

CONSTELLATION BRANDS, INC.

Form 10-Q

October 09, 2014

Table of Contents

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 August 31, 2014

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 001-08495

CONSTELLATION BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-0716709

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

207 High Point Drive, Building 100, Victor, New York
(Address of principal executive offices)

14564
(Zip Code)

(585) 678-7100

(Registrant's telephone number, including area code)

(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Edgar Filing: CONSTELLATION BRANDS, INC. - Form 10-Q

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of September 30, 2014, is set forth below:

| Class | Number of Shares Outstanding |
|---|------------------------------|
| Class A Common Stock, par value \$.01 per share | 169,484,895 |
| Class B Common Stock, par value \$.01 per share | 23,387,613 |
| Class 1 Common Stock, par value \$.01 per share | None |

Table of Contents

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

| | |
|--|-----------|
| <u>Item 1. Financial Statements</u> | <u>1</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>36</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>53</u> |
| <u>Item 4. Controls and Procedures</u> | <u>54</u> |

PART II – OTHER INFORMATION

| | |
|--|-----------|
| <u>Item 1. Legal Proceedings</u> | <u>55</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>55</u> |
| <u>Item 6. Exhibits</u> | <u>55</u> |
| <u>SIGNATURES</u> | <u>56</u> |
| <u>INDEX TO EXHIBITS</u> | <u>57</u> |

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see “Information Regarding Forward-Looking Statements” under Part I – Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Unless the context otherwise requires, the terms “Company,” “we,” “our,” or “us” refer to Constellation Brands, Inc. and its subsidiaries. Unless otherwise defined herein, refer to the Notes to the Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q for the definition of capitalized terms used herein.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

(unaudited)

| | August 31, 2014 | February 28, 2014 |
|--|--------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash investments | \$104.3 | \$63.9 |
| Accounts receivable, net | 656.9 | 626.2 |
| Inventories | 1,778.9 | 1,743.8 |
| Prepaid expenses and other | 298.0 | 313.3 |
| Total current assets | 2,838.1 | 2,747.2 |
| PROPERTY, PLANT AND EQUIPMENT, net | 2,299.9 | 2,014.3 |
| GOODWILL | 6,149.3 | 6,146.8 |
| INTANGIBLE ASSETS, net | 3,213.5 | 3,231.1 |
| OTHER ASSETS, net | 156.6 | 162.7 |
| Total assets | \$14,657.4 | \$14,302.1 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Notes payable to banks | \$253.0 | \$57.2 |
| Current maturities of long-term debt | 615.7 | 590.0 |
| Accounts payable | 441.9 | 295.2 |
| Accrued excise taxes | 29.5 | 27.7 |
| Other accrued expenses and liabilities | 536.2 | 1,055.6 |
| Total current liabilities | 1,876.3 | 2,025.7 |
| LONG-TERM DEBT, less current maturities | 6,323.2 | 6,373.3 |
| DEFERRED INCOME TAXES | 815.0 | 762.6 |
| OTHER LIABILITIES | 155.5 | 159.2 |
| COMMITMENTS AND CONTINGENCIES (NOTE 12) | | |
| STOCKHOLDERS' EQUITY: | | |
| Class A Common Stock, \$.01 par value- Authorized, 322,000,000 shares; Issued, 249,196,712 shares at August 31, 2014, and 248,264,944 shares at February 28, 2014 | 2.5 | 2.5 |
| Class B Convertible Common Stock, \$.01 par value- Authorized, 30,000,000 shares; Issued, 28,395,261 shares at August 31, 2014, and 28,436,565 shares at February 28, 2014 | 0.3 | 0.3 |
| Additional paid-in capital | 2,189.1 | 2,116.6 |
| Retained earnings | 4,840.7 | 4,438.2 |
| Accumulated other comprehensive income | 104.8 | 86.0 |
| | 7,137.4 | 6,643.6 |
| Less: Treasury stock – | | |
| Class A Common Stock, 79,738,820 shares at August 31, 2014, and 80,225,575 shares at February 28, 2014, at cost | (1,647.8 |) (1,660.1 |
| Class B Convertible Common Stock, 5,005,800 shares at August 31, 2014, and February 28, 2014, at cost | (2.2 |) (2.2 |
| | (1,650.0 |) (1,662.3 |
| Total stockholders' equity | 5,487.4 | 4,981.3 |

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$14,657.4 | \$14,302.1 |
|--|------------|------------|

The accompanying notes are an integral part of these statements.

1

Table of ContentsCONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except per share data)

(unaudited)

| | For the Six Months Ended August 31, | | For the Three Months Ended August 31, | |
|--|--|------------|--|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| SALES | \$3,457.1 | \$2,379.5 | \$1,770.0 | \$1,613.3 |
| Less – excise taxes | (327.0) | (246.3) | (165.9) | (153.5) |
| Net sales | 3,130.1 | 2,133.2 | 1,604.1 | 1,459.8 |
| COST OF PRODUCT SOLD | (1,788.0) | (1,300.1) | (932.1) | (882.8) |
| Gross profit | 1,342.1 | 833.1 | 672.0 | 577.0 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | (571.2) | (429.7) | (293.3) | (244.1) |
| IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS | — | (300.9) | — | (300.9) |
| GAIN ON REMEASUREMENT TO FAIR VALUE OF EQUITY METHOD INVESTMENT | — | 1,642.0 | — | 1,642.0 |
| Operating income | 770.9 | 1,744.5 | 378.7 | 1,674.0 |
| EQUITY IN (LOSSES) EARNINGS OF EQUITY METHOD INVESTEES | (0.1) | 70.3) | (0.6) | 3.7) |
| INTEREST EXPENSE, net | (171.4) | (145.1) | (85.0) | (90.3) |
| LOSS ON WRITE-OFF OF FINANCING COSTS | (4.4) | — | (4.4) | — |
| Income before income taxes | 595.0 | 1,669.7 | 288.7 | 1,587.4 |
| PROVISION FOR INCOME TAXES | (192.5) | (94.8) | (92.9) | (65.4) |
| NET INCOME | \$402.5 | \$1,574.9 | \$195.8 | \$1,522.0 |
| COMPREHENSIVE INCOME | \$421.3 | \$1,507.4 | \$167.2 | \$1,478.0 |
| SHARE DATA: | | | | |
| Earnings per common share: | | | | |
| Basic – Class A Common Stock | \$2.12 | \$8.53 | \$1.03 | \$8.18 |
| Basic – Class B Convertible Common Stock | \$1.93 | \$7.75 | \$0.93 | \$7.43 |
| Diluted – Class A Common Stock | \$2.01 | \$8.03 | \$0.98 | \$7.74 |
| Diluted – Class B Convertible Common Stock | \$1.84 | \$7.38 | \$0.90 | \$7.11 |
| Weighted average common shares outstanding: | | | | |
| Basic – Class A Common Stock | 168.663 | 163.277 | 169.158 | 164.825 |
| Basic – Class B Convertible Common Stock | 23.408 | 23.485 | 23.401 | 23.472 |
| Diluted – Class A Common Stock | 200.579 | 196.056 | 200.800 | 196.767 |
| Diluted – Class B Convertible Common Stock | 23.408 | 23.485 | 23.401 | 23.472 |

The accompanying notes are an integral part of these statements.

Table of Contents

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

| | For the Six Months Ended August 31, | |
|---|--|------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$402.5 | \$1,574.9 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment | 78.3 | 64.1 |
| Deferred tax provision | 67.6 | 9.6 |
| Stock-based compensation expense | 27.9 | 25.6 |
| Amortization of intangible assets | 24.7 | 7.1 |
| Amortization of deferred financing costs | 5.8 | 5.0 |
| Noncash portion of loss on write-off of financing costs | 3.3 | — |
| Equity in earnings of equity method investees, net of distributed earnings | 1.3 | (39.1) |
| Gain on remeasurement to fair value of equity method investment | — | (1,642.0) |
| Impairment of goodwill and intangible assets | — | 300.9 |
| Change in operating assets and liabilities, net of effects from purchase of business: | | |
| Accounts receivable, net | (31.3) | 8.4 |
| Inventories | (34.3) | 67.4 |
| Prepaid expenses and other current assets | (30.7) | 17.6 |
| Accounts payable | 107.1 | 10.4 |
| Accrued excise taxes | 1.8 | (5.6) |
| Other accrued expenses and liabilities | 59.8 | 59.8 |
| Other, net | (15.7) | 24.9 |
| Total adjustments | 265.6 | (1,085.9) |
| Net cash provided by operating activities | 668.1 | 489.0 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (308.2) | (49.2) |
| Purchase of business, net of cash acquired | — | (4,672.9) |
| Other investing activities | 2.0 | 2.7 |
| Net cash used in investing activities | (306.2) | (4,719.4) |

Table of Contents

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

| | For the Six Months Ended August 31, | |
|--|--|-----------------|
| | 2014 | 2013 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of delayed purchase price arrangement | (543.3 |) — |
| Principal payments of long-term debt | (34.4 |) (9.9) |
| Payments of minimum tax withholdings on stock-based payment awards | (28.4 |) (18.0) |
| Payments of financing costs of long-term debt | (2.0 |) (82.2) |
| Net proceeds from notes payable | 197.0 | 272.1 |
| Excess tax benefits from stock-based payment awards | 64.0 | 53.8 |
| Proceeds from exercises of employee stock options | 18.3 | 77.5 |
| Proceeds from employee stock purchases | 3.8 | 2.5 |
| Proceeds from issuance of long-term debt | — | 3,725.0 |
| Net cash (used in) provided by financing activities | (325.0 |) 4,020.8 |
| Effect of exchange rate changes on cash and cash investments | 3.5 | (5.1) |
| NET INCREASE (DECREASE) IN CASH AND CASH INVESTMENTS | 40.4 | (214.7) |
| CASH AND CASH INVESTMENTS, beginning of period | 63.9 | 331.5 |
| CASH AND CASH INVESTMENTS, end of period | \$104.3 | \$116.8 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Property, plant and equipment acquired under financing arrangements | \$9.2 | \$6.7 |
| Purchase of business | | |
| Fair value of assets acquired, including cash acquired | \$— | \$7,465.7 |
| Liabilities assumed | — | |