SMITHFIELD FOODS INC
Form 10-Q
December 09, 2004
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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 October 31, 2004

COMMISSION FILE NUMBER

1-15321

SMITHFIELD FOODS, INC.

200 Commerce Street

Smithfield, Virginia 23430

(757) 365-3000

Virginia	**52-0845861**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

At November 30, 2004, 110,993,459 shares of the Registrant s Common Stock ($.50 per value per share) were outstanding.

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SMITHFIELD FOODS, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SMITHFIELD FOODS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in millions, except per share data)

	13 Weeks Ended		26 Weeks Ended	
	October 31, 2004	October 26, 2003	October 31, 2004	October 26, 2003
		(Unaudited)		
Sales	$ 2,719.1	$ 2,059.7	$ 5,370.8	$ 4,041.3
Cost of sales	2,440.4	1,857.5	4,834.1	3,663.2
Gross profit	278.7	202.2	536.7	378.1
Selling, general and administrative expenses	159.0	128.0	306.2	250.0
Interest expense	32.5	25.7	60.1	53.2
Income from continuing operations before income taxes	87.2	48.5	170.4	74.9
Income taxes	28.8	16.6	57.1	25.4
Income from continuing operations	58.4	31.9	113.3	49.5
Income from discontinued operations, net of tax		4.3		8.8
Net income	$ 58.4	$ 36.2	$ 113.3	$ 58.3
Income per share:				
Basic:				
Continuing operations	$ .53	$ .29	$ 1.02	$ .45
Discontinued operations		.04		.08
Net income	$ .53	$ .33	$ 1.02	$ .53
Diluted:				
Continuing operations	$ .52	$ .29	$ 1.01	$ .44
Discontinued operations		.04		.08
Net income	$ .52	$ .33	$ 1.01	$ .52
Weighted average shares:				
Weighted average basic shares	111.1	109.9	111.1	109.7
Effect of dilutive stock options	1.0	1.4	1.1	1.6

Weighted average diluted shares	112.1	111.3	112.2	111.3

See Notes to Consolidated Condensed Financial Statements

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CONSOLIDATED CONDENSED BALANCE SHEETS

(in millions, except share data)

	October 31, 2004	May 2, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89.3	$ 74.3
Accounts receivable, net	651.0	498.2
Inventories	1,508.9	1,328.8
Prepaid expenses and other current assets	117.4	122.3
Total current assets	2,366.6	2,023.6
Property, plant and equipment	2,875.1	2,700.9
Accumulated depreciation	(1,038.8)	(939.9)
Property, plant and equipment, net	1,836.3	1,761.0
Goodwill	548.8	499.8
Investments	263.8	194.7
Other long-term assets	298.0	306.5
Total assets	$ 5,313.5	$ 4,785.6
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 42.6	$ 26.7
Current portion of long-term debt and capital lease obligations	81.6	78.0
Accounts payable	543.1	461.0
Accrued expenses and other current liabilities	378.7	401.3
Total current liabilities	1,046.0	967.0
Long-term debt and capital lease obligations	2,055.8	1,696.8
Other long-term liabilities	504.2	509.7
Total liabilities	3,606.0	3,173.5
Minority interests	21.2	13.2
Shareholders equity:		
Preferred stock, $1.00 par value, 1,000,000 authorized shares		
Common stock, $.50 par value, 200,000,000 authorized shares; 110,993,459 and 110,978,291 issued and outstanding	55.5	55.5
Additional paid-in capital	494.5	494.5
Retained earnings	1,202.4	1,089.1
Accumulated other comprehensive loss	(66.1)	(40.2)

Total shareholders equity	1,686.3	1,598.9
Total liabilities and shareholders equity	$ 5,313.5	$ 4,785.6

See Notes to Consolidated Condensed Financial Statements

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in millions)

	26 Weeks Ended	
	October 31, 2004	October 26, 2003
	(Unaudited)	
Cash flows from operating activities:		
Income from continuing operations	$ 113.3	$ 49.5
Adjustments to reconcile net cash flows from operating activities:		
Depreciation and amortization	96.0	79.5
Changes in operating assets and liabilities and other, net of effect of acquisitions and discontinued operations	(285.8)	(113.3)
Net cash flows from operating activities	(76.5)	15.7
Cash flows from investing activities:		
Capital expenditures, net of proceeds from disposals	(84.0)	(66.1)
Business acquisitions, net of cash	(112.4)	(82.6)
Restricted cash and acquisition deposit		(330.5)
Other investments	(49.7)	(20.4)
Net cash flows from investing activities	(246.1)	(499.6)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt and bridge loan	446.5	673.5
Net (repayments) borrowings on revolving credit facility	(86.0)	(135.0)
Principal payments on long-term debt and capital lease obligations	(17.9)	(61.4)
Other	(6.3)	14.9
Net cash flows from financing activities	336.3	492.0
Effect of foreign exchange rate changes on cash	1.3	(0.4)
Net change in cash and cash equivalents	15.0	7.7
Cash and cash equivalents at beginning of period	74.3	64.8
Cash and cash equivalents at end of period	$ 89.3	$ 72.5

See Notes to Consolidated Condensed Financial Statements

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SMITHFIELD FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1: General

Smithfield Foods, Inc., together with its subsidiaries (the Company), is the largest hog producer and pork processor in the world and the fifth largest beef processor in the United States (U.S.). The Company conducts its business through four reporting segments, Pork, Beef, Hog Production and Other, each of which is comprised of a number of subsidiaries.

These statements should be read in conjunction with the Consolidated Financial Statements and related notes, which are included in the Company s Annual Report on Form 10-K for the fiscal year ended May 2, 2004. The interim consolidated condensed financial information furnished herein is unaudited. The information reflects all adjustments (which include only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods included in the report.

Certain prior year amounts have been reclassified to conform to current year presentations.

Note 2: Acquisitions

In October of fiscal 2005, the Company acquired MF Cattle Feeding, Inc. (MFI) from ConAgra Foods, Inc. (ConAgra) for approximately $56.6 million. The principal assets of MFI are three cattle feedlots in Colorado and one in Idaho. The one-time feeding capacity of the feedlots, which will be operated by the Beef segment, is 357,000 head. The acquired assets did not include any of the cattle owned by ConAgra located on the feedlots at closing. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totalling $18.7 million.

In July of fiscal 2005, the Company acquired Jean Caby S.A. (Jean Caby) and related companies for approximately $33.6 million plus the assumption of certain liabilities. Jean Caby, established in France in 1919, produces and markets cured and cooked processed meats including deli cooked hams, dry sausages, cocktail sausages and hot dogs. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling $13.7 million.

In March of fiscal 2004, the Company acquired a 70% stake in Agrotorvis SRL (Agrotorvis) for approximately $23.8 million. Agrotorvis has hog production and pork processing assets in Romania. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling $0.3 million.

In October of fiscal 2004, the Company completed the acquisition of substantially all of the assets of Farmland Foods, Inc. (Farmland Foods), the pork production and processing business of Farmland Industries, Inc., for approximately $377.4 million, plus the assumption of certain Farmland Foods liabilities. The assumed liabilities include a $67.4 million pension obligation, net of associated assets. The Company recorded the fair value of trademarks totaling $100.0 million. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed was recorded as goodwill totaling $35.2 million. Had the acquisition of Farmland Foods occurred at the beginning of the preceding fiscal year, sales, net income and net income per diluted share would have been $2,449.2 million, $40.2 million and $.36, respectively, for the 13 weeks ended October 26, 2003, and $4,815.8 million, $63.0 million and $.57, respectively for the 26 weeks ended October 26, 2003.

In September of fiscal 2004, the Company acquired 90% of the outstanding shares of Cumberland Gap Provision Company (Cumberland Gap) for approximately $54.8 million plus the assumption of certain liabilities. Cumberland Gap is a processor of premium-branded smoked hams, sausages and other specialty pork products. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling $30.9 million.

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In September of fiscal 2004, the Company acquired Alliance Farms Cooperative Association (Alliance) for approximately $23.1 million. Alliance is a farrow to nursery operation producing weaned pigs that are finished at other company-owned facilities, thereby providing approximately 500,000 market hogs annually.

These acquisitions were accounted for using the purchase method of accounting and, accordingly, the accompanying financial statements include the financial position and the results of operations from the dates of acquisition.

Had the acquisitions of MFI, Jean Caby, Agrotorvis, Cumberland Gap and Alliance occurred at the beginning of the preceding fiscal year, there would not have been a material effect on sales, net income or net income per diluted share or on the Company s financial position for the 13 or 26 weeks ended October 31, 2004 or October 26, 2003.

Note 3: Disposition and Facility Closure

In April of fiscal 2004, the Company completed the sale of all of the outstanding stock of Schneider Corporation (Schneider) to Maple Leaf Foods Inc. for approximately $279.4 million, including the assumption of Schneider s outstanding debt. Schneider s results of operations and cash flows have been reflected in the consolidated condensed financial statements and notes as discontinued operations. Sales and income before income taxes of Schneider were $222.6 million and $6.4 million, respectively, for the 13 weeks ended October 26, 2003, and $447.2 million and $13.4 million for the 26 weeks ended October 26, 2003.

During the second quarter and first half of fiscal 2005, Showcase Foods, Inc. (Showcase Foods) incurred operating losses of $2.3 million and $5.1 million, respectively. In addition to these operating losses, during the second quarter of fiscal 2005, the Company recorded a pre-tax charge of $4.0 million related to ceasing the use of certain leased equipment. The Company does not currently expect to incur further charges related to the closing of the Showcase Foods facility.

Note 4: Investment in Campofrío

In February of fiscal 2004, the Company purchased 8,008,294 shares of Campofrío Alimentación S.A. (Campofrío) for approximately $87.9 million. This investment represented 15% of the outstanding shares of Campofrío. The Company did not have the ability to exercise significant influence over the management of Campofrío and, therefore, the investment was accounted for as an available-for-sale security in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities .

In August of fiscal 2005, in two separate transactions, the Company purchased a total of 3,787,265 additional shares of Campofrío for approximately $48.8 million. The Company currently holds 11,795,559 shares, or 22% of the outstanding shares of Campofrío. In accordance with Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB 18), the Company determined that it had the ability to exercise significant influence over the operations of Campofrío and that the additional investment triggered a change in accounting for the investment from an available-form sale security to the equity method, which the Company adopted in the first quarter of fiscal 2005. As required by APB 18, the Company evaluated whether the investment and results of operations for the prior periods presented were material so as to warrant retroactive adjustment. The Company determined that the change was immaterial to the consolidated results of operations and has not restated its fiscal 2004 consolidated statement of income to reflect the application of the equity method. However, the Company determined that the change was material to the consolidated balance sheet and has, therefore, reclassified $116.1 million of marketable equity securities from other long-term assets to investments, $9.8 million of deferred tax liabilities from other long-term liabilities to investments and $18.3 million of gains on marketable securities from accumulated other comprehensive loss to investments on its May 2, 2004 consolidated balance sheet to reflect the application of the equity method.

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Note 5: Inventories

Inventories consist of the following:

(In millions)	October 31, 2004	May 2, 2004
Fresh and processed meats	$ 698.9	$ 532.7