TYSON FOODS INC
Form 10-Q
February 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 30, 2017
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
001-14704
(Commission File Number)

TYSON FOODS, INC.
(Exact name of registrant as specified in its charter)

Delaware	71-0225165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 West Don Tyson Parkway, Springdale, Arkansas	72762-6999
(Address of principal executive offices)	(Zip Code)

(479) 290-4000
(Registrant's telephone number, including area code)

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 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, smaller reporting company or an emerging growth company. See 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	x	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 x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 30, 2017.

Class	Outstanding Shares
Class A Common Stock, $0.10 Par Value (Class A stock)	297,503,193
Class B Common Stock, $0.10 Par Value (Class B stock)	70,010,355

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Sales	$10,229	$ 9,182
Cost of Sales	8,778	7,699
Gross Profit	1,451	1,483
Selling, General and Administrative	524	501
Operating Income	927	982
Other (Income) Expense:		
Interest income	(2)	(2)
Interest expense	88	58
Other, net	(1)	14
Total Other (Income) Expense	85	70
Income before Income Taxes	842	912
Income Tax Expense (Benefit)	(790)	318
Net Income	1,632	594
Less: Net Income Attributable to Noncontrolling Interests	1	1
Net Income Attributable to Tyson	$1,631	$ 593
Weighted Average Shares Outstanding:		
Class A Basic	296	297
Class B Basic	70	70
Diluted	371	373
Net Income Per Share Attributable to Tyson:		
Class A Basic	$4.54	$ 1.64
Class B Basic	$4.09	$ 1.49
Diluted	$4.40	$ 1.59
Dividends Declared Per Share:		
Class A	$0.375	$ 0.300
Class B	$0.338	$ 0.270

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Net Income	$1,632	$ 594
Other Comprehensive Income (Loss), Net of Taxes:		
Derivatives accounted for as cash flow hedges	(1)	3
Investments	—	(1)
Currency translation	1	(14)
Postretirement benefits	2	(3)
Total Other Comprehensive Income (Loss), Net of Taxes	2	(15)
Comprehensive Income	1,634	579
Less: Comprehensive Income Attributable to Noncontrolling Interests	1	1
Comprehensive Income Attributable to Tyson	$1,633	$ 578

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions, except share and per share data)
(Unaudited)

	December 30, 2017	September 30, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 293	$ 318
Accounts receivable, net	1,600	1,675
Inventories	3,213	3,239
Other current assets	172	219
Assets held for sale	715	807
Total Current Assets	5,993	6,258
Net Property, Plant and Equipment	5,673	5,568
Goodwill	9,404	9,324
Intangible Assets, net	6,282	6,243
Other Assets	694	673
Total Assets	$ 28,046	$ 28,066
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Current debt	$ 811	$ 906
Accounts payable	1,748	1,698
Other current liabilities	1,413	1,424
Liabilities held for sale	6	4
Total Current Liabilities	3,978	4,032
Long-Term Debt	8,875	9,297
Deferred Income Taxes	2,013	2,979
Other Liabilities	1,206	1,199
Commitments and Contingencies (Note 17)		
Shareholders’ Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 378 million shares	38	38
Convertible Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	4,346	4,378
Retained earnings	11,272	9,776
Accumulated other comprehensive gain	18	16
Treasury stock, at cost – 80 million shares at December 30, 2017 and September 30, 2017	(3,726)	(3,674)
Total Tyson Shareholders’ Equity	11,955	10,541
Noncontrolling Interests	19	18
Total Shareholders’ Equity	11,974	10,559
Total Liabilities and Shareholders’ Equity	$ 28,046	$ 28,066

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Cash Flows From Operating Activities:		
Net income	$1,632	$ 594
Depreciation and amortization	229	177
Deferred income taxes	(967)	(4)
Other, net	29	7
Net changes in operating assets and liabilities	203	360
Cash Provided by Operating Activities	1,126	1,134
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(296)	(200)
Purchases of marketable securities	(12)	(15)
Proceeds from sale of marketable securities	9	13
Acquisition, net of cash acquired	(226)	—
Proceeds from sale of business	125	—
Other, net	(22)	(12)
Cash Used for Investing Activities	(422)	(214)
Cash Flows From Financing Activities:		
Payments on debt	(429)	(20)
Borrowings on revolving credit facility	655	435
Payments on revolving credit facility	(650)	(735)
Proceeds from issuance of commercial paper	5,728	—
Repayments of commercial paper	(5,824)	—
Purchases of Tyson Class A common stock	(164)	(576)
Dividends	(108)	(79)
Stock options exercised	63	6
Other, net	—	12
Cash Used for Financing Activities	(729)	(957)
Effect of Exchange Rate Changes on Cash	—	(5)
Decrease in Cash and Cash Equivalents	(25)	(42)
Cash and Cash Equivalents at Beginning of Year	318	349
Cash and Cash Equivalents at End of Period	$293	$ 307

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: ACCOUNTING POLICIES

Basis of Presentation

The consolidated condensed financial statements are unaudited and have been prepared by Tyson Foods, Inc. (“Tyson,” “the Company,” “we,” “us” or “our”). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations of the United States Securities and Exchange Commission. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of December 30, 2017, and the results of operations for the three months ended December 30, 2017, and December 31, 2016. Results of operations and cash flows for the periods presented are not necessarily indicative of results to be expected for the full year.

Consolidation

The consolidated condensed financial statements include the accounts of all wholly-owned subsidiaries, as well as majority-owned subsidiaries over which we exercise control and, when applicable, entities for which we have a controlling financial interest or variable interest entities for which we are the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued guidance that eases certain documentation and assessment requirements of hedge effectiveness and modifies the accounting for components excluded from the assessment. Some of the modifications include the ineffectiveness of derivative gain/loss in highly effective cash flow hedge to be recorded in Other Comprehensive Income, the change in fair value of derivative to be recorded in the same income statement line as the hedged item, and additional disclosures required on the cumulative basis adjustment in fair value hedges and the effect of hedging on financial statement lines for components excluded from the assessment. The amendment also simplifies the application of hedge accounting in certain situations to permit new hedging strategies to be eligible for hedge accounting. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2018, our fiscal 2020. Early adoption is permitted and the modified retrospective transition method should be applied. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2017, the FASB issued guidance that clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted and the prospective transition method should be applied to awards modified on or after the adoption date. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2017, the FASB issued guidance which shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2018, our fiscal 2020. Early adoption is permitted and the modified retrospective transition method should be applied. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2017, the FASB issued guidance which will change the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Service cost will be included within the same income statement line item as other compensation costs arising from services rendered during the period, while other components of net periodic benefit pension cost will be presented separately outside of operating income. Additionally, only the service cost component will be eligible for capitalization when applicable. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted and the retrospective transition method should be applied for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and the prospective transition method should be applied, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. We plan to adopt this guidance beginning in the first quarter of fiscal 2019. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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In November 2016, the FASB issued guidance which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted and the retrospective transition method should be applied. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In October 2016, the FASB issued guidance which requires companies to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted and the modified retrospective transition method should be applied. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In August 2016, the FASB issued guidance which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted and the retrospective transition method should be applied. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued guidance that provides more decision-useful information about the expected credit losses on financial instruments and changes the loss impairment methodology. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2019, our fiscal 2021. Early adoption is permitted for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2018, our fiscal 2020. The application of the guidance requires various transition methods depending on the specific amendment. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued guidance which created new accounting and reporting guidelines for leasing arrangements. The guidance requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses and cash flows arising from a lease will depend on classification as a finance or operating lease. The guidance also requires qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2018, our fiscal 2020. Early adoption is permitted and the modified retrospective method should be applied. While we are still evaluating the impact this guidance will have on our consolidated financial statements and related disclosures, we have completed our initial scoping reviews and have made progress in our assessment phase as we continue to identify our leasing processes that will be impacted by the new standard. We have also made progress in developing the policy elections we will make upon adoption and we are implementing software to meet the reporting requirements of this standard. We expect our financial statement disclosures will be expanded to present additional details of our leasing arrangements. At this time, we are unable to reasonably estimate the expected increase in assets and liabilities on our consolidated balance sheets or the impacts to our consolidated financial statements upon adoption.

In January 2016, the FASB issued guidance that requires most equity investments be measured at fair value, with subsequent other changes in fair value recognized in net income. The guidance also impacts financial liabilities under the fair value option and the presentation and disclosure requirements on the classification and measurement of financial instruments. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. It should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, unless equity securities do not have readily determinable fair values, in which case the amendments should be applied prospectively. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue. The guidance provides for a single five-step model to be applied to all revenue contracts with customers. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. This guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted for fiscal years beginning after December 15, 2016, our fiscal 2018. We plan to adopt this guidance using the modified retrospective transition method beginning in the first quarter of fiscal 2019. We continue to evaluate the impact of the adoption of this guidance, but currently, we do not expect the new guidance to materially impact our consolidated financial statements other than additional disclosure requirements.

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Changes in Accounting Principles

In March 2016, the FASB issued guidance which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows and impact on earnings per share. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. We adopted this guidance in the first quarter of fiscal 2018. The guidance requires all income tax effects of share-based payment awards to be recognized in the consolidated statements of income when the awards vest or are settled, which is a change from the current guidance that requires such activity to be recorded in capital in excess of par value within stockholders' equity. We adopted this guidance prospectively which may create volatility in our effective tax rate when adopted depending largely on future events and other factors which may include our stock price, timing of stock option exercises, and the value realized upon vesting or exercise of shares compared to the grant date fair value of those shares. For the three months ended December 30, 2017, the recorded tax benefit was not material. In addition, when calculating potential common shares used to determine diluted earnings per share this guidance requires that assumed proceeds under the treasury stock method be modified to exclude the amount of excess tax benefits that would have been recognized in additional paid-in capital. These changes were applied on a prospective basis which did not have a material impact to diluted earnings per share for the three months ended December 30, 2017. Under the new guidance, companies can also make an accounting policy election to either estimate forfeitures each period or to account for forfeitures as they occur. We changed our accounting policy to account for forfeitures as they occur using the modified retrospective transition method which did not have a material impact on our consolidated financial statements. The guidance changes the presentation of excess tax benefits from a financing activity to an operating activity in the consolidated statements of cash flows. We applied this change prospectively, and thus, prior periods have not been adjusted. This guidance also requires the presentation related to cash paid to a taxing authority when shares are withheld to satisfy the statutory income tax withholding obligation to a financing activity in the consolidated statements of cash flows. The adoption of this standard did not have a material impact on our consolidated statements of cash flows.

In July 2015, the FASB issued guidance which requires management to evaluate inventory at the lower of cost and net realizable value. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. The prospective transition method was applied. We adopted this guidance in the first quarter of fiscal 2018 and it did not have a material impact on our consolidated financial statements.

NOTE 2: ACQUISITIONS AND DISPOSITIONS

Acquisitions

On November 10, 2017, we acquired a value-added protein business for $226 million, net of cash acquired, as part of our strategic expansion initiative. Its results, subsequent to the acquisition closing, are included in our Prepared Foods and Chicken segments. The preliminary purchase price allocation included $21 million of net working capital, including $10 million of cash acquired, $13 million of Property, Plant and Equipment, $90 million of Intangible Assets and $112 million of Goodwill. All of the goodwill acquired is deductible for tax purposes. Certain estimated values for the acquisition, including goodwill, intangible assets, and property, plant and equipment, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed.

On June 7, 2017, we acquired all of the outstanding common stock of AdvancePierre Foods Holdings, Inc. ("AdvancePierre") as part of our strategy to sustainably feed the world with the fastest growing portfolio of protein brands. The purchase price was equal to $40.25 per share for AdvancePierre's outstanding common stock, or approximately $3.2 billion. We funded the acquisition with existing cash on hand, net proceeds from the issuance of new senior notes and a new term loan facility, as well as borrowings under our commercial paper program. AdvancePierre's results from operations subsequent to the acquisition closing are included in the Prepared Foods and Chicken segments.

The following table summarizes the purchase price allocation and fair values of the assets acquired and liabilities assumed at the acquisition date of AdvancePierre. Certain estimated values for the acquisition, including goodwill, intangible assets, property, plant and equipment, and deferred income taxes, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed. The purchase price was allocated based on information available at acquisition date. During the first quarter of fiscal 2018, we recorded measurement period adjustments which decreased goodwill by $2 million, primarily related to updated information related to income taxes.

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	in millions
Cash and cash equivalents	$ 126
Accounts receivable	80
Inventories	272
Other current assets	5
Property, Plant and Equipment	302
Goodwill	2,980
Intangible Assets	1,515
Current debt	(1,148)
Accounts payable	(114)
Other current liabilities	(97)
Tax receivable agreement ("TRA") due to former shareholders	(223)
Long-Term Debt	(33)
Deferred Income Taxes	(455)
Other Liabilities	(3)
Net assets acquired	$ 3,207

The fair value of identifiable intangible assets is as follows:

			in millions
Intangible Asset Category	Type	Life in Years	Fair Value
Brands & Trademarks	Amortizable	Weighted Average of 15 years	$ 390
Customer Relationships	Amortizable	Weighted Average of 15 years	1,125
Total identifiable intangible assets			$ 1,515

As a result of the acquisition, we recognized a total of $2,980 million of goodwill. The purchase price was assigned to assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition, and any excess was allocat