

PUBLIX SUPER MARKETS INC
Form 10-Q
November 01, 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 September 29, 2018
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 every Interactive Data File required to be submitted 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, 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

The number of shares of the Registrant's common stock outstanding as of October 15, 2018 was 718,491,000.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PUBLIX SUPER MARKETS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts are in thousands, except par value)

	September 29, 2018 (Unaudited)	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$616,283	579,925
Short-term investments	575,195	915,579
Trade receivables	649,945	671,414
Inventories	1,752,610	1,876,519
Prepaid expenses	49,781	41,484
Total current assets	3,643,814	4,084,921
Long-term investments	6,278,318	5,517,732
Other noncurrent assets	502,556	583,149
Property, plant and equipment	14,089,076	13,085,492
Accumulated depreciation	(5,515,016)	(5,087,788)
Net property, plant and equipment	8,574,060	7,997,704
	\$18,998,748	18,183,506
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$1,754,822	1,754,706
Accrued expenses:		
Contributions to retirement plans	441,513	517,493
Self-insurance reserves	141,882	137,100
Salaries and wages	272,712	124,423
Other	494,300	329,420
Current portion of long-term debt	4,895	37,873
Federal and state income taxes	23,524	241,299
Total current liabilities	3,133,648	3,142,314
Deferred income taxes	399,678	360,952
Self-insurance reserves	224,529	218,598
Accrued postretirement benefit cost	113,661	113,461
Long-term debt	163,928	155,201
Other noncurrent liabilities	71,412	84,361
Total liabilities	4,106,856	4,074,887
Common stock related to Employee Stock Ownership Plan (ESOP)	3,188,497	3,053,138
Stockholders' equity:		
Common stock of \$1 par value. Authorized 1,000,000 shares; issued 740,595 shares in 2018 and 733,440 shares in 2017	740,595	733,440
Additional paid-in capital	3,439,412	3,139,647
Retained earnings	11,669,368	10,044,564
Treasury stock at cost, 22,012 shares in 2018	(921,510)	—
Accumulated other comprehensive (losses) earnings	(72,372)	152,636
Common stock related to ESOP	(3,188,497)	(3,053,138)
Total stockholders' equity	11,666,996	11,017,149

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Noncontrolling interests	36,399	38,332
Total equity	14,891,892	14,108,619
	\$18,998,748	18,183,506

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	
	September 29, 2018	September 30, 2017
	(Unaudited)	
Revenues:		
Sales	\$ 8,788,762	8,520,569
Other operating income	69,339	65,511
Total revenues	8,858,101	8,586,080
Costs and expenses:		
Cost of merchandise sold	6,436,041	6,219,735
Operating and administrative expenses	1,838,908	1,731,551
Total costs and expenses	8,274,949	7,951,286
Operating profit	583,152	634,794
Investment income	230,234	38,430
Other nonoperating income, net	19,051	17,218
Earnings before income tax expense	832,437	690,442
Income tax expense	154,693	215,515
Net earnings	\$ 677,744	474,927
Weighted average shares outstanding	723,236	748,347
Basic and diluted earnings per share	\$ 0.94	0.63
Dividends paid per share	\$ 0.26	0.23

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

	Three Months Ended	
	September 29, 2018	September 30, 2017
	(Unaudited)	
Net earnings	\$ 677,744	474,927
Other comprehensive earnings:		
Unrealized (loss) on debt securities net of income taxes of \$(708) in 2018. Unrealized gain on debt and equity securities net of income taxes of \$30,884 in 2017.	(2,076)	49,043
Reclassification adjustment for net realized gain on debt securities net of income taxes of \$(62) in 2018. Reclassification adjustment for net realized gain on debt and equity securities net of income taxes of \$(3,989) in 2017.	(181)	(6,334)
Adjustment to postretirement benefit obligation net of income taxes of \$192 in 2018.	564	—
Comprehensive earnings	\$ 676,051	517,636

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 29, 2018	September 30, 2017
	(Unaudited)	
Revenues:		
Sales	\$26,814,561	25,620,710
Other operating income	215,350	201,143
Total revenues	27,029,911	25,821,853
Costs and expenses:		
Cost of merchandise sold	19,483,545	18,592,991
Operating and administrative expenses	5,486,465	5,240,753
Total costs and expenses	24,970,010	23,833,744
Operating profit	2,059,901	1,988,109
Investment income	342,687	192,906
Other nonoperating income, net	64,709	49,745
Earnings before income tax expense	2,467,297	2,230,760
Income tax expense	493,110	705,490
Net earnings	\$1,974,187	1,525,270
Weighted average shares outstanding	729,434	759,284
Basic and diluted earnings per share	\$2.71	2.01
Dividends paid per share	\$0.75	0.6825

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

	Nine Months Ended	
	September 29, 2018	September 30, 2017
	(Unaudited)	
Net earnings	\$1,974,187	1,525,270
Other comprehensive earnings:		
Unrealized (loss) on debt securities net of income taxes of \$(9,770) in 2018. Unrealized gain on debt and equity securities net of income taxes of \$70,268 in 2017.	(28,657)	111,585
Reclassification adjustment for net realized loss on debt securities net of income taxes of \$91 in 2018. Reclassification adjustment for net realized (gain) on debt and equity securities net of income taxes of \$(40,526) in 2017.	266	(64,355)
Adjustment to postretirement benefit obligation net of income taxes of \$577 in 2018.	1,693	—
Comprehensive earnings	\$1,947,489	1,572,500

See accompanying notes to condensed consolidated financial statements.

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

(Amounts are in thousands)

	Nine Months Ended	
	September 29, 2018	September 30, 2017
	(Unaudited)	
Cash flows from operating activities:		
Cash received from customers	\$26,976,556	25,786,802
Cash paid to employees and suppliers	(23,613,609)	(22,593,366)
Income taxes paid	(548,092)	(478,456)
Self-insured claims paid	(292,064)	(270,036)
Dividends and interest received	140,673	185,542
Other operating cash receipts	211,856	197,277
Other operating cash payments	(12,329)	(14,748)
Net cash provided by operating activities	2,862,991	2,813,015
Cash flows from investing activities:		
Payment for capital expenditures	(1,098,845)	(1,063,152)
Proceeds from sale of property, plant and equipment	9,408	4,460
Payment for investments	(1,941,469)	(2,353,947)
Proceeds from sale and maturity of investments	1,752,100	2,593,592
Net cash used in investing activities	(1,278,806)	(819,047)
Cash flows from financing activities:		
Payment for acquisition of common stock	(1,192,046)	(1,438,628)
Proceeds from sale of common stock	228,032	215,424
Dividends paid	(547,693)	(519,787)
Repayment of long-term debt	(42,253)	(46,019)
Other, net	6,133	27,418
Net cash used in financing activities	(1,547,827)	(1,761,592)
Net increase in cash and cash equivalents	36,358	232,376
Cash and cash equivalents at beginning of period	579,925	438,319
Cash and cash equivalents at end of period	\$616,283	670,695

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

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

	Nine Months Ended	
	September 29, 2018	September 30, 2017
	(Unaudited)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	\$1,974,187	1,525,270
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	501,098	484,307
Increase in last-in, first out (LIFO) reserve	22,926	20,720
Retirement contributions paid or payable in common stock	273,950	280,571
Deferred income taxes	47,828	36,311
Loss on disposal and impairment of property, plant and equipment	10,612	1,991
Gain on investments	(249,808)	(104,881)
Net amortization of investments	50,357	87,982
Changes in operating assets and liabilities providing (requiring) cash:		
Trade receivables	21,566	67,952
Inventories	100,983	(4,632)
Prepaid expenses and other noncurrent assets	64,758	(5,410)
Accounts payable and accrued expenses	262,581	264,196
Self-insurance reserves	10,713	1,692
Federal and state income taxes	(217,775)	162,748
Other noncurrent liabilities	(10,985)	(5,802)
Total adjustments	888,804	1,287,745
Net cash provided by operating activities	\$2,862,991	2,813,015

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 (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 nine months ended September 29, 2018 are not necessarily indicative of the results for the entire 2018 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 30, 2017.

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 requiring the lease rights and obligations arising from lease contracts, including existing and new arrangements, 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 approximately \$3 billion of 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 equity securities be measured at fair value with net unrealized gains and losses from changes in the fair value recognized in earnings. The ASU is effective for reporting periods beginning after December 15, 2017. In 2018, the Company prospectively adopted the ASU and reclassified the cumulative effect of the net unrealized gain on equity securities net of income taxes as of December 31, 2017 of \$198,310,000 from accumulated other comprehensive earnings to retained earnings. The effect of the ASU on results of operations will vary with changes in the fair value of equity securities.

In May 2014, the FASB issued an ASU requiring additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for reporting periods beginning after December 15, 2017. In 2018, the Company adopted the ASU on a modified retrospective basis. The adoption of the ASU did not have a material effect on the Company's financial condition, results of operations or cash flows.

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 investments 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. Investments included in this category are equity securities (exchange traded funds and individual equity securities) and a restricted investment held as collateral (money market/mutual fund), collectively referred to as 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. Investments 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 investments are currently included in this category.

Following is a summary of fair value measurements for investments as of September 29, 2018 and December 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
	(Amounts are in thousands)			
September 29, 2018	\$6,853,513	2,983,110	3,870,403	—
December 30, 2017	6,433,311	2,545,320	3,887,991	—

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(4) Investments

(a) Debt Securities

Debt securities are classified as available-for-sale and carried at fair value. The Company evaluates whether debt securities are other-than-temporarily impaired (OTTI) based on criteria that include the extent to which the cost (cost of the debt security adjusted for amortization of premium or accretion of discount) 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 fair value of debt 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 cost and the fair value. A debt security is also determined to be OTTI if the Company does not expect to recover the 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 cost of the debt security. Expected cash flows are discounted using the debt security's effective interest rate. Changes in the fair value of debt securities determined to be temporary are reported in other comprehensive earnings net of income taxes and included as a component of stockholders' equity.

Following is a summary of debt securities as of September 29, 2018 and December 30, 2017:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Amounts are in thousands)				
September 29, 2018				
Tax exempt bonds	\$1,340,795	110	20,347	1,320,558
Taxable bonds	2,406,444	340	58,739	2,348,045
	\$3,747,239	450	79,086	3,668,603
December 30, 2017				
Tax exempt bonds	\$1,811,523	602	16,420	1,795,705
Taxable bonds	2,115,174	695	25,443	2,090,426
	\$3,926,697	1,297	41,863	3,886,131

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

The cost and fair value of debt securities by expected maturity as of September 29, 2018 and December 30, 2017 are as follows:

	September 29, 2018		December 30, 2017	
	Cost	Fair Value	Cost	Fair Value
	(Amounts are in thousands)			
Due in one year or less	\$577,480	575,195	917,576	915,579
Due after one year through five years	2,713,698	2,640,263	2,794,099	2,757,504
Due after five years through ten years	448,838	445,862	205,792	203,533
Due after ten years	7,223	7,283	9,230	9,515
	\$3,747,239	3,668,603	3,926,697	3,886,131

Following is a summary of temporarily impaired debt securities by the time period impaired as of September 29, 2018 and December 30, 2017:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Amounts are in thousands)					
September 29, 2018						
Tax exempt bonds	\$775,195	8,384	537,591	11,963	1,312,786	20,347
Taxable bonds	1,214,748	20,329	1,017,301	38,410	2,232,049	58,739
	\$1,989,943	28,713	1,554,892	50,373	3,544,835	79,086
December 30, 2017						
Tax exempt bonds	\$1,543,151	13,827	136,217	2,593	1,679,368	16,420
Taxable bonds	811,886	4,908	1,153,645	20,535	1,965,531	25,443
	\$2,355,037	18,735	1,289,862	23,128	3,644,899	41,863

There are 436 debt securities contributing to the total unrealized losses of \$79,086,000 as of September 29, 2018. Unrealized losses related to debt securities are primarily due to increases in interest rates impacting the market value of certain bonds. The Company continues to receive scheduled principal and interest payments on these debt securities.

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(b) Equity Securities

In 2018, the Company adopted the ASU requiring equity securities be measured at fair value with net unrealized gains and losses from changes in the fair value recognized in earnings (fair value adjustment). The fair value adjustment also includes the cumulative effect of the ASU as of December 31, 2017 reclassified from accumulated other comprehensive earnings to retained earnings.

Prior to adoption of the ASU, changes in the fair value of equity securities were accounted for similar to changes in the fair value of debt securities. Equity securities were classified as available-for-sale and carried at fair value.

Declines in the fair value of equity securities determined to be OTTI were recognized in earnings and reported as OTTI losses. An equity security was determined to be OTTI if the Company did not expect to recover the cost of the equity security. Changes in the fair value of equity securities determined to be temporary were reported in other comprehensive earnings net of income taxes and included as a component of stockholders' equity.

Following is a summary of the fair value of equity securities as of September 29, 2018 and December 30, 2017:

	September 29, 2018	December 30, 2017
	(Amounts are in thousands)	
Equity securities	\$3,023,603	2,383,095
Restricted investment	161,307	164,085
	\$3,184,910	2,547,180

The Company maintains a restricted investment for the benefit of the Company's insurance carrier related to self-insurance reserves. This investment is held as collateral and is not used for self-insured claims payments.

(c) Investment Income

Interest and dividend income, amortization of premiums, accretion of discounts and realized gains and losses on the sale of debt and equity securities are included in investment income. Interest income is accrued as earned. Dividend income is recognized as income on the ex-dividend date. The cost of debt and equity securities sold is based on the first-in, first-out method. With the adoption of the ASU, the fair value adjustment on equity securities held as of September 29, 2018 is also included in investment income.

In the following table, net realized gain on the sale of investments represents the difference between the cost and the proceeds from the sale of debt and equity securities. For the three and nine months ended September 29, 2018, the net realized gain on the sale of investments excludes the net gain on the sale of equity securities previously recognized through the fair value adjustment, which is presented separately.

Following is a summary of investment income for the three and nine months ended September 29, 2018 and September 30, 2017:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(Amounts are in thousands)			
Interest income	\$21,822	16,984	60,077	59,031
Dividend income	10,904	11,123	32,802	28,994
Net realized gain on sale of investments	69,251	10,323	92,918	104,881
	101,977	38,430	185,797	