

CONSTELLATION BRANDS, INC.

Form 10-Q

October 05, 2017

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, 2017

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 (I.R.S. Employer incorporation or organization) Identification No.)

207 High Point Drive, Building 100, Victor, New York 14564

(Address of principal executive offices) (Zip Code)

(585) 678-7100

(Registrant's telephone number, including area code)

Not Applicable

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (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

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of September 30, 2017, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value \$.01 per share	172,270,807
Class B Common Stock, par value \$.01 per share	23,334,227
Class 1 Common Stock, par value \$.01 per share	3,720

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>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 4. Controls and Procedures</u>	<u>49</u>

PART II – OTHER INFORMATION

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>49</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>INDEX TO EXHIBITS</u>	<u>50</u>
<u>SIGNATURES</u>	<u>53</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,” “CBI,” “we,” “our,” or “us” refer to Constellation Brands, Inc. and its subsidiaries. Unless otherwise defined herein, refer to the Notes to Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q for the definition of capitalized terms used herein. All references to “Fiscal

2017” refer to our fiscal year ended February 28, 2017. All references to “Fiscal 2018” refer to our fiscal year ending February 28, 2018.

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, 2017	February 28, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$125.6	\$ 177.4
Accounts receivable	853.3	737.0
Inventories	1,929.7	1,955.1
Prepaid expenses and other	464.8	360.5
Total current assets	3,373.4	3,230.0
Property, plant and equipment	4,464.2	3,932.8
Goodwill	8,114.2	7,920.5
Intangible assets	3,309.1	3,377.7
Other assets	157.5	141.4
Total assets	\$19,418.4	\$ 18,602.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$814.0	\$ 606.5
Current maturities of long-term debt	96.5	910.9
Accounts payable	601.7	559.8
Other accrued expenses and liabilities	577.8	620.4
Total current liabilities	2,090.0	2,697.6
Long-term debt, less current maturities	8,036.9	7,720.7
Deferred income taxes	1,167.1	1,133.6
Other liabilities	179.1	165.7
Total liabilities	11,473.1	11,717.6
Commitments and contingencies		
CBI stockholders' equity:		
Class A Common Stock, \$.01 par value – Authorized, 322,000,000 shares; Issued, 258,352,390 shares and 257,506,184 shares, respectively	2.6	2.6
Class B Convertible Common Stock, \$.01 par value – Authorized, 30,000,000 shares; Issued, 28,340,027 shares and 28,358,527 shares, respectively	0.3	0.3
Additional paid-in capital	2,787.6	2,755.8
Retained earnings	8,011.0	7,310.0
Accumulated other comprehensive loss	(87.4)	(399.8)
	10,714.1	9,668.9
Less: Treasury stock –		
Class A Common Stock, at cost, 86,110,068 shares and 86,262,971 shares, respectively	(2,783.8)	(2,775.5)
Class B Convertible Common Stock, at cost, 5,005,800 shares	(2.2)	(2.2)
	(2,786.0)	(2,777.7)
Total CBI stockholders' equity	7,928.1	6,891.2
Noncontrolling interests	17.2	(6.4)
Total stockholders' equity	7,945.3	6,884.8
Total liabilities and stockholders' equity	\$19,418.4	\$ 18,602.4

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,	
	2017	2016	2017	2016
Sales	\$4,412.5	\$4,275.8	\$2,297.2	\$2,222.8
Less – excise taxes	(392.5)	(382.8)	(212.7)	(201.6)
Net sales	4,020.0	3,893.0	2,084.5	2,021.2
Cost of product sold	(1,959.4)	(2,042.7)	(1,019.2)	(1,052.2)
Gross profit	2,060.6	1,850.3	1,065.3	969.0
Selling, general and administrative expenses	(778.6)	(686.7)	(351.4)	(358.1)
Operating income	1,282.0	1,163.6	713.9	610.9
Equity in earnings of equity method investees	0.6	0.7	0.2	—
Interest expense	(163.7)	(178.7)	(81.3)	(94.1)
Loss on write-off of debt issuance costs	(8.8)	—	(2.1)	—
Income before income taxes	1,110.1	985.6	630.7	516.8
Provision for income taxes	(202.8)	(313.3)	(128.7)	(163.6)
Net income	907.3	672.3	502.0	353.2
Net (income) loss attributable to noncontrolling interests	(5.0)	4.9	(2.5)	5.7
Net income attributable to CBI	\$902.3	\$677.2	\$499.5	\$358.9
Comprehensive income	\$1,238.3	\$678.1	\$633.5	\$364.9
Comprehensive (income) loss attributable to noncontrolling interests	(23.6)	8.5	(9.1)	7.4
Comprehensive income attributable to CBI	\$1,214.7	\$686.6	\$624.4	\$372.3
Net income per common share attributable to CBI:				
Basic – Class A Common Stock	\$4.67	\$3.42	\$2.58	\$1.81
Basic – Class B Convertible Common Stock	\$4.24	\$3.10	\$2.35	\$1.64
Diluted – Class A Common Stock	\$4.48	\$3.30	\$2.48	\$1.75
Diluted – Class B Convertible Common Stock	\$4.14	\$3.04	\$2.29	\$1.61
Weighted average common shares outstanding:				
Basic – Class A Common Stock	171.821	177.001	172.087	177.460
Basic – Class B Convertible Common Stock	23.341	23.353	23.338	23.353
Diluted – Class A Common Stock	201.199	205.508	201.346	205.650
Diluted – Class B Convertible Common Stock	23.341	23.353	23.338	23.353
Cash dividends declared per common share:				
Class A Common Stock	\$1.04	\$0.80	\$0.52	\$0.40
Class B Convertible Common Stock	\$0.94	\$0.72	\$0.47	\$0.36

The accompanying notes are an integral part of these statements.

Table of ContentsCONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	For the Six Months Ended August 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$907.3	\$672.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	140.9	113.9
Impairment and amortization of intangible assets	89.7	6.3
Stock-based compensation	28.9	31.4
Amortization and loss on write-off of debt issuance costs	14.4	6.4
Deferred tax provision	13.6	139.9
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Accounts receivable	(116.7)	(94.9)
Inventories	49.2	48.9
Prepaid expenses and other current assets	(89.7)	(28.6)
Accounts payable	40.2	144.3
Deferred revenue	27.4	12.8
Other accrued expenses and liabilities	(33.1)	30.6
Other	30.8	(38.4)
Total adjustments	195.6	372.6
Net cash provided by operating activities	1,102.9	1,044.9
Cash flows from investing activities:		
Purchases of property, plant and equipment	(505.1)	(368.6)
Purchases of businesses	(131.8)	(284.9)
Payments related to sale of business	(5.0)	—
Other investing activities	1.3	(0.1)
Net cash used in investing activities	(640.6)	(653.6)
Cash flows from financing activities:		
Principal payments of long-term debt	(4,517.9)	(842.4)
Dividends paid	(201.0)	(158.8)
Payments of minimum tax withholdings on stock-based payment awards	(22.5)	(64.7)
Payments of debt issuance costs	(20.2)	(4.6)
Purchases of treasury stock	(14.3)	(5.5)
Proceeds from issuance of long-term debt	4,017.0	940.6
Net proceeds from (repayments of) notes payable	206.6	(295.8)
Proceeds from shares issued under equity compensation plans	32.0	33.3
Excess tax benefits from stock-based payment awards	—	100.9
Net cash used in financing activities	(520.3)	(297.0)
Effect of exchange rate changes on cash and cash equivalents	6.2	(0.1)

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

Net increase (decrease) in cash and cash equivalents	(51.8) 94.2
Cash and cash equivalents, beginning of period	177.4