

CAMPBELL SOUP CO
Form 10-Q
December 06, 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 Commission File Number
October 28, 2018 1-3822

CAMPBELL SOUP COMPANY
New Jersey 21-0419870
State of Incorporation I.R.S. Employer Identification No.

1 Campbell Place
Camden, New Jersey 08103-1799
Principal Executive Offices

Telephone Number: (856) 342-4800

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 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 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

There were 301,029,024 shares of capital stock outstanding as of November 29, 2018.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAMPBELL SOUP COMPANY

Consolidated Statements of Earnings

(unaudited)

(millions, except per share amounts)

	Three Months Ended	
	October 2018	October 29, 2017
Net sales	\$2,694	\$ 2,161
Costs and expenses		
Cost of products sold	1,870	1,378
Marketing and selling expenses	248	219
Administrative expenses	176	149
Research and development expenses	27	30
Other expenses / (income)	4	(29)
Restructuring charges	19	2
Total costs and expenses	2,344	1,749
Earnings before interest and taxes	350	412
Interest expense	94	31
Interest income	1	1
Earnings before taxes	257	382
Taxes on earnings	63	107
Net earnings	194	275
Less: Net earnings (loss) attributable to noncontrolling interests	—	—
Net earnings attributable to Campbell Soup Company	\$194	\$ 275
Per Share — Basic		
Net earnings attributable to Campbell Soup Company	\$.64	\$.91
Weighted average shares outstanding — basic	301	301
Per Share — Assuming Dilution		
Net earnings attributable to Campbell Soup Company	\$.64	\$.91
Weighted average shares outstanding — assuming dilution	302	302

See accompanying Notes to Consolidated Financial Statements.

CAMPBELL SOUP COMPANY
 Consolidated Statements of Comprehensive Income
 (unaudited)
 (millions)

	Three Months Ended					
	October 28, 2018			October 29, 2017		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net earnings			\$ 194			\$ 275
Other comprehensive income (loss):						
Foreign currency translation:						
Foreign currency translation adjustments	\$(43)	\$ —	(43)	\$(32)	\$ —	(32)
Cash-flow hedges:						
Unrealized gains (losses) arising during the period	—	—	—	9	(2)	7
Reclassification adjustment for (gains) losses included in net earnings	1	—	1	(2)	—	(2)
Pension and other postretirement benefits:						
Reclassification of prior service credit included in net earnings	(7)	2	(5)	(7)	2	(5)
Other comprehensive income (loss)	\$(49)	\$ 2	(47)	\$(32)	\$ —	(32)
Total comprehensive income (loss)			\$ 147			\$ 243
Total comprehensive income (loss) attributable to noncontrolling interests			—			—
Total comprehensive income (loss) attributable to Campbell Soup Company			\$ 147			\$ 243

See accompanying Notes to Consolidated Financial Statements.

CAMPBELL SOUP COMPANY
 Consolidated Balance Sheets
 (unaudited)
 (millions, except per share amounts)

	October 28, 2018	July 29, 2018
Current assets		
Cash and cash equivalents	\$ 205	\$226
Accounts receivable, net	995	785
Inventories	1,226	1,199
Other current assets	95	86
Total current assets	2,521	2,296
Plant assets, net of depreciation	3,162	3,233
Goodwill	4,689	4,580
Other intangible assets, net of amortization	3,991	4,196
Other assets (\$68 as of 2019 and \$77 as of 2018 attributable to variable interest entity)	224	224
Total assets	\$ 14,587	\$14,529
Current liabilities		
Short-term borrowings	\$ 1,845	\$1,896
Payable to suppliers and others	951	893
Accrued liabilities	704	676
Dividends payable	107	107
Accrued income taxes	55	22
Total current liabilities	3,662	3,594
Long-term debt	8,001	7,998
Deferred taxes	960	995
Other liabilities	549	569
Total liabilities	13,172	13,156
Commitments and contingencies		
Campbell Soup Company shareholders' equity		
Preferred stock; authorized 40 shares; none issued	—	—
Capital stock, \$.0375 par value; authorized 560 shares; issued 323 shares	12	12
Additional paid-in capital	339	349
Earnings retained in the business	2,295	2,224
Capital stock in treasury, at cost	(1,084) (1,103)
Accumulated other comprehensive loss	(156) (118)
Total Campbell Soup Company shareholders' equity	1,406	1,364
Noncontrolling interests	9	9
Total equity	1,415	1,373
Total liabilities and equity	\$ 14,587	\$14,529

See accompanying Notes to Consolidated Financial Statements.

CAMPBELL SOUP COMPANY
 Consolidated Statements of Cash Flows
 (unaudited)
 (millions)

	Three Months Ended	
	October 28, 2018	October 29, 2017
Cash flows from operating activities:		
Net earnings	\$ 194	\$ 275
Adjustments to reconcile net earnings to operating cash flow		
Impairment charges	14	—
Restructuring charges	19	2
Stock-based compensation	14	14
Pension and postretirement benefit income	(15)	(16)
Depreciation and amortization	122	82
Deferred income taxes	17	41
Other, net	12	6
Changes in working capital		
Accounts receivable	(223)	(167)
Inventories	(33)	(105)
Prepaid assets	(10)	16
Accounts payable and accrued liabilities	130	84
Net receipts from (payments of) hedging activities	1	(33)
Other	(11)	(11)
Net cash provided by operating activities	231	188
Cash flows from investing activities:		
Purchases of plant assets	(111)	(58)
Purchases of route businesses	(20)	—
Sales of route businesses	21	—
Other, net	10	(5)
Net cash used in investing activities	(100)	(63)
Cash flows from financing activities:		
Short-term borrowings	1,710	2,056
Short-term repayments	(1,745)	(2,116)
Dividends paid	(107)	(111)
Treasury stock purchases	—	(86)
Payments related to tax withholding for stock-based compensation	(5)	(22)
Payments of debt issuance costs	(1)	—
Net cash used in financing activities	(148)	(279)
Effect of exchange rate changes on cash	(4)	(2)
Net change in cash and cash equivalents	(21)	(156)
Cash and cash equivalents — beginning of period	226	319
Cash and cash equivalents — end of period	\$ 205	\$ 163

See accompanying Notes to Consolidated Financial Statements.

CAMPBELL SOUP COMPANY
 Consolidated Statements of Equity
 (unaudited)
 (millions, except per share amounts)

	Campbell Soup Company Shareholders' Equity								
	Capital Stock		Additional Paid-in Capital	Earnings Retained in the Business	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity		
Shares	Amount	Shares							Amount
Balance at July 30, 2017	323	\$ 12	(22)	\$(1,066)	\$ 359	\$ 2,385	\$ (53)	\$ 8	\$ 1,645
Net earnings (loss)						275		—	275
Other comprehensive income (loss)						(32)		—	(32)
Dividends (\$.35 per share)						(105)			(105)
Treasury stock purchased			(2)	(86)					(86)
Treasury stock issued under management incentive and stock option plans			2	46	(54)				(8)
Balance at October 29, 2017	323	\$ 12	(22)	\$(1,106)	\$ 305	\$ 2,555	\$ (85)	\$ 8	\$ 1,689
Balance at July 29, 2018	323	\$ 12	(22)	\$(1,103)	\$ 349	\$ 2,224	\$ (118)	\$ 9	\$ 1,373
Cumulative effect of changes in accounting principle:									
Revenue ⁽¹⁾						(8)			(8)
Stranded tax effects ⁽¹⁾						(9)	9		—
Net earnings (loss)						194		—	194
Other comprehensive income (loss)						(47)		—	(47)
Dividends (\$.35 per share)						(106)			(106)
Treasury stock purchased			—	—					—
Treasury stock issued under management incentive and stock option plans			—	19	(10)				9
Balance at October 28, 2018	323	\$ 12	(22)	\$(1,084)	\$ 339	\$ 2,295	\$ (156)	\$ 9	\$ 1,415

⁽¹⁾ See Note 2 for additional detail.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(unaudited)

(currency in millions, except per share amounts)

1. Basis of Presentation and Significant Accounting Policies

In this Form 10-Q, unless otherwise stated, the terms "we," "us," "our" and the "company" refer to Campbell Soup Company and its consolidated subsidiaries.

The consolidated financial statements include our accounts and entities in which we maintain a controlling financial interest and a variable interest entity (VIE) for which we are the primary beneficiary. Intercompany transactions are eliminated in consolidation. Certain amounts in prior-year financial statements were reclassified to conform to the current-year presentation.

The financial statements reflect all adjustments which are, in our opinion, necessary for a fair statement of the results of operations, financial position, and cash flows for the indicated periods. The accounting policies we used in preparing these financial statements are substantially consistent with those we applied in our Annual Report on Form 10-K for the year ended July 29, 2018, except as described below and in Note 2.

The results for the period are not necessarily indicative of the results to be expected for other interim periods or the full year. Our fiscal year ends on the Sunday nearest July 31, which is July 28, 2019.

Revenue Recognition - Our revenues primarily consist of the sale of food and beverage products through our own sales force and/or third-party brokers and distribution partners. Revenues are recognized when our performance obligation has been satisfied and control of the product passes to our customers, which typically occurs when products are delivered or accepted by customers in accordance with terms of agreements. We make shipments promptly after acceptance of orders. Shipping and handling costs incurred to deliver the product are recorded within Cost of products sold. Amounts billed and due from our customers are classified as Accounts receivable in the Consolidated Balance Sheets and require payment on a short-term basis. Revenues are recognized net of provisions for returns, discounts and certain sales promotion expenses, such as feature price discounts, in-store display incentives, cooperative advertising programs, new product introduction fees and coupon redemption costs. These forms of variable consideration are recognized upon sale. The recognition of costs for promotion programs involves the use of judgment related to performance and redemption estimates. Estimates are made based on historical experience and other factors, including expected volume. Historically, the difference between actual experience compared to estimated redemptions and performance has not been significant to the quarterly or annual financial statements. Differences between estimates and actual costs are recognized as a change in estimate in a subsequent period. Revenues are presented on a net basis for arrangements under which suppliers perform certain additional services. See Note 6 for additional information on disaggregation of revenue. In 2019, we adopted revised guidance on the recognition of revenue from contracts with customers. See Note 2 for additional information.

2. Recent Accounting Pronouncements

Recently Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued revised guidance on the recognition of revenue from contracts with customers. The guidance is designed to create greater comparability for financial statement users across industries and jurisdictions. The guidance also requires enhanced disclosures. The guidance was originally effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. In July 2015, the FASB decided to delay the effective date of the new revenue guidance by one year to fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities were permitted to adopt the new revenue standard early, but not before the original effective date. The guidance permits the use of either a full retrospective or modified retrospective transition method. We completed the review of our arrangements with customers across our businesses, including our practices of offering rebates, refunds, discounts and other price allowances, and trade and consumer promotion programs. As we evaluated our methods of estimating the amount and timing of these various forms of variable consideration, we determined we will accelerate the expense recognition of

certain trade and consumer promotion programs under the new guidance. Based on our assessment, the impact is not expected to be material on an annual basis, but will impact quarterly results. We adopted the guidance in the first quarter of 2019 using the modified retrospective method and recorded a cumulative effect adjustment of \$8, net of tax, to decrease the opening balance of Earnings retained in the business, an increase of \$10 to Accrued liabilities, an increase of \$1 to Accounts payable, a decrease of \$2 to Deferred taxes and an increase of \$1 to Other assets.

The impacts of the changes to our Consolidated Balance Sheet as of October 28, 2018, as a result of adoption are as follows:

	As Reported	Balances Without Adoption	Increase/(Decrease) Due to Adoption
Current liabilities			
Payable to suppliers and others	\$ 951	\$ 950	\$ 1
Accrued liabilities	704	678	26
Accrued income taxes	55	62	(7)
Total current liabilities	3,662	3,642	20
Total liabilities	13,172	13,152	20
Campbell Soup Company shareholders' equity			
Earnings retained in the business	\$ 2,295	\$ 2,315	\$ (20)
Total Campbell Soup Company shareholders' equity	1,406	1,426	(20)
Total equity	1,415	1,435	(20)

The impacts of the changes to our Consolidated Statement of Earnings as a result of adoption are as follows:

	As Reported	Balances Without Adoption	Increase/(Decrease) Due to Adoption
Three Months Ended October 28, 2018			
Net sales	\$2,694	\$ 2,710	\$ (16)