

CONSTELLATION BRANDS, INC.

Form 10-Q

October 07, 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 EXCHANGE ACT
OF 1934

For the quarterly period ended August 31, 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)

(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, 2015, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value \$.01 per share	173,148,322
Class B Common Stock, par value \$.01 per share	23,360,754
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,” “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)

	August 31, 2015	February 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$329.7	\$110.1
Accounts receivable	723.5	598.9
Inventories	1,777.1	1,827.2
Prepaid expenses and other	301.2	374.6
Total current assets	3,131.5	2,910.8
Property, plant and equipment	2,773.3	2,681.6
Goodwill	6,416.8	6,208.2
Intangible assets	3,188.7	3,181.0
Other assets	163.1	162.9
Total assets	\$15,673.4	\$15,144.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$29.3	\$52.4
Current maturities of long-term debt	156.1	158.1
Accounts payable	373.3	285.8
Accrued excise taxes	26.9	28.7
Other accrued expenses and liabilities	626.6	605.7
Total current liabilities	1,212.2	1,130.7
Long-term debt, less current maturities	7,238.2	7,137.5
Deferred income taxes	894.4	818.9
Other liabilities	163.6	176.1
Total liabilities	9,508.4	9,263.2
Commitments and contingencies		
CBI stockholders' equity:		
Class A Common Stock, \$.01 par value- Authorized, 322,000,000 shares; Issued, 252,083,716 shares and 250,839,359 shares, respectively	2.5	2.5
Class B Convertible Common Stock, \$.01 par value- Authorized, 30,000,000 shares; Issued, 28,366,554 shares and 28,389,608 shares, respectively	0.3	0.3
Additional paid-in capital	2,369.3	2,269.8
Retained earnings	5,698.5	5,277.5
Accumulated other comprehensive loss	(370.2)	(130.9)
	7,700.4	7,419.2
Less: Treasury stock –		
Class A Common Stock, at cost, 79,254,408 shares and 79,681,859 shares, respectively	(1,635.4)	(1,646.3)
Class B Convertible Common Stock, at cost, 5,005,800 shares	(2.2)	(2.2)
	(1,637.6)	(1,648.5)
Total CBI stockholders' equity	6,062.8	5,770.7
Noncontrolling interests	102.2	110.6

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Total stockholders' equity	6,165.0	5,881.3
Total liabilities and stockholders' equity	\$15,673.4	\$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 Six Months Ended August 31,		For the Three Months Ended August 31,	
	2015	2014	2015	2014
Sales	\$3,710.9	\$3,457.1	\$1,912.9	\$1,770.0
Less – excise taxes	(346.2)	(327.0)	(179.5)	(165.9)
Net sales	3,364.7	3,130.1	1,733.4	1,604.1
Cost of product sold	(1,852.0)	(1,788.0)	(957.8)	(932.1)
Gross profit	1,512.7	1,342.1	775.6	672.0
Selling, general and administrative expenses	(606.0)	(571.2)	(296.2)	(293.3)
Operating income	906.7	770.9	479.4	378.7
Equity in earnings (losses) of equity method investees	1.2	(0.1)	0.2	(0.6)
Interest expense	(154.8)	(171.4)	(77.3)	(85.0)
Loss on write-off of financing costs	(1.1)	(4.4)	(1.1)	(4.4)
Income before income taxes	752.0	595.0	401.2	288.7
Provision for income taxes	(207.7)	(192.5)	(97.1)	(92.9)
Net income	544.3	402.5	304.1	195.8
Net income attributable to noncontrolling interests	(3.3)	—	(1.7)	—
Net income attributable to CBI	\$541.0	\$402.5	\$302.4	\$195.8
Comprehensive income	\$293.3	\$421.3	\$109.8	\$167.2
Comprehensive loss attributable to noncontrolling interests	8.4	—	7.2	—
Comprehensive income attributable to CBI	\$301.7	\$421.3	\$117.0	\$167.2
Net income per common share attributable to CBI:				
Basic – Class A Common Stock	\$2.80	\$2.12	\$1.56	\$1.03
Basic – Class B Convertible Common Stock	\$2.54	\$1.93	\$1.42	\$0.93
Diluted – Class A Common Stock	\$2.67	\$2.01	\$1.49	\$0.98
Diluted – Class B Convertible Common Stock	\$2.47	\$1.84	\$1.38	\$0.90
Weighted average common shares outstanding:				
Basic – Class A Common Stock	171.805	168.663	172.239	169.158
Basic – Class B Convertible Common Stock	23.370	23.408	23.364	23.401
Diluted – Class A Common Stock	202.984	200.579	203.110	200.800
Diluted – Class B Convertible Common Stock	23.370	23.408	23.364	23.401
Cash dividends declared per common share:				
Class A Common Stock	\$0.62	\$—	\$0.31	\$—
Class B Convertible Common Stock	\$0.56	\$—	\$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 Six Months Ended August 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$544.3	\$402.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax provision	94.0	67.6
Depreciation	88.7	78.3
Stock-based compensation	26.0	27.9
Amortization of intangible assets	22.7	24.7
Amortization of deferred financing costs	6.2	5.8
Noncash portion of loss on write-off of financing costs	1.1	3.3
Change in operating assets and liabilities, net of effects from purchase of business:		
Accounts receivable	(128.9	) (31.3
Inventories	63.6	(34.3
Prepaid expenses and other current assets	44.7	(30.7
Accounts payable	94.1	107.1
Accrued excise taxes	(1.4	) 1.8
Other accrued expenses and liabilities	(22.5	) 59.8
Other	(29.5	) (14.4
Total adjustments	258.8	265.6
Net cash provided by operating activities	803.1	668.1
Cash flows from investing activities:		
Purchase of business	(317.9) —
Purchases of property, plant and equipment	(294.8	) (308.2
Other investing activities	3.7	2.0
Net cash used in investing activities	(609.0	) (306.2
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	200.0	—
Excess tax benefits from stock-based payment awards	89.7	64.0
Proceeds from shares issued under equity compensation plans	33.2	22.1
Dividends paid	(119.8) —
Principal payments of long-term debt	(109.3	) (34.4
Payments of minimum tax withholdings on stock-based payment awards	(38.4	) (28.4
Net proceeds from (repayments of) notes payable	(18.5	) 197.0
Payments of financing costs of long-term debt	(7.6	) (2.0
Payment of delayed purchase price arrangement	—	(543.3
Net cash provided by (used in) financing activities	29.3	(325.0
Effect of exchange rate changes on cash and cash equivalents	(3.8) 3.5
Net increase in cash and cash equivalents	219.6	40.4

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Cash and cash equivalents, beginning of period	110.1	63.9
Cash and cash equivalents, end of period	\$329.7	\$104.3