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CAMBREX CORP

Form 10-Q

May 02, 2019

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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 March 31, 2019

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 April 29, 2019, the registrant had 33,656,015 shares of common stock, \$.10 par value per share, outstanding.

Securities registered pursuant to Section 12(b) of the Act:

Trading

Title of each class	Symbol(s)	Name of each exchange on which registered
Common Stock, \$.10 par value	CBM	New York Stock Exchange

CAMBREX CORPORATION AND SUBSIDIARIES

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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, 2018 captioned “Risk Factors,” or otherwise described in the Company’s filings with the Securities and Exchange Commission, 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 acquisitions (including Halo Pharma and Avista Pharma Solutions) may not be as anticipated, customer and product concentration, the Company’s ability to secure 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, product developments, market acceptance and adoption rate of customers’ products, government legislation and regulations (particularly environmental issues), tax rates, interest rates, 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, 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, 2018, 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)

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$67,539	\$ 95,852
Trade receivables, net	79,098	146,330
Contract assets	76,069	33,490
Other receivables	10,957	5,198
Inventories, net	119,530	111,062
Prepaid expenses and other current assets	19,832	18,160
Total current assets	373,025	410,092
Property, plant and equipment, net	398,774	360,528
Right of use assets	37,260	-
Goodwill	407,512	261,095
Intangible assets, net	256,504	187,205
Other non-current assets	5,736	3,099
Deferred income taxes	9,979	1,409
Total assets	\$ 1,488,790	\$ 1,223,428
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$50,717	\$ 47,012
Contract liabilities, current	15,227	11,713
Taxes payable	4,450	1,651
Operating lease liabilities, current	2,709	-
Current portion of long-term debt	10,000	-
Accrued expenses and other current liabilities	42,750	44,036
Total current liabilities	125,853	104,412
Contract liabilities, non-current	43,052	42,701
Long-term debt	487,500	300,000
Deferred income taxes	72,971	57,276
Operating lease liabilities, non-current	34,658	-
Accrued pension benefits	41,373	42,218
Other non-current liabilities	24,056	23,094
Total liabilities	829,463	569,701
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued		
34,920,124 and 34,870,124 shares at respective dates	3,492	3,487

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Additional paid-in capital	184,410	182,691
Retained earnings	548,872	538,463
Treasury stock, at cost, 1,264,109 and 1,264,109 shares at		
respective dates	(10,777)	(10,777)
Accumulated other comprehensive loss	(66,670)	(60,137)
Total stockholders' equity	659,327	653,727
Total liabilities and stockholders' equity	\$ 1,488,790	\$ 1,223,428

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Income Statements

(unaudited – in thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
Product sales	\$ 124,245	\$ 135,459
Service revenue	33,975	3,671
Gross sales	158,220	139,130
Commissions, allowances and rebates	287	209
Net sales	157,933	138,921
Other revenues, net	1,523	2,176
Net revenue	159,456	141,097
Cost of goods sold - product sales	78,805	86,583
Cost of goods sold - service revenue	25,768	3,659
Total cost of goods sold	104,573	90,242
Gross profit	54,883	50,855
Operating expenses:		
Selling, general and administrative expenses	25,041	16,855
Research and development expenses	3,462	3,619
Acquisition and integration expenses	6,056	-
Total operating expenses	34,559	20,474
Operating profit	20,324	30,381
Other expenses/(income):		
Interest expense, net	5,624	82
Unrealized loss on investment in equity securities	569	-
Other expenses, net	72	264
Income before income taxes	14,059	30,035
Provision for income taxes	3,532	5,786
Income from continuing operations	10,527	24,249
Loss from discontinued operations, net of tax	(118)	(191)
Net income	\$ 10,409	\$ 24,058
Basic earnings/(loss) per share of common stock:		
Income from continuing operations	\$0.31	\$0.74
Loss from discontinued operations, net of tax	\$(0.00)	\$(0.01)
Net income	\$0.31	\$0.73
Diluted earnings/(loss) per share of common stock:		
Income from continuing operations	\$0.31	\$0.72
Loss from discontinued operations, net of tax	\$(0.00)	\$(0.00)
Net income	\$0.31	\$0.72
Weighted average shares outstanding:		
Basic	33,632	32,894
Effect of dilutive stock based compensation	119	727
Diluted	33,751	33,621

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited – in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 10,409	\$ 24,058
Other comprehensive income/(loss):		
Foreign currency translation adjustments	(4,778)	2,929
Interest rate swap, net of tax of \$779 and \$0 at respective dates	(1,996)	-
Pension plan amortization of net actuarial loss and		
prior service cost, net of tax of \$82 and \$108 at respective dates	241	295
Comprehensive income	\$ 3,876	\$ 27,282

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

(unaudited – in thousands, except share data)

	Common Stock					Accumulated	
	Shares	Par Value	Additional		Treasury	Other	Total
			Paid-In	Retained		Comprehensive	Stockholders'
	Issued	(\$.10)	Capital	Earnings	Stock	Loss	Equity
Balance at December 31, 2018	34,870,124	\$ 3,487	\$ 182,691	\$ 538,463	\$(10,777)	\$ (60,137)) \$ 653,727
Net income				10,409			10,409
Other comprehensive loss						(6,533)) (6,533)
Exercise of stock options	4,000		65				65
Issuance of performance shares	46,000	5	(5))			-
Stock option expense			1,062				1,062
Restricted stock expense			96				96
Performance share expense			501				501
Balance at March 31, 2019	34,920,124	\$ 3,492	\$ 184,410	\$ 548,872	\$(10,777)	\$ (66,670)) \$ 659,327

	Common Stock					Accumulated	
	Shares	Par Value	Additional		Treasury	Other	Total
			Paid-In	Retained		Comprehensive	Stockholders'
	Issued	(\$.10)	Capital	Earnings	Stock	Loss	Equity
Balance at December 31, 2017	34,270,975	\$ 3,427	\$ 165,979	\$ 429,826	\$(12,140)	\$ (42,228)) \$ 544,864
Balance at January 1, 2018, as previously reported	34,270,975	3,427	165,979	429,826	(12,140)	(42,228)) 544,864
Impact of change in accounting policy				16,219			16,219
Adjusted balance at January 1, 2018	34,270,975	\$ 3,427	\$ 165,979	\$ 446,045	\$(12,140)	\$ (42,228)) \$ 561,083
Net income				24,058			24,058
Other comprehensive income						3,224	3,224
Exercise of stock options	112,669	11	2,711				2,722
Stock option expense			1,039				1,039

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Restricted stock expense			6				6
Performance share expense			605				605
Balance at March 31, 2018	34,383,644	\$ 3,438	\$ 170,340	\$ 470,103	\$(12,140)	\$ (39,004)	\$ 592,737

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited – in thousands)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 10,409	\$ 24,058
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	14,702	7,517
Non-cash deferred revenue	(2,543)	(808)
Increase in inventory reserve	2,314	2,481
Unrealized loss on investment in equity securities	569	-
Unrealized gain on foreign currency contracts	(562)	-
Stock based compensation	1,659	1,650
Deferred income tax provision	558	682
Other	1,022	(353)
Changes in assets and liabilities:		
Trade receivables	75,527	22,157
Contract assets	(38,629)	(37,280)
Inventories	(12,596)	(58)
Prepaid expenses and other current assets	(6,390)	(1,241)
Accounts payable and other current liabilities	(1,297)	4,124
Contract liabilities, current	924	1,161
Other non-current assets and liabilities	(44)	388
Discontinued operations:		
Non-current liabilities	152	265
Net cash used in discontinued operations	(217)	(292)
Net cash provided by operating activities	45,558	24,451
Cash flows from investing activities:		
Capital expenditures	(19,237)	(23,791)
Acquisition of businesses, net of cash acquired	(248,467)	-
Net cash used in investing activities	(267,704)	(23,791)
Cash flows from financing activities:		
Borrowings	220,000	-
Repayments	(22,500)	-
Debt issuance costs	(2,836)	-
Principal payments under finance lease obligations	(276)	-
Proceeds from stock options exercised	65	2,722
Net cash provided by financing activities	194,453	2,722
Effect of exchange rate changes on cash and cash equivalents	(620)	902
Net (decrease)/increase in cash and cash equivalents	(28,313)	4,284
Cash and cash equivalents at beginning of period	95,852	183,284
Cash and cash equivalents at end of period	\$ 67,539	\$ 187,568

See accompanying notes to unaudited consolidated financial statements.

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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") and on January 2, 2019 the Company acquired Avista Pharma Solutions ("Avista"). The results of Halo and Avista have been included in the consolidated results since their respective acquisition dates. Due to the acquisitions and to be consistent with how the business is managed, the Company now reports its results in three segments, Drug Substance ("DS"), Drug Product ("DP") and Early Stage Development and Testing ("ESDT"). See Note 4 for additional information on the acquisitions and Note 15 for additional segment information.

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, 2018.

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, 2019:

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms greater than twelve months. Several updates were issued in 2018 and 2019 that provide clarification on a number of specific issues and reporting requirements. This standard became effective for the Company on January 1, 2019. As a result of adopting this update, right of use assets of \$37,984 and operating lease liabilities of a similar amount were recorded on the balance sheet for identified operating leases. See Note 11.

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07 which aligns the accounting for share-based payment awards issued to nonemployees with those issued to employees. Under the new guidance, the nonemployee awards will be measured on the grant date and compensation costs will be recognized when achievement of the performance condition is probable. The update became effective on January 1, 2019 and did not have a material impact on the Company's consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard also makes certain targeted improvements to simplify the application of the hedge accounting guidance. The update became effective on January 1, 2019 and did not have a material impact on the Company's consolidated financial statements.

The following recently issued accounting pronouncements will become effective for the Company in future periods:

Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13 which modifies the disclosure requirements for recurring and nonrecurring fair value measurements, primarily those surrounding Level 3 fair value measurements and transfers between Level 1 and Level 2. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU 2018-14 which adds, modifies and removes certain disclosure requirements to improve the effectiveness of disclosures for defined benefit plans. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

In August 2018, the FASB issued ASU 2018-15 which states entities should apply the guidance in ASC 350-40 when capitalizing implementation costs related to a hosting arrangement that is a service contract. The capitalized implementation costs should be classified as prepaid expenses and then expensed over the hosting arrangement's term, with the expense recorded on the same line of the income statement as the service contract. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

Simplifying the Test for Goodwill Impairment

In January 2