

STEPAN CO  
Form 10-Q  
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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 1-4462

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

Delaware	36-1823834
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification Number)

Edens and Winnetka Road, Northfield, Illinois 60093

(Address of principal executive offices)

Registrant's telephone number (847) 446-7500

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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 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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 22, 2018
Common Stock, \$1 par value	22,516,077 Shares

## Part I FINANCIAL INFORMATION

## Item 1 - Financial Statements

## STEPAN COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Net Sales	\$507,997	\$487,814	\$1,527,198	\$1,451,184
Cost of Sales <sup>(a)</sup>	423,872	412,238	1,264,223	1,193,501
Gross Profit <sup>(a)</sup>	84,125	75,576	262,975	257,683
Operating Expenses:				
Selling <sup>(a)</sup>	14,613	13,710	42,872	40,396
Administrative <sup>(a)</sup>	21,904	18,480	59,441	54,141
Research, development and technical services <sup>(a)</sup>	13,977	12,655	41,311	40,288
Deferred compensation expense	4,222	(129 )	4,971	5,263
	54,716	44,716	148,595	140,088
Business restructuring expenses (Note 15)	(1,715 )	(426 )	(2,346 )	(1,798 )
Operating Income <sup>(a)</sup>	27,694	30,434	112,034	115,797
Other Income (Expense):				
Interest, net	(2,797 )	(2,763 )	(8,620 )	(8,618 )
Other, net(a) (Note 14)	346	1,641	1,990	3,526
	(2,451 )	(1,122 )	(6,630 )	(5,092 )
Income Before Provision for Income Taxes	25,243	29,312	105,404	110,705
Provision for Income Taxes (Note 17)	3,075	7,459	19,597	29,044
Net Income	22,168	21,853	85,807	81,661
Net Loss Attributable to Noncontrolling				
Interests (Note 2)	—	46	9	33
Net Income Attributable to Stepan Company	\$22,168	\$21,899	\$85,816	\$81,694
Net Income Per Common Share Attributable to				
Stepan Company (Note 9):				
Basic	\$0.96	\$0.95	\$3.73	\$3.56
Diluted	\$0.95	\$0.94	\$3.68	\$3.50
Shares Used to Compute Net Income Per Common				
Share Attributable to Stepan Company (Note 9):				

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Basic	22,986	22,971	23,036	22,941
Diluted	23,288	23,374	23,324	23,361
Dividends Declared Per Common Share	\$0.23	\$0.21	\$0.68	\$0.62

(a) The 2017 amounts for the noted line items have been immaterially changed from the amounts originally reported as a result of the Company's first quarter 2018 adoption of Accounting Standards Update (ASU) No. 2017-7, Compensation –Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

## STEPAN COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(In thousands)	Three Months		Nine Months Ended	
	Ended		September 30	
	September 30	September 30	September 30	September 30
	2018	2017	2018	2017
Net income	\$22,168	\$21,853	\$85,807	\$81,661
Other comprehensive income :				
Foreign currency translation adjustments (Note 10)	(2,534 )	9,837	(28,776)	26,288
Defined benefit pension adjustments, net of tax (Note 10)	788	539	2,293	1,671
Derivative instrument activity, net of tax (Note 10)	(2 )	(2 )	(7 )	(7 )
Total other comprehensive income	(1,748 )	10,374	(26,490)	27,952
Comprehensive income (loss)	20,420	32,227	59,317	109,613
Comprehensive (income) loss attributable to noncontrolling				
interests (Note 2)	31	20	55	(26 )
Comprehensive income (loss) attributable to Stepan Company	\$20,451	\$32,247	\$59,372	\$109,587

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

## STEPAN COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(In thousands)	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$273,988	\$298,894
Receivables, net	323,059	293,541
Inventories (Note 6)	195,169	172,748
Other current assets	22,816	23,553
<b>Total current assets</b>	<b>815,032</b>	<b>788,736</b>
<b>Property, Plant and Equipment:</b>		
Cost	1,648,841	1,603,286
Less: Accumulated depreciation	(1,050,126)	(1,004,843)
<b>Property, plant and equipment, net</b>	<b>598,715</b>	<b>598,443</b>
Goodwill, net	22,480	25,118
Other intangible assets, net	14,988	18,538
Long-term investments (Note 3)	28,055	28,270
Other non-current assets	12,961	11,756
<b>Total assets</b>	<b>\$1,492,231</b>	<b>\$1,470,861</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt (Note 13)	\$23,686	