Univar Inc.
Form 10-Q
August 01, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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 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 ý 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). ý 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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	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 ý
At July 23, 2018, 141,398,763 shares of the registrant's common stock, $0.01 par value, were outstanding.

Table of Contents

Univar Inc.
Form 10-Q
For the quarterly period ended June 30, 2018
TABLE OF CONTENTS

Table of Contents

PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

Univar Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

		Three months ended June 30,		Six months ended June 30,	
(in millions, except per share data)	Note	2018	2017	2018	2017
Net sales		$2,372.6	$2,247.0	$4,530.6	$4,245.8
Cost of goods sold		1,872.1	1,780.6	3,543.5	3,340.0
Gross profit		$500.5	$466.4	$987.1	$905.8
Operating expenses:					
Outbound freight and handling		86.5	71.9	165.8	142.9
Warehousing, selling and administrative		240.9	236.0	481.9	464.5
Other operating expenses, net	4	11.0	24.2	24.6	44.0
Depreciation		30.9	34.1	62.3	70.0
Amortization		13.8	16.5	27.2	33.2
Total operating expenses		$383.1	$382.7	$761.8	$754.6
Operating income		$117.4	$83.7	$225.3	$151.2
Other (expense) income:					
Interest income		0.9	0.8	2.1	1.7
Interest expense		(32.9)	(36.6)	(69.0)	(73.3)
Loss on extinguishment of debt		—	—	—	(0.8)
Other (expense) income, net	6	(2.1)	(9.3)	0.5	(16.0)
Total other expense		$(34.1)	$(45.1)	$(66.4)	$(88.4)
Income before income taxes		83.3	38.6	158.9	62.8
Income tax expense	8	27.2	7.3	37.4	8.9
Net income		$56.1	$31.3	$121.5	$53.9
Income per common share:					
Basic	9	$0.40	$0.22	$0.86	$0.38
Diluted	9	0.40	0.22	0.86	0.38
Weighted average common shares outstanding:					
Basic	9	141.1	140.1	141.0	139.8
Diluted	9	142.0	141.3	142.0	141.2

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

1

Table of Contents

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

		Three months ended June 30,		Six months ended June 30,	
(in millions)	Note	2018	2017	2018	2017
Net income		$56.1	$31.3	$121.5	$53.9
Other comprehensive income (loss), net of tax:					
Impact due to adoption of ASU 2017-12 [1]	10	—	—	0.5	—
Foreign currency translation	10	(55.8)	45.0	(63.0)	63.2
Derivative financial instruments	10	0.3	—	9.4	—
Pension and other postretirement adjustment	10	0.1	(0.1)	0.1	(0.1)
Total other comprehensive (loss) income, net of tax		$(55.4)	$44.9	$(53.0)	$63.1
Comprehensive income		$0.7	$76.2	$68.5	$117.0

(1) Adjusted due to the adoption of ASU 2017-12 “Targeted Improvements to Accounting for Hedging Activities” on January 1, 2018. Refer to “Note 2: Significant accounting policies” for more information.

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

Table of Contents

Univar Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except per share data)	Note	June 30, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents		$128.6	$ 467.0
Trade accounts receivable, net		1,369.2	1,062.4
Inventories		880.3	839.5
Prepaid expenses and other current assets		179.9	149.6
Total current assets		$2,558.0	$ 2,518.5
Property, plant and equipment, net	12	964.2	1,003.0
Goodwill		1,800.2	1,818.4
Intangible assets, net	12	267.1	287.7
Deferred tax assets		23.7	22.8
Other assets		95.9	82.3
Total assets		$5,709.1	$ 5,732.7
Liabilities and stockholders' equity			
Current liabilities:			
Short-term financing	11	$8.2	$ 13.4
Trade accounts payable		1,127.3	941.7
Current portion of long-term debt	11	79.6	62.0
Accrued compensation		74.4	100.7
Other accrued expenses		264.0	301.6
Total current liabilities		$1,553.5	$ 1,419.4
Long-term debt	11	2,590.1	2,820.0
Pension and other postretirement benefit liabilities		246.5	257.1
Deferred tax liabilities		49.2	35.4
Other long-term liabilities		98.8	110.7
Total liabilities		$4,538.1	$ 4,642.6
Stockholders' equity:			
Preferred stock, 200.0 million shares authorized at $0.01 par value with no shares issued or outstanding as of June 30, 2018 and December 31, 2017		$—	$ —
Common stock, 2.0 billion shares authorized at $0.01 par value with 141.4 million and 141.1 million shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively		1.4	1.4
Additional paid-in capital		2,313.4	2,301.3
Accumulated deficit		(812.3)	(934.1)
Accumulated other comprehensive loss	10	(331.5)	(278.5)
Total stockholders' equity		$1,171.0	$ 1,090.1
Total liabilities and stockholders' equity		$5,709.1	$ 5,732.7

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

Table of Contents

Univar Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Note	Six months ended June 30, 2018	2017
Operating activities:			
Net income		$121.5	$53.9
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization		89.5	103.2
Amortization of deferred financing fees and debt discount		3.9	3.9
Amortization of pension credit from accumulated other comprehensive loss		0.1	(0.1)
Loss on extinguishment of debt		—	0.8
Deferred income taxes		5.0	(5.3)
Stock-based compensation expense	4	13.7	11.5
Other		1.1	0.7
Changes in operating assets and liabilities:			
Trade accounts receivable, net		(330.2)	(321.6)
Inventories		(51.6)	(37.9)
Prepaid expenses and other current assets		(25.1)	(13.2)
Trade accounts payable		206.5	252.4
Pensions and other postretirement benefit liabilities		(23.3)	(19.2)
Other, net		(60.1)	(41.6)
Net cash used by operating activities		$(49.0)	$(12.5)
Investing activities:			
Purchases of property, plant and equipment		$(45.1)	$(38.6)
Purchases of businesses, net of cash acquired		(20.4)	(0.5)
Proceeds from sale of property, plant and equipment		2.5	—
Other		—	1.0
Net cash used by investing activities		$(63.0)	$(38.1)
Financing activities:			
Proceeds from issuance of long-term debt	11	$345.9	$2,254.0
Payments on long-term debt and capital lease obligations	11	(553.5)	(2,238.0)
Short-term financing, net	11	(3.4)	(11.9)
Financing fees paid		—	(4.4)
Taxes paid related to net share settlements of stock-based compensation awards		(3.2)	(7.5)
Stock option exercises		1.1	28.1
Contingent consideration payments		—	(3.2)
Other		0.6	0.5
Net cash (used) provided by financing activities		$(212.5)	$17.6
Effect of exchange rate changes on cash and cash equivalents		$(13.9)	$18.4
Net decrease in cash and cash equivalents		(338.4)	(14.6)
Cash and cash equivalents at beginning of period		467.0	336.4
Cash and cash equivalents at end of period		$128.6	$321.8
Supplemental disclosure of cash flow information:			
Non-cash activities:			
Additions of property, plant and equipment included in trade accounts payable and other accrued expenses		$4.6	$7.5
Additions of property, plant and equipment under a capital lease obligation		10.5	13.6

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

Table of Contents

Univar Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(in millions)	Common stock (shares)	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
Balance, December 31, 2016	138.8	$ 1.4	$ 2,251.8	$ (1,053.4)	$ (389.9)	$ 809.9
Impact due to adoption of ASU, net of tax $0.2 (1)	—	—	0.7	(0.5)	—	0.2
Net income	—	—	—	119.8	—	119.8
Foreign currency translation adjustment, net of tax ($2.1)	—	—	—	—	107.1	107.1
Pension and other postretirement benefits adjustment, net of tax $0.6	—	—	—	—	(2.4)	(2.4)
Derivative financial instruments, net of tax ($4.3)	—	—	—	—	6.7	6.7
Restricted stock units vested	0.8	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(0.3)	—	(8.5)	—	—	(8.5)
Stock option exercises	1.8	—	36.5	—	—	36.5
Employee stock purchase plan	—	—	1.1	—	—	1.1
Stock-based compensation	—	—	19.7	—	—	19.7
Balance, December 31, 2017	141.1	$ 1.4	$ 2,301.3	$ (934.1)	$ (278.5)	$ 1,090.1
Impact due to adoption of ASU's, net of tax ($0.3) (2)	—	—	—	0.3	0.5	0.8
Net income	—	—	—	121.5	—	121.5
Foreign currency translation adjustment	—	—	—	—	(63.0)	(63.0)
Pension and other postretirement benefits adjustment, net of tax $0.0	—	—	—	—	0.1	0.1
Derivative financial instruments, net of tax ($3.4)	—	—	—	—	9.4	9.4
Restricted stock units vested	0.3	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(0.1)	—	(3.2)	—	—	(3.2)
Stock option exercises	0.1	—	1.1	—	—	1.1
Employee stock purchase plan	—	—	0.5	—	—	0.5
Stock-based compensation	—	—	13.7	—	—	13.7
Balance, June 30, 2018	141.4	$ 1.4	$ 2,313.4	$ (812.3)	$ (331.5)	$ 1,171.0

(1) Adjusted due to the adoption of ASU 2016-09 “Improvement to Employee Share-Based Payment Accounting” on January 1, 2017.

(2) Adjusted due to the adoption of ASU 2014-09 “Revenue from Contracts with Customers” and ASU 2017-12 “Targeted Improvements to Accounting for Hedging Activities” on January 1, 2018. Refer to “Note 2: Significant accounting policies” for more information.

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

Table of Contents

Univar Inc.
Notes to Condensed Consolidated Financial Statements
As of June 30, 2018 and
For the Three and Six Month Periods Ended June 30, 2018 and 2017
(Unaudited)

1. Nature of operations

Headquartered in Downers Grove, Illinois, Univar Inc. (“the Company” or “Univar”) is a leading global chemicals and ingredients distributor and provider of 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. Significant accounting policies

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 income, 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, 2017.

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 VIEs 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.

Recently issued and adopted accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606). On January 1, 2018, the Company adopted the new accounting standard Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

In August 2017, the FASB issued ASU 2017-12 “Derivatives and Hedging” (Topic 815) - “Targeted Improvements to Accounting for Hedging Activities.” The ASU better aligns hedge accounting with the Company’s risk management activities, simplifies the application of hedge accounting, and improves transparency as to the scope and results of hedging programs. The Company early adopted the new pronouncement effective January 1, 2018, using the modified retrospective approach by recognizing the cumulative effect of initially applying the new pronouncement as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Table of Contents

The cumulative effect of the changes made to our January 1, 2018 condensed consolidated balance sheet for the adoption of ASU 2014-09 “Revenue from Contracts with Customers” (Topic 606) and ASU 2017-12 “Derivatives and Hedging” (Topic 815) - “Targeted Improvements to Accounting for Hedging Activities” is as follows:

(in millions)	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Adjustments due to ASU 2017-12	Balance at January 1, 2018
Assets				
Trade accounts receivable, net	$1,062.4	$ 41.3	$ —	$1,103.7
Inventories	839.5	(2.1)	—	837.4
Prepaid expenses and other current assets	149.6	1.8	—	151.4
Liabilities				
Trade accounts payable	$941.7	$ 7.0	$ —	$948.7
Other accrued expenses	301.6	33.2	—	334.8
Equity				
Accumulated deficit	$(934.1)	$ 0.8	$ (0.5)	$(933.8)
Accumulated other comprehensive loss	(278.5)	—	0.5	(278.0)

The following tables summarize the impact of adopting the new revenue standard upon the Company’s condensed consolidated balance sheet and statement of operations as of and for the three and six months ended June 30, 2018:

(in millions)	Three months ended June 30, 2018			Six months ended June 30, 2018		
	As reported	Balances without adoption of ASC 606	Effect of change higher/(lower)	As reported	Balances without adoption of ASC 606	Effect of change higher/(lower)
Net sales	$2,372.6	$2,379.4	$ (6.8)	$4,530.6	$4,531.1	$ (0.5)
Cost of goods sold	1,872.1	1,878.5	(6.4)	3,543.5	3,544.0	(0.5)
Gross profit	$500.5	$500.9	$ (0.4)	$987.1	$987.1	$ —
Income tax expense	$27.2	$27.3	$ (0.1)	$37.4	$37.4	$ —
Net income	56.1	56.4	(0.3)	121.5	121.5	—

(in millions)	June 30, 2018		
	As reported	Balances without adoption of ASC 606	Effect of change higher/(lower)
Assets			
Trade accounts receivable, net	$1,369.2	$1,333.8	$ 35.4
Inventories	880.3	883.0	(2.7)
Prepaid expenses and other current assets	179.9	164.4	15.5
Liabilities			
Trade accounts payable	$1,127.3	$1,108.7	$ 18.6
Other accrued expenses	264.0	235.2	28.8
Equity			
Accumulated deficit	$(812.3)	$(813.1)	$ 0.8

In March 2017, the FASB issued ASU 2017-07 “Compensation - Retirement Benefits” (Topic 715) - “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” On January 1, 2018, the Company adopted the amendments to ASC 715 that improves the presentation of net periodic pension and postretirement benefit costs, by separating the presentation of service costs from other components of net periodic costs. The interest cost, expected return on assets, and amortization of prior service costs have been reclassified from warehousing, selling, and administrative expenses to

Table of Contents

other expense, net. The mark to market, curtailment, and settlement expenses have been reclassified from other operating expenses, net to other expense, net.

Adoption of ASU 2017-07 resulted in a retrospective presentation change to the net periodic cost of our defined benefit pension and other postretirement employee benefits (“OPEB”) plans within our consolidated income statement as follows:

	Three months ended June 30, 2017			Six Months Ended June 30, 2017		
(in millions)	As revised	Previously reported	Effect of change higher/(lower)	As revised	Previously reported	Effect of change higher/(lower)
Warehousing, selling and administrative	$236.0	$ 233.6	$ 2.4	$464.5	$ 459.7	$ 4.8
Other (expense) income, net	(9.3)	(11.7)	(2.4)	(16.0)	(20.8)	(4.8)

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 were not addressed within the previous guidance. The Company adopted the ASU as of January 1, 2018 and accordingly restated the condensed consolidated statement of cash flows for the six months ended June 30, 2017 to conform with the current period presentation under this new guidance. As a result of the adoption, the Company reclassified $3.2 million of cash outflows previously reported as operating activities to financing activities within the condensed consolidated statement of cash flows related to contingent consideration payments for the six months ended June 30, 2017.

The Company also adopted the following standards during 2018, none of which had a material impact to the financial statements or financial statement disclosures:

Standard		Effective date
2017-09	Compensation - Stock Compensation - Scope of Modification Accounting	January 1, 2018
2017-04	Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment	January 1, 2018
2017-01	Business Combinations - Clarifying the Definition of a Business	January 1, 2018
2016-18	Statement of Cash Flows - Restricted Cash	January 1, 2018
2016-16	Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory	January 1, 2018
2016-01	Financial Instrument - Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018

Accounting pronouncements issued and not yet adopted

In February 2016, the FASB issued ASU 2016-02 “Leases” (Topic 842), which supersedes the lease recognition requirements in ASC Topic 840, “Leases.” The core principal of the guidance is that an entity should recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. Early adoption is permitted. The guidance is to be applied using a modified retrospective transition method with the option to elect a package of practical expedients. The Company has established a project team who has completed the initial scoping assessment and is in the process of implementing a software solution, including lease data conversion, to comply with the new standard's reporting and disclosure requirements. The Company is also in the process of identifying changes to processes and controls related to the new compliance requirements and software implementation. Upon adoption of this standard on January 1, 2019, the Company expects the condensed consolidated balance sheet to include a right of use asset and liability related to certain operating lease arrangements.

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 expects to adopt this guidance when effective, and does not expect the guidance to have a significant impact to the condensed consolidated financial statements when adopted on January 1, 2020.

Table of Contents

In January 2018, the FASB issued ASU 2018-02 "Income Statement - Reporting Comprehensive Income" (Topic 220) "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("AOCI"), which gives entities the option to reclassify certain tax effects, that the FASB refers to as having been stranded, resulting from the Tax Cuts and Jobs Act from AOCI to retained earnings. The new guidance may be applied retrospectively to each period in which the effect of the Tax Cuts and Jobs Act is recognized, or in the period of adoption. The Company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently determining the impact to the Company's reported accumulated deficit and accumulated other comprehensive loss line items within the condensed consolidated balance sheet, which will be recorded when the ASU is adopted on January 1, 2019.

In June 2018, the FASB issued ASU 2018-07 "Compensation - Stock Compensation" (Topic 718) - "Improvements to Nonemployee Share-Based Payment Accounting." The ASU simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees. As a result, share-based payments issued to nonemployees related to the acquisition of goods and services will be accounted for similarly to the accounting for share-based payments to employees, with certain exceptions. This guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. The Company expects to early adopt this guidance in the third quarter of 2018, which will have no impact to the condensed consolidated financial statements when adopted on July 1, 2018.

3. Revenue

On January 1, 2018, the Company adopted the new revenue standard using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under ASC Topic 605. The Company recorded a net decrease to the opening accumulated deficit of $0.8 million as of January 1, 2018 due to the cumulative impact of adopting the new revenue standard.

The Company disaggregates revenues from contracts with customers by both geographic segments and revenue contract types. Geographic reportable segmentation is pertinent to understanding Univar's revenues, as it aligns to how the Company reviews the financial performance of its operations. Revenue contract types are differentiated by the type of good or service Univar offers customers, since the contractual terms necessary for revenue recognition are unique to each of the identified revenue contract types.

The following table disaggregates external customer net sales by major stream:

(in millions)	USA	Canada	EMEA	Rest of World	Consolidated
	Three Months Ended June 30, 2018				
Chemical Distribution	$1,260.7	$225.7	$511.5	$97.7	$ 2,095.6
Crop Sciences	—	215.0	—	—	215.0
Services	49.1	10.2	0.4	2.3	62.0
Total external customer net sales	$1,309.8	$450.9	$511.9	$100.0	$ 2,372.6

(in millions)	USA	Canada	EMEA	Rest of World	Consolidated
	Six Months Ended June 30, 2018				
Chemical Distribution	$2,421.5	$457.7	$1,049.9	$197.6	$ 4,126.7
Crop Sciences	—	284.4	—	—	284.4
Services	92.7	22.2	0.6	4.0	119.5
Total external customer net sales	$2,514.2	$764.3	$1,050.5	$201.6	$ 4,530.6

Revenue is recognized when performance obligations under the terms of the contract are satisfied, which generally occurs when goods or services are transferred to a customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Payment terms and conditions vary by regions where the Company performs business and contract types. The term between invoicing and when payment is due is generally one year or less. As of June 30, 2018, none of the Company's contracts contained a

significant financing component.
Chemical Distribution
The Company generates revenue when control for products is transferred to customers. Certain customers may receive discounts off the transaction price, primarily due to price and volume incentives, or return product for non-conformance, which

Table of Contents

are accounted for as variable consideration. The Company estimates the change in the transaction price that is expected to be provided to customers based on historical experience, which impacts revenues recognized.

Crop Sciences

The Company generates revenue when control for products is transferred to customers. The amount of consideration recorded varies due to price movements and rights granted to customers to return product. Customer payment terms often extend through a growing season, which may be up to six months.

Transaction prices may move during an agricultural growing season and changes may affect the amount of consideration the Company will receive. Transaction prices are also affected by special offers or volume discounts. The Company estimates the expected changes in the transaction price based on the combination of historical experience and the impact of weather on the current agriculture season. The adjustments to the transaction price are recognized as variable consideration and impacts revenues recognized.

When customers are provided rights to return eligible products, the Company estimates the expected returns based on the combination of historical experience and the impact of weather on the current agriculture season, which affects the revenues recognized.

Services

The Company generates revenue from services as they are performed and economic value is transferred to customers. Univar's services provided to customers are primarily related to waste management services and warehousing services. Waste management services are primarily related to plant maintenance, environmental contracting, environmental consulting and the collection and disposal of both hazardous and non-hazardous waste products. Warehousing services is primarily inclusive of blending, warehousing, logistics and distribution services for customers. Waste management and warehousing services are recognized over time as the performance obligations are satisfied.

Costs to obtain or fulfill contracts with customers

Univar expenses costs to obtain contracts when the contract term and benefit period is expected to be one year or less. Contract costs where the contract term and benefit period is expected to be more than a year are capitalized and amortized over the performance obligation period. Capitalized contract costs of $1.1 million and $6.5 million are included in other current assets and other assets as of June 30, 2018.

Deferred revenue

Deferred revenues are recognized as a contract liability when customers have provided Univar with consideration prior to the Company satisfying a performance obligation. The following table provides information pertaining to the deferred revenue balance and account activity:

(in millions)		
Deferred revenue as of January 1, 2018	$	100.9
Deferred revenue as of June 30, 2018	7.9	
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	98.3	

The deferred revenue balances are all expected to have a duration of one year or less and are recorded within the other accrued expenses line item of the condensed consolidated balance sheet.

Table of Contents

4. Other operating expenses, net

Other operating expenses, net consisted of the following activity:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Stock-based compensation expense	$4.3	$5.1	$13.7	$11.5
Restructuring charges	—	1.8	0.5	3.5
Other employee termination costs	4.4	1.4	6.8	3.1
Business transformation costs	—	11.5	—	20.6
Acquisition and integration related expenses	1.0	0.5	1.4	0.7
Other	1.3	3.9	2.2	4.6
Total other operating expenses, net	$11.0	$24.2	$24.6	$44.0

5. Restructuring charges

Restructuring charges recorded relate to large, strategic initiatives aimed at streamlining the Company's cost structure and improving its operations. These actions primarily result in workforce reductions, lease termination costs and other facility rationalization costs.

2018 Restructuring

During the three months ended June 30, 2018, the Company recorded restructuring charges of $0.4 million for the Rest of the World segment, consisting of $0.3 million in employee termination costs and $0.1 million in facility exit costs. The Company also revised its estimate of restructuring charges which reduced costs by $0.4 million, including $0.2 million in facility exit costs for USA, $0.1 million in employee termination costs for Canada and $0.1 million in other exit costs for EMEA.

During the six month ended June 30, 2018, the Company recorded restructuring charges of $0.5 million for the Rest of World segment, consisting of $0.3 million in employee termination costs, $0.1 million in facility exit costs and $0.1 million in other exit costs. The Company does not expect to incur material costs in the future related to this restructuring program. The actions associated with this program are expected to be completed by the end of the current year.

The cost information above does not contain any estimates for programs that may be developed and implemented in future periods.

2014 to 2017 Restructuring

Between 2014 through 2017, management implemented several regional strategic initiatives aimed at streamlining the Company's cost structure and improving its operations. Total cumulative charges recorded through June 30, 2018 for USA related to these restructuring programs were $40.4 million, which included $16.5 million in employee termination costs, $22.2 million in facility exit costs, and $1.7 million in other exit costs. The Company did not record restructuring charges for the programs during 2018. The actions associated with the restructuring programs were completed as of June 30, 2018, although administratively cash payments will be made into the future.

Total cumulative charges recorded through June 30, 2018 for Canada were $5.7 million related to employee termination costs. There were no restructuring charges recorded for the programs during 2018. As of June 30, 2018, the actions associated with the restructuring programs were completed.

Total cumulative charges recorded through June 30, 2018 for EMEA were $32.8 million, which included $22.5 million in employee termination costs, $3.7 million in facility exit costs, and $6.6 million in other exit costs. During 2018, the Company did not record restructuring charges for the programs. The actions associated with the restructuring programs were completed as of June 30, 2018.

Total cumulative charges recorded through June 30, 2018 for ROW were $6.4 million, which included $6.2 million in employee termination costs and $0.2 million in facility exit costs. The Company did not record restructuring charges for these programs during 2018. As of June 30, 2018, we completed this program.

Total cumulative charges recorded through June 30, 2018 for Other were $6.6 million, which included $5.8 million in employee termination costs and $0.8 million in other exit costs. There were no restructuring charges recorded for these programs during 2018. As of June 30, 2018, we completed this program.

Table of Contents

The following table summarizes activity related to accrued liabilities associated with restructuring:

(in millions)	January 1, 2018	Charge to earnings	Cash paid	Non-cash and other	June 30, 2018
Employee termination costs	$ 3.0	$ 0.3	$ (1.5)	$ (0.7)	$ 1.1
Facility exit costs	10.2	0.1	(1.9)	(0.1)	8.3
Other exit costs	(0.5)	0.1	(0.1)	0.6	0.1
Total	$ 12.7	$ 0.5	$ (3.5)	$ (0.2)	$ 9.5

(in millions)	January 1, 2017	Charge to earnings	Cash paid	Non-cash and other	December 31, 2017
Employee termination costs	$ 6.9	$ 2.9	$ (7.2)	$ 0.4	$ 3.0
Facility exit costs	13.2	2.8	(5.5)	(0.3)	10.2
Other exit costs	—	(0.2)	(0.3)	—	(0.5)
Total	$ 20.1	$ 5.5	$ (13.0)	$ 0.1	$ 12.7

Restructuring liabilities of $4.5 million and $5.8 million were classified as current in other accrued expenses in the condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively. The long-term portion of restructuring liabilities of $5.0 million and $6.9 million were recorded in other long-term liabilities in the condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively, and primarily consists of facility exit costs that are expected to be paid within the next five years.

While the Company believes the recorded restructuring liabilities are adequate, revisions to current estimates may be recorded in future periods based on new information as it becomes available.

6. Other (expense) income, net

Other (expense) income, net consisted of the following gains (losses):

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Foreign currency transactions	$ (4.2)	$ (1.8)	$ (4.3)	$ (3.9)
Foreign currency denominated loans revaluation	(2.6)	(5.4)	(1.4)	(8.4)
Undesignated foreign currency derivative instruments (1)	2.2	1.2	0.9	2.2
Undesignated interest rate swap contracts (1)	—	(4.8)	—	(4.8)
Debt amendment costs	—	—	—	(4.2)
Non-operating retirement benefits (2)	3.4	2.4	6.9	4.8
Other	(0.9)	(0.9)	(1.6)	(1.7)
Total other (expense) income, net	$ (2.1)	$ (9.3)	$ 0.5	$ (16.0)

(1) Refer to “Note 14: Derivatives” for more information.
(2) Refer to “Note 7: Employee benefit plans” for more information.

Table of Contents

7. 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 June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Service cost (1)	$—	$—	$—	$—
Interest cost (2)	6.8	7.7	13.6	15.4
Expected return on plan assets (2)	(7.8)	(7.8)	(15.6)	(15.5)
Net periodic benefit	$(1.0)	$(0.1)	$(2.0)	$(0.1)

	Foreign - Defined Benefit Pension Plans			
	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Service cost (1)	$0.7	$0.6	$1.4	$1.2
Interest cost (2)	3.9	4.0	7.9	7.9
Expected return on plan assets (2)	(6.4)	(6.4)	(12.9)	(12.7)
Prior service cost (2)	0.1	—	0.1	—
Net periodic benefit	$(1.7)	$(1.8)	$(3.5)	$(3.6)

	Other Postretirement Benefits			
	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Service cost (1)	$—	$—	$—	$—
Interest cost (2)	—	0.1	—	0.1
Expected return on plan assets (2)	—	—	—	—
Net periodic cost	$—	$0.1	$—	$0.1

(1) Service cost is included in warehouse, selling and administrative expenses.

(2) These amounts are included in other (expense) income, net.

8. Income taxes

Income tax expense was $27.2 million and $37.4 million, and resulted in an effective tax rate of 32.7% and 23.5%, during the three months and six months ended June 30, 2018, respectively. The Company’s effective tax rate was higher than the recently reduced US federal statutory rate of 21.0% primarily due to the addition of state taxes, and the higher tax rates incurred on the company's earnings outside the US, including the expected net impact of the 2017 US Tax Cuts and Jobs Act on foreign net earnings. The increases in the effective tax rate were partially offset by the release of valuation allowances on certain tax attributes. The company's effective tax rate for the sixth month period ended June 30, 2018 was lower than its three month period effective tax rate ended June 30, 2018 mainly due to the impact of the discrete tax benefits recorded in the previous quarter.

Income tax expense was $7.3 million and $8.9 million, and resulted in an effective tax rate of 18.9% and 14.2% during the three months and six months ended June 30, 2017, respectively. The Company’s effective tax rate for the three and six month periods ended June 30, 2017 was lower than the US federal statutory rate of 35.0% primarily due to the mix of earnings in multiple jurisdictions, non-taxable interest income and the release of a valuation allowance on certain foreign tax attributes. Included in the $7.3 million and $8.9 million expense for the three and six months ended June 30, 2017 was $1.3 million and $3.5 million benefit, respectively, related to excess tax benefits from share-based compensation.

Table of Contents

Impacts of the Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1) (the “Tax Act”) was signed into US law. In addition to reduction of the corporate tax rate from 35 percent to 21 percent, the Tax Act contains significant changes to corporate taxation. Beginning in 2018, the global intangible low-taxed income (“GILTI”) provisions and the base-erosion and anti-abuse tax (“BEAT”) provisions become effective. Due to the complexity of the new GILTI tax rules, the Company is continuing to evaluate the provision of the Tax Act and application of ASC 740. Under US GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future US inclusions in taxable income related to GILTI as a current-period expense when occurred (the “period cost method”) or (2) factoring such amounts into a Company's measurement of its deferred taxes (the “deferred method”). As the Company is still evaluating the impact of the Tax Act, no accounting policy election has been made yet regarding which method the Company will utilize for GILTI.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017 and in its interim financial statements for the three and six months ended June 30, 2018. As a result of the Tax Act, the Company recorded provisional amounts in 2017 including a one-time repatriation tax of $76.5 million, $47.6 million of foreign tax credits, of which $34.0 million was recorded as a deferred tax asset, net of a valuation allowance. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act. The accounting is expected to be complete within the measurement period of one year from December 22, 2017.

9. Earnings per share

The following table presents the basic and diluted earnings per share computations:

	Three months ended June 30,		Six months ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Basic:				
Net income	$56.1	$31.3	$121.5	$53.9
Less: earnings allocated to participating securities	0.1	0.1	0.2	0.1
Earnings allocated to common shares outstanding	$56.0	$31.2	$121.3	$53.8
Weighted average common shares outstanding	141.1	140.1	141.0	139.8
Basic income per common share	$0.40	$0.22	$0.86	$0.38
Diluted:				
Net income	$56.1	$31.3	$121.5	$53.9
Less: earnings allocated to participating securities	—	—	—	—
Earnings allocated to common shares outstanding	$56.1	$31.3	$121.5	$53.9
Weighted average common shares outstanding	141.1	140.1	141.0	139.8
Effect of dilutive securities: stock compensation plans (1)	0.9	1.2	1.0	1.4
Weighted average common shares outstanding – diluted	142.0	141.3	142.0	141.2
Diluted income per common share	$0.40	$0.22	$0.86	$0.38

(1) Stock options to purchase 1.5 million and 0.9 million shares of common stock were outstanding during the three months ended June 30, 2018 and 2017, respectively, but were not included in the calculation of diluted income per share as the impact of these stock options would have been anti-dilutive. Stock options to purchase 1.4 million and

0.8 million shares of common stock were outstanding during the six months ended June 30, 2018 and 2017, respectively, but were not included in the calculation of diluted income per share as the impact of these stock options would have been anti-dilutive.

Table of Contents

10. Accumulated other comprehensive loss

The following tables present the changes in accumulated other comprehensive loss by component, net of tax:

(in millions)	Cash flow hedges	Defined benefit pension items	Currency translation items	Total
Balance as of December 31, 2017	$6.7	$ (1.2)	$(284.0)	$(278.5)
Impact due to adoption of ASU 2017-12 [1]	0.5	—	—	0.5
Other comprehensive income (loss) before reclassifications	11.6	—	(63.0)	(51.4)
Amounts reclassified from accumulated other comprehensive (loss) income	(2.2)	0.1	—	(2.1)
Net current period other comprehensive income (loss)	$9.9	$ 0.1	$(63.0)	$(53.0)
Balance as of June 30, 2018	$16.6	$ (1.1)	$(347.0)	$(331.5)
Balance as of December 31, 2016	$—	$ 1.2	$(391.1)	$(389.9)
Other comprehensive income before reclassifications	—	—	63.2	63.2
Amounts reclassified from accumulated other comprehensive loss	—	(0.1)	—	(0.1)
Net current period other comprehensive (loss) income	$—	$ (0.1)	$63.2	$63.1
Balance as of June 30, 2017	$—	$ 1.1	$(327.9)	$(326.8)

(1) Adjusted due to the adoption of ASU 2017-12 “Targeted Improvements to Accounting for Hedging Activities” on January 1, 2018. Refer to “Note 2: Significant accounting policies” for more information.

The following is a summary of the amounts reclassified from accumulated other comprehensive loss to net income:

(in millions)	Three months ended June 30, 2018 [1]	2017 [1]	Location of impact on statement of operations
Amortization of defined benefit pension items:			
Prior service cost (credits)	$0.1	$(0.1)	Other (expense) income, net
Tax expense	—	—	Income tax expense
Net of tax	$0.1	$(0.1)	
Cash flow hedges:			
Interest rate swap contracts	$(3.0)	$—	Interest expense
Tax expense	0.8	—	Income tax expense
Net of tax	$(2.2)	$—	
Total reclassifications for the period	$(2.1)	$(0.1)	

Table of Contents

(in millions)	Six months ended June 30, 2018 (1)	2017 (1)	Location of impact on statement of operations
Amortization of defined benefit pension items:			
Prior service cost (credits)	$0.1	$(0.1)	Other (expense) income, net
Tax expense	—	—	Income tax expense
Net of tax	$0.1	$(0.1)	
Cash flow hedges:			
Interest rate swap contracts	$(3.0)	$—	Interest expense
Tax expense	0.8	—	Income tax expense
Net of tax	$(2.2)	$—	
Total reclassifications for the period	$(2.1)	$(0.1)	

(1) Amounts in parentheses indicate credits to net income in the condensed consolidated statement of operations.
Foreign currency gains and losses relating to intercompany borrowings that are considered a part of the Company's investment in a foreign subsidiary are reflected in accumulated other comprehensive loss. There were no foreign currency gains and losses related to such intercompany borrowings for the three month periods ended June 30, 2018 and 2017. Total foreign currency gains related to such intercompany borrowings were nil and $0.5 million for the six month periods ended June 30, 2018 and 2017, respectively.

Table of Contents

11. Debt
Short-term financing
Short-term financing consisted of the following:

(in millions)	June 30, 2018	December 31, 2017
Amounts drawn under credit facilities	$ 6.2	$ 9.1
Bank overdrafts	2.0	4.3
Total short-term financing	$ 8.2	$ 13.4

As of June 30, 2018 and December 31, 2017, the Company had $152.1 million and $147.0 million in outstanding letters of credit and guarantees, respectively.
Long-term debt
Long-term debt consisted of the following:

(in millions)	June 30, 2018	December 31, 2017
Senior Term Loan Facilities:		
Term B Loan due 2024, variable interest rate of 4.59% and 4.07% at June 30, 2018 and December 31, 2017, respectively	$1,747.8	$2,277.8
Asset Backed Loan (ABL) Facilities:		
North American ABL Facility due 2020, variable interest rate of 3.55% and 5.00% at June 30, 2018 and December 31, 2017, respectively	434.2	155.0
North American ABL Term Loan due 2018, fully paid off at June 30, 2018 and variable interest rate of 4.44% at December 31, 2017	—	16.7
Euro ABL Facility due 2019, variable interest rate of 1.75% at June 30, 2018	59.6	—
Senior Unsecured Notes:		
Senior Unsecured Notes due 2023, fixed interest rate of 6.75% at June 30, 2018 and December 31, 2017	399.5	399.5
Capital lease obligations	54.1	60.9
Total long-term debt before discount	$2,695.2	$2,909.9
Less: unamortized debt issuance costs and discount on debt	(25.5)	(27.9)
Total long-term debt	$2,669.7	$2,882.0
Less: current maturities	(79.6)	(62.0)
Total long-term debt, excluding current maturities	$2,590.1	$2,820.0

The weighted average interest rate on long-term debt was 4.32% and 4.50% as of June 30, 2018 and December 31, 2017, respectively.
During 2018, Univar made three early repayments totaling $530.0 million of which $230.0 million were made during the three months ended June 30, 2018 against the balance of its Term B Loan due 2024. The repayments utilized a combination of existing cash balances and ABL Facilities and resulted in cash balances being remitted to the US from non-US subsidiaries. These early repayments have no impact on the Company’s leverage ratio but are expected to reduce net interest expense.
12. Supplemental balance sheet information
Property, plant and equipment, net

(in millions)	June 30, 2018	December 31, 2017
Property, plant and equipment, at cost	$1,916.0	$1,930.2
Less: accumulated depreciation	(951.8)	(927.2)
Property, plant and equipment, net	$964.2	$1,003.0

Capital lease assets, net

17

Table of Contents

Included within property, plant and equipment, net are assets related to capital leases where the Company is the lessee. The below table summarizes the cost and accumulated depreciation related to these assets:

(in millions)	June 30, 2018	December 31, 2017
Capital lease assets, at cost	$82.8	$ 86.0
Less: accumulated depreciation	(30.6)	(27.0)
Capital lease assets, net	$52.2	$ 59.0