MONDAVI ROBERT CORP
Form 10-Q
May 15, 2001

1

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2001

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: 33-61516

THE ROBERT MONDAVI CORPORATION

Incorporated under the laws of the State of California	I.R.S. Employer Identification: 94-2765451

Principal Executive Offices:
7801 St. Helena Highway
Oakville, CA 94562
Telephone: (707) 259-9463

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 [X] No [ ]

As of April 30, 2001, there were issued and outstanding 8,932,453 shares of the issuer's Class A Common Stock and 7,056,217 shares of the issuer's Class B Common Stock.

2

PART I

ITEM 1. FINANCIAL STATEMENTS.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

	MARCH 31, 2001	JUNE 30, 2000
	UNAUDITED	
Current assets:		
Cash and cash equivalents	$ --	$ 3,002
Accounts receivable--trade, net	88,225	77,662
Inventories	386,719	298,487
Prepaid expenses and other current assets	16,950	4,331
Total current assets	491,894	383,482
Property, plant and equipment, net	336,222	312,065
Investments in joint ventures	33,790	32,720
Other assets	11,482	6,676
Total assets	$ 873,388	$ 734,943

LIABILITIES AND SHAREHOLDERS' EQUITY

	MARCH 31, 2001	JUNE 30, 2000
Current liabilities:		
Book overdraft	$ 3,586	$ --
Notes payable to banks	52,500	19,700
Accounts payable--trade	19,043	24,540
Employee compensation and related costs	18,803	13,725
Other accrued expenses	10,288	7,250
Current portion of long-term debt	15,935	10,102
Deferred income taxes	--	93
Total current liabilities	120,155	75,410
Long-term debt, less current portion	323,089	280,790
Deferred income taxes	29,899	21,850
Deferred executive compensation	4,789	8,575
Other liabilities	4,207	150
Total liabilities	482,139	386,775
Commitments and contingencies		
Shareholders' equity:		
Preferred Stock:		
Authorized--5,000,000 shares; issued and outstanding--no shares	--	--
Class A Common Stock, without par value:		
Authorized--25,000,000 shares;		
issued and outstanding--8,932,453 and 8,274,235 shares	89,742	83,161
Class B Common Stock, without par value:		
Authorized--12,000,000 shares;		
issued and outstanding--7,056,217 and 7,306,012 shares	11,333	11,732
Paid-in capital	10,122	5,780

Retained earnings	281,986	249,105
Accumulated other comprehensive income:		
Cumulative translation adjustment	(1,934)	(1,610
	391,249	348,168
Total liabilities and shareholders' equity	$ 873,388	$ 734,943

See Notes to Consolidated Financial Statements.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,		NINE
	2001	2000	2001
Gross revenues	$123,573	$104,297	$380,705
Less excise taxes	5,584	4,888	17,056
Net revenues	117,989	99,409	363,649
Cost of goods sold	60,571	53,391	193,417
Gross profit	57,418	46,018	170,232
Selling, general and administrative expenses	37,074	28,701	107,822
Operating income	20,344	17,317	62,410
Other income (expense):			
Interest	(6,187)	(4,577)	(15,425
Equity income from joint ventures	244	814	7,343
Other	56	(44)	(863
Income before income taxes	14,457	13,510	53,465
Provision for income taxes	5,566	5,201	20,584
Net income	$ 8,891	$ 8,309	$ 32,881
Earnings per share-Basic	$ .56	$ .53	$ 2.08
Earnings per share-Diluted	$ .54	$ .52	$ 2.02
Weighted average number of shares outstanding-Basic	15,970	15,556	15,792
Weighted average number of shares outstanding-Diluted	16,428	16,039	16,288

See Notes to Consolidated Financial Statements.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	NINE MONTHS ENDED MARCH 31,	
	2001	2000
Cash flows from operating activities:		
Net income	$ 32,881	$ 32,197
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes	2,413	1,519
Depreciation and amortization	15,844	13,973
Equity income from joint ventures	(7,343)	(6,269)
Other	(25)	(2,400)
Changes in assets and liabilities		
Accounts receivable--trade	(9,906)	13,688
Inventories	(68,889)	(59,070)
Other assets	(7,233)	(16,541)
Accounts payable--trade and accrued expenses	1,755	(7,858)
Deferred executive compensation	(3,786)	945
Other liabilities	57	(81)
Net cash used in operating activities	(44,232)	(29,897)
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(40,372)	(54,116)
Proceeds from sale of assets	2,425	4,830
Business acquisition	(14,191)	--
Distributions from joint ventures	5,232	4,463
Contributions to joint ventures	(589)	(12,592)
Net cash used in investing activities	(47,495)	(57,415)
Cash flows from financing activities:		
Book overdraft	3,586	4,826
Net additions under notes payable to banks	32,672	37,500
Proceeds from issuance of long-term debt	55,000	50,000
Principal repayments of long-term debt	(7,684)	(9,820)
Proceeds from issuance of Class A Common Stock	255	276
Exercise of Class A Common Stock options	5,927	873
Other	(1,031)	(887)
Net cash provided by financing activities	88,725	82,768

Net decrease in cash and cash equivalents	(3,002)	(4,544)
Cash and cash equivalents at the beginning of the period	3,002	4,544
Cash and cash equivalents at the end of the period	$ --	$ --

THE ROBERT MONDAVI CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position at March 31, 2001, its results of operations for the three and nine month periods ended March 31, 2001 and 2000 and its cash flows for the nine month periods ended March 31, 2001 and 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from the accompanying consolidated financial statements. For further information, reference should be made to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K (the 10-K) for the fiscal year ended June 30, 2000, on file at the Securities and Exchange Commission. Certain fiscal 2000 balances have been reclassified to conform with current year presentation.

NOTE 2 ACQUISITION

On July 13, 2000, the Company acquired 100% of the outstanding shares of Arrowood Vineyards & Winery (Arrowood). The acquisition has been accounted for using the purchase method of accounting with the allocation of purchase price to assets and liabilities acquired made using estimated fair values at the date of acquisition. The Company also has the option to purchase certain tangible assets, including vineyards and winery facilities, within the next five years for $12,000. In addition, the Company entered into a long-term licensing agreement for use of the Arrowood and Grand Archer brand names that includes an option to purchase the brand names for approximately $15,000, which will be adjusted for certain financial performance measures, in 2010.

NOTE 3 INVENTORIES

Inventories consist of the following:

	MARCH 31, 2001	JUNE 30, 2000
	UNAUDITED	

Wine in production	$267,362	$186,609
Bottled wine	104,868	92,162
Crop costs and supplies	14,489	19,716
	$386,719	$298,487

Inventories are valued at the lower of cost or market and inventory costs are determined using the first-in, first-out (FIFO) method. Costs associated with growing crops are recorded as inventory and are recognized as wine inventory costs in the year in which the related crop is harvested. Included in inventory at March 31, 2001, was $11,861 of inventory cost step-up remaining from applying purchase accounting to the acquisition of Arrowood.

NOTE 4 COMPREHENSIVE INCOME

Comprehensive income includes revenues, expenses, gains and losses that are excluded from net income, including foreign currency translation adjustments and unrealized gains and losses on certain investments in debt and equity securities. Comprehensive income for the three and nine months ended March 31, 2001 and 2000 was as follows:

	UNAUDITED		
	THREE MONTHS ENDED MARCH 31,		NINE M M
	2001	2000	2001
Net income	$ 8,891	$ 8,309	$ 32,881
Foreign currency translation adjustment, net of tax	173	(135)	(324)
Comprehensive income	$ 9,064	$ 8,174	$ 32,557

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

The Company recorded inventory step-up charges associated with business acquisitions in fiscal 2001 and 2000. Under purchase accounting, the purchase price is allocated to the assets and liabilities of the acquired company based on their estimated fair market values at the time of the transaction. When the inventory acquired is subsequently sold in the normal course of business, costs of the inventory are charged to cost of goods sold, including the amount of the inventory step-up (the difference between the original book value of the inventory and the fair market value of the inventory upon acquisition). The inventory step-up charges reduce the Company's reported net income. The adjusted figures discussed throughout this report, which better reflect the results of the Company's ongoing operations, exclude inventory step-up charges, as well as a net gain primarily related to the sale of vineyards in fiscal 2000.

THIRD QUARTER OF FISCAL 2001 COMPARED TO THIRD QUARTER OF FISCAL 2000

NET REVENUES Net revenues increased by 18.7%, reflecting a 9.7% increase in sales volume that was driven by the Woodbridge and Robert Mondavi Coastal brands. Net revenues per case increased by 8.2% to $51.86, reflecting price increases, higher retail revenues and revenues from the Golden Vine Winery, which opened during the quarter.

COST OF GOODS SOLD Cost of goods sold as reported increased by 13.4%. Adjusted cost of goods sold increased by 11.9%, reflecting increased sales volume combined with a shift in sales mix to wines with higher average costs per case.

GROSS PROFIT As a result of the above factors, the reported gross profit percentage was 48.7% compared to 46.3% reported last year. The adjusted gross profit percentage increased to 49.3% from 46.3% last year.

OPERATING EXPENSES Operating expenses increased by 29.2% and the ratio of operating expenses to net revenues increased to 31.4% from 28.9% a year ago. These increases were primarily due to increased promotional spending, start-up costs related to the Golden Vine Winery and the addition of operating expenses from recent business acquisitions.

INTEREST Interest expense increased by 35.2% due to increased average borrowings outstanding associated with facility expansion, business acquisitions and the To-Kalon and Golden Vine Winery projects.

EQUITY INCOME FROM JOINT VENTURES Equity income from joint ventures as reported decreased by 70.0% to $0.2 million due mainly to inventory step-up charges related to the Company's investment in Ornellaia and a decrease in equity income from the Company's other foreign joint ventures during the period. Adjusted equity income from joint ventures increased by 8.8% to $1.3 million, reflecting adjusted equity income from Ornellaia that was partially offset by a decrease in equity income from the Company's other foreign joint ventures during the period.

PROVISION FOR INCOME TAXES The Company's effective tax rate remained unchanged from the prior year at 38.5%.

NET INCOME AND EARNINGS PER SHARE As a result of the above factors, net income as reported totaled $8.9 million, or $0.54 per diluted share, compared to $8.3 million, or $0.52 per diluted share, a year ago. Adjusted net income totaled $10.0 million, or $0.61 per diluted share, compared to $8.5 million, or $0.53 per diluted share, a year ago.

FIRST NINE MONTHS OF FISCAL 2001 COMPARED TO FIRST NINE MONTHS OF FISCAL 2000

NET REVENUES Net revenues increased by 20.2%, reflecting a 16.2% increase in sales volume that was driven by the Woodbridge and Robert Mondavi Coastal brands. Net revenues per case increased by 3.4% to $50.53, reflecting price increases, higher retail revenues and revenues from the Golden Vine Winery, which opened during the third quarter of fiscal 2001.

COST OF GOODS SOLD Cost of goods sold as reported increased by 19.5%. Adjusted cost of goods sold increased 17.4%, reflecting increased sales volume combined with a shift in sales mix to wines with higher average costs per case.

GROSS PROFIT As a result of the above factors, the reported gross profit percentage was 46.8% compared to 46.5% reported last year. The adjusted gross profit percentage increased to 47.7% from 46.5% last year.

OPERATING EXPENSES Operating expenses increased by 26.0% and the ratio of operating expenses to net revenues increased to 29.7% from 28.3% a year ago. These increases were primarily due to increased promotional spending, start-up costs related to the Golden Vine Winery and the addition of operating expenses from recent business acquisitions.

INTEREST Interest expense increased by 37.1% due to increased average borrowings outstanding associated with facility expansion, business acquisitions and the To-Kalon and Golden Vine Winery projects.

EQUITY INCOME FROM JOINT VENTURES Equity income from joint ventures as reported increased by 17.1% to $7.3 million due mainly to improved profitability from the Opus One joint venture that was partially offset by inventory step-up charges related to the Company's investment in Ornellaia. Adjusted equity income from joint ventures increased by 51.6% to $10.0 million, reflecting the Opus One improvement and adjusted equity income from Ornellaia.

OTHER "Other" primarily consists of miscellaneous non-operating income and expense items. "Other" as reported includes a $2.5 million net gain primarily related to the sale of vineyards in fiscal 2000. Adjusted "other" expenses totaled $0.9 million compared to $0.2 million last year.

PROVISION FOR INCOME TAXES The Company's effective tax rate remained unchanged from the prior year at 38.5%.

NET INCOME AND EARNINGS PER SHARE As a result of the above factors, net income as reported totaled $32.9 million, or $2.02 per diluted share, compared to $32.2 million, or $2.01 per diluted share, a year ago. Adjusted net income totaled $36.6 million, or $2.24 per diluted share, compared to $30.9 million, or $1.93 per diluted share, a year ago.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $3.0 million during the first nine months of fiscal 2001 as cash used in investing and operating activities exceeded cash provided by financing activities. Cash used in operations totaled $44.2 million, reflecting an increase in inventories required to support expected future sales volume growth that was partially offset by net income, as well as the non-cash impact on pre-tax income of depreciation and amortization. Cash used in investing activities totaled $47.5 million, reflecting the Arrowood acquisition, vineyard development and facility expansion and renovation. Cash provided by financing activities totaled $88.7 million, reflecting an increase in borrowings, net of cash, and stock option exercises.

On July 13, 2000, the Company acquired 100% of the outstanding shares of Arrowood Vineyards & Winery. The acquisition was accounted for using the purchase method of accounting.

The Company maintains master lease facilities that provide the capacity to fund up to $148.0 million. The combined facilities enable the Company to lease certain real property to be constructed or acquired. At March 31, 2001, $76.3 million of the combined facilities had been utilized.

The Company has unsecured short-term and long-term credit lines that have a maximum credit availability of $91.5 million and $60.0 million, respectively.

The short-term credit lines expire as follows: $55.0 million expires on December 20, 2001 and $36.5 million expires on December 22, 2001. The long-term credit lines expire on December 31, 2003.

On January 30, 2001, the Company entered into unsecured term loans totaling $55.0 million. The proceeds from these loans were used to pay down credit line borrowings.

On April 5, 2001, the Company entered into a $30.0 million unsecured term loan. The proceeds from this loan were used to pay down credit line borrowings.

8

9

PART II

ITEM 1. LEGAL PROCEEDINGS.

The Company is subject to litigation in the ordinary course of its business. In the opinion of management, the ultimate outcome of existing litigation will not have a material adverse effect on the Company's consolidated financial condition or the results of its operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

1) Exhibits: None.

2) Form 8-K:
No reports on Form 8-K were filed during the quarter ended March 31, 2001.

9

10

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ROBERT MONDAVI CORPORATION

Dated: May 15, 2001 By /s/ HENRY J. SALVO, JR.

Henry J. Salvo, Jr.
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

The above Form 10-Q and other information provided from time to time by the Company contain historical information as well as forward-looking statements about the Company, the premium wine industry and general business and economic conditions. Such forward-looking statements include, for example, projections or predictions about the Company's future growth, consumer demand for its wines, including new brands and brand extensions, margin trends, the premium wine grape market, the premium wine industry and the Company's anticipated future investment in vineyards and other capital projects. Actual results may differ materially from these expectations. Among other things, reduced consumer spending or a change in consumer preferences could reduce demand for the Company's wines. Similarly, competition from numerous domestic and foreign vintners could affect the Company's volume and revenue growth outlook, as could attendance projections at Disney's California Adventure theme park. The price of grapes, the Company's single largest product cost, is beyond the Company's control and higher grape costs may put more pressure on the Company's gross profit margin than is currently forecast. Interest rates and other business and economic conditions could increase significantly the cost and risks of projected capital spending. For additional cautionary statements identifying important factors that could cause actual results to differ materially from such forward-looking information, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, on file with the Securities and Exchange Commission. For these and other reasons, no forward-looking statement by the Company can nor should be taken as a guarantee of what will happen in the future.