J M SMUCKER Co
Form 10-Q
September 02, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 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 1-5111

THE J. M. SMUCKER COMPANY

(Exact name of registrant as specified in its charter)

Ohio	**34-0538550**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Strawberry Lane Orrville, Ohio	**44667-0280**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (330) 682-3000

N/A

(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 at least the past 90 days.   Yes x   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 x   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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	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 x

The Company had 119,665,073 common shares outstanding on August 28, 2015.

The Exhibit Index is located at Page No. 39.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Unaudited)

	Three Months Ended July 31,	
Dollars in millions, except per share data	2015	2014
Net sales	$ 1,952.0	$ 1,323.8
Cost of products sold	1,223.3	845.1
Gross Profit	728.7	478.7
Selling, distribution, and administrative expenses	387.6	253.4
Amortization	53.0	24.9
Other special project costs (A)	22.9	8.6
Other operating (income) expense net	(1.9)	0.2
Operating Income	267.1	191.6
Interest expense net	(44.4)	(17.4)
Other income - net	0.1	1.3
Income Before Income Taxes	222.8	175.5
Income taxes	86.4	59.5
Net Income	$ 136.4	$ 116.0
Earnings per common share:		
Net Income	$ 1.14	$ 1.14
Net Income - Assuming Dilution	$ 1.14	$ 1.14
Dividends Declared per Common Share	$ 0.67	$ 0.64

(A) Other special project costs includes restructuring and merger and integration costs. For more information on businesses acquired, see Note 3: Acquisitions.

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Unaudited)

Dollars in millions	Three Months Ended July 31, 2015	2014
Net income	$ 136.4	$ 116.0
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(25.5)	(2.8)
Cash flow hedging derivative activity, net of tax	0.1	(4.3)
Pension and other postretirement benefit plans activity, net of tax	4.5	1.4
Available-for-sale securities activity, net of tax	(0.2)	0.4
Total Other Comprehensive Loss	(21.1)	(5.3)
Comprehensive Income	$ 115.3	$ 110.7

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

Dollars in millions	July 31, 2015	April 30, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 133.6	$ 125.6
Trade receivables, less allowance for doubtful accounts	507.9	430.1
Inventories:		
Finished products	778.0	815.0
Raw materials	372.8	348.6
	1,150.8	1,163.6
Other current assets	233.2	340.9
Total Current Assets	2,025.5	2,060.2
Property, Plant, and Equipment		
Land and land improvements	113.6	113.7
Buildings and fixtures	701.1	666.3
Machinery and equipment	1,811.0	1,783.8
Construction in progress	100.7	135.3
	2,726.4	2,699.1
Accumulated depreciation	(1,069.6)	(1,020.8)
Total Property, Plant, and Equipment	1,656.8	1,678.3
Other Noncurrent Assets		
Goodwill	6,001.4	6,011.6
Other intangible assets net	6,891.7	6,950.3
Other noncurrent assets	183.0	182.2
Total Other Noncurrent Assets	13,076.1	13,144.1
Total Assets	$ 16,758.4	$ 16,882.6
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 347.1	$ 402.8
Accrued trade marketing and merchandising	113.5	104.9
Short-term borrowings	302.6	226.0
Other current liabilities	295.9	288.9

Total Current Liabilities		1,059.1		1,022.6
Noncurrent Liabilities				
Long-term debt		5,694.7		5,944.9
Deferred income taxes		2,522.2		2,473.3
Other noncurrent liabilities		352.4		354.9
Total Noncurrent Liabilities		8,569.3		8,773.1
Total Liabilities		9,628.4		9,795.7
Shareholders Equity				
Common shares		29.9		29.9
Additional capital		6,017.0		6,007.7
Retained income		1,214.0		1,159.2
Amount due from ESOP Trust				(0.1)
Accumulated other comprehensive loss		(130.9)		(109.8)
Total Shareholders Equity		7,130.0		7,086.9
Total Liabilities and Shareholders Equity	$	16,758.4	$	16,882.6

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Unaudited)

(Dollars in millions)	Three Months Ended July 31, 2015	2014
Operating Activities		
Net income	$ 136.4	$ 116.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55.7	38.3
Amortization	53.0	24.9
Other noncash adjustments	(3.5)	(0.1)
Share-based compensation expense	7.7	6.9
Loss on disposal of assets net	1.3	0.5
Defined benefit pension contributions	(0.9)	(1.3)
Changes in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(80.8)	(83.0)
Inventories	8.4	(153.3)
Other current assets	13.5	27.1
Accounts payable	(37.8)	(9.8)
Accrued liabilities	21.1	(14.3)
Income and other taxes	126.0	45.6
Other net	5.0	(5.6)
Net Cash Provided by (Used for) Operating Activities	305.1	(8.1)
Investing Activities		
Business acquired, net of cash acquired	7.9	
Additions to property, plant, and equipment	(53.0)	(49.0)
Proceeds from disposal of property, plant, and equipment		1.2
Other net	7.0	(4.3)
Net Cash Used for Investing Activities	(38.1)	(52.1)
Financing Activities		
Short-term borrowings net	76.6	221.6
Repayments of long-term debt	(250.0)	(100.0)
Quarterly dividends paid	(76.4)	(58.9)
Purchase of treasury shares	(6.9)	(10.6)
Other net	2.4	7.8
Net Cash (Used for) Provided by Financing Activities	(254.3)	59.9
Effect of exchange rate changes on cash	(4.7)	(3.8)

Net increase (decrease) in cash and cash equivalents		8.0		(4.1)
Cash and cash equivalents at beginning of period		125.6		153.5
Cash and Cash Equivalents at End of Period	$	133.6	$	149.4

( ) Denotes use of cash

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, unless otherwise noted, except per share data)

Note 1: Basis of Presentation

The unaudited condensed consolidated financial statements of The J. M. Smucker Company (Company, we, us, or our) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included.

Operating results for the three-month period ended July 31, 2015, are not necessarily indicative of the results that may be expected for the year ending April 30, 2016. For further information, reference is made to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended April 30, 2015.

Note 2: Recently Issued Accounting Standards

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820) Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 requires that investments measured using the net asset value (NAV) per share, or its equivalent practical expedient, be disclosed as a reconciling item between the balance sheet amounts and the amounts reported in the fair value hierarchy. Although ASU 2015-07 is not effective for us until May 1, 2016, we have elected early adoption and will present impacted investments as of April 30, 2016, in accordance with ASU 2015-07. We will change our presentation of Level 3 assets valued using NAV in the pensions and other postretirement benefits disclosure as required. ASU 2015-07 will be applied retrospectively to all periods presented.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt. ASU 2015-03 is effective for us on May 1, 2016, but we have elected early adoption. As of April 30, 2015, we reclassified debt issuance costs associated with our long-term debt from other noncurrent assets to long-term debt to conform to ASU 2015-03. For additional information, see Note 6: Debt and Financing Information.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. Under the original issuance, the standard would have been effective for us on May 1, 2017. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date* which extends the standard effective date by one year. As a result of this issuance, the standard will be effective for us on May 1, 2018, with the option to early adopt at the original effective date. We are currently evaluating the impact the application of ASU 2014-09 will have on our financial statements and disclosures.

Note 3: Acquisitions

On March 23, 2015, we completed the acquisition of Big Heart Pet Brands (Big Heart), a leading producer, distributor, and marketer of premium-quality, branded pet food and pet snacks in the U.S., through the acquisition of Blue Acquisition Group, Inc. (BAG), Big Heart s parent company. As a result of the acquisition, the assets and liabilities of BAG are now held by a direct wholly-owned subsidiary of the Company.

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The total consideration paid in connection with the acquisition was $5.9 billion, as set forth below, which included the issuance of 17.9 million of our common shares to BAG s shareholders, valued at $2.0 billion based on the average stock price of our common shares on March 23, 2015. After the closing of the transaction, we had approximately 120.0 million common shares outstanding. We assumed $2.6 billion in debt, including Big Heart s senior secured term loan and senior notes, and we paid an additional $1.2 billion in cash, net of a working capital adjustment. As part of the transaction, new debt of $5.4 billion was borrowed, consisting of a $1.8 billion bank term loan and $3.7 billion in Senior Notes, and Big Heart s debt obligations and our existing private placement Senior Notes were paid off.

Shares issued	$ 2,035.5
Assumed debt from Big Heart	2,630.2
Cash consideration, net of cash acquired	1,232.1
Total purchase price	$ 5,897.8

The transaction was accounted for under the acquisition method of accounting and, accordingly, the results of Big Heart s operations, including $561.3 in revenue and operating income of $64.3, are included in our consolidated financial statements as of July 31, 2015.

Total one-time costs related to the acquisition are expected to be approximately $225.0, of which approximately $150.0 are expected to be cash charges. The one-time costs consist primarily of employee-related costs, outside service and consulting costs, and other costs directly related to the acquisition. These one-time costs are anticipated to be incurred primarily over the next three years, with one-half of the costs expected to be recognized in 2016. We incurred costs of $24.8 in the first quarter of 2016, resulting in total costs of $60.8 from the date of acquisition, that were directly related to the merger and integration of Big Heart. The majority of these charges were reported in other special project costs in the Condensed Statement of Consolidated Income. Due to the nature of these costs, they were expensed as incurred.

The Big Heart purchase price was preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determined the estimated fair values based on independent appraisals, discounted cash flow analyses, quoted market prices, and estimates made by management. The purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired and, as such, the excess was allocated to goodwill.

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Changes to these preliminary fair values have been retrospectively applied to the Condensed Consolidated Balance Sheet as of April 30, 2015, and certain fair values have been subsequently adjusted. These adjustments include a net adjustment to goodwill of $1.8, which resulted from a favorable working capital adjustment and a change in the estimated fair value of an equity method investment. The valuation for the equity method investment was not complete at April 30, 2015, and was finalized during the first quarter of 2016. The following table summarizes the preliminary fair values at July 31, 2015, of the assets acquired and liabilities assumed at the acquisition date.

Assets acquired:	
Trade receivables	$ 142.0
Inventories	254.5
Other current assets	208.2
Property, plant, and equipment	324.0
Intangible assets	4,009.8
Goodwill	2,873.0
Other noncurrent assets	28.3
Total assets acquired	$ 7,839.8
Liabilities assumed:	
Current liabilities	$ 393.2
Deferred tax liabilities	1,464.0
Other noncurrent liabilities	84.8
Total liabilities assumed	$ 1,942.0
Net assets acquired	$ 5,897.8

As a result of the acquisition, we recognized a total of $2.9 billion of goodwill, of which $87.5 is remaining as deductible for tax purposes at July 31, 2015. Goodwill represents the value we expect to achieve through the implementation of operational synergies and growth opportunities across our segments. The final allocation of goodwill to our reporting units was not complete as of July 31, 2015, but will be complete by the end of 2016. Certain estimated values for the acquisition, including goodwill, intangible assets, property, plant, and equipment, contingent liabilities, and income taxes, are not yet finalized. The purchase price was preliminarily allocated based on information available at the acquisition date and is subject to change as we complete our analysis of the fair values of the assets and liabilities assumed at the date of acquisition during the measurement period as defined under FASB Accounting Standards Codification (ASC) 805, *Business Combinations*.

The purchase price was preliminarily allocated to the identifiable intangible assets acquired as follows:

Intangible assets with finite lives:	
Customer relationships (25-year useful life)	$ 2,289.8
Trademarks (15-year useful life)	257.0
Intangible assets with indefinite lives:	
Trademarks	1,463.0

Total intangible assets	$ 4,009.8

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Big Heart s results of operations are included in our consolidated financial statements from the date of the transaction. Had the transaction occurred on May 1, 2013, unaudited pro forma consolidated results for the quarter ended July 31, 2014, would have been as follows:

	Three Months Ended July 31, 2014
Net sales	$ 1,853.5
Net income	122.4
Net income per common share - assuming dilution	1.02

The unaudited pro forma consolidated results are based on our historical financial statements and those of Big Heart, and do not necessarily indicate the results of operations that would have resulted had the acquisition been completed at May 1, 2013. The most sign