

SILGAN HOLDINGS INC
Form 10-Q
August 07, 2015

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 June 30, 2015

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 000-22117

SILGAN HOLDINGS INC.

(Exact name of Registrant as specified in its charter)

Delaware

06-1269834

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

4 Landmark Square

Stamford, Connecticut

06901

(Address of principal executive offices)

(Zip Code)

(203) 975-7110

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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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.

Large accelerated filer [X]

Accelerated filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

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 [X]

As of July 31, 2015, the number of shares outstanding of the Registrant’s common stock, \$0.01 par value, was 60,379,310.

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SILGAN HOLDINGS INC.

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Part I. Financial Information

Item 1. Financial Statements

SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	June 30, 2015 (unaudited)	June 30, 2014 (unaudited)	Dec. 31, 2014
Assets			
Current assets:			
Cash and cash equivalents	\$126,676	\$133,928	\$222,591
Trade accounts receivable, net	443,943	447,685	310,732
Inventories	753,335	748,227	548,765
Prepaid expenses and other current assets	58,285	61,374	75,744
Total current assets	1,382,239	1,391,214	1,157,832
Property, plant and equipment, net	1,082,712	1,103,030	1,063,631
Goodwill	620,481	649,479	630,262
Other intangible assets, net	203,863	222,328	211,770
Other assets, net	237,657	274,847	240,429
	\$3,526,952	\$3,640,898	\$3,303,924
Liabilities and Stockholders' Equity			
Current liabilities:			
Revolving loans and current portion of long-term debt	\$532,639	\$463,112	\$125,130
Trade accounts payable	375,037	307,113	423,905
Accrued payroll and related costs	55,086	60,407	46,242
Accrued liabilities	75,606	71,960	69,285
Total current liabilities	1,038,368	902,592	664,562
Long-term debt	1,451,450	1,554,360	1,473,833
Other liabilities	454,108	426,288	455,573
Stockholders' equity:			
Common stock	876	876	876
Paid-in capital	232,117	218,145	225,449
Retained earnings	1,368,956	1,225,877	1,313,521
Accumulated other comprehensive loss	(182,779)	(44,413)	(165,624)
Treasury stock	(836,144)	(642,827)	(664,266)
Total stockholders' equity	583,026	757,658	709,956
	\$3,526,952	\$3,640,898	\$3,303,924

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net sales	\$914,229	\$917,336	\$1,730,829	\$1,773,182
Cost of goods sold	780,572	773,629	1,474,935	1,501,468
Gross profit	133,657	143,707	255,894	271,714
Selling, general and administrative expenses	54,407	56,765	108,858	115,175
Rationalization charges	959	862	1,684	2,449
Income from operations	78,291	86,080	145,352	154,090
Interest and other debt expense before loss on early extinguishment of debt	16,762	18,958	33,205	37,644
Loss on early extinguishment of debt	—	—	—	1,474
Interest and other debt expense	16,762	18,958	33,205	39,118
Income before income taxes	61,529	67,122	112,147	114,972
Provision for income taxes	19,285	23,119	36,599	39,493
Net income	\$42,244	\$44,003	\$75,548	\$75,479
Earnings per share:				
Basic net income per share	\$0.70	\$0.69	\$1.23	\$1.19
Diluted net income per share	\$0.70	\$0.69	\$1.22	\$1.18
Dividends per share				
	\$0.16	\$0.15	\$0.32	\$0.30
Weighted average number of shares:				
Basic	60,473	63,525	61,631	63,511
Effect of dilutive securities	255	349	268	388
Diluted	60,728	63,874	61,899	63,899

See accompanying notes.

SILGAN HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in thousands)
 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	\$42,244	\$44,003	\$75,548	\$75,479
Other comprehensive income (loss), net of tax:				
Changes in net prior service credit and actuarial losses	846	(133)	1,620	(544)
Change in fair value of derivatives	352	523	170	1,338
Foreign currency translation	11,324	3,160	(18,945)	(7,088)
Other comprehensive income (loss)	12,522	3,550	(17,155)	(6,294)
Comprehensive income	\$54,766	\$47,553	\$58,393	\$69,185

See accompanying notes.

SILGAN HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the six months ended June 30, 2015 and 2014
 (Dollars in thousands)
 (Unaudited)

	2015	2014
Cash flows provided by (used in) operating activities:		
Net income	\$75,548	\$75,479
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	73,042	76,511
Rationalization charges	1,684	2,449
Loss on early extinguishment of debt	—	1,474
Excess tax benefit from stock-based compensation	(771	) (1,037
Other changes that provided (used) cash:		
Trade accounts receivable, net	(140,426	) (116,359
Inventories	(212,806	) (234,603
Trade accounts payable	38,630	42,724
Accrued liabilities	11,577	12,966
Other, net	16,764	(22,428
Net cash used in operating activities	(136,758	) (162,824
Cash flows provided by (used in) investing activities:		
Purchase of business, net of cash acquired	(690) —
Capital expenditures	(98,183	) (60,004
Proceeds from asset sales	128	372
Net cash used in investing activities	(98,745	) (59,632
Cash flows provided by (used in) financing activities:		
Borrowings under revolving loans	585,364	678,872
Repayments under revolving loans	(169,284	) (340,779
Proceeds from issuance of long-term debt	3,970	732,215
Repayments of long-term debt	(5,649	) (751,509
Debt issuance costs	—	(5,019
Changes in outstanding checks - principally vendors	(82,801	) (86,538
Dividends paid on common stock	(20,113	) (19,356
Excess tax benefit from stock-based compensation	771	1,037
Repurchase of common stock under stock plan	(2,538	) (5,267
Repurchase of common stock under share repurchase authorization	(170,132	) (7,735
Net cash provided by financing activities	139,588	195,921
Cash and cash equivalents:		
Net decrease	(95,915	) (26,535
Balance at beginning of year	222,591	160,463
Balance at end of period	\$126,676	\$133,928
Interest paid, net	\$31,560	\$33,762
Income taxes paid, net	18,306	25,056

See accompanying notes.

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SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY

For the six months ended June 30, 2015 and 2014

(Dollars and shares in thousands)

(Unaudited)

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive		Treasury Stock	Total Stockholders' Equity
	Shares Outstanding	Par Value			Loss			
Balance at December 31, 2013	63,415	\$876	\$212,822	\$1,169,754	\$(38,119)	)	\$(631,490)	\$713,843
Net income	—	—	—	75,479	—	—	—	75,479
Other comprehensive loss	—	—	—	—	(6,294)	)	—	(6,294)
Dividends declared on common stock	—	—	—	(19,356)	)	—	—	(19,356)
Stock compensation expense	—	—	5,951	—	—	—	—	5,951
Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$1,037	153	—	(628)	)	—	—	(3,602)	(4,230)
Repurchases of common stock	(158)	)	—	—	—	—	(7,735)	(7,735)
Balance at June 30, 2014	63,410	\$876	\$218,145	\$1,225,877	\$(44,413)	)	\$(642,827)	\$757,658
Balance at December 31, 2014	63,203	\$876	\$225,449	\$1,313,521	\$(165,624)	)	\$(664,266)	\$709,956
Net income	—	—	—	75,548	—	—	—	75,548
Other comprehensive loss	—	—	—	—	(17,155)	)	—	(17,155)
Dividends declared on common stock	—	—	—	(20,113)	)	—	—	(20,113)
Stock compensation expense	—	—	6,689	—	—	—	—	6,689
Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$771	82	—	(21)	)	—	—	(1,746)	(1,767)
Repurchases of common stock	(2,906)	)	—	—	—	—	(170,132)	(170,132)
Balance at June 30, 2015	60,379	\$876	\$232,117	\$1,368,956	\$(182,779)	)	\$(836,144)	\$583,026

See accompanying notes.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2015 and 2014 and for the three and six months then ended is unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements of Silgan Holdings Inc., or Silgan, have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for any interim period are not necessarily indicative of the results of operations for the full year.

The Condensed Consolidated Balance Sheet at December 31, 2014 has been derived from our audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read the accompanying condensed consolidated financial statements in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recently Issued Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board, or FASB, issued an accounting standards update, or ASU, that amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for those goods or services. This amendment permits the use of one of two retrospective transition methods. In July 2015, the FASB deferred the effective date of this amendment. As a result, this amendment will be effective for us on January 1, 2018, with early adoption permitted up to one year prior to the effective date. We have not yet selected a transition method and are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

In April 2015, the FASB issued an ASU which amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability. This amendment will be effective for us on January 1, 2016. Early adoption is permitted. Adoption of this amendment will not have a material effect on our financial position, results of operations or cash flows.

In July 2015, the FASB issued an ASU which amends existing guidance for measuring inventories. This amendment will require us to measure inventories recorded using the first-in, first-out method and the average cost method at the lower of cost and net realizable value. This amendment does not change the methodology for measuring inventories recorded using the last-in, first-out method. This amendment will be effective for us on January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2015 and 2014 and for the three and six months then ended is unaudited)

Note 2. Rationalization Charges

We continually evaluate cost reduction opportunities across each of our businesses, including rationalizations of our existing facilities through plant closings and downsizings. We use a disciplined approach to identify opportunities that generate attractive cash returns. Rationalization charges were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Dollars in thousands)			
Closures	\$810	\$862	\$1,146	\$1,487
Plastic containers	149	—	538	962
	\$959	\$862	\$1,684	\$2,449

Activity in reserves for our rationalization plans for the six months ended June 30 was as follows:

Employee	Plant
Severance	Exit
and Benefits	Costs