 million shares authorized at \$0.01 par value with no shares issued or outstanding as of September 30, 2016 and December 31, 2015		—	—
Common stock, 2.0 billion shares authorized at \$0.01 par value with 138.1 million and 138.0 million shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively		1.4	1.4
Additional paid-in capital		2,236.6	2,224.7
Accumulated deficit		(994.2) (985.0)
Accumulated other comprehensive loss	10	(381.0) (424.4)
Total stockholders' equity		862.8	816.7
Total liabilities and stockholders' equity		\$ 5,596.9	\$ 5,612.4

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

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Univar Inc.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Note	Nine months ended September 30,	
		2016	2015
Operating activities:			
Net (loss) income		\$(9.2)	\$19.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		181.7	170.3
Impairment charges	13	133.9	—
Amortization of deferred financing fees and debt discount		6.0	10.2
Amortization of pension credit from accumulated other comprehensive loss	10	(4.5)	(9.0)
Loss on extinguishment of debt		—	12.1
Deferred income taxes		(57.2)	(7.0)
Stock-based compensation expense	5	7.1	5.5
Other		(1.0)	(1.1)
Changes in operating assets and liabilities:			
Trade accounts receivable, net		(83.2)	(22.0)
Inventories		60.2	35.9
Prepaid expenses and other current assets		30.2	1.2
Trade accounts payable		40.8	35.8
Pensions and other postretirement benefit liabilities		(30.8)	(50.3)
Other, net		(49.8)	(9.8)
Net cash provided by operating activities		224.2	191.2
Investing activities:			
Purchases of property, plant and equipment		(65.9)	(103.3)
Purchases of businesses, net of cash acquired	16	(54.8)	(50.6)
Proceeds from sale of property, plant and equipment		4.1	6.3
Other		(1.6)	(5.5)
Net cash used by investing activities		(118.2)	(153.1)
Financing activities:			
Proceeds from sale of common stock		—	765.3
Proceeds from issuance of long-term debt	11	(14.0)	2,806.6
Payments on long-term debt and capital lease obligations	11	(26.6)	(3,537.9)
Short-term financing, net	11	(11.0)	(15.9)
Financing fees paid		—	(28.7)
Other		5.0	(3.6)
Net cash used by financing activities		(46.6)	(14.2)
Effect of exchange rate changes on cash and cash equivalents		19.6	(42.5)
Net increase (decrease) in cash and cash equivalents		79.0	(18.6)
Cash and cash equivalents at beginning of period		188.1	206.0
Cash and cash equivalents at end of period		\$267.1	\$187.4
Supplemental disclosure of cash flow information			
Non-cash activities:			
Additions of property, plant and equipment included in trade accounts payable and other accrued expenses		\$2.7	\$9.2
Additions of property, plant and equipment under a capital lease obligation		18.5	42.6

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

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Univar Inc.

Notes to Condensed Consolidated Financial Statements

As of September 30, 2016 and

For the Three and Nine Month Periods Ended September 30, 2016 and 2015

(Unaudited)

1. Nature of operations

Headquartered in Downers Grove, Illinois, Univar Inc. (“the Company” or “Univar”) is a leading global distributor of commodity and 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. 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 loss, 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, 2015.

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 variable interest entities 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.

3. Recent accounting pronouncements

Accounting pronouncements issued and adopted

In August 2014, the FASB issued ASU 2014-15 “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The core principle of the guidance is that an entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued. When management identifies conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern, management should consider whether its plans that are intended to mitigate those relevant conditions or events that will alleviate the substantial doubt are adequately disclosed in the footnotes to the financial statements. This guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted and the Company has elected to adopt the ASU as of January 1, 2016. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02 “Amendments to the Consolidation Analysis” (Topic 810). The core principle of the guidance is to provide amendments to the current consolidation guidance. The revised consolidation guidance, among other things, modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships. This guidance

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is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company has elected to adopt the ASU as of January 1, 2016 and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-04 "Compensation-Retirement Benefits (Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets)" (Topic 715). The core principle of the guidance is that it provides a practical expedient for companies to measure interim remeasurements for significant events that occur on other than a month-end date. The guidance permits entities to remeasure defined benefit plan assets and obligations using the month-end date that is closest to the date of the significant event. The decision to apply the practical expedient to interim remeasurements for significant events can be made for each significant event. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company has elected to adopt the ASU as of January 1, 2016 and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05 "Intangibles-Goodwill and Other-Internal-use software (Customer's Accounting for Fees Paid in a Cloud Computing Arrangement)" (Subtopic 350-40). The ASU provides customers with guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company has elected to adopt the ASU as of January 1, 2016 and the ASU is applied prospectively to all arrangements entered that occur after the effective date. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11 "Simplifying the Measurement of Inventory" (Topic 330). The core principle of the guidance is that an entity should measure inventory at the "lower of cost and net realizable value" and options that currently exist for "market value" will be eliminated. The ASU defines net realizable value as the "estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation." This guidance is effective for the fiscal years beginning after December 15, 2016, including interim periods within those financial years. Early adoption is permitted and the Company has elected to adopt the ASU as of June 30, 2016. The ASU is applied prospectively and the adoption of the ASU did not have a significant impact on the Company's consolidated financial statements.

Accounting pronouncements issued and not yet adopted

In March 2016, the FASB issued ASU 2016-09 "Compensation – Stock Compensation" (Topic 718) – "Improvement to Employee Share-Based Payment Accounting." The core principal of the guidance is to simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within such fiscal years. Early adoption is permitted. The guidance is to be applied using a modified retrospective method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The Company does not expect a significant impact to its consolidated financial statements when it adopts this ASU.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses" (Topic 326) - "Measurement of Credit Losses on Financial Instruments." The ASU requires entities to use a Current Expected Credit Loss model which is a new impairment model based on expected losses rather than incurred losses. Under the model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity's estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts, which will result in recognition of lifetime expected credit losses upon initial recognition of the related assets. This guidance will be effective for fiscal years beginning after December 15, 2019, including interim periods within such fiscal years. The Company is currently evaluating the impact of the adoption of this ASU on its internal processes, operating results and financial reporting. The impact is currently not known or reasonably estimable.

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows" (Topic 230) - "Classification of Certain Cash Receipts and Cash Payments." The ASU clarifies and provides specific guidance on eight cash flow classification issues that are not currently addressed by current guidance; and therefore, reduces the current diversity in practice. The standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within such fiscal years. Early adoption is permitted. The guidance is to be applied using a retrospective transition method to each period presented. The Company does not expect any impact to its consolidated statement of operations or consolidated balance sheet since the ASU only addresses classification items within the statement of cash flows. In October 2016, the FASB issued ASU 2016-16 "Income Taxes" (Topic 740) - "Intra-Entity Transfers of Assets Other Than Inventory." The ASU eliminates the exception that prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party for assets other than inventory. The standard will be effective

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for fiscal years beginning after December 15, 2017, including interim periods within such fiscal years. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not yet been issued. The Company does not expect a significant impact to its consolidated financial statements when it adopts this ASU.

4. Employee benefit plans

The following table summarizes the components of net periodic benefit recognized in the condensed consolidated statements of operations:

	Domestic - Defined Benefit Pension Plans			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Interest cost	\$8.0	\$7.7	\$24.0	\$23.1
Expected return on plan assets	(8.2)	(9.0)	(24.4)	(26.9)
Net periodic benefit	\$(0.2)	\$(1.3)	\$(0.4)	\$(3.8)

	Foreign - Defined Benefit Pension Plans			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Service cost	\$0.6	\$0.6	\$1.9	\$4.7
Interest cost	4.6	5.1	14.0	15.3
Expected return on plan assets	(7.1)	(7.8)	(22.0)	(23.1)
Net periodic benefit	\$(1.9)	\$(2.1)	\$(6.1)	\$(3.1)

	Other Postretirement Benefits			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Service cost \$				