

TreeHouse Foods, Inc.
Form 10-Q
November 05, 2015
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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 and Exchange Act of 1934
For the Quarterly Period Ended September 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 001-32504

TreeHouse Foods, Inc.

(Exact name of the registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

20-2311383
(I.R.S. employer identification no.)

2021 Spring Road, Suite 600
Oak Brook, IL
(Address of principal executive offices)

60523
(Zip Code)

(Registrant's telephone number, including area code) **(708) 483-1300**

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

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting Company	<input type="checkbox"/>

(Do not check if a 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

Number of shares of Common Stock, \$0.01 par value, outstanding as of October 31, 2015: 43,095,305

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	September 30, 2015	December 31, 2014
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,883	\$ 51,981
Investments	8,032	9,148
Receivables, net	213,631	233,656
Inventories, net	647,085	594,098
Deferred income taxes	28,644	35,564
Prepaid expenses and other current assets	36,846	24,989
Total current assets	957,121	949,436
Property, plant, and equipment, net	543,559	543,778
Goodwill	1,654,138	1,667,985
Intangible assets, net	661,511	716,298
Other assets, net	27,393	25,507
Total assets	\$ 3,843,722	\$ 3,903,004
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 313,890	\$ 296,860
Current portion of long-term debt	16,560	14,373
Total current liabilities	330,450	311,233
Long-term debt	1,307,262	1,445,488
Deferred income taxes	319,655	319,454
Other long-term liabilities	67,481	67,572
Total liabilities	2,024,848	2,143,747
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock, par value \$0.01 per share, 10,000 shares authorized, none issued	431	427

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Common stock, par value \$0.01 per share, 90,000 shares authorized, 43,091 and 42,663

shares issued and outstanding, respectively

Additional paid-in capital	1,199,066	1,177,342
Retained earnings	723,474	645,819
Accumulated other comprehensive loss	(104,097)	(64,331)
Total stockholders' equity	1,818,874	1,759,257
Total liabilities and stockholders' equity	\$ 3,843,722	\$ 3,903,004

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Net sales	\$ 798,638	\$ 795,726	\$ 2,340,991	\$ 2,042,589
Cost of sales	639,941	637,138	1,878,486	1,615,333
Gross profit	158,697	158,588	462,505	427,256
Operating expenses:				
Selling and distribution	44,887	47,631	133,482	125,242
General and administrative	36,535	47,864	119,302	122,242
Other operating expense, net	154	170	504	1,408
Amortization expense	14,893	14,958	45,772	35,524
Total operating expenses	96,469	110,623	299,060	284,416
Operating income	62,228	47,965	163,445	142,840
Other expense (income):				
Interest expense	10,914	10,102	33,978	29,976
Interest income	(265)	(113)	(2,228)	(694)
Loss on foreign currency exchange	9,226	8,004	18,226	6,856
Loss on extinguishment of debt		75		22,019
Other expense (income), net	2,078	(898)	(394)	105
Total other expense	21,953	17,170	49,582	58,262
Income before income taxes	40,275	30,795	113,863	84,578
Income taxes	11,834	10,913	36,208	28,615
Net income	\$ 28,441	\$ 19,882	\$ 77,655	\$ 55,963
Net earnings per common share:				
Basic	\$ 0.66	\$ 0.48	\$ 1.81	\$ 1.46
Diluted	\$ 0.65	\$ 0.47	\$ 1.78	\$ 1.43
Weighted average common shares:				
Basic	43,168	41,099	43,004	38,272
Diluted	43,721	42,002	43,672	39,259

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

	Three Months Ended September 30, 2015 2014 (Unaudited)		Nine Months Ended September 30, 2015 2014 (Unaudited)	
Net income	\$ 28,441	\$ 19,882	\$ 77,655	\$ 55,963
Other comprehensive income (loss):				
Foreign currency translation adjustments	(20,216)	(14,269)	(40,533)	(15,270)
Pension and postretirement reclassification adjustment (1)	256	103	767	309
Other comprehensive income (loss)	(19,960)	(14,166)	(39,766)	(14,961)
Comprehensive income	\$ 8,481	\$ 5,716	\$ 37,889	\$ 41,002

- (1) Net of tax of \$158 and \$64 for the three months ended September 30, 2015 and 2014, respectively, and \$474 and \$194 for the nine months ended September 30, 2015 and 2014, respectively.
See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Nine Months Ended September 30, 2015 2014 (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 77,655	\$ 55,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	46,160	47,401
Amortization	45,772	35,524
Stock-based compensation	15,503	17,102
Excess tax benefits from stock-based compensation	(5,004)	(11,915)
Loss on extinguishment of debt		22,019
Mark-to-market gain on derivative contracts	(378)	(93)
Mark-to-market loss (gain) on investments	421	(466)
Loss on disposition of assets	365	1,810
Deferred income taxes	239	(2,814)
Loss on foreign currency exchange	18,226	6,856
Other	(1,127)	5,330
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	14,493	(7,872)
Inventories	(61,715)	(109,155)
Prepaid expenses and other assets	(5,150)	(10,836)
Accounts payable, accrued expenses and other liabilities	23,730	28,107
Net cash provided by operating activities	169,190	76,961
Cash flows from investing activities:		
Additions to property, plant, and equipment	(57,188)	(65,392)
Additions to other intangible assets	(9,663)	(7,838)
Acquisitions, less cash acquired		(1,000,948)
Proceeds from sale of fixed assets	278	538
Purchase of investments	(572)	(471)
Proceeds from sale of investments		63
Other		525
Net cash used in investing activities	(67,145)	(1,073,523)
Cash flows from financing activities:		
Borrowings under Revolving Credit Facility	131,100	854,400
Payments under Revolving Credit Facility	(257,100)	(735,400)
Proceeds from issuance of Term Loan and Acquisition Term Loan		500,000
Payments on Term Loan and Acquisition Term Loan	(7,250)	(2,000)

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Proceeds from issuance of 2022 Notes		400,000
Payments on 2018 Notes		(400,000)
Payments on capitalized lease obligations and other debt	(2,672)	(1,880)
Payment of deferred financing costs		(13,712)
Payment of debt premium for extinguishment of debt		(16,693)
Net proceeds from issuance of stock		358,364
Net receipts related to stock-based award activities	1,221	17,193
Excess tax benefits from stock-based compensation	5,004	11,915
Net cash (used in) provided by financing activities	(129,697)	972,187
Effect of exchange rate changes on cash and cash equivalents	(1,446)	71
Net decrease in cash and cash equivalents	(29,098)	(24,304)
Cash and cash equivalents, beginning of period	51,981	46,475
Cash and cash equivalents, end of period	\$ 22,883	\$ 22,171

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Nine Months ended September 30, 2015

(Unaudited)

1. BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. (the Company, TreeHouse, we, us, or our), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Results of operations for interim periods are not necessarily indicative of annual results.

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to use our judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements, and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates.

A detailed description of the Company s significant accounting policies can be found in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, to simplify the accounting for adjustments made to provisional amounts. This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period, in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal periods beginning after December 15, 2015. The Company will apply this guidance prospectively, beginning January 1, 2016.

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which clarifies the Securities and Exchange Commission s (SEC) position on the presentation and measurement of debt issuance costs incurred in connection with line-of-credit agreements. ASU 2015-15 clarifies that the SEC will not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. This ASU is effective upon issuance and did not change how the Company historically reported its deferred issuance costs incurred in connection with its line of credit.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which requires entities to measure inventory at the lower of cost and net realizable value (NRV). This ASU will not apply to inventory valued under the last-in-first-out method. Under current guidance, an entity is required to measure inventory at the lower of cost or market, with market defined as replacement cost, NRV, NRV less a normal profit margin. The three market measurements added complexity and reduced comparability in the valuation of inventory. FASB issued ASU 2015-11 as part of its simplification initiative to address these issues. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is in the process of evaluating the impact of the standard.

In April 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments within the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient discussed in ASC 820-10-35. The ASU also limits required disclosures to investments for which an entity has elected to measure fair value using the practical expedient. Under current guidance, certain disclosures are required for all investments eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption, the standard requires that entities apply these changes to all periods presented. The Company does not believe this ASU will have a significant impact on the Company's financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which changes the presentation of debt issuance costs in the balance sheet. Under the ASU, an entity will present debt issuance costs as a direct deduction of the related debt liability with the amortization of the debt issuance costs reported as interest expense. Under current guidance, debt issuance costs are reported separately as an asset with the amortization recorded as interest expense. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using a full retrospective approach. The Company does not believe this ASU will have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, providing additional guidance surrounding the disclosure of going concern uncertainties in the financial statements and implementing requirements for management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. The ASU is effective for fiscal years, and interim periods within those years, ending after December 15, 2016. The Company does not anticipate the adoption of the ASU will result in additional disclosures, however, management will begin performing the periodic assessments required by the ASU on its effective date.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which introduced a new framework to be used when recognizing revenue in an attempt to reduce complexity and increase comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. In July 2015, the FASB approved a one-year deferral on the effective date for this ASU, which will now be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using either the full retrospective method, which presents the impact of the change separately in each prior year presented, or the modified retrospective method, which includes the cumulative changes to all prior years presented in beginning retained earnings in the year of initial adoption. The Company has not yet determined which of the two adoption methods to elect. The Company is currently assessing the impact this standard will have upon adoption.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS

Flagstone

On July 29, 2014, the Company acquired all of the outstanding shares of Flagstone Foods (Flagstone), a privately owned U.S. based manufacturer of branded and private label varieties of snack nuts, trail mixes, dried fruit, snack mixes, and other wholesome snacks. Flagstone is one of the largest manufacturers and distributors of private label wholesome snacks in North America, and is the largest manufacturer of private label trail mix in North America. The purchase price was approximately \$854.2 million, net of acquired cash, after adjustments for working capital. The acquisition was financed through additional borrowings and the issuance of common stock. The acquisition expanded our existing product offerings