

TreeHouse Foods, Inc.
Form 10-Q
May 07, 2015
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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 and Exchange Act of 1934
For the Quarterly Period Ended March 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 001-32504**

TreeHouse Foods, Inc.

(Exact name of the registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

20-2311383
(I.R.S. employer identification no.)

2021 Spring Road, Suite 600
Oak Brook, IL
(Address of principal executive offices)

60523
(Zip Code)

(Registrant's telephone number, including area code) **(708) 483-1300**

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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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 Accelerated filer

Non-accelerated filer Smaller reporting Company
(Do not check if a 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

Number of shares of Common Stock, \$0.01 par value, outstanding as of April 30, 2015: 42,874,528

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	March 31, 2015	December 31, 2014
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,651	\$ 51,981
Investments	8,712	9,148
Receivables, net	217,805	233,656
Inventories, net	559,177	594,098
Deferred income taxes	35,093	35,564
Prepaid expenses and other current assets	23,465	24,989
Total current assets	898,903	949,436
Property, plant, and equipment, net	542,592	543,778
Goodwill	1,656,847	1,667,985
Intangible assets, net	692,825	716,298
Other assets, net	24,217	25,507
Total assets	\$ 3,815,384	\$ 3,903,004
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 263,506	\$ 296,860
Current portion of long-term debt	15,615	14,373
Total current liabilities	279,121	311,233
Long-term debt	1,383,448	1,445,488
Deferred income taxes	318,203	319,454
Other long-term liabilities	69,390	67,572
Total liabilities	2,050,162	2,143,747
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock, par value \$0.01 per share, 10,000 shares authorized, none issued		

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Common stock, par value \$0.01 per share, 90,000 shares authorized, 42,860 and 42,663 shares issued and outstanding, respectively	429	427
Additional paid-in capital	1,191,734	1,177,342
Retained earnings	663,671	645,819
Accumulated other comprehensive loss	(90,612)	(64,331)
Total stockholders' equity	1,765,222	1,759,257
Total liabilities and stockholders' equity	\$ 3,815,384	\$ 3,903,004

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2015	2014
	(Unaudited)	
Net sales	\$ 783,145	\$ 618,903
Cost of sales	630,708	485,912
Gross profit	152,437	132,991
Operating expenses:		
Selling and distribution	45,798	38,017
General and administrative	44,400	33,768
Other operating expense, net	215	873
Amortization expense	15,328	10,034
Total operating expenses	105,741	82,692
Operating income	46,696	50,299
Other expense (income):		
Interest expense	11,692	10,873
Interest income	(1,769)	(168)
Loss on foreign currency exchange	11,386	2,951
Loss on extinguishment of debt	16,685	16,685
Other income, net	(414)	(85)
Total other expense	20,895	30,256
Income before income taxes	25,801	20,043
Income taxes	7,949	5,721
Net income	\$ 17,852	\$ 14,322
Net earnings per common share:		
Basic	\$.42	\$.39
Diluted	\$.41	\$.38
Weighted average common shares:		
Basic	42,873	36,682
Diluted	43,639	37,665

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

	Three Months Ended March 31, 2015 2014 (Unaudited)	
Net income	\$ 17,852	\$ 14,322
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(26,537)	(11,907)
Pension and postretirement reclassification adjustment (1)	256	103
Other comprehensive loss	(26,281)	(11,804)
Comprehensive (loss) income	\$ (8,429)	\$ 2,518

(1) Net of tax of \$158 and \$64 for the three months ended March 31, 2015 and 2014, respectively.
See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31, 2015 2014 (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 17,852	\$ 14,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,405	16,972
Amortization	15,328	10,034
Stock-based compensation	5,949	4,180
Excess tax benefits from stock-based compensation	(3,132)	(4,630)
Loss on extinguishment of debt		16,685
Mark to market gain on derivative contracts	(417)	(117)
Mark to market gain on investments	(259)	(79)
Loss (gain) on disposition of assets	147	(208)
Deferred income taxes	(1,867)	(1,699)
Loss on foreign currency exchange	11,386	2,950
Other	(379)	
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	11,746	697
Inventories	29,164	(9,907)
Prepaid expenses and other assets	1,744	(1,945)
Accounts payable, accrued expenses and other liabilities	(21,065)	(11,385)
Net cash provided by operating activities	81,602	35,870
Cash flows from investing activities:		
Additions to property, plant, and equipment	(21,235)	(18,339)
Additions to other intangible assets	(3,841)	(3,316)
Acquisitions, less cash acquired		1,325
Proceeds from sale of fixed assets	121	525
Purchase of investments	(103)	(236)
Proceeds from sale of investments		63
Net cash used in investing activities	(25,058)	(19,978)
Cash flows from financing activities:		
Borrowings under Revolving Credit Facility	20,000	25,000
Payments under Revolving Credit Facility	(78,000)	(165,000)
Proceeds from issuance of 2022 Notes		400,000
Payments on 2018 Notes		(298,213)
Payments on capitalized lease obligations and other debt	(730)	(319)

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Payment of deferred financing costs		(6,897)
Payment of debt premium for extinguishment of debt		(12,749)
Payments on Term Loan and Acquisition Term Loan	(2,000)	
Net receipts related to stock-based award activities	5,273	7,530
Excess tax benefits from stock-based compensation	3,132	4,630
Net cash used in financing activities	(52,325)	(46,018)
Effect of exchange rate changes on cash and cash equivalents	(1,549)	(563)
Net increase (decrease) in cash and cash equivalents	2,670	(30,689)
Cash and cash equivalents, beginning of period	51,981	46,475
Cash and cash equivalents, end of period	\$ 54,651	\$ 15,786

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three months ended March 31, 2015

(Unaudited)

1. BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. (the Company, TreeHouse, we, us, or our), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Results of operations for interim periods are not necessarily indicative of annual results.

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to use our judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements, and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates.

A detailed description of the Company s significant accounting policies can be found in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which changes the presentation of debt issuance costs in the balance sheet. Under the ASU, an entity will present debt issuance costs as a direct deduction of the related debt liability with the amortization of the debt issuance costs reported as interest expense. Under current guidance, debt issuance costs are reported separately as an asset with the amortization recorded as interest expense. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using a full retrospective approach. The Company does not believe this ASU will have a significant impact on the Company s financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*, providing additional guidance surrounding the disclosure of going concern uncertainties in the financial statements and implementing requirements for management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date the financial statements are issued. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company does not anticipate the adoption of the ASU will result in additional disclosures, however, management will begin performing the periodic assessments required by the ASU on its effective date.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which introduced a new framework to be used when recognizing revenue in an attempt to reduce complexity and increase comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using either the full retrospective method, which presents the impact of the change separately in each prior year presented, or the modified retrospective method, which includes the cumulative changes to all prior years presented in beginning retained earnings in the year of initial adoption. The Company has not yet determined which of the two adoption methods to elect. The Company is currently assessing the impact this standard will have upon adoption.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. ACQUISITIONS***Flagstone*

On July 29, 2014, the Company acquired all of the outstanding shares of Flagstone Foods (Flagstone), a privately owned U.S. based manufacturer of branded and private label varieties of snack nuts, trail mixes, dried fruit, snack mixes, and other wholesome snacks. Flagstone is one of the largest manufacturers and distributors of private label wholesome snacks in North America, and is the largest manufacturer of private label trail mix in North America. The purchase price was approximately \$854.2 million, net of acquired cash, after adjustments for working capital. The acquisition was financed through additional borrowings and the issuance of common stock. The acquisition is expected to expand our existing product offerings by allowing the Company to enter into the wholesome snack food category, while also providing more exposure to the perimeter of the store.

The Flagstone acquisition is being accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition in the North American Retail Grocery and Industrial and Export segments. At the date of acquisition, the purchase price was preliminarily allocated to the assets acquired and liabilities assumed based upon fair market values, and is subject to adjustments.

We have made a preliminary allocation to net tangible and intangible assets acquired and liabilities assumed as follows:

	(In thousands)
Cash	\$ 902
Receivables	55,640
Inventory	128,224
Property, plant, and equipment	37,154
Customer relationships	231,700
Trade names	6,300
Supplier relationships	2,500
Software	1,755
Formulas	1,600
Other assets	9,497
Goodwill	507,865
Fair value of assets acquired	983,137
Deferred taxes	(65,866)
Assumed liabilities	(62,140)
Total purchase price	\$ 855,131

The Company allocated \$231.7 million to customer relationships and \$6.3 million to trade names, each of which have an estimated life of 15 years. The Company allocated \$1.6 million to formulas, which have an estimated life of 5 years. The Company allocated \$1.8 million to capitalized software with an estimated life of 1 year. The aforementioned intangibles will be amortized on a straight line basis. The Company allocated \$2.5 million to supplier relationships, which will be amortized in a method reflecting the pattern in which the economic benefits of the intangible asset are consumed over the period of one year. The Company has preliminarily allocated all \$507.9 million of goodwill to the North American Retail Grocery segment. Goodwill arises principally as a result of expansion opportunities related to Flagstone's product offerings in the snacking category. None of the goodwill resulting from this acquisition is tax deductible. The allocation to net tangible and intangible assets acquired and liabilities assumed is preliminary and subject to change for taxes.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following unaudited pro forma information shows the results of operations for the Company as if its acquisition of Flagstone had been completed as of January 1, 2014. Adjustments have been made for the pro forma effects of depreciation and amortization of tangible and intangible assets recognized as part of the business combination, the issuance of common stock, interest expense related to the financing of the business combination, and related income taxes. The pro forma results may not necessarily reflect actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	Three Months Ended March 31, 2014 (In thousands, except per share data)
Pro forma net sales	\$ 785,704
Pro forma net income	\$ 16,980
Pro forma basic earnings per common share	\$ 0.41