

CONSTELLATION BRANDS, INC.

Form 10-K

April 29, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2014

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 001-08495

CONSTELLATION BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-0716709

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

207 High Point Drive, Building 100

14564

Victor, New York

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (585) 678-7100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Class A Common Stock (par value \$.01 per share)

New York Stock Exchange

Class B Common Stock (par value \$.01 per share)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K. "

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 ☐ (Do not check if a smaller reporting company)

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 aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing sales prices of the registrant's Class A and Class B Common Stock as reported on the New York Stock Exchange as of the last business day of the registrant's most recently completed second fiscal quarter was \$8,578,531,740.

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of April 22, 2014, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value \$.01 per share	168,379,662
Class B Common Stock, par value \$.01 per share	23,413,664
Class 1 Common Stock, par value \$.01 per share	None

#### DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement of Constellation Brands, Inc. to be issued for the Annual Meeting of Stockholders which is expected to be held July 23, 2014 is incorporated by reference in Part III to the extent described therein.

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This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical fact included in this Annual Report on Form 10-K, including without limitation (I) the statements under Item 1 “Business” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding (i) our business strategy, future financial position, prospects, plans and objectives of management, (ii) information concerning expected or potential actions of third parties, (iii) information concerning the future expected balance of supply and demand for wine, (iv) the expected impact upon results of operations resulting from the consolidation of our U.S. distributor network and the expected impact on net sales and gross profit from the reduction of distributor inventory, (v) the duration of the share repurchase implementation, (vi) our effective tax rate, and (vii) the timing of the cash payment for the purchase price adjustment and the amount of working capital adjustment, and (II) the statements regarding the expansion of our Brewery and its costs and timeframe for completion are forward-looking statements. When used in this Annual Report on Form 10-K, the words “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations and conditions in the general economy and markets in which we compete, our forward-looking statements contained in this Annual Report on Form 10-K are also subject to the risk and uncertainty that (i) the actual balance of supply and demand for wine products will vary from current expectations due to, among other reasons, actual grape harvest, actual shipments to distributors and actual consumer demand, (ii) the amount and timing of any share repurchases may vary due to market conditions, our cash and debt position, the impact of the Beer Business Acquisition and other factors as determined by management from time to time, (iii) the timing of the cash payment for the purchase price adjustment and the actual amount of certain working capital adjustments may differ from our current expectations, and (iv) the timeframe and actual costs associated with the expansion of our Brewery may vary from management’s current expectations due to market conditions, our cash and debt position, and other factors as determined by management. Additional important factors that could cause actual results to differ materially from those set forth in or implied by our forward-looking statements contained in this Annual Report on Form 10-K are those described in Item 1A “Risk Factors” and elsewhere in this report and in our other filings with the Securities and Exchange Commission.

Unless the context otherwise requires, the terms “Company,” “we,” “our,” or “us” refer to Constellation Brands, Inc. and its subsidiaries. All references to “net sales” refer to gross sales less promotions, returns and allowances, and excise taxes consistent with the Company’s method of classification. All references to “Fiscal 2014,” “Fiscal 2013” and “Fiscal 2012” refer to the Company’s fiscal year ended the last day of February of the indicated year. All references to “Fiscal 2015” refer to our fiscal year ending February 28, 2015. Unless otherwise defined herein, refer to the Notes to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K for the definition of capitalized terms used herein.

Market positions and industry data discussed in this Annual Report on Form 10-K are as of calendar 2013 and have been obtained or derived from industry and government publications and our estimates. The industry and government publications include: Beverage Information Group; Beer Institute; Beer Marketers Insights; Impact Databank Review and Forecast; IRI; Aztec; Euromonitor International; International Wine and Spirit Record; Association for Canadian Distillers; and Distilled Spirits Council of the United States. We have not independently verified the data from the industry and government publications. Unless otherwise noted, all references to market positions are based on equivalent unit volume.



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### PART I

#### Item 1. Business.

##### Introduction

We are a leading international beverage alcohol company with many of our products recognized as leaders in their respective categories and geographic markets. We are the third-largest producer and marketer of beer for the U.S. market and the world's leading premium wine company with a leading market position in the U.S., Canada and New Zealand. Our wine portfolio is complemented by select premium spirits brands and other select beverage alcohol products. We are the largest multi-category supplier (beer, wine and spirits) ("Multi-category Supplier") of beverage alcohol in the U.S. Our strong market positions make us a supplier of choice to many of our customers, who include wholesale distributors, retailers, on-premise locations and government alcohol beverage control agencies.

The Company is a Delaware corporation incorporated on December 4, 1972, as the successor to a business founded in 1945. We have approximately 6,300 employees located primarily in the U.S., Canada and Mexico, with our corporate headquarters located in Victor, New York. We conduct our business through entities we wholly own as well as through a variety of joint ventures and other entities.

##### Strategy

Certain key industry trends during the past decade have impacted our activities, results and strategy. These include:

- consolidation of suppliers, wholesalers and retailers;
- high-end beer (imports and crafts) growing faster than domestic beer in the U.S.;
- an increase in global wine consumption, with premium wines growing faster than value-priced wines; and
- volume of premium spirits growing faster than value-priced spirits in the U.S.

To capitalize on these trends, become more competitive and grow our business, we have generally employed a strategy focused on a combination of organic growth and acquisitions, with an increasing focus on the higher-margin premium categories of the beverage alcohol industry. Key elements of our strategy include:

- leveraging our existing portfolio of leading brands;
- developing new products, new packaging and line extensions;
- strengthening relationships with wholesalers and retailers;
- expanding distribution of our product portfolio;
- enhancing production capabilities;
- realizing operating efficiencies and synergies; and
- maximizing asset utilization.

We have complemented this strategy by divesting certain businesses, brands and assets as part of our efforts to increase the mix of premium brands, improve margins, create operating efficiencies and reduce debt. Further, we have acquired higher-margin premium wine growth brands, and we have completed the Beer Business Acquisition to solidify our position in the U.S. beer market over the long-term; diversify our profit base and enhance our margins, earnings and cash flow; and provide new avenues for growth.

For further information on our strategy, see Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Annual Report on Form 10-K ("MD&A").



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### Acquisitions and Divestitures

As part of our strategy to improve margins, enhance production capabilities and keep an increased focus on the higher-margin premium categories of the beverage alcohol industry, we have made the following acquisitions and divestitures:

Name	Period
Beer Business Acquisition	June 2013
Mark West acquisition	July 2012
Ruffino acquisition	October 2011
CWAE Divestiture	January 2011

### Beer Business Acquisition

The acquisition of Modelo's U.S. beer business included the remaining 50% interest in Crown Imports, which provides us with complete, independent control of our U.S. commercial beer business; a state-of-the-art Brewery in Mexico; and exclusive perpetual brand rights to import, market and sell Corona and the other Mexican Beer Brands in the U.S. market. The transaction solidifies our position in the U.S. beer market for the long term and makes us the third-largest brewer and seller of beer for the U.S. market. Combining this with our strong position in wine and spirits positions us as the largest Multi-category Supplier of beverage alcohol in the U.S.

### Mark West

The acquisition of this higher-margin, premium wine growth brand has complemented our existing portfolio and further strengthened our position in the U.S. Pinot Noir category.

### Ruffino

The acquisition of the remaining equity interest in this business has solidified our position in the Italian premium wine category in the U.S. and Canada.

### CWAE Divestiture

Consistent with our strategic focus on premiumizing our portfolio and improving our margins and return on invested capital, we sold 80.1% of our Australian and U.K. business in January 2011 (the "CWAE Divestiture").

For further information about our Fiscal 2014, Fiscal 2013 and Fiscal 2012 transactions, see (i) MD&A and (ii) Note 3 of the Notes to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K ("Notes to the Financial Statements").



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## Business Segments

We report our operating results in three segments: (i) Beer (formerly Crown Imports), (ii) Wine and Spirits (formerly Constellation Wines and Spirits) and (iii) Corporate Operations and Other. The business segments reflect how our operations are managed, how operating performance is evaluated by senior management and the structure of our internal financial reporting. We report net sales in two reportable segments, as follows:

	For the Year Ended February 28, 2014	% of Reportable Segment Net Sales		For the Year Ended February 28, 2013	% of Reportable Segment Net Sales		For the Year Ended February 29, 2012	% of Reportable Segment Net Sales	
(in millions)									
Beer	\$2,835.6	49.9 %		\$2,588.1	48.1 %		\$2,469.5	48.2 %	
Wine and Spirits:									
Wine	2,554.2	45.0 %		2,495.8	46.3 %		2,386.8	46.6 %	
Spirits	291.3	5.1 %		300.3	5.6 %		267.5	5.2 %	
Total Wine and Spirits	2,845.5	50.1 %		2,796.1	51.9 %		2,654.3	51.8 %	
Total Reportable Segments	5,681.1	100.0 %		5,384.2	100.0 %		5,123.8	100.0 %	
Consolidation and Eliminations	(813.4 )			(2,588.1 )			(2,469.5 )		
Consolidated Net Sales	\$4,867.7			\$2,796.1			\$2,654.3		

## Beer

In connection with the Beer Business Acquisition and the resulting consolidation of the acquired businesses as of June 2013, the Crown Imports segment, together with the Brewery Purchase, is now known as the Beer segment. We have the exclusive right to import, market and sell these Mexican Beer Brands in all 50 states of the U.S.:

Corona Extra  
 Corona Light  
 Modelo Especial  
 Pacifico  
 Negra Modelo  
 Victoria

In the U.S., we have five of the top-selling 15 imported beer brands. Corona Extra is the best-selling imported beer and the fifth best-selling beer overall in the U.S.; Corona Light is the leading imported light beer; and Modelo Especial is the third-largest and one of the fastest-growing major imported beer brands. During Fiscal 2014, we introduced Modelo Especial Chelada, a blend of Modelo Especial with flavors of tomato, salt and lime, to further capitalize on the strength of this growing brand.

The current capacity of our Brewery is 10 million hectoliters. We intend to expand the Brewery's capacity to 20 million hectoliters so it can produce all of our anticipated Mexican beer supply requirements. The Brewery expansion is targeted to be completed over the three-year period from the date of the Beer Business Acquisition, with total spend estimated to be in the range of \$900 million to \$1.1 billion. We have invested approximately \$124 million in the Brewery expansion for Fiscal 2014.

Prior to the Beer Business Acquisition, we and Modelo, indirectly, each had an equal interest in Crown Imports, which had the exclusive right to import, market and sell the Mexican Beer Brands.

## Wine and Spirits

We are the world's leading producer and marketer of premium wine. We sell a large number of wine brands across all categories – table wine, sparkling wine and dessert wine – and across all price points – popular, premium,

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super-premium and fine wine – and we have a leading market position in the U.S., Canada and New Zealand. Our portfolio of super-premium and fine wines is supported by vineyard holdings in the U.S., Canada, New Zealand and Italy. Our premium spirit brands each have a leading position in their respective categories.

Our wine produced in the U.S. is primarily marketed domestically and in Canada and the U.K. Wine produced in Canada is primarily marketed domestically. Wine produced in New Zealand is primarily marketed in the U.S., Canada, Australia, the U.K. and domestically. Wine produced in Italy is primarily marketed in the U.S., Canada and domestically. In addition, we export our wine products to other major world markets.

In our spirits business, Svedka Vodka is imported from Sweden and is the second-largest imported vodka brand in the U.S. Black Velvet Canadian Whisky is the second-largest Canadian whisky brand in the U.S.

In the U.S., we sell 14 of the top-selling 100 table wine brands and are a leading premium wine company. Some of our well-known wine and spirits brands sold in the U.S., which comprise our U.S. Focus Brands (“Focus Brands”), include:

Wine Brands			Spirits Brands
Arbor Mist	Inniskillin	Rex Goliath	Black Velvet Canadian Whisky
Black Box	Kim Crawford	Robert Mondavi	Svedka Vodka
Blackstone	Mark West	Ruffino	
Clos du Bois	Mount Veeder		