

HORMEL FOODS CORP /DE/

Form 10-Q

June 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended April 29, 2018

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: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

41-0319970

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1 Hormel Place

55912-3680

Austin, Minnesota

(Zip Code)

(Address of principal executive offices)

(507) 437-5611

(Registrant's telephone number, including area code)

None

(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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 3, 2018	
Common Stock	\$.01465 par value	530,506,904
Common Stock Non-Voting	\$.01 par value	-0-



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

HORMEL FOODS CORPORATION  
 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
 (in thousands, except share and per share amounts)

	April 29, 2018 (Unaudited)	October 29, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$261,571	\$444,122
Accounts receivable	551,392	618,351
Inventories	1,011,215	921,022
Income taxes receivable	2,930	22,346
Prepaid expenses	18,534	16,144
Other current assets	5,138	4,538
<b>TOTAL CURRENT ASSETS</b>	<b>1,850,780</b>	<b>2,026,523</b>
<b>GOODWILL</b>	<b>2,731,956</b>	<b>2,119,813</b>
<b>OTHER INTANGIBLES</b>	<b>1,251,296</b>	<b>1,027,014</b>
<b>PENSION ASSETS</b>	<b>184,030</b>	<b>171,990</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>265,579</b>	<b>242,369</b>
<b>OTHER ASSETS</b>	<b>192,255</b>	<b>184,948</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	52,007	51,249
Buildings	900,139	866,855
Equipment	1,808,954	1,710,537
Construction in progress	226,119	148,064
Less: Allowance for depreciation	(1,633,366 )	(1,573,454 )
Net property, plant and equipment	1,353,853	1,203,251
<b>TOTAL ASSETS</b>	<b>\$7,829,749</b>	<b>\$6,975,908</b>

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(in thousands, except share and per share amounts)

	April 29, 2018 (Unaudited)	October 29, 2017
<b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$465,572	\$552,714
Short-term debt	185,000	—
Accrued expenses	62,635	76,966
Accrued workers compensation	25,702	26,585
Accrued marketing expenses	127,998	101,573
Employee related expenses	180,132	209,562
Taxes payable	1,432	525
Interest and dividends payable	99,990	90,287
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,148,461</b>	<b>1,058,212</b>
LONG-TERM DEBT—less current maturities	624,763	250,000
PENSION AND POST-RETIREMENT BENEFITS	535,282	530,249
OTHER LONG-TERM LIABILITIES	104,185	99,340
DEFERRED INCOME TAXES	125,425	98,410
<b>SHAREHOLDERS' INVESTMENT</b>		
Preferred stock, par value \$.01 a share— authorized 160,000,000 shares; issued—none		
Common stock, non-voting, par value \$.01 a share—authorized 400,000,000 shares; issued—none		
Common stock, par value \$.01465 a share— authorized 1,600,000,000 shares; issued 530,132,619 shares April 29, 2018 issued 528,423,605 shares October 29, 2017	7,766	7,741
Additional paid-in capital	10,971	13,670
Accumulated other comprehensive loss	(235,753 )	(248,075 )
Retained earnings	5,504,221	5,162,571
<b>HORMEL FOODS CORPORATION SHAREHOLDERS' INVESTMENT</b>	<b>5,287,205</b>	<b>4,935,907</b>
<b>NONCONTROLLING INTEREST</b>	<b>4,428</b>	<b>3,790</b>
<b>TOTAL SHAREHOLDERS' INVESTMENT</b>	<b>5,291,633</b>	<b>4,939,697</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>	<b>\$7,829,749</b>	<b>\$6,975,908</b>

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
Net sales	\$2,330,568	\$2,187,309	\$4,661,861	\$4,467,536
Cost of products sold	1,833,882	1,700,389	3,662,996	3,428,336
<b>GROSS PROFIT</b>	<b>496,686</b>	<b>486,920</b>	<b>998,865</b>	<b>1,039,200</b>
Selling, general and administrative	203,799	181,009	422,921	391,226
Equity in earnings of affiliates	13,486	10,121	37,017	23,420
<b>OPERATING INCOME</b>	<b>306,373</b>	<b>316,032</b>	<b>612,961</b>	<b>671,394</b>
Other income and expense:				
Interest and investment (expense) income	(2,489	) 2,818	817	5,267
Interest expense	(7,001	) (3,023	) (11,730	) (6,049
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>296,883</b>	<b>315,827</b>	<b>602,048</b>	<b>670,612</b>
Provision for income taxes	59,361	104,941	61,315	224,423
<b>NET EARNINGS</b>	<b>237,522</b>	<b>210,886</b>	<b>540,733</b>	<b>446,189</b>
Less: Net earnings attributable to noncontrolling interest	138	(40	) 242	116
<b>NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$237,384</b>	<b>\$210,926</b>	<b>\$540,491</b>	<b>\$446,073</b>
<b>NET EARNINGS PER SHARE:</b>				
<b>BASIC</b>	<b>\$0.45</b>	<b>\$0.40</b>	<b>\$1.02</b>	<b>\$0.84</b>
<b>DILUTED</b>	<b>\$0.44</b>	<b>\$0.39</b>	<b>\$1.00</b>	<b>\$0.83</b>
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
<b>BASIC</b>	<b>529,799</b>	<b>528,712</b>	<b>529,626</b>	<b>528,649</b>
<b>DILUTED</b>	<b>542,811</b>	<b>539,635</b>	<b>543,146</b>	<b>539,850</b>
<b>DIVIDENDS DECLARED PER SHARE:</b>	<b>\$0.1875</b>	<b>\$0.1700</b>	<b>\$0.3750</b>	<b>\$0.3400</b>

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)  
 (Unaudited)

	Three Months Ended		Six Months Ended	
	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
NET EARNINGS	\$237,522	\$210,886	\$540,733	\$446,189
Other comprehensive income (loss), net of tax:				
Foreign currency translation	4,796	907	9,008	(7,180 )
Pension and other benefits	2,487	3,314	4,973	6,647
Deferred hedging	(613 )	(1,184 )	(1,263 )	(2,507 )
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	6,670	3,037	12,718	(3,040 )
COMPREHENSIVE INCOME	244,192	213,923	553,451	443,149
Less: Comprehensive income (loss) attributable to noncontrolling interest	385	8	638	(76 )
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	\$243,807	\$213,915	\$552,813	\$443,225

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HORMEL FOODS CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' INVESTMENT  
(in thousands, except per share amounts)  
(Unaudited)

	Hormel Foods Corporation Shareholders						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total Shareholders' Investment
Balance at October 30, 2016	\$7,742	\$ —	\$—	\$4,736,567	\$ (296,303 )	\$ 3,400	\$4,451,406
Net earnings				846,735		368	847,103
Other comprehensive income					48,228	22	48,250
Purchases of common stock		(94,487)					(94,487 )
Stock-based compensation expense	1		15,590				15,591
Exercise of stock options/restricted shares	38		30,827				30,865
Shares retired	(40 )	94,487	(32,747 )	(61,700 )			—
Declared cash dividends – \$0.68 per share				(359,031 )			(359,031 )
Balance at October 29, 2017	\$7,741	\$ —	\$ 13,670	\$5,162,571	\$ (248,075 )	\$ 3,790	\$4,939,697
Net earnings				540,491		242	540,733
Other comprehensive income					12,322	396	12,718
Purchases of common stock		(44,741)					(44,741 )
Stock-based compensation expense	1		11,390				11,391
Exercise of stock options/restricted shares	43		30,633				30,676
Shares retired	(19 )	44,741	(44,722 )				—
Declared cash dividends – \$0.375 per share				(198,841 )			(198,841 )
Balance at April 29, 2018	\$7,766	\$ —	\$ 10,971	\$5,504,221	\$ (235,753 )	\$ 4,428	\$5,291,633

See Notes to Consolidated Financial Statements



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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended	
	April 29, 2018	April 30, 2017
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$540,733	\$446,189
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	74,081	59,185
Amortization of intangibles	6,235	4,143
Equity in earnings of affiliates	(37,017 )	(23,420 )
Distribution from equity method investees	10,024	12,522
(Benefit) provision for deferred income taxes	(74,486 )	11,336
(Gain) loss on property/equipment sales and plant facilities	(1,384 )	1,285
Non-cash investment activities	(8,451 )	(2,618 )
Stock-based compensation expense	11,391	11,861
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	87,141	40,728
Increase in inventories	(59,094 )	(47,792 )
Increase in prepaid expenses and other current assets	(3,926 )	(21,790 )
Increase in pension and post-retirement benefits	1,525	6,468
Decrease in accounts payable and accrued expenses	(122,847 )	(215,253 )
Increase (decrease) in net income taxes payable	19,416	(2,292 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>443,341</b>	<b>280,552</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of business	—	135,944
Acquisitions of businesses/intangibles	(857,673 )	—
Purchases of property/equipment	(141,160 )	(76,975 )
Proceeds from sales of property/equipment	6,439	1,157
Decrease (increase) in investments, equity in affiliates, and other assets	2,906	(1,028 )
Proceeds from company-owned life insurance	3,028	5,005
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(986,460 )</b>	<b>64,103</b>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from short-term debt	185,000	—
Proceeds from long-term debt	375,000	—
Principal payments on long-term debt	(237 )	—
Dividends paid on common stock	(189,139 )	(166,507 )
Share repurchase	(44,741 )	(49,583 )
Proceeds from exercise of stock options	29,978	8,879
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>355,861</b>	<b>(207,211 )</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>4,707</b>	<b>(3,686 )</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(182,551 )</b>	<b>133,758</b>
Cash and cash equivalents at beginning of year		