

PILGRIMS PRIDE CORP

Form 10-Q

November 01, 2018

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 September 30, 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 1-9273

PILGRIM'S PRIDE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 75-1285071

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

1770 Promontory Circle, Greeley, CO 80634-9038

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (970) 506-8000

(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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

Number of shares outstanding of the issuer's common stock, \$0.01 par value per share, as of October 31, 2018, was 248,980,659.

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## PILGRIM'S PRIDE CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	\$401,306	\$ 581,510
Restricted cash	14,534	8,021
Trade accounts and other receivables, less allowance for doubtful accounts	559,559	565,478
Accounts receivable from related parties	652	2,951
Inventories	1,182,962	1,255,070
Income taxes receivable	4,568	—
Prepaid expenses and other current assets	116,536	102,550
Assets held for sale	2,616	708
Total current assets	2,282,733	2,516,288
Deferred tax assets	3,167	—
Other long-lived assets	17,162	18,165
Identified intangible assets, net	581,119	617,163
Goodwill	971,611	1,001,889
Property, plant and equipment, net	2,120,646	2,095,147
Total assets	\$5,976,438	\$ 6,248,652
Accounts payable	\$817,927	\$ 733,027
Accounts payable to related parties	6,795	2,889
Revenue contract liability	28,873	36,607
Accrued expenses and other current liabilities	403,146	410,152
Income taxes payable	42,369	222,073
Current maturities of long-term debt	24,026	47,775
Total current liabilities	1,323,136	1,452,523
Long-term debt, less current maturities	2,302,194	2,635,617
Noncurrent income taxes payable	7,731	—
Deferred tax liabilities	205,604	208,492
Other long-term liabilities	70,230	96,359
Total liabilities	3,908,895	4,392,991
Common stock	2,604	2,602
Treasury stock	(231,758 )	(231,758 )
Additional paid-in capital	1,941,766	1,932,509
Retained earnings	429,212	173,943
Accumulated other comprehensive loss	(83,548 )	(31,140 )
Total Pilgrim's Pride Corporation stockholders' equity	2,058,276	1,846,156
Noncontrolling interest	9,267	9,505
Total stockholders' equity	2,067,543	1,855,661
Total liabilities and stockholders' equity	\$5,976,438	\$ 6,248,652

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.



PILGRIM'S PRIDE CORPORATION  
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF INCOME  
 (Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 30,	September 24,	September 30,	September 24,
	2018	2017	2018	2017
	(In thousands, except per share data)			
Net sales	\$2,697,604	\$2,793,885	\$8,280,995	\$8,025,511
Cost of sales	2,527,863	2,315,301	7,549,367	6,815,701
Gross profit	169,741	478,584	731,628	1,209,810
Selling, general and administrative expense	84,138	102,191	257,396	284,009
Administrative restructuring charges	257	4,147	2,181	8,496
Operating income	85,346	372,246	472,051	917,305
Interest expense, net of capitalized interest	35,334	24,636	125,901	66,315
Interest income	(4,241)	(2,128)	(10,665)	(3,600)
Foreign currency transaction gain	(6,711)	(888)	(2,802)	(2,500)
Miscellaneous, net	653	(1,083)	(1,781)	(5,198)
Income before income taxes	60,311	351,709	361,398	862,288
Income tax expense	30,848	113,396	106,367	278,046
Net income	29,463	238,313	255,031	584,242
Less: Net income from Granite Holdings Sàrl prior to acquisition by Pilgrim's Pride Corporation	—	6,093	—	23,486
Less: Net income (loss) attributable to noncontrolling interests	153	(460)	(238)	514
Net income attributable to Pilgrim's Pride Corporation	\$29,310	\$232,680	\$255,269	\$560,242
Weighted average shares of Pilgrim's Pride Corporation common stock outstanding:				
Basic	248,981	248,753	248,933	248,732
Effect of dilutive common stock equivalents	198	235	143	230
Diluted	249,179	248,988	249,076	248,962
Net income attributable to Pilgrim's Pride Corporation per share of common stock outstanding:				
Basic	\$0.12	\$0.94	\$1.03	\$2.25
Diluted	\$0.12	\$0.93	\$1.03	\$2.25

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.

PILGRIM'S PRIDE CORPORATION  
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
	(In thousands)			
Net income	\$29,463	\$ 238,313	\$255,031	\$584,242
Other comprehensive income (loss):				
Foreign currency translation adjustment				
Gains (losses) arising during the period	(20,385 )	22,378	(60,516 )	89,153
Income tax effect	—	3,211	1,624	3,211
Derivative financial instruments designated as cash flow hedges				
Gains (losses) arising during the period	131	(779 )	28	(137 )
Reclassification to net earnings for losses realized	143	—	329	9
Available-for-sale securities				
Gains arising during the period	70	—	1,302	—
Income tax effect	(17 )	—	(317 )	—
Reclassification to net earnings for gains realized	(364 )	—	(1,263 )	—
Income tax effect	89	—	307	—
Defined benefit plans				
Gains (losses) arising during the period	566	393	7,158	(4,078 )
Income tax effect	(138 )	(148 )	(1,743 )	1,539
Reclassification to net earnings of losses realized	301	233	902	699
Income tax effect	(73 )	(88 )	(219 )	(264 )
Total other comprehensive income (loss), net of tax	(19,677 )	25,200	(52,408 )	90,132
Comprehensive income	9,786	263,513	202,623	674,374
Less: Comprehensive income for Granite Holdings Sàrl prior to acquisition by Pilgrim's Pride Corporation	—	460	—	88,050
Less: Comprehensive income (loss) attributable to noncontrolling interests	153	(460 )	(238 )	514
Comprehensive income attributable to Pilgrim's Pride Corporation	\$9,633	\$ 263,513	\$202,861	\$585,810

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY  
 (Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
(In thousands)									
Pilgrim's Pride Corporation balance at December 31, 2017	260,168	\$2,602	(11,416)	\$(231,758)	\$1,932,509	\$173,943	\$(31,140)	\$9,505	\$1,855,661
Net income (loss)	—	—	—	—	—	255,269	—	(238 )	255,031
Other comprehensive loss, net of tax	—	—	—	—	—	—	(52,408 )	—	(52,408 )
Share-based compensation plans:									
Common stock issued under compensation plans	228	2	—	—	(2 )	—	—	—	—
Requisite service period recognition	—	—	—	—	9,259	—	—	—	9,259
Balance at September 30, 2018	260,396	\$2,604	(11,416)	\$(231,758)	\$1,941,766	\$429,212	\$(83,548)	\$9,267	\$2,067,543
Pilgrim's Pride Corporation balance at December 25, 2016	\$259,682	\$2,597	(10,636)	\$(217,117)	\$1,686,742	\$(520,635)	\$(64,243)	\$9,403	\$896,747
Granite Holdings Sàrl balance at December 25, 2016	13,000	304,691	—	—	1,413,590	(262,150 )	(265,615 )	(1,131 )	1,189,385
Combined balance at December 25, 2016	272,682	307,288	(10,636)	(217,117 )	3,100,332	(782,785 )	(329,858 )	8,272	2,086,132
Net income	—	—	—	—	—	583,728	—	514	584,242
Other comprehensive income, net of	—	—	—	—	—	—	90,132	—	90,132

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tax									
Share-based compensation plans:									
Common stock issued under compensation plans	486	5	—	—	(5	)	—	—	—
Requisite service period recognition	—	—	—	—	2,454	—	—	—	2,454
Common stock purchased under share repurchase program	—	—	(780	)	(14,641	)	—	—	(14,641
Deemed equity contribution resulting from the transfer of Granite Holdings Sàrl net assets from JBS S.A. to Pilgrim's Pride Corporation in a common-control transaction	—	—	—	—	237,195	—	—	—	237,195
Transfer of Granite Holdings Sàrl net assets from JBS S.A. to Pilgrim's Pride Corporation in a common-control transaction	(13,000	)	(304,691	)	—	—	(1,413,590	)	238,663
							203,209	1,131	(1,275,278
Balance at September 24, 2017	260,168	\$2,602	(11,416)	\$(231,758)	\$1,926,386	\$39,606	\$(36,517)		