

PUBLIX SUPER MARKETS INC
Form 10-Q
August 01, 2016

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 June 25, 2016
Commission File Number 0-00981

PUBLIX SUPER MARKETS, INC.
(Exact name of Registrant as specified in its charter)
Florida 59-0324412
(State of incorporation) (I.R.S. Employer Identification No.)

3300 Publix Corporate Parkway 33811
Lakeland, Florida
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (863) 688-1188

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 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 during the preceding 12 months.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the Registrant's common stock outstanding as of July 15, 2016 was 769,636,000.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PUBLIX SUPER MARKETS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts are in thousands, except par value)

	June 25, 2016 (Unaudited)	December 26, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$304,762	352,176
Short-term investments	1,464,791	1,376,698
Trade receivables	611,515	723,685
Merchandise inventories	1,644,634	1,740,513
Deferred tax assets	57,580	51,216
Prepaid expenses	62,555	70,145
Total current assets	4,145,837	4,314,433
Long-term investments	5,532,326	5,226,236
Other noncurrent assets	409,071	431,311
Property, plant and equipment	11,394,807	10,712,312
Accumulated depreciation	(4,541,729)	(4,325,014)
Net property, plant and equipment	6,853,078	6,387,298
	\$16,940,312	16,359,278
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$1,505,544	1,675,858
Accrued expenses:		
Contributions to retirement plans	362,349	513,072
Self-insurance reserves	135,405	135,865
Salaries and wages	220,181	131,253
Other	386,471	380,314
Current portion of long-term debt	70,302	56,693
Federal and state income taxes	15,957	9,634
Total current liabilities	2,696,209	2,902,689
Deferred tax liabilities	464,100	425,132
Self-insurance reserves	213,920	214,474
Accrued postretirement benefit cost	101,455	101,725
Long-term debt	169,514	179,753
Other noncurrent liabilities	98,261	104,243
Total liabilities	3,743,459	3,928,016
Common stock related to Employee Stock Ownership Plan (ESOP)	3,217,495	2,953,878
Stockholders' equity:		
Common stock of \$1 par value. Authorized 1,000,000 shares; issued 776,025 shares in 2016 and 770,175 shares in 2015	776,025	770,175
Additional paid-in capital	2,823,792	2,556,391
Retained earnings	9,775,500	9,041,497
Treasury stock at cost, 6,065 shares in 2016	(269,950)	—
Accumulated other comprehensive earnings	54,798	26,268
Common stock related to ESOP	(3,217,495)	(2,953,878)

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Total stockholders' equity	9,942,670	9,440,453
Noncontrolling interests	36,688	36,931
Total equity	13,196,853	12,431,262
	\$16,940,312	16,359,278

See accompanying notes to condensed consolidated financial statements.

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PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (Amounts are in thousands, except per share amounts)

	Three Months Ended	
	June 25, 2016	June 27, 2015
	(Unaudited)	
Revenues:		
Sales	\$8,125,216	7,955,474
Other operating income	65,321	62,557
Total revenues	8,190,537	8,018,031
Costs and expenses:		
Cost of merchandise sold	5,881,473	5,722,339
Operating and administrative expenses	1,649,713	1,627,252
Total costs and expenses	7,531,186	7,349,591
Operating profit	659,351	668,440
Investment income	25,391	45,404
Other nonoperating income, net	14,328	8,932
Earnings before income tax expense	699,070	722,776
Income tax expense	220,883	240,035
Net earnings	\$478,187	482,741
Weighted average shares outstanding	772,368	776,730
Basic and diluted earnings per share	\$0.62	0.62
Dividends paid per common share	\$0.2225	0.39

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
 (Amounts are in thousands)

	Three Months Ended	
	June 25, 2016	June 27, 2015
	(Unaudited)	
Net earnings	\$478,187	482,741
Other comprehensive earnings:		
Unrealized gain (loss) on available-for-sale (AFS) securities net of income taxes of \$13,722 and \$(444) in 2016 and 2015, respectively	21,791	(705)
Reclassification adjustment for net realized gain on AFS securities net of income taxes of \$(460) and \$(8,837) in 2016 and 2015, respectively	(731)	(14,032)
Adjustment to postretirement benefit plan obligation net of income taxes of \$92 in 2015	—	145
Comprehensive earnings	\$499,247	468,149

See accompanying notes to condensed consolidated financial statements.

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PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (Amounts are in thousands, except per share amounts)

	Six Months Ended	
	June 25, 2016	June 27, 2015
	(Unaudited)	
Revenues:		
Sales	\$16,847,406	16,304,791
Other operating income	133,692	125,985
Total revenues	16,981,098	16,430,776
Costs and expenses:		
Cost of merchandise sold	12,152,596	11,723,570
Operating and administrative expenses	3,342,364	3,264,972
Total costs and expenses	15,494,960	14,988,542
Operating profit	1,486,138	1,442,234
Investment income	53,222	81,167
Other nonoperating income, net	26,016	16,582
Earnings before income tax expense	1,565,376	1,539,983
Income tax expense	505,300	508,324
Net earnings	\$1,060,076	1,031,659
Weighted average shares outstanding	771,572	776,014
Basic and diluted earnings per share	\$1.37	1.33
Dividends paid per common share	\$0.4225	0.39

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
 (Amounts are in thousands)

	Six Months Ended	
	June 25, 2016	June 27, 2015
	(Unaudited)	
Net earnings	\$1,060,076	1,031,659
Other comprehensive earnings:		
Unrealized gain (loss) on AFS securities net of income taxes of \$20,627 and \$(2,466) in 2016 and 2015, respectively	32,756	(3,917)
Reclassification adjustment for net realized gain on AFS securities net of income taxes of \$(2,661) and \$(14,778) in 2016 and 2015, respectively	(4,226)	(23,465)
Adjustment to postretirement benefit plan obligation net of income taxes of \$183 in 2015	—	290
Comprehensive earnings	\$1,088,606	1,004,567

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts are in thousands)

	Six Months Ended	
	June 25, 2016	June 27, 2015
	(Unaudited)	
Cash flows from operating activities:		
Cash received from customers	\$ 16,999,076	16,321,489
Cash paid to employees and suppliers	(14,810,898)	(14,284,168)
Income taxes paid	(442,064)	(436,729)
Self-insured claims paid	(157,882)	(140,840)
Dividends and interest received	118,375	106,524
Other operating cash receipts	130,816	122,676
Other operating cash payments	(22,000)	(10,524)
Net cash provided by operating activities	1,815,423	1,678,428
Cash flows from investing activities:		
Payment for capital expenditures	(730,736)	(504,936)
Proceeds from sale of property, plant and equipment	3,121	2,231
Payment for investments	(1,112,111)	(1,336,122)
Proceeds from sale and maturity of investments	674,239	675,223
Net cash used in investing activities	(1,165,487)	(1,163,604)
Cash flows from financing activities:		
Payment for acquisition of common stock	(523,401)	(481,950)
Proceeds from sale of common stock	172,488	160,233
Dividends paid	(326,073)	(303,354)
Repayment of long-term debt	(20,121)	(23,262)
Other, net	(243)	3,260
Net cash used in financing activities	(697,350)	(645,073)
Net decrease in cash and cash equivalents	(47,414)	(130,249)
Cash and cash equivalents at beginning of period	352,176	407,493
Cash and cash equivalents at end of period	\$ 304,762	277,244

See accompanying notes to condensed consolidated financial statements. (Continued)

PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Amounts are in thousands)

	Six Months Ended	
	June 25, 2016	June 27, 2015
	(Unaudited)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	\$1,060,076	1,031,659
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	307,667	269,766
Increase in LIFO reserve	11,704	19,936
Retirement contributions paid or payable in common stock	202,316	202,559
Deferred income taxes	14,638	(27,966)
Loss on disposal and impairment of property, plant and equipment	2,472	19,650
Gain on AFS securities	(6,887)	(38,243)
Net amortization of investments	71,371	67,874
Changes in operating assets and liabilities providing (requiring) cash:		
Trade receivables	112,297	(15,671)
Merchandise inventories	84,175	48,443
Prepaid expenses and other noncurrent assets	(6,277)	(15,311)
Accounts payable and accrued expenses	(49,528)	27,723
Self-insurance reserves	(1,014)	1,867
Federal and state income taxes	17,764	90,553
Other noncurrent liabilities	(5,351)	(4,411)
Total adjustments	755,347	646,769
Net cash provided by operating activities	\$1,815,423	1,678,428

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1)Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Publix Super Markets, Inc. and subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, the accompanying statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments that are of a normal and recurring nature necessary to present fairly the Company's financial position and results of operations. Due to the seasonal nature of the Company's business, the results of operations for the three and six months ended June 25, 2016 are not necessarily indicative of the results for the entire 2016 fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 26, 2015. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2)Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) requiring companies to change the methodology used to measure credit losses on financial instruments. The ASU is effective for reporting periods beginning after December 15, 2019 with early adoption permitted only for reporting periods beginning after December 15, 2018. The Company does not expect the adoption of the ASU to have a material effect on the Company's financial condition or results of operations. The adoption of the ASU will have no effect on the Company's cash flows.

In February 2016, the FASB issued an ASU on lease accounting. The ASU requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The ASU is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. While the Company is still evaluating the ASU, the Company expects the adoption of the ASU to have a material effect on the Company's financial condition due to the recognition of the lease rights and obligations as assets and liabilities on the Consolidated Balance Sheets. The Company does not expect the adoption of the ASU to have a material effect on the Company's results of operations. The adoption of the ASU will have no effect on the Company's cash flows.

In January 2016, the FASB issued an ASU requiring companies to measure equity securities at fair value with changes in fair value recognized in net earnings as opposed to other comprehensive earnings. The ASU is effective for reporting periods beginning after December 15, 2017. The adoption of the ASU will have an effect on the Company's results of operations. The extent of the effect on results of operations will vary with the changes in the fair value of equity securities. The adoption of the ASU will have no effect on the Company's financial condition or cash flows.

In November 2015, the FASB issued an ASU requiring companies to classify deferred tax assets and liabilities in the noncurrent section of the balance sheet. The ASU is effective for reporting periods beginning after December 15, 2016 with early adoption permitted. The adoption of the ASU will not have a material effect on the Company's financial condition and will have no effect on the Company's results of operations or cash flows.

In May 2014, the FASB issued an ASU on the recognition of revenue from contracts with customers. The ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The ASU is effective for reporting periods beginning after December 15, 2017 with early adoption permitted only for reporting periods beginning after December 15, 2016. The Company does not expect the adoption of the ASU to have a material effect on the Company's financial condition, results of operations or cash

flows.

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PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(3) Fair Value of Financial Instruments

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, trade receivables and accounts payable, approximates their respective carrying amounts due to their short-term maturity.

The fair value of available-for-sale (AFS) securities is based on market prices using the following measurement categories:

Level 1 – Fair value is determined by using quoted prices in active markets for identical investments. AFS securities that are included in this category are primarily mutual funds, exchange traded funds and equity securities.

Level 2 – Fair value is determined by using other than quoted prices. By using observable inputs (for example, benchmark yields, interest rates, reported trades and broker dealer quotes), the fair value is determined through processes such as benchmark curves, benchmarking of like securities and matrix pricing of corporate, state and municipal bonds by using pricing of similar bonds based on coupons, ratings and maturities. AFS securities that are included in this category are primarily debt securities (tax exempt and taxable bonds).

Level 3 – Fair value is determined by using other than observable inputs. Fair value is determined by using the best information available in the circumstances and requires significant management judgment or estimation. No AFS securities are currently included in this category.

Following is a summary of fair value measurements for AFS securities as of June 25, 2016 and December 26, 2015:

	Fair Value	Level 1	Level 2	Level 3
	(Amounts are in thousands)			
June 25, 2016	\$6,997,117	1,122,708	5,874,409	—
December 26, 2015	6,602,934	1,049,791	5,553,143	—

(4) Investments

Debt and equity securities are classified as AFS and are carried at fair value. The Company evaluates whether AFS securities are other-than-temporarily impaired (OTTI) based on criteria that include the extent to which cost exceeds market value, the duration of the market value decline, the credit rating of the issuer or security, the failure of the issuer to make scheduled principal or interest payments and the financial health and prospects of the issuer or security.

Declines in the value of AFS securities determined to be OTTI are recognized in earnings and reported as OTTI losses. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the debt security or if the Company will be required to sell the debt security prior to any anticipated recovery. If the Company determines that a debt security is OTTI under these circumstances, the impairment recognized in earnings is measured as the difference between the amortized cost and the current fair value. A debt security is also determined to be OTTI if the Company does not expect to recover the amortized cost of the debt security. However, in this circumstance, if the Company does not intend to sell the debt security and will not be required to sell the debt security, the impairment recognized in earnings equals the estimated credit loss as measured by the difference between the present value of expected cash flows and the amortized cost of the debt security. Expected cash flows are discounted using the debt security's effective interest rate. An equity security is determined to be OTTI if the Company does not expect to recover the cost of the equity security. Declines in the value of AFS securities determined to be temporary are reported net of income taxes as other comprehensive losses and included as a component of stockholders' equity.

Interest and dividend income, amortization of premiums, accretion of discounts and realized gains and losses on AFS securities are included in investment income. Interest income is accrued as earned. Dividend income is recognized as income on the ex-dividend date of the equity security. The cost of AFS securities sold is based on the first-in, first-out method.

PUBLIX SUPER MARKETS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Following is a summary of AFS securities as of June 25, 2016 and December 26, 2015:

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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(Amounts are in thousands)

June 25, 2016

Tax exempt bonds	\$3,442,442	26,723	
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