

CONSTELLATION BRANDS, INC.

Form 10-Q

October 09, 2014

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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 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

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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 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

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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,” “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.

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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)

	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
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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 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.

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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)

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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	—	