

SpartanNash Co
Form 10-Q
November 12, 2015

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 10, 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: 000-31127

SPARTANNASH COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Michigan	38-0593940
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
850 76 th Street, S.W.	
P.O. Box 8700	
Grand Rapids, Michigan	49518

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(Address of Principal Executive Offices) (Zip Code)

(616) 878-2000

(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 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 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 Securities Exchange Act) Yes No

As of November 9, 2015, the registrant had 37,595,607 outstanding shares of common stock, no par value.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q, in the Company's press releases and in the Company's website-accessible conference calls with analysts and investor presentations include "forward-looking statements" about the plans, strategies, objectives, goals or expectations of SpartanNash Company and subsidiaries ("SpartanNash" or the "Company"). These forward-looking statements are identifiable by words or phrases indicating that SpartanNash or management "expects," "anticipates," "plans," "believes," or "estimates," or that a particular occurrence or event "will," "may," "could," "should," or "will likely" result, occur or be pursued or "continue" in the future, that the "outlook" or "trend" is toward a particular result or occurrence, that a development is an "opportunity," "priority," "strategy," "focus," that the Company is "positioned" for a particular result, or similarly stated expectations. Accounting estimates, such as those described under the heading "Critical Accounting Policies" in Part I, Item 2 of this Form 10-Q, are inherently forward-looking. The Company's asset impairment, restructuring cost provisions and fair value measurements are estimates and actual costs may be more or less than these estimates and differences may be material. You should not place undue reliance on these forward-looking statements, which speak only as of the date of the Quarterly Report, other report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q, SpartanNash's Annual Report on Form 10-K for the fiscal year ended January 3, 2015 (in particular, you should refer to the discussion of "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K) and other periodic reports filed with the Securities and Exchange Commission, there are many important factors that could cause actual results to differ materially.

The Company's ability to achieve sales and earnings expectations; improve operating results; realize benefits of the merger with Nash-Finch Company (including realization of synergies); maintain or strengthen retail-store performance; assimilate acquired distribution centers and stores; maintain or grow sales; respond successfully to competitors including remodels and new openings; maintain or improve gross margin; effectively address food cost or price inflation or deflation; maintain or improve customer and supplier relationships; realize expected synergies from other acquisition activity; realize expected benefits of restructuring; realize growth opportunities; maintain or expand customer base; reduce operating costs; sell on favorable terms assets held for sale; generate cash; continue to meet the terms of the Company's debt covenants; continue to pay dividends; and successfully implement and realize the expected benefits of the other programs, initiatives, systems, plans, priorities, strategies, objectives, goals or expectations described in this Quarterly Report, the Company's other reports, press releases and public comments will be affected by changes in economic conditions generally or in the markets and geographic areas that the Company serves, adverse effects of the changing food and distribution industries, adverse changes in government funded consumer assistance programs, possible changes in the military commissary system, including those stemming from the redeployment of forces, congressional action, changes in funding levels, or the effects of mandated reductions in or sequestration of government expenditures, and other factors.

This section is intended to provide meaningful cautionary statements. This should not be construed as a complete list of all economic, competitive, governmental, technological and other factors that could adversely affect the Company's expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to SpartanNash or that SpartanNash currently believes are immaterial also may impair its business, operations, liquidity, financial condition and prospects. The Company undertakes no obligation to update or revise its forward-looking statements to reflect developments that occur or information obtained after the date of this Quarterly Report.

PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	October 10, 2015	January 3, 2015
Assets		
Current assets		
Cash and cash equivalents	\$8,510	\$6,443
Accounts and notes receivable, net	320,019	282,697
Inventories, net	573,320	577,197
Prepaid expenses and other current assets	24,494	31,882
Property and equipment held for sale	4,002	15,180
Total current assets	930,345	913,399
Property and equipment, net	586,361	597,150
Goodwill	331,612	297,280
Other assets, net	118,035	124,453
Total assets	\$1,966,353	\$1,932,282
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$365,818	\$320,037
Accrued payroll and benefits	63,693	73,220
Other accrued expenses	36,824	44,690
Deferred income taxes	29,453	22,494
Current maturities of long-term debt and capital lease obligations	21,993	19,758
Total current liabilities	517,781	480,199
Long-term liabilities		
Deferred income taxes	89,148	91,232
Postretirement benefits	17,070	23,701
Other long-term liabilities	37,870	39,387
Long-term debt and capital lease obligations	525,889	550,510
Total long-term liabilities	669,977	704,830

Commitments and contingencies (Note 8)

Shareholders' equity

Common stock, voting, no par value; 100,000 shares

authorized; 37,596 and 37,524 shares outstanding	520,953	520,791
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Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	—	—
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Accumulated other comprehensive loss	(11,233)	(11,655)
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Retained earnings	268,875	238,117
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Total shareholders' equity	778,595	747,253
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Total liabilities and shareholders' equity	\$1,966,353	\$1,932,282
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See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	12 Weeks Ended		40 Weeks Ended	
	October 10, 2015	October 4, 2014	October 10, 2015	October 4, 2014
Net sales	\$ 1,775,401	\$ 1,809,571	\$ 5,883,948	\$ 5,953,473
Cost of sales	1,516,352	1,548,162	5,026,611	5,079,612
Gross profit	259,049	261,409	857,337	873,861
Operating expenses				
Selling, general and administrative	224,648	227,690	752,452	771,961
Merger integration and acquisition	4,417	1,379	7,252	8,128
Restructuring charges (gains) and asset impairment	760	(1,272)	7,762	(67)
Total operating expenses	229,825	227,797	767,466	780,022
Operating earnings	29,224	33,612	89,871	93,839
Other (income) and expenses				
Interest expense	4,983	5,467	16,627	18,416
Other, net	(148)	(1)	(202)	4
Total other expenses, net	4,835	5,466	16,425	18,420
Earnings before income taxes and discontinued operations	24,389	28,146	73,446	75,419
Income taxes	9,141	10,977	27,444	28,336
Earnings from continuing operations	15,248	17,169	46,002	47,083
Earnings (loss) from discontinued operations, net of taxes	145	(73)	(21)	(358)
Net earnings	\$ 15,393	\$ 17,096	\$ 45,981	\$ 46,725
Basic earnings per share:				
Earnings from continuing operations	\$0.41	\$0.46	\$ 1.22	\$ 1.25
Earnings (loss) from discontinued operations	—	(0.01)*	—	(0.01)
Net earnings	\$0.41	\$0.45	\$ 1.22	\$ 1.24
Diluted earnings per share:				
Earnings from continuing operations	\$0.40	\$0.45	\$ 1.22	\$ 1.25
Earnings (loss) from discontinued operations	0.01	* —	—	(0.01)
Net earnings	\$0.41	\$0.45	\$ 1.22	\$ 1.24

See accompanying notes to condensed consolidated financial statements.

*Includes rounding

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	12 Weeks Ended		40 Weeks Ended	
	October	October	October	October
	10,	4,	10,	4,
	2015	2014	2015	2014
Net earnings	\$ 15,393	\$ 17,096	\$ 45,981	\$ 46,725
Other comprehensive income, before tax				
Pension and postretirement liability adjustment	204	203	681	678
Total other comprehensive income, before tax	204	203	681	678
Income tax expense related to items of other comprehensive income	(78)	(78)	(259)	(259)
Total other comprehensive income, after tax	126	125	422	419
Comprehensive income	\$ 15,519	\$ 17,221	\$ 46,403	\$ 47,144

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at January 3, 2015	37,524	\$520,791	\$ (11,655)	\$238,117	\$747,253
Net earnings	—	—	—	45,981	45,981
Other comprehensive income	—	—	422	—	422
Dividends - \$0.41 per share	—	—	—	(15,223)	(15,223)
Share repurchase	(282)	(9,000)	—	—	(9,000)
Stock-based employee compensation	—	6,470	—	—	6,470
Issuances of common stock and related tax benefit on stock option exercises and stock bonus plan and from deferred compensation plan	218	4,174	—	—	4,174
Issuances of restricted stock and related income tax benefits	314	1,244	—	—	1,244
Cancellations of restricted stock	(178)	(2,726)	—	—	(2,726)
Balance at October 10, 2015	37,596	\$520,953	\$ (11,233)	\$268,875	\$778,595

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	40 Weeks Ended	
	October 10, 2015	October 4, 2014
Cash flows from operating activities		
Net earnings	\$45,981	\$46,725
Loss from discontinued operations, net of tax	21	358
Earnings from continuing operations	46,002	47,083
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash restructuring, asset impairment and other charges (gains)	8,457	(67)
Depreciation and amortization	65,952	68,043
LIFO expense	3,195	5,077
Postretirement benefits expense	454	1,093
Deferred taxes on income	4,615	3,640
Stock-based compensation expense	6,470	6,017
Excess tax benefit on stock compensation	(1,232)	(651)
Other, net	70	(205)
Changes in operating assets and liabilities:		
Accounts receivable	(38,214)	(18,629)
Inventories	4,175	(29,582)
Prepaid expenses and other assets	4,019	4,676
Accounts payable	45,796	59,079
Accrued payroll and benefits	(10,572)	(17,021)
Postretirement benefit payments	(729)	(4,016)
Other accrued expenses and other liabilities	(8,589)	(7,152)
Net cash provided by operating activities	129,869	117,385
Cash flows from investing activities		
Purchases of property and equipment	(56,862)	(57,611)
Net proceeds from the sale of assets	20,342	5,368
Acquisition, net of cash acquired	(32,229)	—
Loans to customers	(3,563)	(4,915)
Payments from customers on loans	1,415	2,864
Other	(600)	(68)
Net cash used in investing activities	(71,497)	(54,362)
Cash flows from financing activities		
Proceeds from revolving credit facility	777,075	788,740
Payments on revolving credit facility	(796,799)	(831,688)
Share repurchase	(9,000)	(2,492)
Repayment of other long-term debt	(6,515)	(5,836)
Financing fees paid	(1,906)	(479)
Excess tax benefit on stock compensation	1,232	651

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Proceeds from sale of common stock	3,650	780
Dividends paid	(15,223)	(13,588)
Net cash used in financing activities	(47,486)	(63,912)
Cash flows from discontinued operations		
Net cash provided by (used in) operating activities	640	(279)
Net cash used in investing activities	(9,459)	—
Net cash used in discontinued operations	(8,819)	(279)
Net increase (decrease) in cash and cash equivalents	2,067	(1,168)
Cash and cash equivalents at beginning of period	6,443	9,216
Cash and cash equivalents at end of period	\$8,510	\$8,048

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Summary of Significant Accounting Policies and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements (the “financial statements”) include the accounts of SpartanNash Company and its subsidiaries (“SpartanNash” or the “Company”). All significant intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes included in the Annual Report on Form 10-K for the year ended January 3, 2015.

In the opinion of management, the accompanying financial statements, taken as a whole, contain all adjustments, which are of a normal recurring nature, necessary to present fairly the financial position of SpartanNash as of October 10, 2015, and the results of its operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

Note 2 Recently Issued Accounting Standards

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, “Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments.” ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the same reporting period in which the adjustments are determined. The Company adopted ASU 2015-16 in the third quarter of fiscal 2015. Adoption of this standard did not have a material impact on the financial statements as the Company has not recorded any significant measurement-period adjustments in fiscal 2015.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective on a retrospective basis for fiscal years beginning after December 15, 2015, and interim periods within those years. Adoption of this standard in fiscal 2016 will retroactively decrease Other long-term assets and Long-term debt. As of October 10, 2015, such amount was approximately \$9.2 million.

In April 2014, the FASB issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU 2014-08 changed the criteria for reporting discontinued operations and modified related disclosure requirements. The Company adopted ASU 2014-08 in the first quarter of fiscal 2015. Adoption of this standard did not have a material impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The new guidance contained in the ASU affects any reporting organization that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, "Deferral of the Effective Date," which results in the guidance being effective for the Company in the first quarter of its fiscal year ending December 29, 2018. Adoption is allowed by either the full retrospective or modified retrospective approach. The Company is currently in the process of evaluating the impact of adoption of this standard on its financial statements.

Note 3 Acquisitions

On June 16, 2015, SpartanNash acquired certain assets and assumed certain liabilities of Dan's Super Market, Inc. ("Dan's") for a total purchase price of \$32.6 million, which included inventory of \$3.7 million. The results of operations of the Dan's acquisition are included in the accompanying financial statements from the date of acquisition. Dan's is a six-store chain serving Bismarck and Mandan, North Dakota, and was not a customer of the SpartanNash Food Distribution segment prior to the acquisition. SpartanNash acquired the Dan's stores to strengthen its offering in this region from both a retail and distribution perspective. The purchased assets include inventory, equipment, trade name, favorable lease, non-compete agreements, and goodwill. The acquired assets and assumed liabilities were recorded at their estimated fair values as of the acquisition date and were based on preliminary estimates that may be subject to further adjustments within the measurement period. Goodwill of \$24.6 million and \$1.0 million was preliminarily assigned to the Retail and Food Distribution segments, respectively.

Note 4 Goodwill

Changes in the carrying amount of goodwill were as follows:

(In thousands)	Retail	Food Distribution	Total
Balance at January 3, 2015:			
Goodwill	\$252,532	\$ 131,348	\$383,880
Accumulated impairment charges	(86,600)	—	(86,600)
Goodwill, net	165,932	131,348	297,280
Acquisition (Dan's)	24,601	1,021	25,622
Other acquisition	—	8,725	8,725
Other	(15)	—	(15)
Balance at October 10, 2015:			
Goodwill	277,118	141,094	418,212
Accumulated impairment charges	(86,600)	—	(86,600)
Goodwill, net	\$190,518	\$ 141,094	\$331,612

Note 5 Restructuring and Asset Impairment

The following table provides the activity of restructuring costs for the 40 weeks ended October 10, 2015. Accrued restructuring costs recorded in the Condensed Consolidated Balance Sheets are included in "Other accrued expenses" in Current liabilities and "Other long-term liabilities" in Long-term liabilities based on when the obligations are expected to be paid.

(In thousands)	Lease and Ancillary Costs	Severance	Total
Balance at January 3, 2015	\$ 13,988	\$ 80	\$ 14,068
Provision for lease and related ancillary costs, net of sublease			
income, related to store closings	6,760	—	6,760 (a)
Provision for severance	—	344	344 (b)
Changes in estimates	(302)	(80)	(382) (c)
Lease termination adjustment	(1,745)	—	(1,745) (d)
Accretion expense	461	—	461
Payments	(4,598)	(344)	(4,942)
Balance at October 10, 2015	\$ 14,564	\$ —	\$ 14,564

(a) The provision for lease and related ancillary costs represents the estimated costs to be incurred for store closings in the Retail segment.

(b) The provision for severance relates to distribution center closings in the Food Distribution and Military segments.

- (c) The changes in estimates relate to revised estimates of lease and ancillary costs, sublease income, and severance associated with previously closed stores.
- (d) The lease termination adjustment represents the benefit recognized in connection with lease buyouts on two previously closed stores. The lease liabilities were formerly included in the Company's restructuring cost liability based on initial estimates.

Included in the liability are lease obligations recorded at the present value of future minimum lease payments, calculated using a risk-free interest rate, and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated sublease income.

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Restructuring and asset impairment charges included in the Condensed Consolidated Statements of Earnings consisted of the following:

	12 Weeks Ended		40 Weeks Ended	
	October	October	October	October
	10,	4,	10,	4,
(In thousands)	2015	2014	2015	2014
Asset impairment charges (a)	\$ 1,867	\$		