

SIMPSON MANUFACTURING CO INC /CA/  
Form 10-Q  
November 08, 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

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: 1-13429

Simpson Manufacturing Co., Inc.  
(Exact name of registrant as specified in its charter)  
Delaware 94-3196943  
(State or other jurisdiction of incorporation (I.R.S.  
Employer  
or organization) Identification  
No.)

5956 W. Las Positas Blvd., Pleasanton, CA 94588  
(Address of principal executive offices)  
(Registrant's telephone number, including area code): (925) 560-9000

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, 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

The number of shares of the registrant's common stock outstanding as of September 30, 2018: 45,967,842.

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## NOTE ABOUT FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements relating to events or results that may occur in the future are forward-looking statements, including but not limited to, statements regarding our plans, sales, sales trends, sales growth rates, revenues, profits, costs, working capital, balance sheet, inventories, products (including truss and concrete products as well as software offerings), relationships with contractors and partners (including our collaboration with The Home Depot, Inc.), market strategies, market share, expenses (including operating expenses and research, development and engineering investments), inventory turn rates, cost savings or reduction measures, repatriation of funds, results of operations, tax liabilities, losses, capital spending, housing starts, price changes (including product and raw material prices, such as steel prices), profitability, profit margins, operating income, operating expenses as a percentage of net sales, effective tax rates, depreciation or amortization expenses, amortization periods, capital return, stock repurchases, dividends, compensation arrangements, prospective adoption of new accounting standards, effects of changes in accounting standards, effects and expenses of (including eventual gains or losses related to) mergers and acquisitions and related integrations, effects and expenses of equity investments, effects of changes in foreign exchange rates or interest rates, effects and costs of SAP and other software program implementations (including related expenses, such as capital expenditures, and savings), effects and costs of credit facilities and capital lease obligations, headcount, engagement of consultants, the Company's 2020 Plan and other operating initiatives (discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" below), the Company's efforts and costs to implement the 2020 Plan and initiatives, the targets and assumptions under the 2020 Plan and such other initiatives (including targets associated with organic compound annual growth rate in consolidated net sales, operating income, operating expenses as a percentage of net sales, cost structure rationalization, improved working capital management, and overall balance sheet discipline) and the projected effects and impact of any of the foregoing on our business, financial condition and results of operations. Forward-looking statements generally can be identified by words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "target," "continue," "predict," "project," "change," "result," "future," "will," "could," "can," "may," "likely," "potential" expressions. Forward-looking statements are necessarily speculative in nature, are based on numerous assumptions, and involve known and unknown risks, uncertainties and other factors (some of which are beyond our control) that could significantly affect our operations and may cause our actual actions, results, financial condition, performance or achievements to be substantially different from any future actions, results, financial condition, performance or achievements expressed or implied by any such forward-looking statements. Those factors include, but are not limited to: (i) the impact, execution and effectiveness of the Company's current strategic plan, the 2020 Plan, and initiatives the realization of the assumptions made under the plan and the efforts and costs to implement the plan and initiatives; (ii) general economic cycles and construction business conditions including changes in U.S. housing starts; (iii) customer acceptance of our products; (iv) product liability claims, contractual liability, engineering and design liability and similar liabilities or claims, (v) relationships with partners, suppliers and customers and their financial condition; (vi) materials and manufacturing costs; (vii) technological developments, including system updates and conversions; (viii) increased competition; (ix) changes in laws or industry practices; (x) litigation risks and actions by activist shareholders; (xi) changes in market conditions; (xii) governmental and business conditions in countries where our products are manufactured and sold; (xiii) natural disasters and other factors that are beyond the Company's reasonable control; (xiv) changes in trade regulations, treaties or agreements or in U.S. and international taxes, tariffs and duties including those imposed on the Company's income, imports, exports and repatriation of funds; (xv) effects of merger or acquisition activities; (xvi) actual or potential takeover or other change-of-control threats; (xvii) changes in our plans, strategies, objectives, expectations or intentions; and (xviii) other risks and uncertainties indicated from time to time in our filings with the U.S. Securities and Exchange Commission, including the Company's most recent Annual Report on Form 10-K under the heading "Item 1A - Risk Factors." See below "Part I, Item 1A - Risk Factors." Each forward-looking statement contained in this Quarterly Report on Form 10-Q is specifically qualified in its entirety by the aforementioned factors. In light of the foregoing, investors are advised to carefully read this Quarterly Report on Form 10-Q in connection with the important disclaimers set forth above and are urged not to rely on any

forward-looking statements in reaching any conclusions or making any investment decisions about us or our securities. All forward-looking statements hereunder are made as of the date of this Quarterly Report on Form 10-Q and are subject to change. Except as required by law, we do not intend and undertake no obligation to update, revise or publicly release any updates or revisions to any forward-looking statements hereunder, whether as a result of the receipt of new information, the occurrence of future events, the change of circumstances or otherwise. We further do not accept any responsibility for any projections or reports published by analysts, investors or other third parties.

Each of the terms the “Company,” “we,” “our,” “us” and similar terms used herein refer collectively to Simpson Manufacturing Co., Inc., a Delaware corporation and its wholly-owned subsidiaries, including Simpson Strong-Tie Company Inc., unless otherwise stated.

“Strong-Tie” and our other trademarks appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies’ trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

Simpson Manufacturing Co., Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(In thousands, unaudited)

	September 30,		December 31,
	2018	2017	2017
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 166,961	\$ 204,171	\$ 168,514
Trade accounts receivable, net	192,981	159,571	135,958
Inventories	279,503	244,476	252,996
Assets held-for-sale	9,251	—	—
Other current assets	12,220	13,276	26,473
Total current assets	660,916	621,494	583,941
Property, plant and equipment, net	257,679	265,178	273,020
Goodwill	136,459	137,313	137,140
Equity investment	2,498	2,582	2,549
Intangible assets, net	25,457	30,050	29,326
Other noncurrent assets	11,604	11,766	11,547
Total assets	\$ 1,094,613	\$ 1,068,383	\$ 1,037,523
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Capital lease obligations - current portion	\$ 1,081	\$ 1,047	\$ 1,055
Trade accounts payable	42,734	30,857	31,536
Accrued liabilities	103,979	91,854	87,430
Accrued profit sharing trust contributions	6,565	5,652	7,054
Accrued cash profit sharing and commissions	13,092	13,123	9,416
Total current liabilities	167,451	142,533	136,491
Other long-term liabilities - net of current portion	13,743	9,808	16,254
Total liabilities	181,194	152,341	152,745
Commitments and contingencies (see Note 11)			
Stockholders' equity			
Common stock, at par value	462	476	473
Additional paid-in capital	274,126	265,490	260,157
Retained Earnings	686,351	683,554	676,644
Treasury stock	(24,491 )	(20,000 )	(40,000 )
Accumulated other comprehensive loss	(23,029 )	(13,478 )	(12,496 )
Total stockholders' equity	913,419	916,042	884,778
Total liabilities and stockholders' equity	\$ 1,094,613	\$ 1,068,383	\$ 1,037,523

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

Simpson Manufacturing Co., Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations  
(In thousands except per-share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$284,178	\$262,476	\$836,964	\$745,345
Cost of sales	150,282	143,338	454,881	403,866
Gross profit	133,896	119,138	382,083	341,479
Operating expenses:				
Research and development and other engineering	10,441	11,265	32,840	35,051
Selling	26,879	27,867	83,653	86,150
General and administrative	36,114	33,457	112,897	105,962
Net gain on disposal of assets	(460 )	(147 )	(1,769 )	(147 )
	72,974	72,442	227,621	227,016
Income from operations	60,922	46,696	154,462	114,463
Loss in equity method investment, before tax	(30 )	(13 )	(52 )	(53 )
Interest expense, net	(58 )	(296 )	(332 )	(685 )
Gain (adjustment) on bargain purchase of a business	—	(2,052 )	—	6,336
Gain on disposal of a business	—	443	—	443
Income before taxes	60,834	44,778	154,078	120,504
Provision for income taxes	16,473	16,581	40,202	40,972
Net income	\$44,361	\$28,197	\$113,876	\$79,532
Earnings per common share:				
Basic	\$0.96	\$0.60	\$2.46	\$1.67
Diluted	\$0.95	\$0.59	\$2.43	\$1.66
Number of shares outstanding				
Basic	46,192	47,367	46,375	47,544
Diluted	46,622	47,686	46,770	47,843
Cash dividends declared per common share	\$0.22	\$0.42	\$0.65	\$0.81

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

Simpson Manufacturing Co., Inc. and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Income  
 (In thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$44,361	\$28,197	\$113,876	\$79,532
Other comprehensive income:				
Translation adjustment	(2,950 )	5,543	(10,533 )	19,492
Comprehensive income	\$41,411	\$33,740	\$103,343	\$99,024

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

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Simpson Manufacturing Co., Inc. and Subsidiaries  
Condensed Consolidated Statements of Stockholders' Equity  
At September 30, 2017 and 2018, and December 31, 2017  
(In thousands except per-share amounts, unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Par Value					
Balance at January 1, 2017	47,437	\$ 473	\$255,917	\$642,422	\$ (32,970 )	\$—	\$865,842
Net income	—	—	—	79,532	—	—	79,532
Translation adjustment, net of tax	—	—	—	—	19,492	—	19,492
Options exercised	120	1	3,565	—	—	—	3,566
Stock-based compensation	—	—	10,764	—	—	—	10,764
Shares issued from release of Restricted Stock Units	210	2	(5,168 )	—	—	—	(5,166 )
Repurchase of common stock	(461 )	—	—	—	—	(20,000 )	(20,000 )
Cash dividends declared on common stock, \$0.81 per share	—	—	—	(38,400 )	—	—	(38,400 )
Common stock issued at \$44.26 per share for stock bonus	9	—	412	—	—	—	412
Balance, at September 30, 2017	47,315	476	265,490	683,554	(13,478 )	(20,000 )	916,042
Net income	—	—	—	13,085	—	—	13,085
Translation adjustment, net of tax	—	—	—	—	1,926	—	1,926
Pension adjustment, net of tax	—	—	—	—	(944 )	—	(944 )
Options exercised	103	2	3,042	—	—	—	3,044
Stock-based compensation	—	—	1,801	—	—	—	1,801
Shares issued from release of Restricted Stock Units	4	—	(176 )	—	—	—	(176 )
Repurchase of common stock	(677 )	—	(10,000 )	—	—	(40,000 )	(50,000 )
Retirement of common stock	—	(5 )	—	(19,995 )	—	20,000	—
Balance at December 31, 2017	46,745	473	260,157	676,644	(12,496 )	(40,000 )	884,778
Net income	—	—	—	113,876	—	—	113,876
Translation adjustment, net of tax	—	—	—	—	(10,533 )	—	(10,533 )
Options exercised	23	—	695	—	—	—	695
Stock-based compensation	—	—	7,939	—	—	—	7,939
Adoption of ASC 606, net of tax	—	—	—	791	—	—	791
Shares issued from release of Restricted Stock Units	177	2	(5,130 )	—	—	—	(5,128 )
Repurchase of common stock	(985 )	—	10,000	—	—	(59,490 )	(49,490 )
Retirement of treasury stock	—	(13 )	—	(74,986 )	—	74,999	—
Cash dividends declared on common stock, \$0.65 per share	—	—	—	(29,974 )	—	—	(29,974 )
Common stock issued at \$57.41 per share for stock bonus	8	—	465	—	—	—	465
Balance at September 30, 2018	45,968	\$ 462	\$274,126	\$686,351	\$ (23,029 )	\$(24,491)	\$913,419

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

Simpson Manufacturing Co., Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(In thousands, unaudited)

	Nine Months Ended	
	September 30,	2017
	2018	
Cash flows from operating activities		
Net income	\$ 113,876	\$ 79,532
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets	(1,768 )	(147 )
Depreciation and amortization	29,049	26,881
Loss in equity method investment, before tax	52	53
Gain on bargain purchase of a business	—	(6,336 )
Gain on disposal of a business	—	(443 )
Deferred income taxes	2,061	2,552
Noncash compensation related to stock plans	8,773	11,816
Provision of doubtful accounts	361	79
Foreign exchange gain on capital repatriation	(1,604 )	—
Changes in operating assets and liabilities, net of acquisitions:		
Trade accounts receivable	(58,678 )	(40,607 )
Inventories	(29,233 )	1,813
Trade accounts payable	14,254	698
Income taxes payable	9,801	1,686
Accrued profit sharing trust contributions	(486 )	(902 )
Accrued cash profit sharing and commissions	3,716	2,468
Other current assets	5,099	132
Accrued liabilities	13,464	5,291
Long-term liabilities		