

BROWN FORMAN CORP

FORM 10-Q (Quarterly Report)

Filed 9/3/1998 For Period Ending 7/31/1998

Address	850 DIXIE HWY LOUISVILLE, Kentucky 40210
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CIK	0000014693
Industry	Beverages (Alcoholic)
Sector	Consumer/Non-Cyclical
Fiscal Year	04/30

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended JULY 31, 1998

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 No. 1-123

BROWN-FORMAN CORPORATION

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

61-0143150
(IRS Employer
Identification No.)

850 Dixie Highway
Louisville, Kentucky
(Address of principal executive offices)

40210
(Zip Code)

(502) 585-1100
(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: September 3, 1998

Class A Common Stock (\$.15 par value, voting) 28,988,091 Class B Common Stock (\$.15 par value, nonvoting) 39,698,147

BROWN-FORMAN CORPORATION
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(Dollars in millions except per share amounts)

	Three Months Ended	
	July 31,	
	1998	1997
	-----	-----
Net sales	\$445.8	\$428.1
Excise taxes	55.7	56.3
Cost of sales	156.9	154.3
	-----	-----
Gross profit	233.2	217.5
Selling, general, and administrative expenses	104.6	98.2
Advertising expenses	68.5	60.6
	-----	-----
Operating income	60.1	58.7
Interest income	1.0	0.7
Interest expense	2.5	3.9
	-----	-----
Income before income taxes	58.6	55.5
Taxes on income	21.4	21.1
	-----	-----
Net income	37.2	34.4
Less preferred stock dividend requirements	0.1	0.1
	-----	-----
Net income applicable to common stock	\$ 37.1	\$ 34.3
	=====	=====
Earnings per share		
- basic and diluted	\$.54	\$.50
	=====	=====
Shares (in thousands) used in the calculation of earnings per share		
- basic	68,686	68,996
- diluted	68,750	69,038
Cash dividends declared per common share	\$.28	\$.27
	=====	=====

See notes to the condensed consolidated financial statements.

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions)

	July 31, 1998 (Unaudited)	April 30, 1998
	-----	-----
Assets		

Cash and cash equivalents	\$ 93.2	\$ 78.3
Accounts receivable, net	236.8	264.5
Inventories:		
Barreled whiskey	183.1	187.0
Finished goods	200.6	178.6
Work in process	72.9	88.4
Raw materials and supplies	57.5	48.1
	-----	-----
Total inventories	514.1	502.1
Other current assets	22.0	23.9
	-----	-----
Total current assets	866.1	868.8
Property, plant and equipment, net	280.1	281.1
Intangible assets, net	247.9	249.8
Other assets	103.5	94.2
	-----	-----
Total assets	\$1,497.6	\$1,493.9
	=====	=====
Liabilities		

Commercial paper	\$ 97.1	\$ 107.1
Accounts payable and accrued expenses	215.7	233.3
Current portion of long-term debt	7.5	7.5
Accrued taxes on income	25.9	7.6
Deferred income taxes	27.4	27.4
Dividends payable	19.3	--
	-----	-----
Total current liabilities	392.9	382.9
Long-term debt	49.8	49.8
Deferred income taxes	144.7	149.7
Accrued postretirement benefits	56.1	55.4
Other liabilities and deferred income	34.0	38.8
	-----	-----
Total liabilities	677.5	676.6
Stockholders' Equity		

Preferred stock	11.8	11.8
Common stockholders' equity:		
Common stock	10.3	10.3
Retained earnings	820.8	821.2
Accumulated other comprehensive income		
-cumulative translation adjustment	(5.6)	(8.8)
Treasury stock (310,000 Class B common shares)	(17.2)	(17.2)
	-----	-----
Common stockholders' equity	808.3	805.5
	-----	-----
Total stockholders' equity	820.1	817.3
	-----	-----
Total liabilities and stockholders' equity	\$1,497.6	\$1,493.9
	=====	=====

Note: The balance sheet at April 30, 1998, has been taken from the audited financial statements at that date, and condensed.

See notes to the condensed consolidated financial statements.

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In millions; amounts in parentheses are reductions of cash)

	Three Months Ended	
	1998	July 31, 1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 37.2	\$ 34.4
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Depreciation	11.5	10.3
Amortization	2.4	2.3
Deferred income taxes	(5.0)	4.3
Other	(6.3)	(4.7)
Changes in assets and liabilities:		
Accounts receivable	27.7	39.7
Inventories	(12.0)	(9.0)
Other current assets	1.9	(7.3)
Accounts payable and accrued expenses	(17.6)	(13.2)
Accrued taxes on income	18.3	9.2
	-----	-----
Cash provided by operating activities	58.1	66.0
Cash flows from investing activities:		
Additions to property, plant, and equipment	(9.7)	(9.2)
Disposals of property, plant, and equipment	0.1	--
Other	(4.2)	(0.5)
	-----	-----
Cash used for investing activities	(13.8)	(9.7)
Cash flows from financing activities:		
Net change in commercial paper	(10.0)	(53.7)
Dividends paid	(19.4)	(18.7)
	-----	-----
Cash used for financing activities	(29.4)	(72.4)
	-----	-----
Net increase (decrease) in cash and cash equivalents	14.9	(16.1)
Cash and cash equivalents, beginning of period	78.3	58.2
	-----	-----
Cash and cash equivalents, end of period	\$ 93.2	\$ 42.1
	=====	=====

See notes to the condensed consolidated financial statements.

BROWN-FORMAN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In these notes, "we," "us," and "our" refer to Brown-Forman Corporation.

1. Condensed Consolidated Financial Statements

We prepared these unaudited condensed consolidated statements using our customary accounting practices as set out in our 1998 annual report on Form 10-K (the "1998 Annual Report"). We made all of the adjustments (which includes only normal, recurring adjustments) needed to present this data fairly.

We condensed or left out some of the information found in financial statements prepared according to generally accepted accounting principles ("GAAP"). You should read these financial statements together with the 1998 Annual Report, which does conform to GAAP.

2. Inventories

We use the last-in, first-out method to determine the cost of almost all of our inventories. If the last-in, first-out method had not been used, inventories would have been \$107.5 million higher than reported as of July 31, 1998, and \$104.4 million higher than reported as of April 30, 1998.

3. Environmental

Along with other responsible parties, we face environmental claims resulting from the cleanup of several waste deposit sites. We have accrued our estimated portion of cleanup costs. We expect either the other responsible parties or insurance to cover the remaining costs. We do not believe that any additional costs we incur to satisfy environmental claims will have a material adverse effect on our financial condition or results of operations.

4. Contingencies

We get sued in the ordinary course of business. Some suits and claims seek significant damages. Many of them take years to resolve, which makes it difficult for us to predict their outcomes. We believe, based on our legal counsel's advice, that none of the suits and claims pending against us will have a material adverse effect on our financial condition or results of operations.

5. Earnings Per Share

Basic earnings per share is calculated using net income reduced by dividend requirements on preferred stock, divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated in the same manner, except that the denominator also includes additional common shares that would have been issued if outstanding stock options had been exercised during the period. The dilutive effect of outstanding stock options is determined by application of the treasury stock method.

6. Comprehensive Income

Effective May 1, 1998, we adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." The adoption of SFAS No.130 did not have a material impact on our consolidated financial statements.

Comprehensive income, which is defined as the change in equity from transactions and other events from nonowner sources, for the three months ended July 31, 1998 and 1997 was as follows (in millions):

	1998	1997
Net income	\$ 37.2	\$ 34.4
Foreign currency translation adjustment	3.2	(0.5)
Comprehensive income	\$ 40.4	\$ 33.9

7. New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for reporting information about a company's operating segments and requires certain disclosures about a company's products and services, the geographic areas in which it operates and its major customers. Although we have not determined the effect that adoption of SFAS No. 131 may have on the format of our financial statement disclosures, it will have no effect on our financial condition or results of operations.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans but does not change the measurement or recognition of those plans. Thus, the adoption of SFAS No. 132 will have no effect on our financial condition or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires that all derivatives be measured at fair value and recognized in the balance sheet as either assets or liabilities. SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. The adoption of SFAS No. 133 is not expected to have a material impact on our consolidated financial statements.

8. Subsequent Event

On July 23, 1998, our Board of Directors voted to redeem all outstanding shares of preferred stock on October 1, 1998, at a total redemption cost of approximately \$12.1 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis along with our 1998 Annual Report. Note that the results of operations for the three months ended July 31, 1998, do not necessarily indicate what our operating results for the full fiscal year will be. In this Item, "we," "us," and "our" refer to Brown-Forman Corporation.

Risk Factors Affecting Forward-Looking Statements:

From time to time, we may make forward-looking statements related to our anticipated financial performance, business prospects, new products, and similar matters. We make several such statements in the discussion and analysis which follows, but we do not guarantee that the results indicated will actually be achieved.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we note that the following non-exclusive list of important risk factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements:

Generally: We operate in highly competitive markets. Our business is subject to changes in general economic conditions, changes in consumer preferences, the degree of acceptance of new products, and the uncertainties of litigation. As our business continues to expand outside the United States, our financial results are more exposed to foreign exchange rate fluctuations and the health of foreign economies. Our operations could also be adversely impacted by incomplete or untimely resolution of the "Year 2000" issue.

Beverage Risk Factors: The U.S. beverage alcohol business is highly sensitive to tax increases; an increase in federal or state excise taxes (which we do not anticipate at this time) would depress our domestic beverage business. Our current outlook for our domestic beverage business anticipates continued success of Jack Daniel's Tennessee Whiskey, Southern Comfort, and our other core spirits brands. Current expectations for our foreign beverage business could prove to be optimistic if the U.S. dollar strengthens against other currencies or if economic conditions deteriorate in the principal countries to which we export our beverage products, including Germany, the United Kingdom, Japan, and Australia. The wine and spirits business, both in the United States and abroad, is also sensitive to political and social trends. Legal or regulatory measures against beverage alcohol (including its advertising and promotion) could adversely affect sales. Product liability litigation against the alcohol industry, while not currently a major risk factor, could become significant if new lawsuits were filed against alcohol manufacturers. Current expectations for our global beverage business may not be met if consumption trends do not continue to increase. Profits could also be affected if grain or grape prices increase.

Consumer Durables Risk Factors: Earnings projections for our consumer durables segment anticipate a continued strengthening of our Lenox and Hartmann businesses. These projections could be offset by factors such as poor consumer response rates at Lenox Collections, a soft retail environment at outlet malls, further department store consolidation, or weakened demand for tableware, giftware and/or leather goods.

Results of Operations:
First Quarter Fiscal 1999 Compared to First Quarter Fiscal 1998

Here is a summary of our operating performance (expressed in millions, except percentage and per share amounts):

	Three Months Ended July 31,		% Change
	1998	1997	
Net Sales			

Wine & Spirits	\$ 335.1	\$ 317.4	6
Consumer Durables	110.7	110.7	--

Total	\$ 445.8	\$ 428.1	4
Gross Profit			

Wine & Spirits	\$ 177.9	\$ 164.8	8
Consumer Durables	55.3	52.7	5

Total	\$ 233.2	\$ 217.5	7
Operating Income (Loss)			

Wine & Spirits	\$ 68.6	\$ 65.1	5
Consumer Durables	(3.1)	(1.5)	N/M
Corporate	(5.4)	(4.9)	10

Total	\$ 60.1	\$ 58.7	2
Net Income	\$ 37.2	\$ 34.4	8

Earnings per Share - Basic and Diluted	\$ 0.54	\$ 0.50	8

Effective Tax Rate	36.5%	38.0%	

Sales for our wine and spirits segment increased 6%, largely due to growth in international sales of Jack Daniel's and Fetzer, as well as a solid performance by many of our beverage brands in the United States. Gross profit and operating income from the wine and spirits segment increased 8% and 5%, respectively, for the quarter. These results primarily reflect the strong performance by our major brands, an improved mix of higher-margin product sales, and more favorable raw material and manufacturing costs. A portion of the gain in gross profit was reinvested in advertising and marketing programs designed to strengthen our brands.

Revenues from our consumer durables segment were flat for the quarter as lower volumes for the wholesale and retail operations were offset by continued growth of the catalog and direct marketing operations of Lenox Collections. Gross profit for the segment increased 5%, however, principally reflecting the greater mix of higher-margin Lenox Collections sales. The operating loss for the quarter reflects higher advertising expense for the segment as well as costs incurred to introduce new Hartmann products. We expect the segment's revenues and operating results to improve over the remainder of the fiscal year.

Net interest expense declined from last year's first quarter due to lower net debt balances. The reduction in the company's consolidated effective tax rate reflects lower effective state tax rates.

As discussed in Note 7 to the accompanying condensed consolidated financial statements, we are required to adopt SFAS No. 133 by May 1, 2000. The adoption of SFAS No. 133 is not expected to have a material impact on our consolidated financial statements.

Liquidity and Financial Condition

Cash and cash equivalents increased by \$14.9 million during the three months ended July 31, 1998, as cash provided by operations exceeded cash used for investing and financing activities. Cash provided by operations totaled \$58.1 million, primarily reflecting net income for the period and a decrease in accounts receivable due to the normal seasonality of revenues. Cash of \$13.8 million was used for investing activities, consisting mostly of expenditures to expand and modernize our production facilities and enhance our information systems. Cash used for financing activities was \$29.4 million, as we used excess funds to reduce our debt and to pay dividends.

On July 23, 1998, our Board of Directors voted to redeem all outstanding shares of preferred stock on October 1, 1998, at a total redemption cost of approximately \$12.1 million.

We have conducted a comprehensive review of our information systems to identify those systems which may be affected by the "Year 2000" issue and we have developed an implementation plan to resolve the issue. In preparing our systems for the year 2000, we expect to incur internal staff costs as well as external consulting and other costs during fiscal years 1999 and 2000. The cost of new systems software will be capitalized. Other costs of the project will be expenses as incurred.

Because we have replaced or updated many of our information systems in recent years, the costs to be incurred in addressing the Year 2000 issue are not expected to have a material impact on our financial condition, results of operations or cash flows. This expectation assumes that our existing forecast of costs to be incurred contemplates all significant actions required and that we will not be obligated to incur significant Year 2000 related costs on behalf of our customers or suppliers.

Environmental

Along with other responsible parties, we face environmental claims resulting from the cleanup of several waste deposit sites. We have accrued our estimated portion of cleanup costs. We expect either the other responsible parties or insurance to cover the remaining costs. We do not believe that any additional costs we incur to satisfy environmental claims will have a material adverse effect on our financial condition or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Since April 30, 1998, there have been no material changes in the company's interest rate, foreign currency and commodity price exposures, the types of derivative financial instruments used to hedge those exposures, or the underlying market conditions.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders of the company held July 23, 1998, the following matter was voted upon:

Election of Barry D. Bramley, Geo. Garvin Brown III, Owsley Brown II, Donald G. Calder, Owsley Brown Frazier, Richard P. Mayer, Stephen E. O'Neil, William M. Street, and James S. Welch to serve as directors until the next annual election of directors, or until a successor has been elected and qualified.

	For	Withheld
Barry D. Bramley	27,267,259	10,758
Geo. Garvin Brown III	27,271,665	6,352
Owsley Brown II	27,271,665	6,352
Donald G. Calder	27,267,765	10,252
Owsley Brown Frazier	27,268,974	9,043
Richard P. Mayer	27,271,665	6,352
Stephen E. O'Neil	27,265,885	12,132
William M. Street	27,271,665	6,352
James S. Welch	27,271,624	6,393

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Exhibit
----- 27	----- Financial Data Schedule

(b) Reports on Form 8-K: During the quarter for which this report is filed, the Registrant filed a Current Report on Form 8-K, dated June 1, 1998, regarding an amendment to the Registrant's by-laws which lifted the mandatory retirement age to 70 for non-employee directors.

SIGNATURES

As required by the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned authorized officer.

BROWN-FORMAN CORPORATION (Registrant)

Date: September 3, 1998

By: /s/ Steven B. Ratoff

Steven B. Ratoff
Executive Vice President and
Chief Financial Officer
(On behalf of the Registrant and
as Principal Financial Officer)

ARTICLE 5

This schedule contains summary financial information extracted from the company's July 31, 1998 Quarterly Report Form 10-Q and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS	
FISCAL YEAR END	APR 30 1999	
PERIOD END	JUL 30 1998	
CASH	93	
SECURITIES	0	
RECEIVABLES	237 ¹	
ALLOWANCES	0	1
INVENTORY	514	
CURRENT ASSETS	866	
PP&E	655	
DEPRECIATION	375	
TOTAL ASSETS	1,498	
CURRENT LIABILITIES	393	
BONDS	50	
PREFERRED MANDATORY	0	
PREFERRED	12	
COMMON	10	
OTHER SE	798	
TOTAL LIABILITY AND EQUITY	1,498	
SALES	446	
TOTAL REVENUES	446	
CGS	213 ²	
TOTAL COSTS	213 ²	
OTHER EXPENSES	0	
LOSS PROVISION	0	
INTEREST EXPENSE	3	
INCOME PRETAX	58	
INCOME TAX	21	
INCOME CONTINUING	37	
DISCONTINUED	0	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	37	
EPS PRIMARY	0.54 ³	
EPS DILUTED	0.54 ⁴	

¹ Accounts receivable is shown net of allowance for doubtful accounts. Allowance for doubtful accounts has not changed materially from the April 30, 1998 balance.

² Includes excise taxes of \$56 million.

³ Represents Basic EPS, calculated in accordance with SFAS No. 128.

⁴ Represents Diluted EPS, calculated in accordance with SFAS No. 128.

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