

SILGAN HOLDINGS INC  
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 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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

filer,” “smaller reporting company,” and “emerging growth 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  [ ]

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  [ X ]

As of October 31, 2018, the number of shares outstanding of the Registrant’s common stock, \$0.01 par value, was 110,617,896.

-1-

---

SILGAN HOLDINGS INC.

TABLE OF CONTENTS

	Page No.
<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets at September 30, 2018 and 2017 and December 31, 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<u>Part II. Other Information</u>	<u>27</u>
<u>Item 6. Exhibits</u>	<u>27</u>
<u>Signatures</u>	<u>28</u>

## Part I. Financial Information

## Item 1. Financial Statements

## SILGAN HOLDINGS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	Sept. 30, 2018 (unaudited)	Sept. 30, 2017 (unaudited)	Dec. 31, 2017
Assets			
Current assets:			
Cash and cash equivalents	\$ 171,369	\$ 199,186	\$ 53,533
Trade accounts receivable, net	783,306	702,307	454,637
Inventories	690,378	704,384	721,290
Prepaid expenses and other current assets	67,492	62,463	62,462
Total current assets	1,712,545	1,668,340	1,291,922
Property, plant and equipment, net	1,502,231	1,472,321	1,489,872
Goodwill	1,156,051	1,160,453	1,171,454
Other intangible assets, net	392,144	422,050	417,088
Other assets, net	295,228	297,926	275,113
	\$5,058,199	\$5,021,090	\$4,645,449
Liabilities and Stockholders' Equity			
Current liabilities:			
Revolving loans and current portion of long-term debt	\$ 733,404	\$ 640,390	\$ 108,789
Trade accounts payable	552,897	487,775	659,629
Accrued payroll and related costs	71,658	69,044	66,257
Accrued liabilities	101,895	122,129	123,602
Total current liabilities	1,459,854	1,319,338	958,277
Long-term debt	2,186,275	2,465,780	2,438,502
Deferred income taxes	279,449	395,181	262,394
Other liabilities	220,704	217,688	220,211
Stockholders' equity:			
Common stock	1,751	1,751	1,751
Paid-in capital	272,301	258,653	262,201
Retained earnings	1,970,875	1,651,760	1,809,845
Accumulated other comprehensive loss	(212,256 )	(170,263 )	(188,973 )
Treasury stock	(1,120,754 )	(1,118,798 )	(1,118,759 )
Total stockholders' equity	911,917	623,103	766,065
	\$5,058,199	\$5,021,090	\$4,645,449

See accompanying notes.



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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Net sales	\$1,306,999	\$1,266,930	\$3,378,383	\$3,094,150
Cost of goods sold	1,102,892	1,061,289	2,840,991	2,611,836
Gross profit	204,107	205,641	537,392	482,314
Selling, general and administrative expenses	73,690	75,149	228,691	232,461
Rationalization charges	288	561	1,483	4,485
Other pension and postretirement income	(8,326)	(8,635)	(27,536)	(25,192)
Income before interest and income taxes	138,455	138,566	334,754	270,560
Interest and other debt expense before loss on early extinguishment of debt	28,199	30,583	88,602	80,207
Loss on early extinguishment of debt	—	—	2,493	7,052
Interest and other debt expense	28,199	30,583	91,095	87,259
Income before income taxes	110,256	107,983	243,659	183,301
Provision for income taxes	25,517	35,601	57,857	59,762
Net income	\$84,739	\$72,382	\$185,802	\$123,539
Earnings per share:				
Basic net income per share	\$0.77	\$0.66	\$1.68	\$1.12
Diluted net income per share	\$0.76	\$0.65	\$1.66	\$1.11
Dividends per share (a)				
	\$0.10	\$0.09	\$0.30	\$0.27
Weighted average number of shares:				
Basic	110,657	110,391	110,599	110,327
Effect of dilutive securities	1,036	1,036	1,010	996
Diluted	111,693	111,427	111,609	111,323

See accompanying notes.

(a) The per share amount of dividends declared on common stock for the nine months ended September 30, 2017 has been retroactively adjusted for the two-for-one stock split of our issued common stock effected on May 26, 2017.

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Net income	\$84,739	\$72,382	\$185,802	\$123,539
Other comprehensive (loss) income, net of tax:				
Changes in net prior service credit and actuarial losses	807	558	2,441	1,816
Change in fair value of derivatives	476	(51 )	673	(526 )
Foreign currency translation	(4,576 )	14,369	(26,397 )	52,303
Other comprehensive (loss) income	(3,293 )	14,876	(23,283 )	53,593
Comprehensive income	\$81,446	\$87,258	\$162,519	\$177,132

See accompanying notes.

SILGAN HOLDINGS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the nine months ended September 30, 2018 and 2017  
 (Dollars in thousands)  
 (Unaudited)

	2018	2017
Cash flows provided by (used in) operating activities:		
Net income	\$185,802	\$123,539
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	146,246	129,734
Rationalization charges	1,483	4,485
Stock compensation expense	11,162	11,052
Loss on early extinguishment of debt	2,493	7,052
Other changes that provided (used) cash, net of effects from acquisition:		
Trade accounts receivable, net	(271,636 )	(285,901 )
Inventories	(32,743 )	(2,895 )
Trade accounts payable	(11,185 )	1,725
Accrued liabilities	(11,227 )	16,003
Other, net	(7,304 )	(9,247 )
Net cash provided by (used in) operating activities	13,091	(4,453 )
Cash flows provided by (used in) investing activities:		
Purchase of business, net of cash acquired	—	(1,028,729)
Capital expenditures	(134,636 )	(124,163 )
Other, net	236	539
Net cash used in investing activities	(134,400 )	(1,152,353)
Cash flows provided by (used in) financing activities:		
Borrowings under revolving loans	923,639	1,108,208
Repayments under revolving loans	(266,477 )	(680,986 )
Proceeds from issuance of long-term debt	—	1,789,200
Repayments of long-term debt	(286,200 )	(755,037 )
Changes in outstanding checks - principally vendors	(87,795 )	(78,944 )
Dividends paid on common stock	(33,843 )	(30,373 )
Debt issuance costs	(2,866 )	(16,643 )
Repurchase of common stock under stock plan	(3,057 )	(4,123 )
Net cash provided by financing activities	243,401	1,331,302
Effect of exchange rate changes on cash and cash equivalents	(4,256 )	—
Cash and cash equivalents:		
Net increase	117,836	174,496
Balance at beginning of year	53,533	24,690
Balance at end of period	\$171,369	\$199,186
Interest paid, net	\$104,040	\$78,528
Income taxes paid, net	39,400	50,226



See accompanying notes.

-6-

---

SILGAN HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF  
STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2018 and 2017

(Dollars and shares in thousands)

(Unaudited)

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss		Treasury Stock	Total Stockholders' Equity
	Shares Outstanding	Par Value	Paid-in Capital		Loss			
Balance at December 31, 2016	55,051	\$ 876	\$ 249,763	\$ 1,558,594	\$ (223,856 )		\$(1,115,962)	\$ 469,415
Net income	—	—	—	123,539	—	—	—	123,539
Other comprehensive income	—	—	—	—	53,593	—	—	53,593
Dividends declared on common stock	—	—	—	(30,373 )	—	—	—	(30,373 )
Stock compensation expense	—	—	11,052	—	—	—	—	11,052
Net issuance of treasury stock for vested restricted stock units	180	—	(1,287 )	—	—	—	(2,836 )	(4,123 )
Two-for-one stock split	55,142	875	(875 )	—	—	—	—	—
Balance at September 30, 2017	110,373	\$ 1,751	\$ 258,653	\$ 1,651,760	\$ (170,263 )		\$(1,118,798)	\$ 623,103
Balance at December 31, 2017	110,385	\$ 1,751	\$ 262,201	\$ 1,809,845	\$ (188,973 )		\$(1,118,759)	\$ 766,065
Adoption of accounting standards update for revenue recognition	—	—	—	9,061	—	—	—	9,061
Net income	—	—	—	185,802	—	—	—	185,802
Other comprehensive loss	—	—	—	—	(23,283 )	—	—	(23,283 )
Dividends declared on common stock	—	—	—	(33,833 )	—	—	—	(33,833 )
Stock compensation expense	—	—	11,162	—	—	—	—	11,162
Net issuance of treasury stock for vested restricted stock units	233	—	(1,062 )	—	—	—	(1,995 )	(3,057 )
Balance at September 30, 2018	110,618	\$ 1,751	\$ 272,301	\$ 1,970,875	\$ (212,256 )		\$(1,120,754)	\$ 911,917

See accompanying notes.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine 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, 2017 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, 2017.

**Goodwill and Other Intangible Assets.** We review goodwill and other indefinite-lived intangible assets for impairment as of July 1 of each year and more frequently if circumstances indicate a possible impairment. We determined that our goodwill and other indefinite-lived intangible assets were not impaired in our annual 2018 assessment performed during the third quarter.

**Recently Adopted 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 require an entity to recognize revenue to depict the transfer of promised goods and services to customers at an amount that an entity expects to be entitled to in exchange for those promised goods or services. We adopted this amendment on January 1, 2018, using the modified retrospective method for all contracts for which performance was not completed as of January 1, 2018. Results for the reporting period beginning January 1, 2018 are presented under the new guidance, while prior period amounts are not adjusted. The adoption of this amendment required us to accelerate the recognition of revenue prior to shipment to certain customers in cases where we produce promised goods with no alternative use to us and for which we have an enforceable right of payment for production completed. As a result of the adoption of this amendment, we increased trade accounts receivable, net by \$69.4 million, decreased inventories by \$56.6 million, increased accrued liabilities by \$0.9 million and increased long-term deferred income tax liabilities by \$2.8 million, resulting in a net increase to retained earnings of \$9.1 million, all as of January 1, 2018. The adoption of this amendment did not have a material impact on our financial position, results of operations or cash flows. See Note 2 for further information.

In August 2016, the FASB issued an ASU that provides guidance for cash flow classification for certain cash receipts and cash payments to address diversity in practice in the manner in which items are classified on the statement of cash

flows as either operating, investing or financing activities. We have adopted this amendment as of January 1, 2018 using the retrospective approach. The adoption of this amendment did not have a material impact on our statement of cash flows.

In March 2017, the FASB issued an ASU that amends the presentation of net periodic pension cost and net periodic postretirement benefit cost. This amendment requires an entity to disaggregate the service cost component from the other components of net periodic benefit cost, to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit cost (which include interest cost, expected return on plan assets, amortization of prior service cost or credit and actuarial gains and losses) separately. In addition, capitalization of net periodic benefit cost in assets is limited to the service cost component. We have adopted this amendment as of January 1, 2018. As a result of separately reporting the other components of net periodic benefit cost, we retrospectively increased cost of goods sold by \$6.9 million and \$20.0 million, increased selling, general and administrative expenses by \$1.7 million and \$5.2 million and reported other pension and postretirement income of \$8.6 million and \$25.2 million in our Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2017, respectively, based on amounts previously included in net periodic benefit costs for retirement benefits as disclosed in Note 10. The adoption of this amendment did not have a material impact on our financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements. In February 2016, the FASB issued an ASU that amends existing guidance for certain leases by lessees. This amendment will require an entity to recognize assets and liabilities on the balance sheet for the rights

## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. In addition, this amendment clarifies the presentation requirements of the effects of leases in the statement of income and statement of cash flows. We will adopt this amendment on January 1, 2019. In adopting this amendment, we expect to elect the transition method which will allow us to recognize the effects of applying this amendment as a cumulative effect to retained earnings as of January 1, 2019 and not restate comparative periods for the effects of this amendment. We are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

Note 2. Revenue

Our revenues are primarily derived from the sale of rigid packaging products to customers. We recognize revenue at the amount we expect to be entitled to in exchange for promised goods for which we have transferred control to customers. If the consideration agreed to in a contract includes a variable amount, we estimate the amount of consideration we expect to be entitled to in exchange for transferring the promised goods to the customer. Generally, revenue is recognized at a point in time for standard promised goods at the time of shipment when title and risk of loss pass to the customer, and revenue is recognized over time in cases where we produce promised goods with no alternative use to us and for which we have an enforceable right of payment for production completed. The production cycle for customer contracts subject to over time recognition is generally completed in less than one month. Due to the short-term duration of our production cycle, we have elected the practical expedient permitting us to exclude disclosure regarding our performance obligations with respect to outstanding purchase orders. We have elected to treat shipping and handling costs after the control of goods have been transferred to the customer as a fulfillment cost. Sales and similar taxes that are imposed on our sales and collected from customers are excluded from revenues.

The following tables present our revenues disaggregated by reportable business segment and geography as they best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenues by business segment were as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
	(Dollars in thousands)			
Metal containers	\$797,768	\$772,382	\$1,808,585	\$1,768,333
Closures	360,816	357,343	1,109,924	904,112
Plastics	148,415	137,205	459,874	421,705
	\$1,306,999	\$1,266,930	\$3,378,383	\$3,094,150

Revenues by geography were as follows:

	Three Months Ended	Nine Months Ended
--	--------------------	-------------------

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
	(Dollars in thousands)			
North America	\$1,056,099	\$1,011,573	\$2,651,225	\$2,488,620
Europe and other	250,900	255,357	727,158	605,530
	\$1,306,999	\$1,266,930	\$3,378,383	\$3,094,150

Our contracts generally include standard commercial payment terms generally acceptable in each region. We do not provide financing with extended payment terms beyond generally standard commercial payment terms for the applicable industry. We have no significant obligations for refunds, warranties or similar obligations.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

Trade accounts receivable, net are shown separately on our Condensed Consolidated Balance Sheet. Contract assets are the result of the timing of revenue recognition, billings and cash collections. Our contract assets primarily consist of unbilled accounts receivable related to over time revenue recognition and were \$77.2 million as of September 30, 2018. Unbilled receivables are included in trade accounts receivable, net on our Condensed Consolidated Balance Sheet. Had we not adopted the amended guidance for revenue recognition on January 1, 2018, our trade accounts receivable, net would have been \$706.1 million and our inventories would have been \$753.3 million as of September 30, 2018.

Note 3. Acquisition

On April 6, 2017, we acquired the specialty closures and dispensing systems operations of WestRock Company, now operating under the name Silgan Dispensing Systems, or SDS. During the three months ended March 31, 2018, we finalized our purchase price allocation. There were no material changes to the previously recorded fair values of assets acquired and liabilities assumed.

Note 4. 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 \$0.3 million and \$0.6 million for the three months ended September 30, 2018 and 2017, respectively, and \$1.5 million and \$4.5 million for the nine months ended September 30, 2018 and 2017, respectively. Under our rationalization plans, we made cash payments of \$1.8 million and \$2.8 million for the nine months ended September 30, 2018 and 2017, respectively.

Rationalization reserves as of September 30, 2018 were recorded in our Condensed Consolidated Balance Sheets as accrued liabilities and other liabilities of \$0.7 million and \$1.0 million, respectively. Remaining expenses for our rationalization plans of \$1.1 million are expected primarily within the next twelve months. Remaining cash expenditures for our rationalization plans of \$2.8 million are expected through 2023.

## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

## Note 5. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is reported in our Condensed Consolidated Statements of Stockholders' Equity. Amounts included in accumulated other comprehensive loss, net of tax, were as follows:

	Unrecognized Net Defined Benefit Plan Costs	Change in Fair Value of Derivatives	Foreign Currency Translation	Total
	(Dollars in thousands)			
Balance at December 31, 2017	\$(104,822)	\$ (89 )	\$(84,062 )	\$(188,973)
Other comprehensive loss before reclassifications	(917 )	663	(26,397 )	(26,651 )
Amounts reclassified from accumulated other comprehensive loss	3,358	10	—	3,368
Other comprehensive loss	2,441	673	(26,397 )	(23,283 )
Balance at September 30, 2018	\$(102,381)	\$ 584	\$(110,459)	\$(212,256)

The amounts reclassified to earnings from the unrecognized net defined benefit plan costs component of accumulated other comprehensive loss for the three and nine months ended September 30, 2018 were net (losses) of \$(2.3) million and \$(4.4) million, respectively, excluding income tax benefits of \$0.6 million and \$1.1 million, respectively. For the three and nine months ended September 30, 2018, these net (losses) consisted of amortization of net actuarial (losses) of \$(1.7) million and \$(5.0) million and amortization of net prior service (cost) credit of \$(0.6) million and \$0.6 million, respectively. Amortization of net actuarial losses and net prior service credit was recorded in other pension and postretirement income in our Condensed Consolidated Statements of Income. See Note 10 for further information.

The amounts reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive loss for the three and nine months ended September 30, 2018 were not significant.

Other comprehensive income before reclassifications related to foreign currency translation for the three and nine months ended September 30, 2018 consisted of (i) foreign currency (losses) related to translation of quarter end financial statements of foreign subsidiaries utilizing a functional currency other than the U.S. dollar of \$(7.5) million and \$(36.9) million, respectively (ii) foreign currency gains related to intra-entity foreign currency transactions that are of a long-term investment nature of \$1.1 million and \$1.3 million, respectively, and (iii) foreign currency gains related to our net investment hedges of \$2.4 million and \$12.0 million, respectively, excluding income tax (provisions) of \$(0.6) million and \$(2.8) million, respectively. See Note 8 for further discussion.





## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

## Note 6. Inventories

Inventories consisted of the following:

	Sept. 30, 2018	Sept. 30, 2017	Dec. 31, 2017
	(Dollars in thousands)		
Raw materials	\$250,051	\$211,959	\$233,410
Work-in-process	125,336	132,071	124,396
Finished goods	384,815	415,645	433,937
Other	12,999	13,128	12,370
	773,201	772,803	804,113
Adjustment to value inventory at cost on the LIFO method	(82,823 )	(68,419 )	(82,823 )
	\$690,378	\$704,384	\$721,290

## Note 7. Long-Term Debt

Long-term debt consisted of the following:

	Sept. 30, 2018	Sept. 30, 2017	Dec. 31, 2017
	(Dollars in thousands)		
Bank debt			
Bank revolving loans	\$698,000	\$598,751	\$—
U.S. term loans	800,000	800,000	800,000
Canadian term loans	23,335	27,365	27,147
Other foreign bank revolving and term loans	36,143	49,596	76,798
Total bank debt	1,557,478	1,475,712	903,945
5% Senior Notes	—	280,000	280,000
5½% Senior Notes	300,000	300,000	300,000
4¾% Senior Notes	300,000	300,000	300,000
3¼% Senior Notes	754,260	767,910	780,325
Other obligations	21,950	—	—
Total debt - principal	2,933,688	3,123,622	2,564,270
Less unamortized debt issuance costs	14,009	17,452	16,979
Total debt	2,919,679	3,106,170	2,547,291
Less current portion	733,404	640,390	108,789
	\$2,186,275	\$2,465,780	\$2,438,502

At September 30, 2018, the current portion of long-term debt consisted of \$698.0 million of bank revolving loans under our amended and restated senior secured credit facility and \$35.4 million of other foreign bank revolving and term loans and other obligations.

On April 16, 2018, we redeemed all remaining outstanding 5% Senior Notes due 2020, or the 5% Notes, (\$280.0 million aggregate principal amount) at a redemption price of 100 percent of their principal amount plus accrued and unpaid interest up to the redemption date. We funded this redemption with revolving loan borrowings under our amended and restated senior secured credit facility and cash on hand.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

On May 30, 2018, we and certain of our wholly owned subsidiaries entered into a First Amendment to Amended and Restated Credit Agreement, or the First Amendment, with the Lenders (as defined therein) and Wells Fargo National Association, as Administrative Agent. The First Amendment amended our amended and restated senior secured credit facility dated as of March 24, 2017, or the Credit Agreement.

Pursuant to the First Amendment, the date until which revolving loans under the Credit Agreement generally may be borrowed, repaid and reborrowed from time to time was extended from March 24, 2022 to May 30, 2023. The First Amendment also extended the maturity date of the term loans under the Credit Agreement from March 24, 2023 to May 30, 2024 and provides that the term loans under the Credit Agreement are payable in installments as follows (expressed as a percentage of the original principal amount of the applicable term loan outstanding on the date that it is borrowed), with the remaining outstanding principal amounts to be repaid on the maturity date of the term loans:

Date	Percentage
December 31, 2019	5.0 %
December 31, 2020	10.0 %
December 31, 2021	10.0 %
December 31, 2022	10.0 %
December 31, 2023	10.0 %

In addition, pursuant to the First Amendment, during the period from May 30, 2018 through June 30, 2018, the applicable margin for term loans and the revolving loans under the Credit Agreement was (i) with respect to base rate and Canadian prime rate loans, 0.50 percent and (ii) with respect to Eurodollar Rate, Euro Rate and CDOR Rate loans, 1.50 percent. The applicable margin for term loans and revolving loans under the Credit Agreement will be reset quarterly based on our Total Net Leverage Ratio as provided in the Credit Agreement, beginning no sooner than July 1, 2018 (with respect to the quarterly period ended March 31, 2018). Pursuant to the First Amendment, the maximum applicable margin was decreased from 1.00 percent to 0.50 percent with respect to base rate and Canadian prime rate loans and from 2.00 percent to 1.50 percent with respect to Eurodollar Rate, Euro Rate and CDOR Rate loans.

The applicable commitment fee payable by revolving borrowers on the daily average unused portion of the commitment in respect of revolving loans under the Credit Agreement was 0.30 percent per annum for the period from May 30, 2018 through June 30, 2018. Pursuant to the First Amendment, the maximum applicable commitment fee was decreased from 0.35 percent to 0.30 percent and will be reset quarterly based upon our Total Net Leverage Ratio as provided in the Credit Agreement, beginning no sooner than July 1, 2018 (with respect to the quarterly period ended March 31, 2018).

Additionally, the First Amendment includes other changes to the Credit Agreement, including certain changes which provide us with additional flexibility to pursue our strategic initiatives.

As a result of the redemption of the remaining outstanding 5% Notes and the First Amendment, we recorded a pre-tax charge for the loss on early extinguishment of debt of \$2.5 million during the second quarter of 2018.



## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

## Note 8. Financial Instruments

The financial instruments recorded in our Condensed Consolidated Balance Sheets include cash and cash equivalents, trade accounts receivable, trade accounts payable, debt obligations and swap agreements. Due to their short-term maturity, the carrying amounts of trade accounts receivable and trade accounts payable approximate their fair market values. The following table summarizes the carrying amounts and estimated fair values of our other financial instruments at September 30, 2018:

	Carrying Amount	Fair Value
(Dollars in thousands)		
Assets:		
Cash and cash equivalents	\$ 171,369	\$ 171,369
Liabilities:		
Bank debt	\$ 1,557,478	\$ 1,557,478
5½% Senior Notes	300,000	304,089
4¾% Senior Notes	300,000	287,982
3¼% Senior Notes	754,260	779,769

## Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). GAAP classifies the inputs used to measure fair value into a hierarchy consisting of three levels. Level 1 inputs represent unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs represent unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs represent unobservable inputs for the asset or liability. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

## Financial Instruments Measured at Fair Value

The financial assets and liabilities that were measured on a recurring basis at September 30, 2018 consisted of our cash and cash equivalents and derivative instruments. We measured the fair value of cash and cash equivalents using Level 1 inputs. We measured the fair value of our derivative instruments using the income approach. The fair value of our derivative instruments reflects the estimated amounts that we would pay or receive based on the present value of the expected cash flows derived from market interest rates and prices. As such, these derivative instruments were classified within Level 2.

#### Financial Instruments Not Measured at Fair Value

Our bank debt, 5½% Senior Notes, 4¾% Senior Notes and 3¼% Senior Notes were recorded at historical amounts in our Condensed Consolidated Balance Sheets, as we have not elected to measure them at fair value. We measured the fair value of our variable rate bank debt using the market approach based on Level 2 inputs. Fair values of the 5½% Senior Notes, 4¾% Senior Notes and 3¼% Senior Notes were estimated based on quoted market prices, a Level 1 input.

#### Derivative Instruments and Hedging Activities

Our derivative financial instruments were recorded in the Condensed Consolidated Balance Sheets at their fair values. Changes in fair values of derivatives are recorded in each period in earnings or comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

We utilize certain derivative financial instruments to manage a portion of our interest rate and natural gas cost exposures. We generally limit our use of derivative financial instruments to interest rate and natural gas swap agreements. We do not engage in trading or other speculative uses of these financial instruments. For a financial instrument to qualify as a hedge, we must be exposed to interest rate or price risk, and the financial instrument must reduce the exposure and be designated as a hedge. Financial instruments qualifying for hedge accounting must maintain a high correlation between the hedging instrument and the item being hedged, both at inception and throughout the hedged period.

We utilize certain internal hedging strategies to minimize our foreign currency exchange rate risk. Net investment hedges that qualify for hedge accounting result in the recognition of foreign currency gains or losses, net of tax, in accumulated other comprehensive loss. We generally do not utilize external derivative financial instruments to manage our foreign currency exchange rate risk.

#### Interest Rate Swap Agreements

We have entered into two U.S. dollar interest rate swap agreements, each for \$50.0 million notional principal amount, to manage a portion of our exposure to interest rate fluctuations. These agreements have a fixed rate of 2.878 percent, become effective on March 29, 2019 and mature on March 24, 2023. The difference between amounts to be paid or received on our interest rate swap agreements will be recorded in interest and other debt expense in our Condensed Consolidated Statements of Income. These agreements are with financial institutions which are expected to fully perform under the terms thereof. The total fair value of our interest rate swap agreements in effect at September 30, 2018 was not significant.

#### Natural Gas Swap Agreements

We have entered into natural gas swap agreements with a major financial institution to manage a portion of our exposure to fluctuations in natural gas prices. The difference between amounts to be paid or received on our natural gas swap agreements is recorded in cost of goods sold in our Condensed Consolidated Statements of Income and was not significant for the three and nine months ended September 30, 2018. These agreements are with financial institutions which are expected to fully perform under the terms thereof. The total fair value of our natural gas swap agreements in effect at September 30, 2018 was not significant.

#### Foreign Currency Exchange Rate Risk

In an effort to minimize foreign currency exchange rate risk, we have financed acquisitions of foreign operations primarily with borrowings denominated in Euros and Canadian dollars. In addition, where available, we have borrowed funds in local currency or implemented certain internal hedging strategies to minimize our foreign currency exchange rate risk related to foreign operations. We have designated the 3¼% Senior Notes, which are Euro denominated, as net investment hedges. Foreign currency gains related to our net investment hedges included in accumulated other comprehensive loss for the three and nine months ended September 30, 2018 were \$2.4 million and



\$12.0 million, respectively.

-15-

---

## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

## Note 9. Commitments and Contingencies

A competition authority in Germany commenced an antitrust investigation in 2015 involving the industry association for metal packaging in Germany and its members, including our metal container and closures subsidiaries in Germany. At the end of April 2018, the European Commission commenced an antitrust investigation involving the metal packaging industry in Europe including our metal container and closures subsidiaries, which should effectively close out the investigation in Germany. Given the early stage, we cannot reasonably assess what actions may result from these investigations or estimate what costs we may incur as a result thereof.

We are a party to other legal proceedings, contract disputes and claims arising in the ordinary course of our business. We are not a party to, and none of our properties are subject to, any pending legal proceedings which could have a material adverse effect on our business or financial condition.

## Note 10. Retirement Benefits

The components of the net periodic pension benefit credit were as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
	(Dollars in thousands)			
Service cost	\$3,411	\$3,532	\$10,842	\$9,967
Interest cost	6,348	6,482	18,953	19,114
Expected return on plan assets	(17,137)	(15,832)	(51,382)	(47,258)
Amortization of prior service cost	34	75	103	235
Amortization of actuarial losses	1,877	1,501	5,450	5,208
Net periodic benefit credit	\$(5,467)	\$(4,242)	\$(16,034)	\$(12,734)

The components of the net periodic other postretirement benefit cost (credit) were as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
	(Dollars in thousands)			
Service cost	\$15	\$9	\$78	\$79
Interest cost	158	168	483	520
Amortization of prior service cost (credit)	561	(857)	(738)	(2,564)

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Amortization of actuarial gains	(167 )	(172 )	(405 )	(447 )
Net periodic benefit cost (credit)	\$567	\$(852)	\$(582)	\$(2,412)

-16-

---

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

Note 11. Income Taxes

Silgan and its subsidiaries file U.S. Federal income tax returns, as well as income tax returns in various states and foreign jurisdictions. We have been accepted into the Compliance Assurance Program for the 2017 and 2018 tax years which provides for the review by the Internal Revenue Service, or IRS, of tax matters relating to our tax return prior to filing. In the next twelve months, we expect that our reserve for unrecognized tax benefits will decrease by approximately \$4.0 million primarily related to tax attributes acquired from and expenses related to certain acquisitions, as we anticipate the expiration of the applicable statutes of limitation with respect to certain tax matters and resolving certain other outstanding tax matters with the IRS.

In December 2017, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, which provides guidance for the application of GAAP as it pertains to accounting for income taxes and allows us to record provisional amounts pertaining to the enacted legislation in the United States commonly referred to as the Tax Cuts and Jobs Act, or the 2017 Tax Act, during a measurement period ending in December 2018. For the three and nine months ended September 30, 2018, we did not have any significant adjustments to our provisional amounts. Additional work is necessary to complete the analysis of open items, including our deferred tax assets and liabilities and our historical foreign earnings. Any subsequent adjustment to the provisional amounts will be recorded in current tax expense in the fourth quarter of 2018.

Note 12. Capital Stock and Treasury Stock

On June 11, 2018, our stockholders approved an increase in the number of authorized shares of our common stock from 200,000,000 to 400,000,000. Accordingly, on June 11, 2018 we filed a Certificate of Amendment to our Amended and Restated Certificate of Incorporation increasing the total number of shares of capital which we have authority to issue to 410,000,000 shares, consisting of 400,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of preferred stock, par value of \$0.01 per share.

On October 17, 2016, our Board of Directors authorized the repurchase by us of up to an aggregate of \$300.0 million of our common stock by various means from time to time through and including December 31, 2021, of which we had approximately \$129.4 million remaining under this authorization for the repurchase of our common stock at September 30, 2018. We did not repurchase any shares of our common stock under this authorization during the nine months ended September 30, 2018.

During the first nine months of 2018, we issued 339,972 treasury shares which had an average cost of \$3.12 per share for restricted stock units that vested during the period. In accordance with the Silgan Holdings Inc. Amended and Restated 2004 Stock Incentive Plan, we repurchased 107,420 shares of our common stock at an average cost of \$28.46 to satisfy minimum employee withholding tax requirements resulting from the vesting of such restricted stock units.

We account for treasury shares using the first-in, first-out (FIFO) cost method. As of September 30, 2018, 64,494,600 shares of our common stock were held in treasury.

Note 13. Stock-Based Compensation

We currently have one stock-based compensation plan in effect under which we have issued options and restricted stock units to our officers, other key employees and outside directors. During the first nine months of 2018, 374,810 restricted stock units were granted to certain of our officers, other key employees and outside directors. The fair value of these restricted stock units at the grant date was \$10.7 million, which is being amortized ratably over the respective vesting period from the grant date.

## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

## Note 14. Business Segment Information

Reportable business segment information for the three and nine months ended September 30 was as follows:

	Metal Containers	Closures	Plastic Containers	Corporate	Total
	(Dollars in thousands)				
Three Months Ended September 30, 2018					
Net sales	\$797,768	\$360,816	\$148,415	\$ —	\$1,306,999
Depreciation and amortization <sup>(1)</sup>	19,823	18,378	9,171	43	47,415
Rationalization charges	72	111	105	—	288
Segment income	86,928	47,349	8,446	(4,268)	138,455
Three Months Ended September 30, 2017					
Net sales	\$772,382	\$357,343	\$137,205	\$ —	\$1,266,930
Depreciation and amortization <sup>(1)</sup>	19,250	17,457	8,636	22	45,365
Rationalization charges	326	134	101	—	561
Segment income <sup>(2)</sup>	92,222	45,322	6,444	(5,422)	138,566
Nine Months Ended September 30, 2018					
Net sales	\$1,808,585	\$1,109,924	\$459,874	\$ —	\$3,378,383
Depreciation and amortization <sup>(1)</sup>	60,500	55,786	26,975	107	143,368
Rationalization charges	812	150	521	—	1,483
Segment income	172,268	143,277	32,687	(13,478)	334,754
Nine Months Ended September 30, 2017					
Net sales	\$1,768,333	\$904,112	\$421,705	\$ —	\$3,094,150
Depreciation and amortization <sup>(1)</sup>	57,172	43,638	25,644	68	126,522
Rationalization charges	3,288	535	662	—	4,485
Segment income <sup>(2)</sup>	185,525	102,947	19,944	(37,856)	270,560

Depreciation and amortization excludes amortization of debt issuance costs of \$0.9 million and \$1.0 million for the (1) three months ended September 30, 2018 and 2017, respectively, and \$2.9 million and \$3.2 million for the nine months ended September 30, 2018 and 2017, respectively.

Segment income for Metal Containers includes a \$3.0 million charge for the nine months ended September 30, (2) 2017 related to the resolution of a past non-commercial legal dispute. Segment income for Corporate includes costs attributed to announced acquisitions of \$0.8 million and \$23.8 million for the three and nine months ended September 30, 2017, respectively.



## SILGAN HOLDINGS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2018 and 2017 and for the three and nine months then ended is unaudited)

Total segment income is reconciled to income before income taxes as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
	(Dollars in thousands)			
Total segment income	\$ 138,455	\$ 138,566	\$ 334,754	\$ 270,560
Interest and other debt expense	28,199	30,583	91,095	87,259
Income before income taxes	\$ 110,256	\$ 107,983	\$ 243,659	\$ 183,301

Sales and segment income of our metal container business and part of our closures business are dependent, in part, upon fruit and vegetable harvests. The size and quality of these harvests varies from year to year, depending in large part upon the weather conditions in applicable regions. Because of the seasonality of the harvests, we have historically experienced higher unit sales volume in the third quarter of our fiscal year and generated a disproportionate amount of our annual segment income during that quarter.



Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q that are not historical facts are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and Securities Exchange Act of 1934, as amended. Such forward-looking statements are made based upon management’s expectations and beliefs concerning future events impacting us and therefore involve a number of uncertainties and risks, including, but not limited to, those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and in our other filings with the Securities and Exchange Commission. As a result, the actual results of our operations or our financial condition could differ materially from those expressed or implied in these forward-looking statements.

General

We are a leading manufacturer of rigid packaging for consumer goods products. We currently produce steel and aluminum containers for human and pet food and general line products; metal and plastic closures and dispensing systems for food, beverage, health care, garden, personal care, home and beauty products; and custom designed plastic containers for personal care, food, health care, pharmaceutical, household and industrial chemical, pet care, agricultural, automotive and marine chemical products. We are a leading manufacturer of metal containers in North America and Europe, a leading worldwide manufacturer of metal and plastic closures and dispensing systems and a leading manufacturer of plastic containers in North America for a variety of markets, including the personal care, food, health care, household and industrial chemical markets.

Our objective is to increase shareholder value by efficiently deploying capital and management resources to grow our business, reduce operating costs and build sustainable competitive positions, or franchises, and to complete acquisitions that generate attractive cash returns. We have grown our net sales and income from operations largely through acquisitions but also through internal growth, and we continue to evaluate acquisition opportunities in the consumer goods packaging market. If acquisition opportunities are not identified over a longer period of time, we may use our cash flow to repay debt, repurchase shares of our common stock or increase dividends to our stockholders or for other permitted purposes.

## RESULTS OF OPERATIONS

The following table sets forth certain unaudited income statement data expressed as a percentage of net sales for the periods presented:

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Net sales				
Metal containers	61.0 %	61.0 %	53.5 %	57.2 %
Closures	27.6	28.2	32.9	29.2
Plastic containers	11.4	10.8	13.6	13.6
Consolidated	100.0	100.0	100.0	100.0
Cost of goods sold	84.4	83.8	84.1	84.4
Gross profit	15.6	16.2	15.9	15.6
Selling, general and administrative expenses	5.6	5.9	6.8	7.5
Rationalization charges	—	0.1	—	0.2
Other pension and postretirement income	(0.6 )	(0.7 )	(0.8 )	(0.8 )
Income before interest and income taxes	10.6	10.9	9.9	8.7
Interest and other debt expense	2.2	2.4	2.7	2.8
Income before income taxes	8.4	8.5	7.2	5.9
Provision for income taxes	1.9	2.8	1.7	1.9
Net income	6.5 %	5.7 %	5.5 %	4.0 %

Summary unaudited results of operations for the periods presented are provided below.

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
	(Dollars in millions)			
Net sales				
Metal containers	\$797.8	\$772.4	\$1,808.6	\$1,768.3
Closures	360.8	357.3	1,109.9	904.1
Plastic containers	148.4	137.2	459.9	421.7
Consolidated	\$1,307.0	\$1,266.9	\$3,378.4	\$3,094.1
Segment income				
Metal containers <sup>(1)</sup>	\$86.9	\$92.2	\$172.3	\$185.5
Closures <sup>(2)</sup>	47.3	45.3	143.3	103.0
Plastic containers <sup>(3)</sup>	8.5	6.5	32.7	20.0
Corporate <sup>(4)</sup>	(4.2 )	(5.4 )	(13.5 )	(37.9 )
Consolidated	\$138.5	\$138.6	\$334.8	\$270.6

<sup>(1)</sup> Includes rationalization charges of \$0.1 million and \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$0.8 million and \$3.3 million for the nine months ended September 30, 2018 and 2017, respectively. Includes a \$3.0 million charge related to the resolution of a past non-commercial legal dispute for the nine months ended September 30, 2017.

- (2) Includes rationalization charges of \$0.1 million for each of the three months ended September 30, 2018 and 2017 and \$0.2 million and \$0.5 million for the nine months ended September 30, 2018 and 2017, respectively.
- (3) Includes rationalization charges of \$0.1 million for each of the three months ended September 30, 2018 and 2017 and \$0.5 million and \$0.7 million for the nine months ending September 30, 2018 and 2017, respectively.
- (4) Includes costs attributed to announced acquisitions of \$0.8 million and \$23.8 million for the three and nine months ended September 30, 2017, respectively.

Three Months Ended September 30, 2018 Compared with Three Months Ended September 30, 2017

**Overview.** Consolidated net sales were \$1.31 billion in the third quarter of 2018, representing a 3.2 percent increase as compared to the third quarter of 2017 primarily due to the pass through of higher raw material costs in each of our businesses, higher volumes in the plastic container business and a more favorable mix of products sold in the metal container business, partially offset by lower unit volumes in the metal container business and the impact of unfavorable foreign currency translation. Income before interest and income taxes for the third quarter of 2018 was essentially flat as compared to the same period in 2017, with higher volumes and lower manufacturing costs in the plastic container business, a more favorable mix of products sold in the metal container and closures businesses, the favorable impact in the metal container business of the contractual pass through to customers of indexed inflation as compared to the unfavorable impact in the prior year period from the contractual pass through of indexed deflation, lower costs in the closures business due largely to synergies realized from the SDS acquisition and foreign currency transaction losses in the prior year period in the metal container business being offset by lower unit volumes in the metal container business, higher freight expense, the unfavorable impact from the lagged pass through to customers of higher resin costs in the plastic container and closures businesses and costs associated with the start-up of the new manufacturing facility in the plastic container business. Results for the third quarters of 2018 and 2017 included rationalization charges of \$0.3 million and \$0.6 million, respectively. Results for the third quarters of 2018 and 2017 also included other pension and postretirement income of \$8.3 million and \$8.6 million, respectively. Results for the third quarter of 2017 also included costs attributed to announced acquisitions of \$0.8 million. Net income for the third quarter of 2018 was \$84.7 million as compared to \$72.4 million for the same period in 2017. Net income per diluted share for the third quarter of 2018 was \$0.76 as compared to \$0.65 for the same period in 2017.

**Net Sales.** The \$40.1 million increase in consolidated net sales in the third quarter of 2018 as compared to the third quarter of 2017 was the result of higher net sales across all of our businesses.

Net sales for the metal container business increased \$25.4 million, or 3.3 percent, in the third quarter of 2018 as compared to the same period in 2017. This increase was primarily the result of the pass through of higher raw material and other manufacturing costs and a more favorable mix of products sold, partially offset by lower unit volumes of approximately six percent and the impact of unfavorable foreign currency translation of approximately \$1.0 million. The volume decline was primarily the result of the continued impact from inventory adjustments at a seasonal customer, a customer plant shutdown in the fruit market and the competitive loss of a smaller, lower margin customer as well as a decline in soup volume.

Net sales for the closures business increased \$3.5 million, or 1.0 percent, in the third quarter of 2018 as compared to the same period in 2017. This increase was primarily the result of the pass through of higher raw material costs, partially offset by the impact of unfavorable foreign currency translation of approximately \$1.0 million.

Net sales for the plastic container business increased \$11.2 million, or 8.2 percent, in the third quarter of 2018 as compared to the same period in 2017. This increase was principally due to the pass through of higher raw material costs and higher volumes of approximately three percent, partially offset by the impact of unfavorable foreign currency translation of approximately \$1.0 million.

**Gross Profit.** Gross profit margin decreased 0.6 percentage points to 15.6 percent in the third quarter of 2018 as compared to the same period in 2017 for the reasons discussed below in "Income before Interest and Income Taxes".

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses as a percentage of consolidated net sales decreased 0.3 percentage points to 5.6 percent for the third quarter of 2018 as compared to 5.9 percent for the same period in 2017. Selling, general and administrative expenses decreased \$1.4 million to \$73.7

million for the third quarter of 2018 as compared to \$75.1 million for the same period in 2017.

**Income before Interest and Income Taxes.** Income before interest and income taxes for the third quarter of 2018 was \$138.5 million as compared to \$138.6 million in the third quarter of 2017, and margin decreased to 10.6 percent from 10.9 percent over the same periods. Higher segment income in the closures and plastic container businesses was offset by lower segment income in the metal container business. Margin decreased largely due to the mathematical impact on margin of higher sales as a result of the contractual pass through of significantly higher raw material costs.

Segment income of the metal container business for the third quarter of 2018 decreased \$5.3 million, or 5.7 percent, as compared to the same period in 2017, and segment income margin decreased to 10.9 percent from 11.9 percent over the same periods. The decrease in segment income was primarily attributable to lower unit volumes and higher freight expense, partially offset by the contractual pass through to customers of indexed inflation as compared to the unfavorable impact in the prior year period from the contractual pass through of indexed deflation, a more favorable mix of products sold and foreign currency transaction losses in the prior year period. The decline in segment income margin was primarily due to the mathematical impact on margin of higher sales as a result of the contractual pass through of significantly higher raw material costs.

-22-

---

Segment income of the closures business for the third quarter of 2018 increased \$2.0 million, or 4.4 percent, as compared to the same period in 2017, and segment income margin increased to 13.1 percent from 12.7 percent over the same periods. The increase in segment income was principally a result of lower costs primarily due to synergies realized from the SDS acquisition and a more favorable mix of products sold, partially offset by the unfavorable impact from the lagged pass through to customers of higher resin costs.

Segment income of the plastic container business for the third quarter of 2018 increased \$2.0 million, or 30.8 percent, as compared to the same period in 2017, and segment income margin increased to 5.7 percent from 4.7 percent over the same periods. The increase in segment income was primarily attributable to higher volumes and lower manufacturing costs, partially offset by the unfavorable impact from the lagged pass through to customers of higher resin costs and costs associated with the start-up of the new manufacturing facility in Fort Smith, Arkansas.

Interest and Other Debt Expense. Interest and other debt expense for the third quarter of 2018 decreased \$2.4 million to \$28.2 million as compared to \$30.6 million in the same period in 2017 primarily due to lower weighted average outstanding borrowings largely as a result of the partial repayment of acquisition borrowings under the Credit Agreement at the end of 2017.

Provision for Income Taxes. The effective tax rates were 23.1 percent and 33.0 percent for the third quarters of 2018 and 2017, respectively. The effective tax rate in the third quarter of 2018 benefitted primarily from the 2017 Tax Act and the settlement of a state tax audit in the current year period.

#### Nine Months Ended September 30, 2018 Compared with Nine Months Ended September 30, 2017

Overview. Consolidated net sales were \$3.38 billion in the first nine months of 2018, representing a 9.2 percent increase as compared to the first nine months of 2017 primarily as a result of the pass through of higher raw material costs across all businesses, the acquisition of SDS in April 2017, the impact of favorable foreign currency translation and higher volumes in the plastic container business, partially offset by lower unit volumes in the metal container business and legacy closures operations. Income before interest and income taxes for the first nine months of 2018 increased by \$64.2 million, or 23.7 percent, as compared to the same period in 2017 primarily as a result of the inclusion in the prior year period of acquisition related costs of \$23.8 million, the benefit from the inclusion of a full year of operations of SDS, the unfavorable impact in the prior year period from the write-up of inventory of SDS for purchase accounting, lower manufacturing costs in each of our businesses, higher volumes in the plastic container business, the contractual pass through to customers in the metal container business of indexed inflation in the current year period as compared to the unfavorable impact in the prior year period from the contractual pass through of indexed deflation, a charge of \$3.0 million in the prior year period related to the resolution of a past non-commercial legal dispute, lower rationalization charges and foreign currency transaction losses in the prior year period. These increases were partially offset by the impact from lower unit volumes in the metal container business and legacy closures operations, higher freight expense, the unfavorable impact from the lagged pass through of higher resin costs in the closures and plastic container businesses and costs associated with the start-up of two new manufacturing facilities. Results for the first nine months of 2018 and 2017 included rationalization charges of \$1.5 million and \$4.5 million, respectively, and loss on early extinguishment of debt of \$2.5 million and \$7.1 million, respectively. Results for the first nine months of 2018 and 2017 also included other pension and postretirement income of \$27.5 million and \$25.2 million, respectively. Net income for the first nine months of 2018 was \$185.8 million as compared to \$123.5 million for the same period in 2017. Net income per diluted share for the first nine months of 2018 was \$1.66 as compared to \$1.11 for the same period in 2017.

Net Sales. The \$284.3 million increase in consolidated net sales in the first nine months of 2018 as compared to the first nine months of 2017 was the result of higher net sales in each of our businesses.

Net sales for the metal container business increased \$40.3 million, or 2.3 percent, in the first nine months of 2018 as compared to the same period in 2017. This increase was primarily the result of the pass through of higher raw material and other manufacturing costs and the impact of favorable foreign currency translation of approximately \$14.0 million, partially offset by lower unit volumes of approximately six percent. The decrease in unit volumes was primarily the result of a seasonal customer adjusting its inventory levels, a customer plant shutdown in the fruit market, the competitive loss of a smaller, lower margin customer, lower unit volumes with certain customers who bought ahead in the fourth quarter of 2017 as well as a decline in soup volume.

Net sales for the closures business increased \$205.8 million, or 22.8 percent, in the first nine months of 2018 as compared to the same period in 2017. This increase was primarily the result of the acquisition of SDS, the impact of favorable foreign currency translation of approximately \$22.0 million and the pass through of higher raw material costs, partially offset by lower unit volumes of approximately three percent in the legacy closures operations due primarily to a less favorable fruit and vegetable pack in Europe as a result of weather conditions.

-23-

---

Net sales for the plastic container business increased \$38.2 million, or 9.1 percent, in the first nine months of 2018 as compared to the same period in 2017. This increase was primarily due to the pass through of higher raw material costs, higher volumes of approximately four percent and the impact of favorable foreign currency translation of approximately \$1.0 million.

**Gross Profit.** Gross profit margin increased 0.3 percentage points to 15.9 percent in the first nine months of 2018 as compared to the same period in 2017 for the reasons discussed below in "Income before Interest and Income Taxes".

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses as a percentage of consolidated net sales decreased 0.7 percentage points to 6.8 percent for the first nine months of 2018 as compared to 7.5 percent for the same period in 2017. Selling, general and administrative expenses decreased \$3.8 million to \$228.7 million for the first nine months of 2018 as compared to \$232.5 million for the same period in 2017. These decreases were primarily due to the inclusion in the prior year period of \$23.8 million of costs attributed to the acquisition of SDS and a \$3.0 million charge related to the resolution of a past non-commercial legal dispute, partially offset by the inclusion of SDS for the full period in 2018.

**Income before Interest and Income Taxes.** Income before interest and income taxes for the first nine months of 2018 increased by \$64.2 million, or 23.7 percent, as compared to the first nine months of 2017, and margin increased to 9.9 percent from 8.7 percent over the same periods. The increase in income before interest and income taxes was primarily the result of higher segment income in the closures and plastic container businesses as well as the inclusion in the prior year period of acquisition related costs of \$23.8 million, partially offset by a decrease in segment income in the metal container business. The increase in margin was primarily attributable to the inclusion in the prior year period of acquisition related costs and an increase in segment income margin in the closures and plastic container businesses, partially offset by a decline in segment income margin in the metal container business.

Segment income of the metal container business for the first nine months of 2018 decreased \$13.2 million, or 7.1 percent, as compared to the same period in 2017, and segment income margin decreased to 9.5 percent from 10.5 percent over the same periods. The decrease in segment income was primarily attributable to lower unit volumes and higher freight expense, partially offset by the contractual pass through to customers of indexed inflation in the current year period as compared to the unfavorable impact in the prior year period from the contractual pass through of indexed deflation, a \$3.0 million charge in the prior year period related to the resolution of a past non-commercial legal dispute, lower manufacturing costs and lower rationalization charges. The decline in segment income margin was due primarily to the mathematical impact on margin of higher sales as a result of the contractual pass through of significantly higher raw material costs. Rationalization charges were \$0.8 million and \$3.3 million in the first nine months of 2018 and 2017, respectively.

Segment income of the closures business for the first nine months of 2018 increased \$40.3 million, or 39.1 percent, as compared to the same period in 2017, and segment income margin increased to 12.9 percent from 11.4 percent over the same periods. The increase in segment income was primarily due to the inclusion of segment income from the SDS operations for the full period in 2018, the unfavorable impact in the prior year period of a charge of \$11.9 million for the write-up of inventory of SDS for purchase accounting, lower manufacturing costs and foreign currency transaction losses in the prior year period, partially offset by lower unit volumes in the legacy closures operations and the unfavorable impact from the lagged pass through of lower resin costs.

Segment income of the plastic container business for the first nine months of 2018 increased \$12.7 million, or 63.5 percent, as compared to the same period in 2017, and segment income margin increased to 7.1 percent from 4.7 percent over the same periods. The increase in segment income was primarily attributable to higher volumes and



lower manufacturing costs, partially offset by the unfavorable impact from the lagged pass through of lower resin costs and costs associated with the start-up of the new manufacturing facility in Fort Smith, Arkansas.

**Interest and Other Debt Expense.** Interest and other debt expense before loss on early extinguishment of debt for the first nine months of 2018 increased \$8.4 million to \$88.6 million as compared to \$80.2 million in the same period in 2017 primarily due to higher average outstanding borrowings principally as a result of borrowings for the acquisition of SDS and higher weighted average interest rates. Loss on early extinguishment of debt of \$2.5 million in the first nine months of 2018 was a result of the redemption of all remaining outstanding 5% Notes in April 2018 and the completion of the First Amendment to the Credit Agreement in May 2018. Loss on early extinguishment of debt of \$7.1 million in the first nine months of 2017 was a result of the prepayment of outstanding U.S. term loans and Euro term loans under our previous senior secured credit facility and the partial redemption of the 5% Notes in April 2017.

**Provision for Income Taxes.** The effective tax rates were 23.8 percent and 32.6 percent for the first nine months of 2018 and 2017, respectively. The effective tax rate in the first nine months of 2018 benefited from the 2017 Tax Act.

## CAPITAL RESOURCES AND LIQUIDITY

Our principal sources of liquidity have been net cash from operating activities and borrowings under our debt instruments, including our senior secured credit facility. Our liquidity requirements arise from our obligations under the indebtedness incurred in connection with our acquisitions and the refinancing of that indebtedness, capital investment in new and existing equipment, the funding of our seasonal working capital needs and other general corporate uses.

On April 16, 2018, we redeemed all remaining outstanding 5% Notes (\$280.0 million aggregate principal amount) at a redemption price of 100 percent of their principal amount plus accrued and unpaid interest up to the redemption date. We funded this redemption with revolving loan borrowings under the Credit Agreement and cash on hand.

On May 30, 2018, we completed the First Amendment to the Credit Agreement, which extends the maturity dates by approximately fourteen months for term loans and the revolving loan facility under the Credit Agreement, lowers the margin on borrowings under the Credit Agreement and provides us with additional flexibility with regard to strategic initiatives.

As a result of the redemption of the remaining outstanding 5% Notes and the First Amendment, we recorded a pre-tax charge for the loss on early extinguishment of debt of \$2.5 million during the second quarter of 2018.

You should also read Note 7 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018 included elsewhere in this Quarterly Report.

For the nine months ended September 30, 2018, we used net borrowings of revolving loans of \$657.2 million and cash provided by operations of \$13.1 million to fund repayments of long-term debt of \$286.2 million, decreases in outstanding checks of \$87.8 million, net capital expenditures of \$134.4 million, dividends paid on our common stock of \$33.8 million, repurchases of our common stock of \$3.1 million and debt issuance costs of \$2.9 million and to increase cash and cash equivalents (including the negative effect of exchange rate changes of \$4.3 million) by \$117.8 million.

For the nine months ended September 30, 2017, we used aggregate proceeds of \$1,789.2 million from the issuance of the 4¾% Notes, the 3¼% Notes and term loan borrowings under our Credit Agreement and net borrowings of revolving loans of \$427.2 million to fund the acquisition of SDS for \$1,028.7 million, repayments of long-term debt of \$755.0 million, cash used in operations of \$4.5 million, net capital expenditures of \$123.7 million, decreases in outstanding checks of \$78.9 million, dividends paid on our common stock of \$30.4 million, debt issuance costs of \$16.6 million and repurchases of our common stock of \$4.1 million and to increase cash and cash equivalents by \$174.5 million.

At September 30, 2018, we had \$698.0 million of revolving loans outstanding under the Credit Agreement, which includes revolving loan borrowings used to fund the redemption of the remaining outstanding 5% Notes. After taking into account outstanding letters of credit, the available portion of revolving loans under the Credit Agreement at September 30, 2018 was \$472.5 million and Cdn \$15.0 million.

Because we sell metal containers and closures used in fruit and vegetable pack processing, we have seasonal sales. As is common in the industry, we must utilize working capital to build inventory and then carry accounts receivable for some customers beyond the end of the packing season. Due to our seasonal requirements, which generally peak sometime in the summer or early fall, we may incur short-term indebtedness to finance our working capital

requirements. Our peak seasonal working capital requirements have historically averaged approximately \$350 million. We fund seasonal working capital requirements through revolving loans under the Credit Agreement, other foreign bank loans and cash on hand. We may use the available portion of revolving loans under the Credit Agreement, after taking into account our seasonal needs and outstanding letters of credit, for other general corporate purposes including acquisitions, capital expenditures, dividends, stock repurchases and to refinance or repurchase other debt.

We believe that cash generated from operations and funds from borrowings available under the Credit Agreement and other foreign bank loans will be sufficient to meet our expected operating needs, planned capital expenditures, debt service, tax obligations, pension benefit plan contributions, share repurchases and common stock dividends for the foreseeable future. We continue to evaluate acquisition opportunities in the consumer goods packaging market and may incur additional indebtedness, including indebtedness under the Credit Agreement, to finance any such acquisition.

We are in compliance with all financial and operating covenants contained in our financing agreements and believe that we will continue to be in compliance during 2018 with all of these covenants.

#### 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. Under our rationalization plans, we made cash payments of \$1.8 million and \$2.8 million for the nine months ended September 30, 2018 and 2017, respectively. Additional cash spending under our rationalization plans of \$2.8 million is expected through 2023.

You should also read Note 4 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018 included elsewhere in this Quarterly Report.

#### Recently Issued Accounting Pronouncements

In February 2016, the FASB issued an ASU that amends existing guidance for certain leases by lessees. This amendment will require an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. In addition, this amendment clarifies the presentation requirements of the effects of leases in the statement of income and statement of cash flows. We will adopt this amendment on January 1, 2019. In adopting this amendment, we expect to elect the transition method which will allow us to recognize the effects of applying this amendment as a cumulative effect to retained earnings as of January 1, 2019 and not restate comparative periods for the effects of this amendment. We are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and, with respect to our international metal container and closures operations and our Canadian plastic container operations, from foreign currency exchange rates. In the normal course of business, we also have risk related to commodity price changes for items such as natural gas. We employ established policies and procedures to manage our exposure to these risks. Interest rate, foreign currency and commodity pricing transactions are used only to the extent considered necessary to meet our objectives. We do not utilize derivative financial instruments for trading or other speculative purposes.

Information regarding our interest rate risk, foreign currency exchange rate risk and commodity pricing risk has been disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Since such filing, other than the changes discussed in Notes 7 and 8 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018 included elsewhere in this Quarterly Report, there has not been a material change to our interest rate risk, foreign currency exchange rate risk or commodity pricing risk or to our policies and procedures to manage our exposure to these risks.

### Item 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed,

summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the Principal Executive Officer and the Principal Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal controls over financial reporting during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, these internal controls.

On April 6, 2017, we acquired SDS. We are currently in the process of integrating the internal controls and procedures of SDS into our internal controls over financial reporting. As provided under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations of the Securities and Exchange Commission, we will include the internal controls and procedures of SDS in our annual assessment of the effectiveness of our internal control over financial reporting for our 2018 fiscal year.

-26-

---

Part II. Other Information

Item 6. Exhibits

Exhibit Number Description

31.1	<u>Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.</u>
31.2	<u>Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.</u>
32.1	<u>Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.</u>
32.2	<u>Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

-27-

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned thereunto duly authorized.

SILGAN HOLDINGS INC.

Dated: November 8, 2018 /s/ Robert B. Lewis  
Robert B. Lewis  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

-28-