

MGP INGREDIENTS INC
Form 10-K
February 27, 2019

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2018
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 0-17196

MGP Ingredients, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Kansas	45-4082531
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

100 Commercial Street, Box 130, Atchison, Kansas	66002
(Address of Principal Executive Offices)	(Zip Code)

(913) 367-1480
Registrant's telephone number, including area code

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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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 every Interactive Data File required to be submitted 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 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 the Form 10-K or any amendment to the Form 10-K.

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. (Check One):

Large accelerated filer Accelerated filer
 Non-accelerated filer (Do not check if smaller reporting company) 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 aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as reported by NASDAQ on June 30, 2018, was \$1,162,065,937.

The number of shares of the registrant's common stock, no par value ("Common Stock") outstanding as of February 21, 2019 was 16,957,803.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

(1) Portions of the MGP Ingredients, Inc. Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2019 are incorporated by reference into Part III of this report to the extent set forth herein.

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The calculation of the aggregate market value of the Common Stock held by non-affiliates is based on the assumption that affiliates include directors and executive officers. Such assumption does not constitute an admission by the Company or any director or executive officer that any director or executive officer is an affiliate of the Company.

PART I

ITEM 1. BUSINESS

MGP Ingredients, Inc. was incorporated in 2011 in Kansas, continuing a business originally founded by Cloud L. Cray, Sr. in Atchison, Kansas in 1941. As used herein, the term "MGP," "Company," "we," "our," or "us" refers to MGP Ingredients, Inc. and its subsidiaries unless the context indicates otherwise. In this document, for any references to Note 1 through Note 16 refer to the Notes to Consolidated Financial Statements in Item 8.

AVAILABLE INFORMATION

We make available through our website (www.mgpingredients.com) under "For Investors," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, special reports and other information, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission ("SEC").

The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. The address of the SEC site is <http://www.sec.gov>.

METHOD OF PRESENTATION

All amounts in this report, except for shares, par values, bushels, gallons, pounds, mmbtu, proof gallons, per share, per bushel, per gallon, per proof gallon, and percentage amounts are shown in thousands, unless otherwise noted.

GENERAL INFORMATION

MGP is a leading producer and supplier of premium distilled spirits and specialty wheat protein and starch food ingredients. Distilled spirits include premium bourbon and rye whiskeys and grain neutral spirits ("GNS"), including vodka and gin. MGP is also a top producer of high quality industrial alcohol for use in both food and non-food applications. Our protein and starch food ingredients provide a host of functional, nutritional, and sensory benefits for a wide range of food products to serve the packaged goods industry. Our distillery products are derived from corn and other grains, and our ingredient products are derived from wheat flour. The majority of our distillery and ingredient product sales are made directly, or through distributors, to manufacturers and processors of finished packaged goods or to bakeries.

INFORMATION ABOUT SEGMENTS

As of December 31, 2018, we had two reportable segments: distillery products and ingredient solutions.

Distillery Products Segment. We process corn and other grains (including rye, barley, wheat, barley malt, and milo) into food grade alcohol and distillery co-products, such as distillers feed (commonly called dried distillers grain in the industry), fuel grade alcohol, and corn oil. We also provide warehouse services, including barrel put away, barrel storage, and barrel retrieval services. We have certain contracts with customers to supply distilled products (or "distillate"), as well as certain contracts with customers to provide barreling and warehousing services. Contracts with customers may be monthly, annual, and multi-year with periodic reviews of pricing. Sales of fuel grade alcohol are made on the spot market. Since 2015, our distillery products segment includes production and sales of our own

branded alcohol products, including sales under the TILL® American Wheat Vodka, George Remus® Straight Bourbon Whiskey, Remus Repeal Reserve® Straight Bourbon Whiskey, Tanner's Creek® Blended Bourbon Whiskey, Rossville Union® Master Crafted Straight Rye Whiskey, and Eight & Sand Blended Bourbon Whiskey brands. During 2018, our five largest distillery products customers, combined, accounted for 22.8 percent of our consolidated net sales.

Food Grade Alcohol - The majority of our distillery capacities are dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications.

Food grade alcohol sold for beverage applications, premium beverage alcohol, consists primarily of premium bourbon and rye whiskeys ("brown goods") and GNS, including vodka and gin ("white goods"). Our premium bourbon is created by distilling grains, primarily corn. Our whiskey is made from fermented grain mash, including rye and corn. Our whiskeys are primarily sold as unaged new distillate, which are then aged by our customers from two to four years and are sold at various proof concentrations. Our GNS is sold in bulk quantities at various proof concentrations. Our gin is created by redistilling GNS together with proprietary formulations of botanicals or botanical oils.

Food grade industrial alcohol is used as an ingredient in foods (e.g., vinegar and food flavorings), personal care products (e.g., hair sprays and hand sanitizers), cleaning solutions, pharmaceuticals, and a variety of other products. We sell food grade industrial alcohol in tank truck or rail car quantities direct to a number of industrial processors.

Fuel grade alcohol - Fuel grade alcohol is sold primarily for blending with gasoline to increase the octane and oxygen levels of the gasoline. As an octane enhancer, fuel grade alcohol can serve as a substitute for lead and petroleum-based octane enhancers. As an oxygenate, fuel grade alcohol has been used in gasoline to meet certain environmental regulations and laws relating to air quality by reducing carbon monoxide, hydrocarbon particulates, and other toxic emissions generated from the burning of gasoline. We produce fuel grade alcohol as a co-product of our food grade alcohol business at our Atchison facility.

Distillers Feed and related Co-Products - The bulk alcohol co-products sales include distillers feed and corn oil. Distillers feed is principally derived from the mash from alcohol processing operations. The mash is dried and sold primarily to processors of animal feeds as a high protein additive. In addition, we produce corn oil as a value added co-product through a corn oil extraction process at our Atchison facility.

Warehouse Services - Customers who purchase unaged barreled distillate may, and in most cases do, also enter into separate warehouse service agreements with us for the storage of product for aging that include services for barrel put away, barrel storage, and barrel retrieval.

Ingredient Solutions Segment. Our ingredient solutions segment consists primarily of specialty wheat starches, specialty wheat proteins, commodity wheat starches, and commodity wheat proteins. Contracts with ingredients customers are generally price, volume, and term agreements, which are fixed-term contracts, with very few agreements longer than 12 months in duration. During 2018, our five largest ingredient solutions customers, combined, accounted for 10.5 percent of our consolidated net sales.

Specialty Wheat Starches - Wheat starch is derived from the carbohydrate-bearing portion of wheat flour. We produce a premium wheat starch powder by extracting the starch from the starch slurry, substantially free of all impurities and fibers, and then dry the starch in spray, flash, or drum dryers.

A substantial portion of our premium wheat starch is altered during processing to produce certain unique specialty wheat starches designed for special applications. We sell our specialty wheat starches on a global basis, primarily to food processors and distributors.

We market our specialty wheat starches under the trademarks Fibersym[®] Resistant Starch series, FiberRite[®] RW Resistant Starch, Pregel[®] Instant Starch series, and Midsol[®] Cook-up Starch series. They are used primarily for food applications as an ingredient in a variety of food products to affect their nutritional profile, appearance, texture, tenderness, taste, palatability, cooking temperature, stability, viscosity, binding, and freeze-thaw characteristics. Important physical properties contributed by wheat starch include whiteness, clean flavor, viscosity, and texture. For example, our starches are used to improve the taste and texture of cream puffs, éclairs, puddings, pie fillings, breading, and batters; to improve the size, symmetry, and taste of angel food cakes; to alter the viscosity of soups, sauces, and gravies; to improve the freeze-thaw stability and shelf life of fruit pies and other frozen foods; to improve moisture retention in microwavable foods; and to add stability and to improve spreadability in frostings, mixes, glazes, and sugar coatings.

Our wheat starches, as a whole, generally compete primarily with corn starch, which dominates the United States starch market. However, the unique characteristics of our specialty wheat starches provide a number of advantages over corn and other starches for certain baking and other end uses.

Specialty Wheat Proteins - We have developed a number of specialty wheat proteins for food applications. Specialty wheat proteins are derived from vital wheat gluten through a variety of proprietary processes which change its molecular structure. Specialty wheat proteins for food applications include the products Arise[®] and Trutex[®].

We produce clean label ingredients under our Arise[®] line of wheat protein isolates. Along with Arise[®] 8000, this series includes Arise[®] 8100 and Arise[®] 8200. Each of these ingredients is also Non-GMO ("Non-Genetically Modified Organism") Project Verified. We also offer a Non-GMO Project Verified food ingredients portfolio of TruTex[®] 751, TruTex[®] 1501, TruTex[®] 2240, and TruTex[®] Redishred 65 textured wheat proteins.

Our specialty wheat proteins generally compete with other ingredients and modified proteins having similar characteristics, primarily soy proteins and other wheat proteins, with differentiation being based on factors such as functionality, price, and, in the case of food applications, flavor.

Commodity Wheat Starches - As is the case with value added wheat starches, our commodity wheat starches have both food and non-food applications, but such applications are more limited than those of value added wheat starches and typically sell for a lower price in the marketplace. Commodity wheat starches compete primarily with corn starches, which dominate the marketplace and prices generally track the fluctuations in the corn starch market.

Commodity Wheat Proteins - Commodity wheat protein, or vital wheat gluten, is a free-flowing light tan powder which contains approximately 70 to 80 percent protein. When we process wheat flour to derive starch, we also derive vital wheat gluten. Vital wheat gluten is added by bakeries and food processors to baked goods, such as breads, and to pet foods, cereals, processed meats, and fish and poultry to improve the nutritional content, texture, strength, shape, and volume of the product. The neutral flavor and color of vital wheat gluten also enhances the flavor and color of certain foods. The cohesiveness and elasticity of the gluten enables the dough in wheat and other high protein breads to rise and to support added ingredients, such as whole cracked grains, raisins and fibers. This allows bakers to make an array of different breads by varying the gluten content of the dough. Vital wheat gluten is also added to white breads, hot dog buns, and hamburger buns to improve the strength and cohesiveness of the product.

COMPETITIVE CONDITION

While we believe that the overall market environment offers considerable growth opportunities for us in 2019 and beyond, the markets in which our products are sold are competitive. Our products compete against similar products of many large and small companies. In our distillery products segment, competition is based primarily on product innovation, product characteristics, functionality, price, service, and quality factors, such as flavor. In our ingredient solutions segment, competition is based primarily on product innovation, product characteristics, price, name, color, flavor, or other properties that affect how the ingredient is being used.

PATENTS, TRADEMARKS, AND LICENSES

We are involved in a number of patent-related activities, primarily within our ingredient solutions segment. We have filed patent applications to protect a range of inventions made in our research and development efforts, including inventions relating to applications for our products. Some of these patents or licenses cover significant product formulation and processes used to manufacture our products.

SEASONALITY

Our sales are generally not seasonal.

TRANSPORTATION

Historically, our output has been transported to customers by truck and rail, most of which is provided by common carriers. We use third party transportation companies to help us manage truck and rail carriers who deliver our products to our North American customers.

RAW MATERIALS, PACKAGING MATERIALS, AND FOOD GRADE ALCOHOL

Our principal distillery products segment raw materials, or input costs, are corn and other grains (including rye, barley, wheat, barley malt, and milo), which are processed into food grade alcohol and distillery co-products consisting of distillers feed, fuel grade alcohol, and corn oil. Our principal ingredient solutions segment raw material is wheat flour, which is processed into starches and proteins. The cost of grain has, at times, been subject to substantial fluctuation.

In 2018, we purchased most of our grain requirements from two suppliers, Bunge Milling, Inc. ("Bunge") and Consolidated Grain and Barge Co. ("CGB"). Our current grain supply contracts with Bunge and CGB expire on December 31, 2021 and December 31, 2020, respectively. Through these contracts, we purchase grain for delivery into the future at negotiated prices based on several factors. We also order wheat flour for delivery into the future at negotiated prices based on several factors. We provide for our wheat flour requirements through a supply contract with Ardent Mills, which expires August 20, 2023. We typically enter contracts for future delivery only to protect margins on contracted alcohol sales, expected ingredient sales, and general usage.

Our principal packaging material for our distillery products segment is oak barrels. Both new and used barrels are utilized for the aging of premium bourbon and rye whiskeys. We purchase oak barrels from multiple suppliers and some customers supply their own barrels.

We also source food grade alcohol from Pacific Ethanol Central, LLC ("Pacific Ethanol"), formerly Illinois Corn Processing, LLC ("ICP"), which was our 30 percent-owned joint venture until July 3, 2017 when it was divested and sold to Pacific Ethanol (Note 4 and Note 10).

ENERGY

Natural gas is an input cost used to operate boilers to make steam heat. We procure natural gas for our facilities in the open market from various suppliers. We have a risk management program whereby we may purchase contracts for the delivery of natural gas for delivery into the future at negotiated prices based on several factors, or we can purchase futures contracts on the exchange. Historically, prices of natural gas have been higher in the late fall and winter months than during other periods.

EMPLOYEES

As of December 31, 2018, we had a total of 332 employees. A collective bargaining agreement covering 105 employees at the Atchison facility expires on August 31, 2019. A collective bargaining agreement covering 64 employees at the Lawrenceburg facility expires on December 31, 2022. We consider our relations with our personnel generally to be good.

REGULATION

We are subject to a broad range of federal, state, local, and foreign laws and regulations intended to protect public health and the environment. Our operations are also subject to regulation by various federal agencies, including the Alcohol and Tobacco Tax Trade Bureau ("TTB"), the Occupational Safety and Health Administration ("OSHA"), the Food and Drug Administration ("FDA") the United States Environmental Protection Agency ("EPA"), and by various state and local authorities. Such laws and regulations cover virtually every aspect of our operations, including production and storage facilities, distillation and maturation requirements, importing ingredients, distribution of beverage alcohol products, marketing, pricing, labeling, packaging, advertising, water usage, waste water discharge, disposal of hazardous wastes and emissions, and other matters. In addition, beverage alcohol products are subject to customs duties or excise taxation in many countries, including taxation at the federal, state, and local level in the United States.

EQUITY METHOD INVESTMENTS

Illinois Corn Processing, LLC ("ICP"). In November 2009, we completed a series of transactions to form ICP, which produced high quality food grade alcohol, chemical intermediates, and fuel. In connection with these transactions, we entered into agreements with ICP and ICP Holdings, an affiliate of SEACOR Holdings, Inc. One of the agreements was the LLC Interest Purchase Agreement under which we sold ICP Holdings 50 percent of the membership interest in ICP. This agreement also gave ICP Holdings the option to purchase up to an additional 20 percent of the membership interest in ICP, and on February 1, 2012, ICP Holdings exercised its option and purchased an additional 20 percent from us, reducing our ownership from 50 percent to 30 percent.

On July 3, 2017, we completed the sale of our 30 percent equity ownership interest in ICP to Pacific Ethanol pursuant to an Agreement and Plan of Merger ("Merger Agreement") entered into on June 26, 2017. Illinois Corn Processing Holdings, Inc., an affiliate of SEACOR Holdings, Inc., held the remaining equity in ICP that was also sold pursuant to the Merger Agreement (Note 4).

D.M. Ingredients GmbH ("DMI"). Our joint venture terminated effective June 30, 2015, with a return of investment on December 23, 2016 (Note 4).

EXECUTIVE OFFICERS OF THE REGISTRANT

Our officers as of December 31, 2018 and their ages as of February 27, 2019:

Name	Age	Principal Occupation and Business Experience
Augustus C. Griffin	59	President and Chief Executive Officer for the Company since July 2014 and member of the Board of Directors for the Company since August 2014. Executive Vice President of Marketing for Next Level Spirits from April 2013 to January 2014. Brand and Business Consultant for Nelson's Green Brier Distillery from November 2011 to March 2013. Senior Vice President, Global Managing Director for Brown Forman Corporation's flagship Jack Daniels business from January 2008 to April 2011. Vice President, Finance and Chief Financial Officer for the Company since September 2015. Vice President of Finance for the Kraft Foods Group Meal Solutions Division from March 2015 to August 2015. Vice President of Finance for the Kraft Foods Group Meals and Desserts Business Unit from May 2014 to March 2015. Vice President of Finance and Chief Audit Executive for the Kraft Foods Group from October 2012 to April 2014. Vice President of Finance for the Pizza Division at Nestle, U.S.A. from April 2010 to October 2012.
Thomas K. Pigott	54	Vice President, Production and Engineering for the Company since October 2015. Corporate Director of Operations for the Company from January 2014 to October 2015. Plant Manager for the Company of the Atchison facility from May 2011 to December 2013.
Stephen J. Glaser	58	Vice President, Alcohol Sales and Marketing for the Company since 2009.
David E. Dykstra	55	Vice President, Ingredient Sales and Marketing for the Company since December 2014. Vice President of Sales for the ingredient group at Southeastern Mills, Inc. from October 2010 to November 2014.
Michael R. Buttshaw	56	Vice President and Chief Administrative Officer for the Company since December 2015. Vice President, Human Resources for the Company from June 2000 to December 2015.
David E. Rindom	63	Vice President, Brands for the Company since November 2016. Managing director at Intercontinental Beverage Capital and President of Tattico Strategies from March 2015 to October 2016. President of Aveniu Brands from May 2010 to April 2014.
Andrew P. Mansinne	59	

ITEM 1A. RISK FACTORS

Our business is subject to certain risks and uncertainties that could cause actual results and events to differ materially from forward looking statements. The following discussion identifies those which we consider to be most important. The following discussion of risks is not all inclusive. Additional risks not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition, or results of operations.

RISKS THAT AFFECT OUR BUSINESS AS A WHOLE

An interruption of operations, a catastrophic event at our facilities, or a disruption of transportation services could negatively affect our business.

Although we maintain insurance coverage for various property damage and loss events, an interruption in or loss of operations at either of our production facilities could reduce or postpone production of our products, which could have a material adverse effect on our business, results of operations, or financial condition. To the extent that our value added products rely on unique or proprietary processes or techniques, replacing lost production by purchasing from outside suppliers would be difficult.

Our customers store a substantial amount of barreled inventory of aged premium bourbon and rye whiskeys at our Lawrenceburg facility and our nearby warehouses in Williamstown, Kentucky, and Sunman, Indiana. If a catastrophic event were to occur at our Lawrenceburg facility or our warehouses, our customers' business could be adversely affected. The loss of a significant amount of aged inventory through fire, natural disaster, or otherwise could result in a significant reduction in supply of the affected product or products and could result in customer claims against us and a reduction of warehouse services revenue.

We also store a substantial amount of our own inventory of aged premium bourbon and rye whiskeys at our Lawrenceburg facility and our nearby warehouses. If a catastrophic event were to occur at our Lawrenceburg facility or our warehouses, our business, financial condition, or results of operations could be adversely affected. The loss of a significant amount of our aged inventory through fire, natural disaster, or otherwise, could result in a reduction in supply of the affected product or products and could affect our long-term growth.

A disruption in transportation services could result in difficulties supplying materials to our facilities and impact our ability to deliver products to our customers in a timely manner, and our business, financial condition, or results of operations could be adversely affected.

Our profitability is affected by the costs of grain, wheat flour, and natural gas, or input costs, that we use in our business, the availability and costs of which are subject to weather and other factors beyond our control. We may not be able to recover the costs of commodities and energy by increasing our selling prices.

Grain and wheat flour costs are a significant portion of our costs of goods sold. Historically, the cost of such raw materials has, at times, been subject to substantial fluctuation, depending upon a number of factors which affect commodity prices in general and over which we have no control. These include crop conditions, weather, disease, plantings, government programs and policies, competition for acquisition of inputs such as agricultural commodities, purchases by foreign governments, and changes in demand resulting from population growth and customer preferences. The price of natural gas also fluctuates based on anticipated changes in supply and demand, weather, and the prices of alternative fuels. Fluctuations in the price of commodities and natural gas can be sudden and volatile at times and have had, from time to time, significant adverse effects on the results of our operations. Higher energy costs could result in higher transportation costs and other operating costs.

We do not enter into futures and options contracts ourselves because we can purchase grain and wheat flour for delivery into the future under our grain and wheat flour supply agreements. We intend to contract for the future delivery of grain and wheat flour only to protect margins on expected sales. On the portion of volume not contracted, we attempt to recover higher commodity costs through higher selling prices, but market considerations may not always permit this result. Even where prices can be adjusted, there is likely a lag between when we experience higher commodity or natural gas costs and when we might be able to increase prices. To the extent we are unable to timely pass increases in the cost of raw materials to our customers under sales contracts, market fluctuations in the cost of grain, natural gas, and ethanol may have a material adverse effect on our business, financial condition, or results of operations.

We have a high concentration of certain raw material and finished goods purchases from a limited number of suppliers which exposes us to risk.

We have signed supply agreements with Bunge and CGB for our grain supply (primarily corn) and with Ardent Mills for our wheat flour. The Company also procures some textured wheat proteins through a third-party toll manufacturer in the United States. If any of these companies encounters an operational or financial issue, or otherwise cannot meet our supply demands, it could lead to an interruption in supply to us and/or higher prices than those we have negotiated or than are available in the market at the time, and in turn, have a material adverse effect on our business, financial condition, or results of operations.

The markets for our products are very competitive, and our business could be negatively affected if we do not compete effectively.

The markets for products in which we participate are very competitive. Our principal competitors in these markets have substantial financial, marketing, and other resources, and several are much larger enterprises than us.

We are dependent on being able to generate net sales and other operating income in excess of the costs of products sold in order to obtain margins, profits, and cash flows to meet or exceed our targeted financial performance

measures. Competition is based on such factors as product innovation, product characteristics, product quality, pricing, color, and name. Pricing of our products is partly dependent upon industry capacity, which is impacted by competitor actions to bring online idled capacity or to build new production capacity. If market conditions make our products too expensive for use in consumer goods, our revenues could be affected. If our principal competitors were to decrease their pricing, we could choose to do the same, which could adversely affect our margins and profitability. If we did not do the same, our revenues could be adversely affected due to the potential loss of sales or market share. Our revenue growth could also be adversely affected if we are not successful in developing new products for our customers or as a result of new product introductions by our competitors. In addition, more stringent new customer demands may require us to make internal investments to achieve or sustain competitive advantage and meet customer expectations.

Work disruptions or stoppages by our unionized workforce could cause interruptions in our operations.

As of December 31, 2018, approximately 169 of our 332 employees were members of a union. Although our relations with our two unions are stable, there is no assurance that we will not experience work disruptions or stoppages in the future, which could have a material adverse effect on our business, financial condition, or results of operations and could adversely affect our relationships with our customers.

If we were to lose any of our key management personnel, we may not be able to fully implement our strategic plan, our system of internal controls could be impacted.

We rely on the continued services of key personnel involved in management, finance, product development, sales, manufacturing and distribution, and, in particular, upon the efforts and abilities of our executive management team.

The loss of service of any of our key personnel could have a material adverse effect on our business, financial condition, results of operations, and on our system of internal controls.

If we cannot attract and retain key management personnel, or if our search for qualified personnel is prolonged, our system of internal controls may be affected, which could lead to an adverse effect on our business, financial condition, or results of operations. In addition, it could be difficult, time consuming, and expensive to replace any key management member or other critical personnel, and no guarantee exists that we will be able to recruit suitable replacements or assimilate new key management personnel into our organization.

Covenants and other provisions in our credit arrangements could hinder our ability to operate. Our failure to comply with covenants in our credit arrangements could result in the acceleration of the debt extended under such agreements, limit our liquidity, and trigger other rights of our lenders.

Our credit arrangements (Note 5) contain a number of financial and other covenants that include provisions which require us, in certain circumstances, to meet certain financial tests. These covenants could hinder our ability to operate and could reduce our profitability. The lender may also terminate or accelerate our obligations under our credit arrangements upon the occurrence of various events in addition to payment defaults and other breaches. Any acceleration of our debt or termination of our credit arrangements would negatively impact our overall liquidity and might require us to take other actions to preserve any remaining liquidity. Although we anticipate that we will be able to meet the covenants in our credit arrangements, there can be no assurance that we will do so, as there are a number of external factors that affect our operations over which we have little or no control, that could have a material adverse effect on our business, financial condition, or results of operations.

Product recalls or other product liability claims could materially and negatively affect our business.

Selling products for human consumption involves inherent legal and other risks, including product contamination, spoilage, product tampering, allergens, or other adulteration. We could decide to, or be required to, recall products due to suspected or confirmed product contamination, adulteration, misbranding, tampering, or other deficiencies. Although we maintain product recall insurance, product recalls or market withdrawals could result in significant losses due to their costs, the destruction of product inventory, and lost sales due to the unavailability of the product for a period of time. We could be adversely affected if our customers lose confidence in the safety and quality of certain of our products, or if consumers lose confidence in the food and beverage safety system generally. Negative attention about these types of concerns, whether or not valid, may damage our reputation, discourage consumers from buying our products, or cause production and delivery disruptions.

We may also suffer losses if our products or operations cause injury, illness, or death. In addition, we could face claims of false or deceptive advertising or other criticism. A significant product liability or other legal judgment or a related regulatory enforcement action against us, or a significant product recall, may materially and adversely affect our reputation and profitability. Moreover, even if a product liability or other legal or regulatory claim is unsuccessful, has no merit, or is not pursued, the negative publicity surrounding assertions against our products or processes could have a material adverse effect on our business, financial condition, or results of operations.

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We are subject to extensive regulation and taxation, as well as compliance with existing or future laws and regulations, which may require us to incur substantial expenditures.

We are subject to a broad range of federal, state, local, and foreign laws and regulations intended to protect public health and the environment. Our operations are also subject to regulation by various federal agencies, including the TTB, OSHA, the FDA, the EPA, and by various state and local authorities. Such laws and regulations cover virtually every aspect of our operations, including production and storage facilities, distillation and maturation requirements, importing ingredients, distribution of beverage alcohol products, marketing, pricing, labeling, packaging, advertising, water usage, waste water discharge, disposal of hazardous wastes and emissions, and other matters. In addition, beverage alcohol products are subject to customs, duties, or excise taxation in many countries, including taxation at the federal, state, and local level in the United States.

Violations of any of these laws and regulations may result in administrative, civil, or criminal fines or penalties being levied against us, including temporary or prolonged cessation of production, revocation or modification of permits, performance of environmental investigatory or remedial activities, voluntary or involuntary product recalls, or a cease and desist order against operations that are not in compliance with applicable laws. These laws and regulations may change in the future and we may incur material costs in our efforts to comply with current or future laws and regulations. These matters may have a material adverse effect on our business, financial condition, or results of operations.

A failure of one or more of our key information technology systems, networks, processes, associated sites, or service providers could have a negative impact on our business.

We rely on information technology ("IT") systems, networks, and services, including internet sites, data hosting and processing facilities and tools, hardware (including laptops and mobile devices), software and technical applications and platforms, some of which are managed and hosted by third party vendors to assist us in the management of our business. The various uses of these IT systems, networks, and services include, but are not limited to: hosting our internal network and communication systems; enterprise resource planning; processing transactions; summarizing and reporting results of operations; business plans, and financial information; complying with regulatory, legal, or tax requirements; providing data security; and handling other processes necessary to manage our business. Any failure of our information systems could adversely impact our ability to operate. Routine maintenance or development of new information systems may result in systems failures, which may have a material adverse effect on our business, financial condition, or results of operations.

Increased IT security threats and more sophisticated cyber crime pose a potential risk to the security of our IT systems, networks, and services, as well as the confidentiality, availability, and integrity of our data. This could lead to outside parties having access to our privileged data or strategic information, our employees, or our customers. Any breach of our data security systems or failure of our information systems may have a material adverse impact on our business operations and financial results. If the IT systems, networks, or service providers we rely upon fail to function properly, or if we suffer a loss or disclosure of business or other sensitive information due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our disaster recovery plans do not effectively address these failures on a timely basis, we may suffer interruptions in our ability to manage operations and reputational, competitive, or business harm, which may have a material adverse effect on our business, financial condition, or results of operations. In addition, such events could result in unauthorized disclosure of material confidential information, and we may suffer financial and reputational damage because of lost or misappropriated confidential information belonging to us or to our partners, our employees, customers, and suppliers. Although we

maintain insurance coverage for various cybersecurity risks, in any of these events, we could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and IT systems.

Damage to our reputation, or that of any of our key customers or their brands, could affect our business performance.

The success of our products depends in part upon the positive image that consumers have of the third party brands that use our products. Contamination, whether arising accidentally or through deliberate third party action, or other events that harm the integrity or consumer support for our and/or our customers' products could affect the demand for our and/or our customers' products. Unfavorable media, whether accurate or not, related to our industry, to us, our products, or to the brands that use our products, marketing, personnel, operations, business performance, or prospects could negatively affect our corporate reputation, stock price, ability to attract high quality talent, or the performance of our business. Negative publicity or commentary on social media outlets could cause consumers to react rapidly by avoiding our brands or by choosing brands offered by our competitors, which could have a material adverse effect on our business, financial condition, or results of operations.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade secret protection, and confidentiality and/or license agreements with our employees, customers, and others to protect our proprietary rights. We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our proprietary rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights.

Our intellectual property rights may not be upheld if challenged. Such claims, if they are proved, could materially and adversely affect our business and may lead to the impairment of the amounts recorded for goodwill and other intangible assets. If we are unable to maintain the proprietary nature of our technologies, we may lose any competitive advantage provided by our intellectual property. We and our customers and other users of our products may be subject to allegations that we or they or certain uses of our products infringe the intellectual property rights of third parties. The outcome of any litigation is inherently uncertain. Any intellectual property claims, with or without merit, could be time-consuming and expensive to resolve, could divert management attention from executing our business plan, and could require us or our customers or other users of our products to change business practices, pay monetary damages, or enter into licensing or similar arrangements. Any adverse determination related to intellectual property claims or litigation could be material to our business, financial condition, or results of operations.

Climate change, or legal, regulatory or market measures to address climate change, may negatively affect our business or operations, and water scarcity or quality could negatively impact our production costs and capacity.

Increasing concentrations of carbon dioxide and other greenhouse gases in the atmosphere may have an adverse effect on global temperatures, weather patterns, and the frequency and severity of extreme weather events and natural disasters. In the event that climate change, or legal, regulatory, or market measures enacted to address climate change, has a negative effect on agricultural productivity in the regions from which we procure agricultural products such as corn and wheat, we could be subject to decreased availability or increased prices for a such agricultural products, which could have a material adverse effect on our business, financial condition, or results of operations.

Water is the main ingredient in substantially all of our distillery products and is necessary for the production of our food ingredients. It is also a limited resource, facing unprecedented changes from climate change, increasing pollution, and poor management. As demand for water continues to increase, water becomes more scarce and the quality of available water deteriorates, we may be affected by increasing production costs or capacity constraints, which could have a material adverse effect on our business, financial condition, or results of operations.

RISKS SPECIFIC TO OUR DISTILLERY PRODUCTS SEGMENT

The relationship between the price we pay for grain and the sales prices of our distillery co-products can fluctuate significantly and negatively impact our business.

Distillers feed, fuel grade alcohol, and corn oil are the principal co-products of our alcohol production process and can contribute in varying degrees to the profitability of our distillery products segment. Distillers feed and corn oil are sold for prices which historically have tracked the price of corn, but are also susceptible to other factors. In the case of distillers feed, other factors could include weather, other available feedstock, and global trade relations. In the case of corn oil, other factors could include soy oil and the overall level of ethanol production. We sell fuel grade alcohol, the

prices for which typically, but not always, have tracked price fluctuations in gasoline prices. As a result, the profitability of these products could be adversely affected, which could be material to our business, financial condition, or results of operations.

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Our strategic plan involves significant investment in the aging of barreled distillate. Decisions concerning the quantity of maturing stock of our aged distillate could materially affect our future profitability.

There is an inherent risk in determining the quantity of maturing stock of aged distillate to lay down in a given year for future sales as a result of changes in consumer demand, pricing, new brand launches, changes in product cycles, and other factors. Demand for products could change significantly between the time of production and the date of sale. It may be more difficult to make accurate predictions regarding new products and brands. Inaccurate decisions and/or estimations could lead to an inability to supply future demand or lead to a future surplus of inventory and consequent write-down in the value of maturing stocks of aged distillate. As a result, our business, financial condition, or results of operations could be materially adversely affected.

If the brands we develop or acquire do not achieve consumer acceptance, our growth may be limited, which could have a material adverse impact on our business, financial condition, or results of operations.

A component of our strategic plan is to develop our own brands, particularly whiskeys. Risks related to this strategy include:

Because our brands, internally developed and acquired, are early in their growth cycle or have not yet been developed, they have not achieved extensive brand recognition. Accordingly, if consumers do not accept our brands, we will not be able to penetrate our markets and our growth may be limited.

We depend, in part, on the marketing initiatives and efforts of our independent distributors in promoting our products and creating consumer demand, and we have limited, or no, control regarding their promotional initiatives or the success of their efforts.

We depend on our independent distributors to distribute our products. The failure or inability of even a few of our independent distributors to adequately distribute our products within their territories could harm our sales and result in a decline in our results of operations.

We compete for shelf space in retail stores and for marketing focus by our independent distributors, most of whom carry extensive product portfolios.

The laws and regulations of several states prohibit changes of independent distributors, except under certain limited circumstances, making it difficult to terminate an independent distributor for poor performance without reasonable cause, as defined by applicable statutes. Any difficulty or inability to replace independent distributors, poor performance of our major independent distributors or our inability to collect accounts receivable from our major independent distributors could harm our business. There can be no assurance that the independent distributors and retailers we use will continue to purchase our products or provide our products with adequate levels of promotional support.

Our brands compete with the brands of our bulk alcohol customers.

Warehouse expansion issues could negatively impact our operations and our business.

On October 21, 2015, we announced a major expansion in warehousing capacity. The program includes both the refurbishment of existing warehouse buildings and the construction of new warehouses. The final phases of the program are expected to be completed by the end of calendar year 2020. There is the potential risk of completion delays, including risk of delay associated with required permits and cost overruns, which could have a material adverse effect our business, financial condition, or results of operations.

We may be subject to litigation directed at the beverage alcohol industry.

Companies in the beverage alcohol industry are, from time to time, exposed to class action or other litigation relating to alcohol advertising, product liability, alcohol abuse problems or health consequences from the misuse of alcohol. Such litigation may result in damages, penalties or fines as well as damage to our reputation, which could have a material adverse effect on our business, financial condition, or results of operations.

A change in public opinion about alcohol could reduce demand for our products.

For many years, there has been a high level of social and political attention directed at the beverage alcohol industry. The attention has focused largely on public health concerns related to alcohol abuse, including drunk driving, underage drinking, and the negative health impacts of the abuse and misuse of beverage alcohol. Anti-alcohol groups have, in the past, advocated successfully for more stringent labeling requirements, higher taxes, and other regulations designed to discourage alcohol consumption. More restrictive regulations, higher taxes, negative publicity regarding alcohol consumption and/or changes in consumer perceptions of the relative healthfulness or safety of beverage alcohol could decrease sales and consumption of alcohol, and thus, the demand for our products. This could, in turn, significantly decrease both our revenues and our revenue growth and have a material adverse effect on our business, financial condition, or results of operations.

Changes in consumer preferences and purchases, and our ability to anticipate or react to them, could negatively affect our business results.

We compete in highly competitive markets, and our success depends on our continued ability to offer our customers and consumers appealing, high-quality products. In recent years there has been increased demand for the products we produce, including, in particular, increased demand for bourbons and rye whiskeys. Customer and consumer preferences and purchases may shift due to a host of factors, many of which are difficult to predict, including:

- demographic and social trends;
- economic conditions;
- public health policies and initiatives;
- changes in government regulation and taxation of beverage alcohol products;
- the potential expansion of legalization of, and increased acceptance or use of, marijuana; and
- changes in travel, leisure, dining, entertaining, and beverage consumption trends.

If our customers and consumers shift away from spirits (particularly brown spirits, such as our premium bourbon and rye whiskeys), our business, financial condition, or results of operations could be adversely affected.

RISKS SPECIFIC TO OUR INGREDIENT SOLUTIONS SEGMENT

Our focus on higher margin specialty ingredients may make us more reliant on fewer, more profitable customer relationships.

Our strategic plan for our ingredient solutions segment includes focusing our efforts on the sale of specialty proteins and starches to targeted domestic consumer packaged goods customers. Our major focus is directed at food ingredients, which are primarily used in foods that are developed to address consumers' desire for healthier and more convenient products; these consist of dietary fiber, wheat protein isolates and concentrates, and textured wheat proteins. The bulk of our applications technology and research and development efforts are dedicated to providing customers with specialty ingredient solutions that deliver nutritional benefits, as well as desired functional and sensory qualities to their products. Our business, financial condition, and results of operations could be materially adversely affected if our customers were to reduce their new product development ("NPD") activities or cease using our unique dietary fibers, starches, and proteins in their NPD efforts.

Failure to receive FDA recognition of Fibersym® resistant starch as a dietary fiber for purposes of food labeling laws could lead to a decrease in sales volume or pricing, a decrease in margins and lower profitability.

In connection with new food labeling rules, the FDA has published a list of dietary fibers, and our Fibersym resistant starch has not been included on that list. In November 2016, we announced that we filed a citizen petition with the FDA asking the agency to confirm the status of our patented Fibersym® RW and FiberRite® RW resistant wheat starches as dietary fiber. While our citizen petition is undergoing review, the current status of Fibersym® RW, along with FiberRite® RW, as accepted dietary fiber and a recognized fiber fortifying ingredient remains in place. A delay in confirmation by the FDA of our Fibersym® RW and FiberRite® RW resistant wheat starches as dietary fiber under the new food labeling rules in a timely manner could have a material adverse impact on ingredient solutions segment operating results.

Adverse public opinion about any of our specialty ingredients could reduce demand for our products. Consumer preferences with respect to our specialty ingredients might change. In fact, in recent years, we have noticed shifting consumer preferences and media attention directed to gluten, gluten intolerance, and "clean label" products. Shifting consumer preferences could decrease demand for our specialty ingredients. This could, in turn, significantly decrease our revenues and revenue growth, which could have a material adverse affect on our business, financial condition, and results of operations.

RISKS RELATED TO OUR COMMON STOCK

Common Stockholders have limited rights under our Articles of Incorporation.

Under our Articles of Incorporation, holders of our Preferred Stock are entitled to elect five of our nine directors and only holders of our Preferred Stock are entitled to vote with respect to a merger, dissolution, lease, exchange or sale of substantially all of our assets, or on an amendment to the Articles of Incorporation, unless such action would increase or decrease the authorized shares or par value of the Common or Preferred Stock, or change the powers, preferences or special rights of the Common or Preferred Stock so as to affect the holders of Common Stock adversely. Generally, the Common Stock and Preferred Stock vote as separate classes on all other matters requiring stockholder approval.

The majority of the outstanding shares of our Preferred Stock is beneficially owned by one individual, who is effectively in control of the election of five of our nine directors under our Articles of Incorporation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

MGP has four primary locations, one in Kansas, two in Indiana, and one in Kentucky. Grain processing, distillery, warehousing, research and quality control laboratories, principal executive offices, and a technical innovation center are located in Atchison, Kansas on a 28.5 acre campus. A distillery, warehousing, tank farm, quality control laboratory, and research and development facility are located on a 78 acre campus that spans portions of both Lawrenceburg and Greendale, Indiana. A warehousing facility is located on 33 acres in Williamstown, Kentucky, and a warehousing facility is located on 36.5 acres in Sunman, Indiana that is not yet in service.

These facilities are generally in good operating condition and are generally suitable for the business activity conducted therein. We have existing manufacturing capacity to grow our ingredient solutions business at our Atchison facility, as needed. All of our production facilities, executive office building, and technical innovation center are owned, and all of our owned properties are subject to mortgages in favor of one or more of our lenders. We also own or lease transportation equipment and facilities and a gas pipeline as described under Item 1. Business - Transportation and Item 1. Business - Energy.

ITEM 3. LEGAL PROCEEDINGS

None (Note 8).

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDERS MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Equity compensation plan information is incorporated by reference from Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this document, should be considered an integral part of Item 5. Our Common Stock is traded on the NASDAQ Global Select Market under the ticker symbol MGPI. As of February 21, 2019, there were approximately 394 holders of record of our Common Stock. According to reports received from NASDAQ, the average daily trading volume of our Common Stock (excluding block trades) ranged from 35,400 to 2,603,900 shares during the year ended December 31, 2018.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total return of our Common Stock for the five year period ended December 31, 2018, against the cumulative total return of the S&P 500 Stock Index (broad market comparison), Russell 3000 - Beverage and Distillers (line of business comparison), and Russell 2000 - Consumer Staples (line of business comparison). The graph assumes \$100 (one hundred dollars) was invested on December 31, 2013, and that all dividends were reinvested.

PURCHASES OF EQUITY SECURITIES BY ISSUER

We did not sell equity securities during the quarter ended December 31, 2018.

Issuer Purchases of Equity Securities

	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2018 through October 31, 2018	1,468	(a) \$ 74.49	—	1,408,969
November 1, 2018 through November 30, 2018	—	—	—	—
December 1, 2018 through December 31, 2018	—	—	—	—
Total	1,468		—	

(a) Vested RSU awards under the 2014 Plan that were purchased to cover employee withholding taxes.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2018 ^{(a)(c)}	2017 ^{(a)(c)(e)(f)}	2016 ^{(a)(c)(d)}	2015 ^(a)	2014 ^{(a)(b)}
Consolidated Statements of Income Data:					
Net sales	\$376,089	\$ 347,448	\$ 318,263	\$327,604	\$313,403
Income before income taxes	\$48,980	\$ 52,758	\$ 44,717	\$38,418	\$25,940
Net income	\$37,284	\$ 41,823	\$ 31,184	\$26,191	\$23,675
Basic and Diluted Earnings Per Share ("EPS")					
Net income	\$2.17	\$ 2.44	\$ 1.82	\$1.48	\$1.32
Dividends and Dividend Equivalents Per Common Share	\$0.32	\$ 1.01	\$ 0.12	\$0.06	\$0.05
Consolidated Balance Sheet Data:					
Total assets	\$277,892	\$ 240,328	\$ 225,336	\$194,310	\$160,215
Long-term debt, less current maturities	\$31,628	\$ 24,182	\$ 31,642	\$30,115	\$7,286

(a) During 2018, we determined that we would not "more likely than not" realize a portion of our deferred tax asset and increased our valuation allowance by \$1,304. During 2017, 2016, 2015, and 2014, we determined that we would "more likely than not" realize a portion of our deferred tax asset and reduced our valuation allowance by \$578, \$718, \$2,385, and \$7,446, respectively.

(b) In January 2014 and October 2014, we experienced a fire at one of our facilities. Insurance recoveries totaled \$8,290 for 2014.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. For 2018, 2017, and 2016, respectively, we (c) received a combined federal and state tax effected excess tax benefit of \$1,437, \$4,625, and \$1,571 from windfalls related to employee share-based compensation recognized as a reduction to income tax expense. Retrospective application to 2015 and 2014 was not required.

(d) Net income for 2016 included a legal settlement agreement and a gain on sale of long-lived assets of \$3,385 before tax.

(e) On July 3, 2017, we completed the sale of our equity ownership interest in ICP to Pacific Ethanol, consistent with a Merger Agreement entered into on June 26, 2017, and, as a result, recorded a gain on sale of equity method investment of \$11,381 before tax, which is included in Net income for 2017 (Note 4).

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"), resulting in significant modifications to existing law. Following the guidance in SEC (f) Staff Accounting Bulletin ("SAB") 118, we recorded a provisional discrete net tax benefit in our Consolidated Statements of Income through net income of \$3,343 in 2017. As of December 31, 2018, the accounting for the Tax Act is now complete and the discrete net tax benefit recorded in 2017 is no longer provisional (Note 6).

Selected Financial Information. Selected quarterly financial information (unaudited) is detailed in Note 15.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

This Report on Form 10-K contains forward looking statements as well as historical information. All statements, other than statements of historical facts, regarding the prospects of our industry and our prospects, plans, financial position, and strategic plan may constitute forward looking statements. In addition, forward looking statements are usually identified by or are associated with such words as "intend," "plan," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "will," "could," "encouraged," "opportunities," "potential," and/or the negatives or variations of these terms or similar terminology. Forward looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from those expressed or implied in the forward looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward looking statements is included in the section titled "Risk Factors" (Item 1A of this Form 10-K). Forward looking statements are made as of the date of this report, and we undertake no obligation to update or revise publicly any forward looking statements, whether because of new information, future events or otherwise.

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations is designed to provide a reader of MGP's consolidated financial statements with a narrative from the perspective of management. MGP's MD&A is presented in seven sections:

- Overview
- Results of Operations
- ◆ Distillery Products Segment
- ♠ Ingredient Solutions Segment
- ⊕ Cash Flow, Financial Condition and Liquidity
- Off Balance Sheet Obligations
- ♠ New Accounting Pronouncements

OVERVIEW

MGP is a leading producer and supplier of premium distilled spirits and specialty wheat protein and starch food ingredients. Distilled spirits include premium bourbon and rye whiskeys and GNS, including vodka and gin. We are also a top producer of high quality industrial alcohol for use in both food and non-food applications. Our protein and starch food ingredients provide a host of functional, nutritional and sensory benefits for a wide range of food products to serve the packaged goods industry. We have two reportable segments: our distillery products segment and our ingredient solutions segment.

Our Mission

Secure our future by consistently delivering superior financial results by more fully participating in all levels of the alcohol and food ingredients segments for the betterment of our shareholders, employees, partners, consumers, and communities.

Our Strategic Plan

Our strategic plan is designed to leverage our history and strengths. We have a long history in the distilling industry. Our Lawrenceburg facility, which we purchased in 2011, was founded in 1847 and our Atchison facility was opened in 1941. Through these two distilleries, we are involved in producing some of the finest whiskeys, vodkas, and gins in the world. Likewise, our history in the food ingredient business stretches back more than 60 years.

Our strategic plan seeks to leverage the positive macro trends we see in the industries where we compete while providing better insulation from outside factors, including swings in commodity pricing. We believe the successful execution of our strategy will continue to deliver strong operating income growth. Specifically, our strategic plan is built on five key growth strategies: Maximize Value, Capture Value Share, Invest for Growth, Operational Excellence, and Build the MGP Brand. Each of these strategies, along with related 2018 accomplishments, are discussed below.

Maximize Value. We focus on maximizing the value of our current production volumes, particularly taking advantage of favorable macro trends in our distillery products segment, such as the growth of the American whiskey category that has continued to expand over the past several years. This includes shifting sales mix to higher margin products, such as premium bourbon and rye whiskeys, as well as extending the product range of our grain neutral spirits, including vodkas and gins. In our ingredient solutions segment, the macro trends include growth in high fiber, high protein, plant-based proteins, and non-GMO ("non-Genetically Modified Organism") products.

Although these macro trends are currently favorable, we have seen competition intensify as industry participants in both of our segments seek to capitalize on consumers' interest in these categories. While we believe we are well-positioned to benefit from these favorable trends, we may also be negatively affected by the increase in competition in one or both of our segments. We intend to continue to focus on opportunities that will allow us to achieve the highest value from our production facilities.

Accomplishments

In our distillery products segment, our focus on attracting and developing customers for our premium beverage alcohol continued in 2018. Some efforts included increases in sales force and providing more tailored product offerings to our craft customers. As a result, we were able to add new customers throughout the year. Our partnerships with both new and existing customers helped to drive double-digit sales growth for our premium bourbon and rye whiskeys in 2018.

In our ingredient solutions segment, we continue to provide outstanding customer solutions, taking advantage of our positioning in the growing plant-based proteins category. We further developed our pipeline of wheat-based protein products to support strong customer growth. Our net sales of specialty wheat proteins grew 8.4 percent in 2018, and we continued to grow our specialty wheat starch net sales in 2018, despite the 2017 expiration of our Fibersym patent.

Our shift in sales mix to higher margin products has contributed to a 7.4 percent increase in gross profit within the distillery products segment in 2018 over the prior year.

Our shift in sales mix to higher margin products has contributed to a 28.3 percent increase in gross profit within the ingredient solutions segment in 2018 over the prior year.

See the "Distillery Products Segment" and "Ingredient Solutions Segment" discussions.

Capture Value Share. We work to develop partnerships to support brand creation, long-term growth, and to combine our innovation capabilities and industry expertise to provide unique solutions and offerings to the marketplace. In that way, we believe we are able to realize full value for our operational capacity, quality, and commitment.

Accomplishments

In January through April 2018, we announced partnerships with distributors in Minnesota, Arizona, Illinois, and Colorado for the introduction of TILL American Wheat Vodka® and George Remus® Straight Bourbon Whiskey, as we continue to expand into new markets.

In May 2018, we announced the launch of Rossville Union®, our first proprietary Rye Whiskey label. Named after the founding distillery in Lawrenceburg, Rossville Union® represents a historic return to the home of crafted rye whiskey and honors a spirited tradition that dates back more than 170 years in America's original "Whiskey City." Rossville Union® is available in two expressions: Rossville Union® Master Crafted Straight Rye Whiskey and Rossville Union®

Master Crafted Barrel Proof Straight Rye Whiskey.

In September 2018, we announced the November release of Series II of our annual Remus Repeal Reserve®. Produced to commemorate Prohibition Repeal Day, Series II is a highly limited bottling that was available as of the birthdate of brand namesake, George Remus®. This year's medley is the first to utilize aged bourbons from 2007 and 2008, showcasing more than 10 years of aging.

In October 2018, we announced our latest product release: Eight & Sand Blended Bourbon Whiskey. Phasing into distribution in 2019, Eight & Sand Blended Bourbon Whiskey celebrates the timeless journey of the American railway-with a classic tribute whiskey crafted by our team in Lawrenceburg.

Invest for Growth. We are committed to investing to support our growth. Components of this growth strategy include: **Capital Expenditures:** Capital expenditures focus largely on supporting innovation and product development, improving operational reliability, and strengthening our ability to support all aspects of growth in the American whiskey category.

Select Inventories: As demand grows for American whiskeys, in both the United States and global markets, we are building our inventories of aged premium whiskeys to fully participate in this growth. This initiative helps us build strong partnerships and open new relationships with potential customers, in addition to supporting the development of our own brands.

- **Selling, General, and Administrative Expenses ("SG&A"):** As needed to support our long-term growth objectives, resources and capabilities are being added, particularly in sales and marketing.

Accomplishments

Regarding our Capital Expenditures growth strategy:

In 2018, we continued our warehouse expansion program as part of the implementation of our strategic plan to support the growth of the American whiskey category. The program includes both the refurbishment of existing warehouse buildings and the construction of new warehouses. We invested over \$18,000 in this program in capital expenditures during 2018 and approximately \$44,000 since the program's inception.

Regarding our Select Inventories growth strategy:

Given the available and anticipated barrel inventory capacity of our warehouses, we produce, and will continue to produce, certain volumes of premium bourbon and rye whiskeys that are in addition to current customer demand. Product is barreled and included in our inventory. Our goal is to maintain inventory levels of premium bourbon and rye whiskeys sufficient to support our own brands, engage in partnerships, and support industry growth. We increased our premium bourbon and rye whiskey inventory by \$10,648, at cost, during 2018.

Regarding our SG&A growth strategy:

We continued to invest in people and programs to support the development of our MGP brands platform and our long-term growth objectives.

Operational Excellence. We continue a solid commitment to operational excellence across the Company by strengthening our emphasis on excellence in all stages of operations, from sourcing through processing and, ultimately, delivering the finest quality products. This also means striving to de-risk all aspects of our business.

Accomplishments

In February 2018, a new employee-centric initiative designed to raise Company safety practices to a world-class level was announced. Called Safety Up, and supported by the motto It starts with us, the program focuses on employee engagement, awareness, and standardization to consistently keep on-the-job safety top of mind across all areas of the Company. It is intended to move safety assurance into deeper and broader dimensions, giving each employee and teams of employees greater ability to act more swiftly on safety-related matters.

In 2018, we completed a British Retail Consortium ("BRC") audit with outstanding results, achieving a Grade AA rating for both our Atchison and Lawrenceburg facilities. Per the BRC standard, a Grade AA is awarded if five or fewer non-conformances are cited out of 256 total audit items, and our Atchison facility received zero non-conformances. Each year since undergoing its initial BRC audit in 2013, the Atchison facility's distillery has achieved BRC's highest grade. The same is true with results of annual BRC audits that have been conducted at our Lawrenceburg facility since 2014. For the Atchison facility's protein and starch plant, 2018 marked the eighth time in as many years that it had scored the BRC's highest rating.

Build the MGP Brand. We continue to build our brand across all stakeholders, including shareholders, employees, partners, consumers, and communities. We are achieving this by producing consistent growth through an understandable business model, proactively engaging with the investment community, creating a desirable organization for our employees, strengthening our relationship with our customers and vendors, increasing awareness and understanding of MGP with consumers, and supporting the communities in which we operate.

Accomplishments

In June 2018, Augustus Griffin (President and Chief Executive Officer), Karen Seaberg (Chairman of the Board), and Cloud L. Cray, Jr. (Chairman Emeritus) were winners in the Ernst & Young, LLP Entrepreneur of the Year 2018 Heartland Awards in Minneapolis, Minnesota. The award recognizes leaders of successful, growing and dynamic businesses who break the mold to create new solutions, innovations and possibilities.

In November 2018, MGP Board of Directors member, Jeannine Strandjord, was named a Director of the Year by the National Association of Corporate Directors, an organization representing 19,000 corporate board members. The honor, given to only two corporate directors, honored Strandjord for her integrity, mature confidence and high ethical standards, among other attributes.

In 2018, we continued our unbroken commitment to support our communities by providing strong financial support and donating time and leadership talent.

Through a three-year agreement that took effect April 1, we made a commitment to renewable energy through Westar Wind, a Green e-certified program offered by Westar Energy. As a result, total electric usage at our facilities in Atchison and Lawrenceburg will be offset by green energy provided by Westar's wind resources in Kansas.

In April, we eliminated the use of all styrofoam and single use plastics, such as cups, plates, utensils, straws and stirrers, at our facilities, replacing those items with compostable and biodegradable alternatives. Timed in alignment with the international observance of Earth Day, this move represents another step in our overall sustainability initiative.

RESULTS OF OPERATIONS

Consolidated results

The table below details the consolidated results for 2018 and 2017 and 2016:

	December 31,			% Increase (Decrease)	
	2018	2017	2016	2018 v. 2017	2017 v. 2016
Net sales	\$376,089	\$347,448	\$318,263	8.2 %	9.2 %
Cost of sales	292,490	271,432	252,980	7.8	7.3
Gross profit	83,599	76,016	65,283	10.0	16.4
Gross margin %	22.2 %	21.9 %	20.5 %	0.3 %	1.4 % ^{pp(a)}
SG&A expenses	33,451	33,107	26,693	1.0	24.0
Other operating income, net	—	—	(3,385)	N/A	N/A
Operating income	50,148	42,909	41,975	16.9	2.2
Operating margin %	13.3 %	12.3 %	13.2 %	1.0 %	(0.9) % ^{pp}
Gain on sale of equity method investment	—	11,381	—	(100.0)	N/A
Equity method investment earnings (loss)	—	(348)	4,036	100.0	(108.6)
Interest expense, net	(1,168)	(1,184)	(1,294)	(1.4)	(8.5)
Income before income taxes	48,980	52,758	44,717	(7.2)	18.0
Income tax expense	11,696	10,935	13,533	7.0	(19.2)
Effective tax expense rate %	23.9 %	20.7 %	30.3 %	3.2 %	(9.6) % ^{pp}
Net income	\$37,284	\$41,823	\$31,184	(10.9) %	34.1 %
Net income margin %	9.9 %	12.0 %	9.8 %	(2.1) %	2.2 % ^{pp}
Basic and diluted EPS	\$2.17	\$2.44	\$1.82	(11.1) %	34.1 %

(a) Percentage points ("pp").

Net sales

2018 to 2017 - Net sales for 2018 were \$376,089, an increase of 8.2 percent compared to 2017, which was the result of increased net sales in both segments. Within the distillery segment, net sales were up 7.9 percent. Driven by continued strong demand, net sales of premium beverage alcohol products within food grade alcohol increased 5.9 percent. Industrial alcohol product net sales increased 5.2 percent, contributing to an overall food grade alcohol net sales increase of 5.7 percent. Net sales of distillers feed and related co-products and warehouse services revenue both increased and the gains were partially offset by a small decline in the net sales of fuel grade alcohol products. Total ingredient solutions net sales increased 9.9 percent. This increase was driven by higher net sales across all ingredient solutions product categories, with the largest increases in commodity wheat proteins and specialty wheat proteins.

2017 to 2016 - Net sales for 2017 were \$347,448, an increase of 9.2 percent compared to 2016, which was the result of increased net sales in both segments. Within the distillery segment, net sales were up 9.7 percent. Driven by strong demand, net sales of higher margin premium beverage alcohol products increased 18.4 percent, partially offset by a decline in industrial alcohol net sales, which resulted in a net increase in total food grade alcohol net sales of 11.9 percent. Warehouse services revenue related to the storage of barreled whiskey also increased, while lower margin distillers feed and related co-products net sales declined. Within the ingredient solutions segment, net sales were up 6.5 percent. Specialty wheat starches, commodity wheat starches, and specialty wheat proteins increased, while net

sales of commodity wheat proteins declined.

Gross profit

2018 to 2017 - Gross profit for 2018 was \$83,599, an increase of 10.0 percent compared to 2017. The increase was driven by an increase in gross profit in both segments. In the distillery products segment, gross profit grew by \$4,976, or 7.4 percent. In the ingredient solutions segment, gross profit grew by \$2,607, or 28.3 percent.

2017 to 2016 - Gross profit for 2017 was \$76,016, an increase of 16.4 percent compared to 2016. The increase was driven by an increase in gross profit in both segments. In the distillery products segment, gross profit grew by \$9,981, or 17.6 percent. In the ingredient solutions segment, gross profit grew by \$752, or 8.9 percent.

SG&A expenses

2018 to 2017 - SG&A expenses for 2018 were \$33,451, an increase of 1.0 percent compared to 2017. The increase in SG&A was primarily due to investments in the MGP brands platform (personnel costs and advertising and promotion).

2017 to 2016 - SG&A expenses for 2017 were \$33,107, an increase of 24.0 percent compared to 2016. The increase in SG&A was primarily due to investments in the MGP brands platform (personnel costs and advertising and promotion) and an increase in incentive compensation.

Operating income

Operating income, year versus year	Operating income	% Increase (Decrease)	Operating income	% Increase (Decrease)
Operating income for 2017 and 2016	\$42,909		\$41,975	
Increase in gross profit - distillery products segment ^(a)	4,976	11.6 pp ^(b)	9,981	23.8 pp ^(b)
Increase in gross profit - ingredient solutions segment ^(a)	2,607	6.1 pp	752	1.8 pp
Change in SG&A expenses	(344)	(0.8) pp	(6,414)	(15.3) pp
Change in other operating income, net	—	—	(3,385)	(8.1) pp
Operating income for 2018 and 2017	\$50,148	16.9 %	\$42,909	2.2 %

^(a) See segment discussion.

^(b) Percentage points ("pp").

2018 to 2017 - Operating income for 2018 increased to \$50,148 from \$42,909 for 2017, due to gross profit growth in both our distillery products and ingredient solutions segments, partially offset by an increase in SG&A expenses.

2017 to 2016 - Operating income for 2017 increased to \$42,909 from \$41,975 for 2016, due to gross profit growth in both our distillery products and ingredient solutions segments, partially offset by an increase in SG&A expenses and a decrease in other operating income, net (primarily income recorded related to a legal settlement agreement and a gain on sale of long-lived assets recorded in 2016).

Gain on sale of equity method investment

2018 to 2017 - There was no Gain on sale of equity method investment for 2018 compared to \$11,381 in 2017, due to the sale of our equity ownership interest in ICP to Pacific Ethanol in that year. As of December 31, 2018, the Company's equity method investments were zero (Note 4).

2017 to 2016 - On July 3, 2017, we completed the sale of our 30 percent equity ownership interest in ICP to Pacific Ethanol, consistent with a Merger Agreement entered into on June 26, 2017. Our total transaction proceeds from the ICP sale transaction represented a return of our investment in ICP of \$22,832 (net of fees and including additional dividends), which included a gain on sale of equity method investment of \$11,381 (before tax) (Note 4).

Equity method investment earnings (loss)

2018 to 2017 - Our equity method investment earnings were \$0 for 2018, and a loss of \$348 for 2017. The improvement was due to the sale of our equity ownership interest in ICP (Note 4).

2017 to 2016 - Our equity method investment earnings decreased to a loss of \$348 for 2017, from earnings of \$4,036 for 2016. The decrease was due to the sale of our 30 percent equity ownership interest in ICP on July 3, 2017, resulting in the gain on sale of equity method investment described above, as well as lower operating results (Note 4).

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Income tax expense

2018 to 2017 - Income tax expense for 2018 was \$11,696, for an effective tax rate for the year of 23.9 percent. Income tax expense for 2017 was \$10,935, for an effective tax rate for the year of 20.7 percent. The principal reasons for the 3.2 percentage point increase in the effective tax rate, year versus year, are the tax impact caused by the re-measurement of our deferred tax assets and liabilities directly into income tax expense from continuing operations at December 31, 2017, the reduction in the tax impact of vested share-based awards, the loss of the Domestic Production Activities Deduction as required by the Tax Cuts and Jobs Act (the "Tax Act"), a change in estimate related to the sale of the Company's equity ownership interest in ICP during 2017, an increase in the Company's valuation allowance, and lower state income tax credits. These effects were partially offset by the 14 percent rate reduction enacted by the Tax Act, and by the Company not being subject to certain compensation deduction limits as updated by the Tax Act and subsequent guidance issued by the Internal Revenue Service in 2018 (Note 6).

In December 2017, the United States enacted tax reform legislation, the Tax Act, that resulted in significant modifications to existing law. The Tax Act established new tax laws or modified existing tax laws starting in 2018, including, but not limited to, (1) reducing the federal corporate income tax rate to a flat 21 percent rate, (2) eliminating the corporate alternative minimum tax, (3) repealing the domestic production activity deduction, (4) adding a new limitation on deductible interest, (5) changing the limitations on the deductibility of certain executive compensation, and (6) starting in the quarter ended September 30, 2017, changing the bonus depreciation rules to allow full expensing of qualified property. The Securities and Exchange Commission ("SEC") issued guidance, Staff Accounting Bulletin ("SAB") 118, on the financial accounting impact of the Tax Act. Following SAB 118, the Company recorded a provisional discrete net tax benefit in its Consolidated Statements of Income through net income of \$3,343 in 2017. As of December 31, 2018, the accounting for the Tax Act is complete, the Company has not recorded a measurement period adjustment, and the discrete net benefit recorded in 2017 is final. All carrying values for deferred tax assets, liabilities, and corresponding valuation allowances for 2017 and 2018 reflected in the Consolidated Balance Sheets reflect the Tax Act based on the accounting being complete, with no measurement period adjustment required.

2017 to 2016 - Income tax expense for 2017 was \$10,935, for an effective tax rate for the year of 20.7 percent. Income tax expense for 2016 was \$13,533, for an effective tax rate for the year of 30.3 percent. The principal reasons for the 9.6 percentage point reduction in the effective tax rate, year versus year, are a provisional re-measurement of our deferred tax assets and liabilities directly into income tax expense based on the Tax Act, the impact of our adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting, and state tax planning (Note 6).

Basic and diluted EPS

	Basic and Diluted EPS	% Increase (Decrease)	Basic and Diluted EPS	% Increase (Decrease)	
Change in basic and diluted EPS, year versus year					
Basic and diluted EPS for 2017 and 2016	\$ 2.44		\$ 1.82		
Change in operating income:					
Operations ^(a)	0.27	11.1	pp ^(b) 0.17	9.3	pp ^(b)
Other operating income, net ^(a)	—	—	pp (0.13)	(7.1)	pp
Gain on sale of equity method investment (Note 4) ^(c)	(0.44)	(18.0)	pp 0.44	24.2	pp
Change in equity method investment earnings (loss) ^(a)	0.01	0.4	pp (0.17)	(9.3)	pp
Change in income attributable to participating securities ^(d)	0.02	0.8	pp —	—	pp

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Change in weighted average shares outstanding ^(d)	(0.01)	(0.4)	pp	(0.02)	(1.1)	pp
Tax: Effect of Tax Act on deferred tax attributes ^(e)	(0.19)	(7.8)	pp	0.19	10.4	pp
Tax: Change in discrete items (excluding effect of Tax Act)	(0.30)	(12.3)	pp	0.11	6.0	pp
Tax: Change in effective tax rate (excluding tax items above)	0.37	15.1	pp	0.03	1.7	pp
Basic and diluted EPS for 2018 and 2017	\$ 2.17	(11.1)%		\$ 2.44	34.1 %	

(a) Items are net of tax based on the effective tax rate for each base year, excluding the effect of the Tax Act and other discrete tax items on the 2017 rate and the adoption of ASU 2016-09 on the 2016 rate.

(b) Percentage points ("pp").

(c) Item is net of tax based on the effective tax rate for the transaction.

(d) Income attributable to participating securities changes primarily due to the awarding and vesting of the employee RSUs that receive dividend equivalent payments. Weighted average shares outstanding change primarily due to the vesting of employee RSUs, the granting of Common Stock to directors, our purchase of vested RSUs from employees to pay withholding taxes, and our repurchases of Common Stock.

(e) On December 22, 2017, the United States enacted tax reform legislation, the Tax Act, that resulted in significant modifications to existing law. Following guidance in SAB 118, we recorded a provisional discrete net tax benefit resulting from the revaluation of our deferred income taxes in 2017 (Note 6). The accounting for the Tax Act was completed in 2018 and the discrete net benefit recorded in 2017 is no longer provisional.

2018 to 2017 - EPS decreased to \$2.17 in 2018 from \$2.44 in 2017, primarily due to the gain on sale of equity method investment in 2017 (Note 4), partially offset by improved performance from operations.

2017 to 2016 - EPS increased to \$2.44 in 2017 from \$1.82 in 2016, primarily due to the gain on sale of equity method investment (Note 4), the effect on tax expense of the new Tax Act legislation (Note 6), improved performance from operations, and the change in the tax effect of the implementation of ASU No. 2016-09, Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting, partially offset by a decrease in equity method investment earnings (Note 4), a decline in other operating income, net (the 2016 favorable legal settlement agreement and gain on sale of long-lived assets), and an increase in weighted average shares outstanding.

DISTILLERY PRODUCTS SEGMENT

DISTILLERY PRODUCTS NET SALES

	Year Ended December 31,		Year-versus-Year Net Sales Change Increase/ (Decrease)	
	2018 Amount	2017 Amount	\$ Change	% Change
Brown Goods	\$125,857	\$113,413	\$12,444	11.0 %
White Goods	62,574	64,585	(2,011)	(3.1)
Premium beverage alcohol	188,431	177,998	10,433	5.9
Industrial alcohol	80,650	76,636	4,014	5.2
Food grade alcohol	269,081	254,634	14,447	5.7
Fuel grade alcohol	6,347	6,368	(21)	(0.3)
Distillers feed and related co-products	25,698	19,332	6,366	32.9
Warehouse services	12,929	10,674	2,255	21.1
Total distillery products	\$314,055	\$291,008	\$23,047	7.9 %

Change in Year-versus-Year Net Sales Attributed to:

	Total	Volume	Net Price/Mix
Premium beverage alcohol	5.9%	(0.9)%	6.8%

Other Financial Information

	Year Ended December 31,		Year-versus-Year Increase/(Decrease)	
	2018	2017	Change	% Change
Gross profit	\$71,793	\$66,817	\$4,976	7.4 %
Gross margin %	22.9	% 23.0	% (0.1)	pp ^(a)

^(a) Percentage points ("pp")

2018 compared to 2017

Total net sales of distillery products increased year versus year by \$23,047, or 7.9 percent. Driven by continued strong demand, net sales of premium beverage alcohol products within food grade alcohol increased 5.9 percent over 2017, primarily due to an 11.0 percent increase in brown goods net sales. Industrial alcohol product net sales increased 5.2 percent, contributing to an overall food grade alcohol net sales increase of 5.7 percent. Industrial alcohol net sales growth was driven by volume as the average selling price was down due to more difficult market conditions. Net sales of distillers feed and related co-products increased due to a higher average selling price reflecting improved market conditions during the year. An increase in warehouse services revenue was partially offset by a small decline in the net sales of fuel grade alcohol products.

Gross profit increased year versus year by \$4,976, or 7.4 percent. Gross margin for 2018 remained consistent at 22.9 percent compared to 23.0 percent for 2017. The improvement in gross profit was primarily due to increased net sales of brown goods products, higher gross profit on net sales of distillers feed and related co-products, and an increase in warehouse services revenue. These gains were partially offset primarily by increased input costs and lower gross profit on net sales of white goods, industrial, and fuel grade alcohol products.

DISTILLERY PRODUCTS NET SALES

	Year Ended December 31,		Year-versus-Year Net Sales Change Increase/ (Decrease)	Year-versus-Year Volume Change ^(a)	
	2017 Amount	2016 Amount	\$ Change	% Change	% Change
Premium beverage alcohol	\$177,998	\$150,364	\$27,634	18.4	%
Industrial alcohol	76,636	77,290	(654)	(0.8)	
Food grade alcohol ^(a)	254,634	227,654	26,980	11.9	
Fuel grade alcohol ^(a)	6,368	7,372	(1,004)	(13.6)	
Distillers feed and related co-products	19,332	21,780	(2,448)	(11.2)	
Warehouse services	10,674	8,437	2,237	26.5	
Total distillery products	\$291,008	\$265,243	\$25,765	9.7	% 9.2 %

^(a) Volume change for alcohol products

	Year Ended December 31,		Year-versus-Year Increase/(Decrease)	
	2017	2016	Change	% Change
Gross profit	\$66,817	\$56,836	\$9,981	17.6 %
Gross margin %	23.0	% 21.4	% 1.6	pp ^(b)

^(b) Percentage points ("pp")

2017 compared to 2016

Driven by strong demand, net sales of higher margin premium beverage alcohol products within food grade alcohol increased 18.4 percent over 2016, while lower margin industrial alcohol product net sales decreased 0.8 percent, resulting in an overall food grade alcohol net sales increase of \$26,980, or 11.9 percent. Declines in net sales of distillers feed and related co-products and fuel grade alcohol products were partially offset by an increase in warehouse services revenue, generated by increased storage of customer barrels of whiskey.

Gross profit increased year versus year by \$9,981, or 17.6 percent. Gross margin for 2017 increased to 23.0 percent from 21.4 percent for 2016. The improvement in gross profit was primarily due to increased sales of higher margin premium beverage alcohol products, a net decline in input costs, and an increase in warehouse services revenue. These gains were partially offset primarily by lower gross profit on distillers feed and related co-products and industrial alcohol.

INGREDIENT SOLUTIONS SEGMENT

INGREDIENT SOLUTIONS NET SALES

	Year Ended December 31,		Year-versus-Year Net Sales Change Increase/ (Decrease)	
	2018 Amount	2017 Amount	\$ Change	% Change
Specialty wheat starches	\$28,594	\$28,092	\$502	1.8 %
Specialty wheat proteins	21,098	19,458	1,640	8.4
Commodity wheat starches	9,223	8,288	935	11.3
Commodity wheat proteins	3,119	602	2,517	418.1
Total ingredient solutions	\$62,034	\$56,440	\$5,594	9.9 %

Change in Year-versus-Year
Net Sales Attributed to:

	Total	Volume	Net Price/Mix
Total ingredient solutions	9.9%	1.7%	8.2%

Other Financial Information

	Year Ended December 31,		Year-versus-year Increase/Decrease	
	2018	2017	Change	% Change
Gross profit	\$11,806	\$9,199	\$2,607	28.3 %
Gross margin %	19.0 %	16.3 %	2.7 %	pp ^(a)

^(a) Percentage points ("pp")

2018 compared to 2017

Total ingredient solutions net sales for 2018 increased by \$5,594, or 9.9 percent, compared to 2017. This increase was driven by higher net sales across all product categories, with the largest increases in commodity wheat proteins and specialty wheat proteins, year versus year. The increase in net sales of wheat proteins was driven by strong demand for the Company's plant-based protein products.

Gross profit increased year versus year by \$2,607, or 28.3 percent. Gross margin for 2018 increased to 19.0 percent from 16.3 percent for 2017. The increase in gross profit was primarily due to higher gross profits on specialty wheat proteins and starches and commodity wheat proteins, partially offset by lower gross profits on commodity wheat starches. Overall gross profit growth was aided by improved plant efficiencies relative to the prior year.

INGREDIENT SOLUTIONS NET SALES

	Year Ended December 31,		Year-versus-Year Net Sales Change Increase/ (Decrease)		Year-versus-Year Volume Change	
	2017 Amount	2016 Amount	\$ Change	% Change	% Change	% Change
Specialty wheat starches	\$28,092	\$26,803	\$1,289	4.8	%	
Specialty wheat proteins	19,458	18,211	1,247	6.8		
Commodity wheat starches	8,288	7,002	1,286	18.4		
Commodity wheat proteins	602	1,004	(402)	(40.0)		
Total ingredient solutions	\$56,440	\$53,020	\$3,420	6.5	%	13.3 %

Other Financial Information

	Year Ended December 31,		Year-versus-year Increase/Decrease	
	2017	2016	Change	% Change
Gross profit	\$9,199	\$8,447	\$752	8.9 %
Gross margin %	16.3 %	15.9 %	0.4 pp ^(a)	

(a) Percentage points ("pp")

2017 compared to 2016

Total ingredient solutions net sales for 2017 increased by \$3,420, or 6.5 percent, compared to 2016. This increase was primarily driven by increased net sales of specialty wheat starches, commodity wheat starches, and specialty wheat proteins, partially offset by decreased net sales of commodity wheat proteins, year versus year.

Gross profit increased year versus year by \$752, or 8.9 percent. Gross margin for 2017 increased to 16.3 percent from 15.9 percent for 2016. The improvement in gross profit was primarily due to a net decline in input costs, partially offset by a lower average selling price.

CASH FLOW, FINANCIAL CONDITION AND LIQUIDITY

We believe our financial condition continues to be of high quality, as evidenced by our ability to generate adequate cash from operations while having ready access to capital at competitive rates.

Operating cash flow and debt through our Credit Agreement and Note Purchase Agreement (Note 5) provide the primary sources of cash to fund operating needs and capital expenditures. These same sources of cash are used to fund shareholder dividends and other discretionary uses. Going forward, we expect to use cash to implement our invest to grow strategy, particularly in the distillery products segment. Our overall liquidity reflects our strong business results and an effective cash management strategy that takes into account liquidity management, economic factors, and tax considerations. We expect our sources of cash, including our Credit Agreement and Note Purchase Agreement, to be adequate to provide for budgeted capital expenditures and anticipated operating requirements for the foreseeable future.

Cash Flow Summary	Year Ended December 31,			Changes, Year versus	
	2018	2017	2016	Year-Increase / (Decrease) 2018 vs. 2017	2017 vs. 2016
Cash provided by operating activities:					
Net income, after giving effect to adjustments to reconcile net income to net cash provided by operating activities	\$53,410	\$48,444	\$43,682	\$4,966	\$4,762
Receivables, net	(4,450)	(8,262)	4,585	3,812	(12,847)
Inventory	(15,620)	(14,291)	(20,106)	(1,329)	5,815
Prepaid expenses	862	(498)	(622)	1,360	124
Accrued expenses	551	2,278	(1,407)	(1,727)	3,685
Income taxes payable/refundable	1,268	725	(3,390)	543	4,115
Accounts payable and accounts payable to affiliate, net	(2,542)	6,191	(2,120)	(8,733)	8,311
Other, net	2	(1,116)	(901)	1,118	(215)
Total	\$33,481	\$33,471	\$19,721	\$10	\$13,750
Cash provided by (used in) investing activities:					
Additions to property, plant, and equipment	(31,046)	(21,055)	(17,922)	(9,991)	(3,133)
Divestiture of equity method investment, net	—	22,832	351	(22,832)	22,481
Proceeds from sale of property and other	—	—	1,209	—	(1,209)
Acquisition of George Remus®	—	—	(1,551)	—	1,551
Other	—	—	230	—	(230)
Total	\$(31,046)	\$1,777	\$(17,683)	\$(32,823)	\$19,460
Cash used in financing activities:					
Payment of dividends and dividend equivalents	(5,500)	(17,380)	(2,066)	11,880	(15,314)
Purchase of treasury stock for tax withholding on share-based compensation	(2,324)	(4,663)	(1,518)	2,339	(3,145)
Proceeds (payments) on debt:					
Principal payments on long-term debt	(372)	(358)	(2,346)	(14)	1,988
Proceeds on long-term debt	—	20,000	—	(20,000)	20,000
Proceeds from credit agreement - revolver	28,966	25,930	27,184	3,036	(1,254)
Payments on credit agreement - revolver	(21,264)	(56,885)	(22,356)	35,621	(34,529)
Proceeds (payments) on debt, net	7,330	(11,313)	2,482	18,643	(13,795)

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Other	—	(377)	(114)	377	(263)
Total	\$(494)	\$(33,733)	\$(1,216)	\$33,239	\$(32,517)
Increase in cash and cash equivalents	\$1,941	\$1,515	\$822	\$426	\$693

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Changes, 2018 versus 2017. Cash increased \$1,941 in 2018 compared to an increase of \$1,515 in 2017, for a net increase in cash of \$426, year versus year.

Cash provided by operating activities for year ended December 31, 2018 was \$33,481, which was consistent with cash provided by operating activities of \$33,471 for year ended December 31, 2017. Increases in cash flows, year versus year, were mainly due to the change in net income, after giving effect to adjustments to reconcile net income to net cash provided by operating activities of \$4,966; the change in receivables, net, of \$3,812, primarily due to the relative timing of net sales in the comparative periods; and the change in prepaid expenses of \$1,360, primarily due to the timing of payments related to future services. Increases in cash flows were offset by cash flow decreases, year versus year, mainly due to the change in accounts payable and accounts payable to affiliate, net, of \$8,733, related to the timing of operating expense cash disbursements, as well as the normalization of the timing of cash disbursements that were related to operating expenses associated with the relative timing of net sales in the comparative periods; the change in accrued expenses of \$1,727, reflecting payment of incentive compensation; and the change in inventory of \$1,329, primarily due to the change in inventory categories including finished goods, and raw materials.

Cash used in investing activities for year ended December 31, 2018 was \$31,046, compared to cash provided by investing activities of \$1,777 for year ended December 31, 2017, resulting in decreased cash flows, year versus year, of \$32,823. Cash flow decreases were mainly due to the proceeds from divestiture of equity method investment for year ended December 31, 2017 of \$22,832, as well as an increase in additions to property, plant, and equipment in 2018 of \$9,991 (see Capital Spending).

Cash used in financing activities for year ended December 31, 2018 was \$494, compared to cash used in financing activities of \$33,733 for year ended December 31, 2017, reflecting increased cash flows, year versus year, of \$33,239. Increases in cash flows were mainly due to higher proceeds from debt of \$18,643 (see Long-Term and Short-Term Debt), a decrease in dividends and dividend equivalents of \$11,880 (see Dividends and Dividend Equivalents), and decreased purchases of treasury stock for tax withholding on share-based compensation of \$2,339 (see Treasury Purchases).

Changes, 2017 versus 2016. Cash increased \$1,515 in 2017 compared to an increase of \$822 in 2016, for a net increase in cash of \$693, year versus year.

Cash provided by operating activities for year ended December 31, 2017 was \$33,471, compared to cash provided by operating activities of \$19,721 for year ended December 31, 2016, resulting in increased cash flows, year versus year, of \$13,750. Increases in cash flows were mainly from the change in accounts payable and accounts payable to affiliate, net, of \$8,311, primarily due to the timing of cash disbursements related to operating expenses associated with increased net sales in December 2017 compared to December 2016 (the accounts payable to affiliate, net, decreased to zero when we sold our equity ownership interest in ICP on July 3, 2017 as detailed in Note 4); the change in inventory of \$5,815, primarily due to inventory categories remaining flat or decreasing in 2017, except barreled distillate inventory for aging, which increased \$14,785; the change in net income, after giving effect to adjustments to reconcile net income to net cash provided by operating activities of \$4,762; the change in refundable income taxes of \$4,115, primarily due to the use of certain tax attributes, including net operating losses and the timing of estimated tax payments; and the change in accrued expenses of \$3,685, primarily due to increases in incentive compensation and personnel costs. Increases in cash flows were partially offset by cash flow decreases, mainly related to the change in receivables, net, of \$12,847, primarily due to higher net sales in December 2017 compared to December 2016.

Cash provided by investing activities for year ended December 31, 2017 was \$1,777, compared to cash used in investing activities of \$17,683 for year ended December 31, 2016, resulting in increased cash flows, year versus year, of \$19,460. Increases in cash flows were mainly from the sale of our equity ownership interest in ICP during 2017, which resulted in a return of equity method investment of \$22,832 (Note 4), as well as the absence of cash used for the acquisition of George Remus[®], year versus year, of \$1,551. Increases in cash flows were partially offset by cash flow decreases, mainly related to an increase in additions to property, plant, and equipment of \$3,133, as well as the absence of proceeds from the sale of property and other and the return of our DMI joint venture investment, year versus year, of \$1,560 (Note 4). The increase in additions to property, plant, and equipment was primarily due to capital expenditures related to the warehouse expansion program (see Capital Spending).

Cash used in financing activities for year ended December 31, 2017 was \$33,733, compared to cash used in financing activities of \$1,216 for year ended December 31, 2016, resulting in decreased cash flows, year versus year, of \$32,517. Decreases in cash flows were mainly from an increase in payments on our credit agreement - revolver of \$34,529 (see Long-Term and Short-Term Debt), an increase in payment of dividends and dividend equivalents of \$15,314 (see Dividends and Dividend Equivalents), an increase in purchase of treasury stock of \$3,145 (see Treasury Purchases), and a decrease in proceeds from the credit agreement - revolver of \$1,254. Decreases in cash flows were partially offset by cash flow increases from proceeds on long-term debt of \$20,000 and the change in principal payments on long-term debt of \$1,988 (see Long-Term and Short-Term Debt).

Capital Spending. We manage capital spending to support our business growth plans. Investments in plant, property and equipment were \$31,046, \$21,055, and \$17,922, respectively, for years ended December 31, 2018, 2017, and 2016. Adjusted for the change in capital expenditures in accounts payable for years ended December 31, 2018, 2017, and 2016 of (\$2,133), \$158, and \$2,580, respectively, total capital expenditures were \$28,913, \$21,213, and \$20,502, respectively. We expect approximately \$23,000 in capital expenditures in 2019 for facility improvement and expansion (including warehouse expansion), facility sustenance projects, and environmental health and safety projects.

As part of our strategic plan to support the growth of the American Whiskey category, we previously announced a \$33,800 warehouse expansion project. Based on the continued strong growth in the American Whiskey category and demand for our products, and as announced in 2018, we expanded the scope of the project and added an incremental investment of approximately \$18,000, bringing our total warehouse expansion project investment to approximately \$51,800. As of December 31, 2018, we had incurred approximately \$44,000 of the total investment. The estimated project completion date is by the end of calendar year 2020.

Treasury Purchases. 80,343 RSUs vested and converted to common shares during year ended December 31, 2018, of which we withheld and purchased for treasury 27,214 shares valued at \$2,324 to cover payment of associated withholding taxes.

203,000 RSUs vested and converted to common shares during year ended December 31, 2017, of which we withheld and purchased for treasury 74,132 shares valued at \$4,663 to cover payment of associated withholding taxes.

We purchased restricted stock during 2016 from employees to cover associated withholding taxes on vestings of share-based awards. Total purchases added 40,870 shares valued at \$1,518 to treasury.

Long-Term and Short-Term Debt. We maintain debt levels we consider appropriate after evaluating a number of factors, including cash flow expectations, cash requirements for ongoing operations, investment and financing plans (including brand development, share repurchases, and Board-approved dividends) and the overall cost of capital. Total debt was \$32,014 (net of unamortized loan fees of \$580) at December 31, 2018 and \$24,554 (net of unamortized loan fees of \$710) at December 31, 2017. During 2018, 2017, and 2016, we had net borrowings / (payments) on our Credit Agreement of \$7,702, \$(30,955), and \$4,828, and net borrowings / (payments) on our long-term debt of \$(372), \$19,642, and \$(2,346), respectively. Net borrowings / (payments) on all debt for 2018, 2017, and 2016 were \$7,330, \$(11,313), and \$2,482, respectively (Note 5).

Dividends and Dividend Equivalents

Dividend and Dividend Equivalent Information (per Share and Unit)

Declaration date	Record date	Payment date	Declared	Paid	Dividend payment	Dividend equivalent payment ^{(a)(b)}	Total payment ^(b)
2018							
February 21	March 9	March 23	\$ 0.08	\$0.08	\$ 1,348	\$ 27	\$ 1,375
April 30	May 16	June 1	0.08	0.08	1,348	27	1,375
July 31	August 16	August 31	0.08	0.08	1,348	27	1,375
October 30	November 15	November 30	0.08	0.08	1,349	26	1,375
			\$ 0.32	\$0.32	\$ 5,393	\$ 107	\$ 5,500
2017							
February 15	March 1	March 24	\$ 0.04	\$0.04	\$ 668	\$ 20	\$ 688
May 2	May 15	June 9	0.04	0.04	668	20	688
August 1	August 18	September 8	0.85	0.85	14,215	413	14,628
August 1	August 18	September 11	0.04	0.04	669	19	688
October 31	November 14	December 8	0.04	0.04	669	19	688
			\$ 1.01	\$1.01	\$ 16,889	\$ 491	\$ 17,380
2016							
March 7	March 21	April 14	\$ 0.08	\$0.08	\$ 1,335		