

CONSTELLATION BRANDS, INC.

Form 10-Q

January 07, 2016

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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 November 30, 2015

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)

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, 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

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The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of December 31, 2015, is set forth below:

| Class | Number of Shares Outstanding |
|---|------------------------------|
| Class A Common Stock, par value \$.01 per share | 175,886,829 |
| Class B Common Stock, par value \$.01 per share | 23,352,754 |
| Class 1 Common Stock, par value \$.01 per share | 2,000 |

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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.

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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)

| | November 30, 2015 | February 28, 2015 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$491.3 | \$110.1 |
| Accounts receivable | 714.7 | 598.9 |
| Inventories | 1,884.6 | 1,827.2 |
| Prepaid expenses and other | 370.3 | 374.6 |
| Total current assets | 3,460.9 | 2,910.8 |
| Property, plant and equipment | 2,949.0 | 2,681.6 |
| Goodwill | 6,381.8 | 6,208.2 |
| Intangible assets | 3,187.8 | 3,181.0 |
| Other assets | 177.1 | 162.9 |
| Total assets | \$16,156.6 | \$15,144.5 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable to banks | \$31.1 | \$52.4 |
| Current maturities of long-term debt | 856.9 | 158.1 |
| Accounts payable | 420.9 | 285.8 |
| Accrued excise taxes | 32.5 | 28.7 |
| Other accrued expenses and liabilities | 579.4 | 605.7 |
| Total current liabilities | 1,920.8 | 1,130.7 |
| Long-term debt, less current maturities | 6,515.0 | 7,137.5 |
| Deferred income taxes | 986.4 | 818.9 |
| Other liabilities | 137.7 | 176.1 |
| Total liabilities | 9,559.9 | 9,263.2 |
| Commitments and contingencies | | |
| CBI stockholders' equity: | | |
| Class A Common Stock, \$.01 par value- Authorized, 322,000,000 shares; Issued, 255,125,596 shares and 250,839,359 shares, respectively | 2.6 | 2.5 |
| Class B Convertible Common Stock, \$.01 par value- Authorized, 30,000,000 shares; Issued, 28,358,554 shares and 28,389,608 shares, respectively | 0.3 | 0.3 |
| Additional paid-in capital | 2,563.7 | 2,269.8 |
| Retained earnings | 5,908.4 | 5,277.5 |
| Accumulated other comprehensive loss | (344.9 |) (130.9) |
| | 8,130.1 | 7,419.2 |
| Less: Treasury stock – | | |
| Class A Common Stock, at cost, 79,253,678 shares and 79,681,859 shares, respectively | (1,635.5 |) (1,646.3) |
| Class B Convertible Common Stock, at cost, 5,005,800 shares | (2.2 |) (2.2) |
| | (1,637.7 |) (1,648.5) |
| Total CBI stockholders' equity | 6,492.4 | 5,770.7 |
| Noncontrolling interests | 104.3 | 110.6 |

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| | | |
|--|------------|------------|
| Total stockholders' equity | 6,596.7 | 5,881.3 |
| Total liabilities and stockholders' equity | \$16,156.6 | \$15,144.5 |

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except per share data)

(unaudited)

| | For the Nine Months Ended November 30, | | For the Three Months Ended November 30, | |
|--|---|------------|--|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Sales | \$5,523.3 | \$5,165.7 | \$1,812.4 | \$1,708.6 |
| Less – excise taxes | (518.1 |) (493.9 |) (171.9 |) (166.9 |
| Net sales | 5,005.2 | 4,671.8 | 1,640.5 | 1,541.7 |
| Cost of product sold | (2,759.0 |) (2,690.8 |) (907.0 |) (902.8 |
| Gross profit | 2,246.2 | 1,981.0 | 733.5 | 638.9 |
| Selling, general and administrative expenses | (892.2 |) (834.5 |) (286.2 |) (263.3 |
| Operating income | 1,354.0 | 1,146.5 | 447.3 | 375.6 |
| Equity in earnings of equity method investees | 28.5 | 21.1 | 27.3 | 21.2 |
| Interest expense | (230.4 |) (257.4 |) (75.6 |) (86.0 |
| Loss on write-off of financing costs | (1.1 |) (4.4 |) — |) — |
| Income before income taxes | 1,151.0 | 905.8 | 399.0 | 310.8 |
| Provision for income taxes | (335.7 |) (281.1 |) (128.0 |) (88.6 |
| Net income | 815.3 | 624.7 | 271.0 | 222.2 |
| Net income attributable to noncontrolling interests | (3.8 |) — | (0.5 |) — |
| Net income attributable to CBI | \$811.5 | \$624.7 | \$270.5 | \$222.2 |
| Comprehensive income | \$591.2 | \$530.1 | \$297.9 | \$108.8 |
| Comprehensive (income) loss attributable to noncontrolling interests | 6.3 | — | (2.1 |) — |
| Comprehensive income attributable to CBI | \$597.5 | \$530.1 | \$295.8 | \$108.8 |
| Net income per common share attributable to CBI: | | | | |
| Basic – Class A Common Stock | \$4.19 | \$3.28 | \$1.39 | \$1.16 |
| Basic – Class B Convertible Common Stock | \$3.80 | \$2.99 | \$1.26 | \$1.06 |
| Diluted – Class A Common Stock | \$3.99 | \$3.11 | \$1.33 | \$1.10 |
| Diluted – Class B Convertible Common Stock | \$3.69 | \$2.86 | \$1.22 | \$1.01 |
| Weighted average common shares outstanding: | | | | |
| Basic – Class A Common Stock | 172.509 | 168.968 | 173.933 | 169.585 |
| Basic – Class B Convertible Common Stock | 23.366 | 23.401 | 23.358 | 23.387 |
| Diluted – Class A Common Stock | 203.356 | 200.843 | 204.096 | 201.276 |
| Diluted – Class B Convertible Common Stock | 23.366 | 23.401 | 23.358 | 23.387 |
| Cash dividends declared per common share: | | | | |
| Class A Common Stock | \$0.93 | \$— | \$0.31 | \$— |
| Class B Convertible Common Stock | \$0.84 | \$— | \$0.28 | \$— |

The accompanying notes are an integral part of these statements.

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

| | For the Nine Months Ended November 30, | |
|---|---|----------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | \$815.3 | \$624.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred tax provision | 192.5 | 80.3 |
| Depreciation | 130.5 | 118.4 |
| Stock-based compensation | 40.5 | 42.1 |
| Amortization of intangible assets | 32.2 | 36.2 |
| Amortization of deferred financing costs | 9.0 | 9.0 |
| Noncash portion of loss on write-off of financing costs | 1.1 | 3.3 |
| Equity in earnings of equity method investees, net of distributed earnings | (18.7 |) (12.7 |
| Change in operating assets and liabilities, net of effects from purchase of business: | | |
| Accounts receivable | (121.5 |) (80.8 |
| Inventories | (25.0 |) (205.6 |
| Prepaid expenses and other current assets | 46.8 | (68.4 |
| Accounts payable | 136.8 | 132.6 |
| Accrued excise taxes | 4.3 | (2.5 |
| Other accrued expenses and liabilities | (128.1 |) 65.4 |
| Other | (24.1 |) 8.1 |
| Total adjustments | 276.3 | 125.4 |
| Net cash provided by operating activities | 1,091.6 | 750.1 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (513.8 |) (541.3 |
| Purchase of business | (317.9 |) (21.4 |
| Other investing activities | 4.0 | 3.0 |
| Net cash used in investing activities | (827.7 |) (559.7 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 210.0 | 800.0 |
| Excess tax benefits from stock-based payment awards | 204.2 | 76.0 |
| Proceeds from shares issued under equity compensation plans | 98.9 | 34.2 |
| Dividends paid | (180.4 |) — |
| Principal payments of long-term debt | (148.3 |) (565.3 |
| Payments of minimum tax withholdings on stock-based payment awards | (38.4 |) (28.4 |
| Net proceeds from (repayments of) notes payable | (15.9 |) 50.6 |
| Payments of financing costs of long-term debt | (7.9 |) (13.3 |
| Payment of delayed purchase price arrangement | — | (543.3 |
| Net cash provided by (used in) financing activities | 122.2 | (189.5 |
| Effect of exchange rate changes on cash and cash equivalents | (4.9 |) 2.5 |

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| | | |
|--|-------|------|
| Net increase in cash and cash equivalents | 381.2 | 3.4 |
| Cash and cash equivalents, beginning of period | 110.1 | 63.9 |
| Cash and cash equivalents, en | | |