

SMITHFIELD FOODS INC  
Form 10-Q  
October 26, 2016

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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 October 2, 2016

COMMISSION FILE NUMBER 1-15321

SMITHFIELD FOODS, INC.

200 Commerce Street  
Smithfield, Virginia 23430  
(757) 365-3000

Virginia 52-0845861  
(State of Incorporation) (I.R.S. Employer Identification Number)

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, 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 type="radio"/> Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input checked="" type="radio"/> Smaller reporting company	<input type="radio"/>

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

At October 26, 2016, 1,000 shares of the registrant's Common Stock (no par value per share) were outstanding.



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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## SMITHFIELD FOODS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in millions and unaudited)

	Three Months Ended		Nine Months Ended	
	October 2,	September 27,	October 2,	September 27,
	2016	2015	2016	2015
Sales	\$3,538.6	\$ 3,406.1	\$ 10,337.5	\$ 10,509.2
Cost of sales	3,066.1	3,021.1	8,995.6	9,299.6
Gross profit	472.5	385.0	1,341.9	1,209.6
Selling, general and administrative expenses	233.8	238.4	669.7	692.9
Income from equity method investments	(7.6 )	(7.1 )	(21.3 )	(11.3 )
Operating profit	246.3	153.7	693.5	528.0
Interest expense	32.0	32.3	96.8	98.5
Non-operating loss	—	—	—	12.1
Income before income taxes	214.3	121.4	596.7	417.4
Income tax expense	70.5	38.1	194.1	132.9
Net income	\$143.8	\$ 83.3	\$402.6	\$ 284.5

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.  
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
 (in millions and unaudited)

	Three Months Ended		Nine Months Ended	
	October 2016	September 27, 2015	October 2016	September 27, 2015
Net income	\$ 143.8	\$ 83.3	\$ 402.6	\$ 284.5
Other comprehensive income (loss), net of tax:				
Foreign currency translation	19.8	(14.4)	) 11.6	(55.2)
Pension accounting	1.3	—	) 3.7	47.7
Hedge accounting	61.4	(27.5)	) 86.6	(36.3)
Total other comprehensive income (loss)	82.5	(41.9)	) 101.9	(43.8)
Comprehensive income	\$ 226.3	\$ 41.4	\$ 504.5	\$ 240.7

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(in millions, except share data)  
(unaudited)

	October 2, 2016	January 3, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$277.6	\$704.9
Accounts receivable, net	851.7	760.0
Inventories	2,314.9	2,099.7
Prepaid expenses and other current assets	121.0	176.4
Total current assets	3,565.2	3,741.0
Property, plant and equipment, net	2,952.4	2,867.3
Goodwill	1,621.7	1,619.5
Intangible assets, net	1,363.6	1,365.7
Investments	142.2	142.5
Other assets	171.4	158.0
Total assets	\$9,816.5	\$9,894.0
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	768.9	30.3
Accounts payable	519.6	686.1
Accrued expenses and other current liabilities	840.5	828.3
Total current liabilities	2,129.0	1,544.7
Long-term debt and capital lease obligations	1,557.7	2,257.9
Other liabilities	1,117.2	1,216.5
Redeemable noncontrolling interests	58.9	53.9
Commitments and contingencies		
Equity:		
Shareholder's equity:		
Common stock, no par value, 1,000 shares authorized; 1,000 issued and outstanding	—	—
Additional paid-in capital	4,189.2	4,185.1
Retained earnings	1,039.8	1,013.1
Accumulated other comprehensive loss	(275.8 )	(377.7 )
Total shareholder's equity	4,953.2	4,820.5
Noncontrolling interests	0.5	0.5
Total equity	4,953.7	4,821.0
Total liabilities and equity	\$9,816.5	\$9,894.0

See Notes to Consolidated Condensed Financial Statements



SMITHFIELD FOODS, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(in millions and unaudited)

	Nine Months Ended	
	October 2016	September 27, 2015
Cash flows from operating activities:		
Net income	\$402.6	\$ 284.5
Adjustments to reconcile net cash flows from operating activities:		
Depreciation and amortization	180.5	174.9
Stock-based compensation expense	6.7	14.7
Income from equity method investments	(21.3 )	(11.3 )
Changes in operating assets and liabilities and other, net	(361.2 )	(375.1 )
Net cash flows from operating activities	207.3	87.7
Cash flows from investing activities:		
Proceeds from sale of equity interest in Campofrio Food Group	—	354.0
Capital expenditures	(273.9 )	(240.3 )
Net expenditures from breeding stock transactions	(36.3 )	(41.6 )
Other	3.2	(32.3 )
Net cash flows from investing activities	(307.0 )	39.8
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	30.0	—
Principal payments on long-term debt and capital lease obligations	(1.7 )	(409.0 )
Proceeds from Securitization Facility	50.0	290.0
Payments on Securitization Facility	(50.0 )	(290.0 )
Net proceeds (payments) on revolving credit facilities	18.3	(3.7 )
Payment of dividends	(375.9 )	(30.0 )
Net cash flows from financing activities	(329.3 )	(442.7 )
Effect of foreign exchange rate changes on cash	1.7	(3.1 )
Net change in cash and cash equivalents	(427.3 )	(318.3 )
Cash and cash equivalents at beginning of period	704.9	433.5
Cash and cash equivalents at end of period	\$277.6	\$ 115.2

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Organization

Smithfield Foods, Inc., together with its subsidiaries ("Smithfield," "the Company," "we," "us" or "our"), is the largest hog producer and pork processor in the world. We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We conduct our operations through five reportable segments: Fresh Pork, Packaged Meats, Hog Production, International and Corporate.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. You should read these statements and notes in conjunction with the audited consolidated financial statements and the related notes included in our report on Form 10-K for the twelve months ended January 3, 2016. The information reflects all normal recurring adjustments which we believe are necessary to present fairly the financial position and results of operations for all periods included. The three and nine months ended October 2, 2016 correspond to the third quarter of 2016, and the three and nine months ended September 27, 2015 correspond to the third quarter of 2015.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU applies to all contracts with customers, except those that are within the scope of other topics in the FASB Accounting Standards Codification. Compared with current GAAP, the ASU also requires significantly expanded disclosures about revenue recognition. In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (ASU 2015-14) which defers the effective date by one year to fiscal year and interim periods within those years beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. The guidance is not currently effective for us and has not been applied in this Form 10-Q. We are currently in the process of evaluating the potential impact of future adoption but at this time do not anticipate it will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018 with early adoption permitted. The guidance is not currently effective for us and has not been applied in this Form 10-Q. We are currently in the process of evaluating the impact of adoption on our consolidated financial statements, however, the primary effect will be to record assets and obligations for current operating leases.

In March 2016, the FASB issued Accounting Standards update 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 addresses several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016 with early adoption permitted. The guidance is not currently

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effective for us and has not been applied in this Form 10-Q. We are currently in the process of evaluating the impact of adoption on our consolidated financial statements.

In June 2016, the FASB issued Accounting Standards update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 will impact how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019 with early adoption permitted beginning in the first quarter of 2019. We are currently in the process of evaluating the potential impact of adoption but at this time do not anticipate it will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued Accounting Standards update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU provides additional clarification guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017 with early adoption permitted. We are currently in the process of evaluating the potential impact of future adoption but at this time do not anticipate it will have a material effect on the presentation of our consolidated statements of cash flow.

#### NOTE 2: INVENTORIES

Inventories consist of the following: