

PUBLIX SUPER MARKETS INC
Form 10-Q
May 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 26, 2016
Commission File Number 0-00981

PUBLIX SUPER MARKETS, INC.
(Exact name of Registrant as specified in its charter)
Florida 59-0324412
(State of incorporation) (I.R.S. Employer Identification No.)

3300 Publix Corporate Parkway 33811
Lakeland, Florida
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (863) 688-1188

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the Registrant's common stock outstanding as of April 15, 2016 was 773,551,000.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PUBLIX SUPER MARKETS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts are in thousands, except par value)

| | March 26, 2016 (Unaudited) | December 26, 2015 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$493,677 | 352,176 |
| Short-term investments | 1,402,034 | 1,376,698 |
| Trade receivables | 724,195 | 723,685 |
| Merchandise inventories | 1,623,332 | 1,740,513 |
| Deferred tax assets | 53,110 | 51,216 |
| Prepaid expenses | 38,106 | 70,145 |
| Total current assets | 4,334,454 | 4,314,433 |
| Long-term investments | 5,665,497 | 5,226,236 |
| Other noncurrent assets | 423,819 | 431,311 |
| Property, plant and equipment | 11,006,159 | 10,712,312 |
| Accumulated depreciation | (4,425,873) | (4,325,014) |
| Net property, plant and equipment | 6,580,286 | 6,387,298 |
| | \$17,004,056 | 16,359,278 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$1,650,496 | 1,675,858 |
| Accrued expenses: | | |
| Contributions to retirement plans | 271,384 | 513,072 |
| Self-insurance reserves | 135,871 | 135,865 |
| Salaries and wages | 180,325 | 131,253 |
| Other | 410,861 | 380,314 |
| Current portion of long-term debt | 46,251 | 56,693 |
| Federal and state income taxes | 229,051 | 9,634 |
| Total current liabilities | 2,924,239 | 2,902,689 |
| Deferred tax liabilities | 436,660 | 425,132 |
| Self-insurance reserves | 214,314 | 214,474 |
| Accrued postretirement benefit cost | 101,762 | 101,725 |
| Long-term debt | 171,398 | 179,753 |
| Other noncurrent liabilities | 102,323 | 104,243 |
| Total liabilities | 3,950,696 | 3,928,016 |
| Common stock related to Employee Stock Ownership Plan (ESOP) | 3,425,381 | 2,953,878 |
| Stockholders' equity: | | |
| Common stock of \$1 par value. Authorized 1,000,000 shares; issued 776,025 shares in 2016 and 770,175 shares in 2015 | 776,025 | 770,175 |
| Additional paid-in capital | 2,823,792 | 2,556,391 |
| Retained earnings | 9,469,429 | 9,041,497 |
| Treasury stock at cost, 1,913 shares in 2016 | (86,471) | — |
| Accumulated other comprehensive earnings | 33,738 | 26,268 |
| Common stock related to ESOP | (3,425,381) | (2,953,878) |

Edgar Filing: PUBLIX SUPER MARKETS INC - Form 10-Q

| | | |
|----------------------------|--------------|------------|
| Total stockholders' equity | 9,591,132 | 9,440,453 |
| Noncontrolling interests | 36,847 | 36,931 |
| Total equity | 13,053,360 | 12,431,262 |
| | \$17,004,056 | 16,359,278 |

See accompanying notes to condensed consolidated financial statements.

1

PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (Amounts are in thousands, except per share amounts)

| | Three Months Ended | |
|---------------------------------------|--------------------|-------------------|
| | March 26, 2016 | March 28, 2015 |
| | (Unaudited) | |
| Revenues: | | |
| Sales | \$8,722,190 | 8,349,317 |
| Other operating income | 68,371 | 63,428 |
| Total revenues | 8,790,561 | 8,412,745 |
| Costs and expenses: | | |
| Cost of merchandise sold | 6,271,124 | 6,001,231 |
| Operating and administrative expenses | 1,692,650 | 1,637,720 |
| Total costs and expenses | 7,963,774 | 7,638,951 |
| Operating profit | 826,787 | 773,794 |
| Investment income | 27,830 | 35,764 |
| Other nonoperating income, net | 11,688 | 7,649 |
| Earnings before income tax expense | 866,305 | 817,207 |
| Income tax expense | 284,416 | 268,289 |
| Net earnings | \$581,889 | 548,918 |
| Weighted average shares outstanding | 770,776 | 775,297 |
| Basic and diluted earnings per share | \$0.75 | 0.71 |
| Dividends declared per common share | \$0.20 | 0.39 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
 (Amounts are in thousands)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 26, 2016 | March 28, 2015 |
| | (Unaudited) | |
| Net earnings | \$581,889 | 548,918 |
| Other comprehensive earnings: | | |
| Unrealized gain (loss) on available-for-sale (AFS) securities net of income taxes of \$6,905 and \$(2,022) in 2016 and 2015, respectively | 10,965 | (3,212) |
| Reclassification adjustment for net realized gain on AFS securities net of income taxes of \$(2,201) and \$(5,941) in 2016 and 2015, respectively | (3,495) | (9,433) |
| Adjustment to postretirement benefit plan obligation net of income taxes of \$91 in 2015 | — | 145 |
| Comprehensive earnings | \$589,359 | 536,418 |

See accompanying notes to condensed consolidated financial statements.

2

PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts are in thousands)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 26, 2016 | March 28, 2015 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Cash received from customers | \$8,742,020 | 8,320,290 |
| Cash paid to employees and suppliers | (7,519,371) | (7,226,004) |
| Income taxes paid | (10,021) | (6,145) |
| Self-insured claims paid | (75,632) | (61,937) |
| Dividends and interest received | 55,727 | 52,067 |
| Other operating cash receipts | 66,912 | 61,780 |
| Other operating cash payments | (11,218) | (4,663) |
| Net cash provided by operating activities | 1,248,417 | 1,135,388 |
| Cash flows from investing activities: | | |
| Payment for capital expenditures | (336,682) | (221,571) |
| Proceeds from sale of property, plant and equipment | 2,589 | 640 |
| Payment for investments | (747,159) | (929,244) |
| Proceeds from sale and maturity of investments | 314,608 | 249,139 |
| Net cash used in investing activities | (766,644) | (901,036) |
| Cash flows from financing activities: | | |
| Payment for acquisition of common stock | (277,919) | (277,730) |
| Proceeds from sale of common stock | 110,485 | 95,906 |
| Dividends paid | (153,957) | — |
| Repayment of long-term debt | (18,797) | (8,698) |
| Other, net | (84) | 4,428 |
| Net cash used in financing activities | (340,272) | (186,094) |
| Net increase in cash and cash equivalents | 141,501 | 48,258 |
| Cash and cash equivalents at beginning of period | 352,176 | 407,493 |
| Cash and cash equivalents at end of period | \$493,677 | 455,751 |

See accompanying notes to condensed consolidated financial statements. (Continued)

PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Amounts are in thousands)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 26, 2016 | March 28, 2015 |
| | (Unaudited) | |
| Reconciliation of net earnings to net cash provided by operating activities: | | |
| Net earnings | \$581,889 | 548,918 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 149,934 | 134,073 |
| Increase in LIFO reserve | 7,100 | 9,989 |
| Retirement contributions paid or payable in common stock | 111,193 | 107,102 |
| Deferred income taxes | 4,930 | (21,258) |
| Loss on disposal and impairment of property, plant and equipment | 635 | 8,312 |
| Gain on AFS securities | (5,696) | (15,374) |
| Net amortization of investments | 35,566 | 33,773 |
| Changes in operating assets and liabilities providing (requiring) cash: | | |
| Trade receivables | (548) | (44,430) |
| Merchandise inventories | 110,081 | (24,650) |
| Prepaid expenses and other noncurrent assets | (6,909) | (12,101) |
| Accounts payable and accrued expenses | 4,687 | 131,079 |
| Self-insurance reserves | (154) | 1,068 |
| Federal and state income taxes | 257,125 | 278,932 |
| Other noncurrent liabilities | (1,416) | (45) |
| Total adjustments | 666,528 | 586,470 |
| Net cash provided by operating activities | \$1,248,417 | 1,135,388 |

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1)Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Publix Super Markets, Inc. and subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, the accompanying statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments that are of a normal and recurring nature necessary to present fairly the Company's financial position and results of operations. Due to the seasonal nature of the Company's business, the results of operations for the three months ended March 26, 2016 are not necessarily indicative of the results for the entire 2016 fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 26, 2015. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2)Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) on lease accounting. The ASU requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The ASU is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. While the Company is still evaluating the ASU, the Company expects the adoption of the ASU to have a material effect on the Company's financial condition due to the recognition of the lease rights and obligations as assets and liabilities on the Consolidated Balance Sheets. The Company does not expect the ASU to have a material effect on the Company's results of operations, and the ASU will have no effect on cash flows.

In January 2016, the FASB issued an ASU requiring companies to measure equity securities at fair value with changes in fair value recognized in net earnings as opposed to other comprehensive earnings. The ASU is effective for reporting periods beginning after December 15, 2017. The adoption of the ASU will have an effect on the Company's results of operations. The extent of the effect on results of operations will vary with the changes in the fair value of equity securities. The ASU will not have an effect on the Company's financial condition or cash flows.

In November 2015, the FASB issued an ASU requiring companies to classify deferred tax assets and liabilities in the noncurrent section of the balance sheet. The ASU is effective for reporting periods beginning after December 15, 2016 with early adoption permitted. The adoption of the ASU will not have a material effect on the Company's financial condition and will not have an effect on the Company's results of operations or cash flows.

In May 2014, the FASB issued an ASU on the recognition of revenue from contracts with customers. The ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The ASU is effective for reporting periods beginning after December 15, 2017 with early adoption permitted only for reporting periods beginning after December 15, 2016. The adoption of the ASU will not have a material effect on the Company's financial condition, results of operations or cash flows.

(3)Fair Value of Financial Instruments

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, trade receivables and accounts payable, approximates their respective carrying amounts due to their short-term maturity.

The fair value of available-for-sale (AFS) securities is based on market prices using the following measurement categories:

Edgar Filing: PUBLIX SUPER MARKETS INC - Form 10-Q

Level 1 – Fair value is determined by using quoted prices in active markets for identical investments. AFS securities that are included in this category are primarily mutual funds, exchange traded funds and equity securities.

Level 2 – Fair value is determined by using other than quoted prices. By using observable inputs (for example, benchmark yields, interest rates, reported trades and broker dealer quotes), the fair value is determined through processes such as benchmark curves, benchmarking of like securities and matrix pricing of corporate, state and municipal bonds by using pricing of similar bonds based on coupons, ratings and maturities. AFS securities that are included in this category are primarily debt securities (tax exempt and taxable bonds).

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Level 3 – Fair value is determined by using other than observable inputs. Fair value is determined by using the best information available in the circumstances and requires significant management judgment or estimation. No AFS securities are currently included in this category.

Following is a summary of fair value measurements for AFS securities as of March 26, 2016 and December 26, 2015:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------|----------------------------|-----------|-----------|---------|
| | (Amounts are in thousands) | | | |
| March 26, 2016 | \$7,067,531 | 1,056,036 | 6,011,495 | — |
| December 26, 2015 | 6,602,934 | 1,049,791 | 5,553,143 | — |

(4) Investments

Debt and equity securities are classified as AFS and are carried at fair value. The Company evaluates whether AFS securities are other-than-temporarily impaired (OTTI) based on criteria that include the extent to which cost exceeds market value, the duration of the market value decline, the credit rating of the issuer or security, the failure of the issuer to make scheduled principal or interest payments and the financial health and prospects of the issuer or security. Declines in the value of AFS securities determined to be OTTI are recognized in earnings and reported as OTTI losses. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the debt security or if the Company will be required to sell the debt security prior to any anticipated recovery. If the Company determines that a debt security is OTTI under these circumstances, the impairment recognized in earnings is measured as the difference between the amortized cost and the current fair value. A debt security is also determined to be OTTI if the Company does not expect to recover the amortized cost of the debt security. However, in this circumstance, if the Company does not intend to sell the debt security and will not be required to sell the debt security, the impairment recognized in earnings equals the estimated credit loss as measured by the difference between the present value of expected cash flows and the amortized cost of the debt security. Expected cash flows are discounted using the debt security's effective interest rate. An equity security is determined to be OTTI if the Company does not expect to recover the cost of the equity security. Declines in the value of AFS securities determined to be temporary are reported net of income taxes as other comprehensive losses and included as a component of stockholders' equity. Interest and dividend income, amortization of premiums, accretion of discounts and realized gains and losses on AFS securities are included in investment income. Interest income is accrued as earned. Dividend income is recognized as income on the ex-dividend date of the equity security. The cost of AFS securities sold is based on the first-in, first-out method.

Following is a summary of AFS securities as of March 26, 2016 and December 26, 2015:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|------------------------|----------------------------|------------------------|-------------------------|------------|
| | (Amounts are in thousands) | | | |
| March 26, 2016 | | | | |
| Tax exempt bonds | \$3,515,795 | 17,502 | 2,781 | 3,530,516 |
| Taxable bonds | 2,478,317 | 5,761 | 3,549 | 2,480,529 |
| Restricted investments | 164,549 | — | 309 | 164,240 |
| Equity securities | 845,670 | 79,480 | 32,904 | 892,246 |
| | \$7,004,331 | 102,743 | 39,543 | 7,067,531 |
| December 26, 2015 | | | | |
| Tax exempt bonds | \$3,336,841 | 12,038 | 2,737 | 3,346,142 |
| Taxable bonds | 2,214,366 | 1,492 | 10,399 | 2,205,459 |

Edgar Filing: PUBLIX SUPER MARKETS INC - Form 10-Q

| | | | | |
|------------------------|-------------|--------|--------|-----------|
| Restricted investments | 164,548 | — | 1,389 | 163,159 |
| Equity securities | 836,153 | 78,378 | 26,357 | 888,174 |
| | \$6,551,908 | 91,908 | 40,882 | 6,602,934 |

6

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Realized gains on sales of AFS securities totaled \$9,251,000 for the three months ended March 26, 2016. Realized losses on sales of AFS securities totaled \$3,555,000 for the three months ended March 26, 2016.

Realized gains on sales of AFS securities totaled \$16,266,000 for the three months ended March 28, 2015. Realized losses on sales of AFS securities totaled \$892,000 for the three months ended March 28, 2015.

The amortized cost and fair value of AFS securities by expected maturity as of March 26, 2016 and December 26, 2015 are as follows:

| | March 26, 2016 | | December 26, 2015 | |
|--|----------------------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Amounts are in thousands) | | | |
| Due in one year or less | \$1,400,279 | 1,402,034 | 1,375,450 | 1,376,698 |
| Due after one year through five years | 4,089,875 | 4,103,952 | 3,951,600 | 3,948,654 |
| Due after five years through ten years | 444,990 | 445,322 | 161,732 | 162,999 |
| Due after ten years | 58,968 | 59,737 | 62,425 | 63,250 |
| | 5,994,112 | 6,011,045 | 5,551,207 | 5,551,601 |
| Restricted investments | 164,549 | 164,240 | 164,548 | 163,159 |
| Equity securities | 845,670 | 892,246 | 836,153 | 888,174 |
| | \$7,004,331 | 7,067,531 | 6,551,908 | 6,602,934 |

Following is a summary of temporarily impaired AFS securities by the time period impaired as of March 26, 2016 and December 26, 2015:

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|------------------------|----------------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (Amounts are in thousands) | | | | | |
| March 26, 2016 | | | | | | |
| Tax exempt bonds | \$533,673 | 2,736 | 11,743 | 45 | 545,416 | 2,781 |
| Taxable bonds | 730,768 | 2,950 | 176,955 | 599 | 907,723 | 3,549 |
| Restricted investments | 164,240 | 309 | — | — | 164,240 | 309 |
| Equity securities | 357,258 | 25,288 | 21,831 | 7,616 | 379,089 | 32,904 |
| | \$1,785,939 | 31,283 | 210,529 | 8,260 | 1,996,468 | 39,543 |
| December 26, 2015 | | | | | | |
| Tax exempt bonds | \$890,907 | 2,264 | 63,474 | 473 | 954,381 | 2,737 |
| Taxable bonds | 1,676,719 | 9,988 | 70,309 | 411 | 1,747,028 | 10,399 |
| Restricted investments | 163,159 | 1,389 | — | — | 163,159 | 1,389 |
| Equity securities | 274,517 | 20,561 | 16,112 | 5,796 | 290,629 | 26,357 |
| | \$3,005,302 | 34,202 | 149,895 | 6,680 | 3,155,197 | 40,882 |

There are 296 AFS securities contributing to the total unrealized loss of \$39,543,000 as of March 26, 2016.

Unrealized losses related to debt securities are primarily due to interest rate volatility impacting the market value of certain bonds. The Company continues to receive scheduled principal and interest payments on these debt securities. Unrealized losses related to equity securities are primarily due to temporary equity market fluctuations that are expected to recover.

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) Consolidation of Joint Ventures and Long-Term Debt

From time to time, the Company enters into Joint Ventures (JV), in the legal form of limited liability companies, with certain real estate developers to partner in the development of shopping centers with the Company as the anchor tenant. The Company consolidates certain of these JVs in which it has a controlling financial interest. The Company is considered to have a controlling financial interest in a JV when it has (1) the power to direct the activities of the JV that most significantly impact the JV's economic performance and (2) the obligation to absorb losses or the right to receive benefits from the JV that could potentially be significant to such JV.

The Company evaluates a JV using specific criteria to determine whether the Company has a controlling financial interest and is the primary beneficiary of the JV. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of the other JV members, voting rights, involvement in routine capital and operating decisions and each member's influence over the JV owned shopping center's economic performance.

Generally, most major JV decision making is shared between all members. In particular, the use and sale of JV assets, business plans and budgets are generally required to be approved by all members. However, the Company, through its anchor tenant operating lease agreement, has the power to direct the activities that most significantly influence the economic performance of the JV owned shopping center. Additionally, through its member equity interest in the JV, the Company will receive a significant portion of the JV's benefits or is obligated to absorb a significant portion of the JV's losses.

As of March 26, 2016, the carrying amounts of the assets and liabilities of the consolidated JVs were \$141,444,000 and \$65,056,000, respectively. As of December 26, 2015, the carrying amounts of the assets and liabilities of the consolidated JVs were \$141,355,000 and \$64,928,000, respectively. The assets are owned by and the liabilities are obligations of the JVs, not the Company, except for a portion of the long-term debt of certain JVs guaranteed by the Company. The JVs are financed with capital contributions from the members, loans and/or the cash flows generated by the JV owned shopping centers once in operation. Total earnings attributable to noncontrolling interests for 2016 and 2015 were immaterial. The Company's involvement with these JVs does not have a significant effect on the Company's financial condition, results of operations or cash flows.

The Company's long-term debt results primarily from the consolidation of loans of certain JVs and loans assumed in connection with the acquisition of certain shopping centers with the Company as the anchor tenant. No loans were assumed during the three months ended March 26, 2016. The Company assumed loans totaling \$31,759,000 during the three months ended March 28, 2015. Maturities of JV loans range from June 2016 through August 2017 and have variable interest rates based on a LIBOR index plus 175 to 250 basis points. Maturities of assumed shopping center loans range from August 2016 through January 2027 and have fixed interest rates ranging from 4.0% to 7.5%.

(6) Retirement Plan

The Company has a trustee, noncontributory Employee Stock Ownership Plan (ESOP) for the benefit of eligible employees. Since the Company's common stock is not traded on an established securities market, the ESOP includes a put option for shares of the Company's common stock distributed from the ESOP. Shares are distributed from the ESOP primarily to separated vested participants and certain eligible participants who elect to diversify their account balances. Under the Company's administration of the ESOP's put option, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for a specified time period after distribution of the shares from the ESOP. The fair value of distributed shares subject to the put option totaled \$657,270,000 and \$427,226,000 as of March 26, 2016 and December 26, 2015, respectively. The cost of the shares held by the ESOP totaled \$2,768,111,000 and \$2,526,652,000 as of March 26, 2016 and December 26, 2015, respectively. Due to the Company's obligation under the put option, the distributed shares subject to the put option and the shares held by the ESOP are classified as temporary equity in the mezzanine section of the condensed consolidated

Edgar Filing: PUBLIX SUPER MARKETS INC - Form 10-Q

balance sheets and totaled \$3,425,381,000 and \$2,953,878,000 as of March 26, 2016 and December 26, 2015, respectively. The fair value of the shares held by the ESOP totaled \$9,898,691,000 and \$9,201,171,000 as of March 26, 2016 and December 26, 2015, respectively.

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(7) Accumulated Other Comprehensive Earnings

A reconciliation of the changes in accumulated other comprehensive earnings net of income taxes for the three months ended March 26, 2016 and March 28, 2015 is as follows:

| | AFS Securities | Postretirement Benefits | Accumulated Other Comprehensive Earnings |
|--|-------------------|----------------------------|---|
| (Amounts are in thousands) | | | |
| 2016 | | | |
| Balances at December 26, 2015 | \$31,295 | (5,027) | 26,268 |
| Unrealized gain on AFS securities | 10,965 | — | 10,965 |
| Net realized gain on AFS securities reclassified to investment income | (3,495) | — | (3,495) |
| Net other comprehensive earnings | 7,470 | — | 7,470 |
| Balances at March 26, 2016 | \$38,765 | (5,027) | 33,738 |
| 2015 | | | |
| Balances at December 27, 2014 | \$117,962 | (8,828) | 109,134 |
| Unrealized loss on AFS securities | (3,212) | — | (3,212) |
| Net realized gain on AFS securities reclassified to investment income | (9,433) | — | (9,433) |
| Amortization of actuarial gain reclassified to operating and administrative expenses | — | 145 | 145 |
| Net other comprehensive (losses) earnings | (12,645) | 145 | (12,500) |
| Balances at March 28, 2015 | \$105,317 | (8,683) | 96,634 |

(8) Subsequent Event

On April 1, 2016, the Company declared a quarterly dividend on its common stock of \$0.2225 per share or approximately \$172,100,000, payable May 2, 2016 to stockholders of record as of the close of business April 15, 2016.

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

Overview

The Company is engaged in the retail food industry, operating supermarkets in Florida, Georgia, Alabama, South Carolina, Tennessee and North Carolina. The Company plans to expand its retail operations into Virginia in 2017. As of March 26, 2016, the Company operated 1,111 supermarkets. For the three months ended March 26, 2016, two supermarkets were opened (including one replacement supermarket) and 40 supermarkets were remodeled. Five supermarkets were closed during the period. The replacement supermarket that opened during the three months ended March 26, 2016 replaced two of the supermarkets closed during the same period. The three remaining supermarkets closed during the three months ended March 26, 2016 will be replaced on site in subsequent periods. In the normal course of operations, the Company replaces supermarkets and closes supermarkets that are not meeting performance expectations. The impact of future supermarket closings is not expected to be material.

Results of Operations

Sales

Sales for the three months ended March 26, 2016 were \$8.7 billion as compared with \$8.3 billion for the three months ended March 28, 2015, an increase of \$372.9 million or 4.5%. The increase in sales for the three months ended March 26, 2016 as compared with the three months ended March 28, 2015 was primarily due to a 3.3% increase in comparable store sales (supermarkets open for the same weeks in both periods, including replacement supermarkets). Sales for supermarkets that are replaced on site are classified as new supermarket sales since the replacement period for the supermarket is generally 9 to 12 months. The Company estimates that its sales for the three months ended March 26, 2016 increased \$100 million or 1.2% due to the effect of the Easter holiday being in the first quarter in 2016. In 2015, the effect of the Easter holiday was in the second quarter. Comparable store sales for the three months ended March 26, 2016 increased primarily due to the effect of the early Easter holiday, product cost inflation and increased customer counts resulting from a better economic climate.

Gross profit

Gross profit (sales less cost of merchandise sold) as a percentage of sales was 28.1% for the three months ended March 26, 2016 and March 28, 2015.

Operating and administrative expenses

Operating and administrative expenses as a percentage of sales were 19.4% and 19.6% for the three months ended March 26, 2016 and March 28, 2015, respectively. The decrease in operating and administrative expenses as a percentage of sales for the three months ended March 26, 2016 as compared with the three months ended March 28, 2015 was primarily due to a decrease in rent as a percentage of sales due to the acquisition of shopping centers with the Company as the anchor tenant.

Investment income

Investment income was \$27.8 million and \$35.8 million for the three months ended March 26, 2016 and March 28, 2015, respectively. The decrease in investment income for the three months ended March 26, 2016 as compared with the three months ended March 28, 2015 was primarily due to a decrease in realized gains on the sale of equity securities.

Income tax expense

The effective income tax rate was 32.8% for the three months ended March 26, 2016 and March 28, 2015.

Net earnings

Net earnings were \$581.9 million or \$0.75 per share and \$548.9 million or \$0.71 per share for the three months ended March 26, 2016 and March 28, 2015, respectively. Net earnings as a percentage of sales were 6.7% and 6.6% for the three months ended March 26, 2016 and March 28, 2015, respectively. Net earnings as a percentage of sales for the three months ended March 26, 2016 as compared with the three months ended March 28, 2015 was relatively unchanged.

Liquidity and Capital Resources

Cash and cash equivalents, short-term investments and long-term investments totaled \$7,561.2 million as of March 26, 2016, as compared with \$6,955.1 million as of December 26, 2015 and \$7,355.3 million as of March 28, 2015. The increase from the first quarter of 2015 to the first quarter of 2016 was primarily due to the Company generating cash in excess of the amount needed for operations, capital expenditures, common stock repurchases and dividend payments.

Net cash provided by operating activities

Net cash provided by operating activities was \$1,248.4 million and \$1,135.4 million for the three months ended March 26, 2016 and March 28, 2015, respectively. The increase in net cash provided by operating activities for the three months ended March 26, 2016 as compared with the three months ended March 28, 2015 was primarily due to the increases in net earnings and non-cash expenses and the net effect of timing differences related to operating assets and liabilities.

Net cash used in investing activities

Net cash used in investing activities was \$766.6 million and \$901.0 million for the three months ended March 26, 2016 and March 28, 2015, respectively. The primary use of net cash in investing activities for the three months ended March 26, 2016 was funding capital expenditures and net increases in investment securities. Capital expenditures totaled \$336.7 million. These expenditures were incurred in connection with the opening of two new supermarkets (including one replacement supermarket) and remodeling 40 supermarkets. Expenditures were also incurred for supermarkets and remodels in progress, new or enhanced information technology hardware and applications and the acquisition of shopping centers with the Company as the anchor tenant. For the three months ended March 26, 2016, the payment for investments, net of the proceeds from the sale and maturity of such investments, was \$432.6 million.

Net cash used in financing activities

Net cash used in financing activities was \$340.3 million and \$186.1 million for the three months ended March 26, 2016 and March 28, 2015, respectively. The increase in net cash used in financing activities for the three months ended March 26, 2016 as compared with the three months ended March 28, 2015 was primarily due to the change in the frequency of the payment of dividends, as noted below. Net common stock repurchases totaled \$167.4 million and \$181.8 million for the three months ended March 26, 2016 and March 28, 2015, respectively. The Company currently repurchases common stock at the stockholders' request in accordance with the terms of the Employee Stock Purchase Plan (ESPP), Non-Employee Directors Stock Purchase Plan (Directors Plan), 401(k) Plan and ESOP. The amount of common stock offered to the Company for repurchase is not within the control of the Company, but is at the discretion of the stockholders. The Company expects to continue to repurchase its common stock, as offered by its stockholders from time to time, at its then current value for amounts similar to those in prior years. However, with the exception of certain shares distributed from the ESOP, such purchases are not required and the Company retains the right to discontinue them at any time.

Dividends

On February 1, 2016, the Company paid a quarterly dividend on its common stock of \$0.20 per share or \$154.0 million to stockholders of record as of the close of business January 15, 2016. No dividends were paid during the first quarter of 2015 as the Company began paying dividends quarterly rather than semiannually in the third quarter of 2015.

On April 1, 2016, the Company declared a quarterly dividend on its common stock of \$0.2225 per share or approximately \$172.1 million, payable May 2, 2016 to stockholders of record as of the close of business April 15, 2016. On March 6, 2015, the Company declared a semiannual dividend on its common stock of \$0.39 per share or \$303.4 million, which was paid on June 1, 2015 to stockholders of record as of the close of business April 30, 2015.

Capital expenditures projection

Capital expenditures for the remainder of 2016 are expected to be approximately \$1,160 million, primarily consisting of new supermarkets, remodeling existing supermarkets, remodeling and equipping warehouses, new or enhanced information technology hardware and applications and the acquisition of shopping centers with the Company as the anchor tenant. The shopping center acquisitions are financed with internally generated funds and assumed debt, if prepayment penalties for the debt are determined to be significant. This capital program is subject to continuing

change and review.

Cash requirements

In 2016, the cash requirements for operations, capital expenditures, common stock repurchases and dividend payments are expected to be financed by internally generated funds or liquid assets. Based on the Company's financial position, it is expected that short-term and long-term borrowings would be available to support the Company's liquidity requirements, if needed.

Forward-Looking Statements

From time to time, certain information provided by the Company, including written or oral statements made by its representatives, may contain forward-looking information as defined in Section 21E of the Securities Exchange Act of 1934. Forward-looking information includes statements about the future performance of the Company, which is based on management's assumptions and beliefs in light of the information currently available to them. When used, the words "plan," "estimate," "project," "intend," "expect," "believe" and other similar expressions, as they relate to the Company, are intended to identify such forward-looking statements. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from those statements including, but not limited to, the following: competitive practices and pricing in the food and drug industries generally and particularly in the Company's principal markets; results of programs to increase sales, including private label sales; results of programs to control or reduce costs; changes in buying, pricing and promotional practices; changes in shrink management; changes in the general economy; changes in consumer spending; changes in population, employment and job growth in the Company's principal markets; and other factors affecting the Company's business within or beyond the Company's control. These factors include changes in the rate of inflation, changes in federal, state and local laws and regulations, adverse determinations with respect to litigation or other claims, ability to recruit and retain employees, increases in operating costs including, but not limited to, labor costs, credit card fees and utility costs, particularly electric rates, ability to construct new supermarkets or complete remodels as rapidly as planned and stability of product costs. Other factors and assumptions not identified above could also cause the actual results to differ materially from those set forth in the forward-looking statements. Except as may be required by applicable law, the Company assumes no obligation to publicly update these forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments. There have been no material changes in the market risk factors from those disclosed in the Company's Form 10-K for the year ended December 26, 2015.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer each concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information has been accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure. There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the quarter ended March 26, 2016 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As reported in the Company's Form 10-K for the year ended December 26, 2015, the Company is subject from time to time to various lawsuits, claims and charges arising in the normal course of business. The Company believes its recorded reserves are adequate in light of the probable and estimable liabilities. The estimated amount of reasonably possible losses for lawsuits, claims and charges, individually and in the aggregate, is considered to be immaterial. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in the Company's Form 10-K for the year ended December 26, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Shares of common stock repurchased by the Company during the three months ended March 26, 2016 were as follows (amounts are in thousands, except per share amounts):

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾ | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ |
|--|----------------------------------|------------------------------|---|---|
| December 27, 2015 through January 30, 2016 | 1,538 | \$41.80 | N/A | N/A |
| January 31, 2016 through February 27, 2016 | 1,234 | 41.80 | N/A | N/A |
| February 28, 2016 through March 26, 2016 | 3,587 | 45.18 | N/A | N/A |
| Total | 6,359 | \$43.71 | N/A | N/A |

Common stock is made available for sale by the Company only to its current employees and members of its Board of Directors through the ESPP and Directors Plan and to participants of the 401(k) Plan. In addition, common stock ⁽¹⁾ is provided to employees through the ESOP. The Company currently repurchases common stock subject to certain terms and conditions. The ESPP, Directors Plan, 401(k) Plan and ESOP each contain provisions prohibiting any transfer for value without the owner first offering the common stock to the Company.

Edgar Filing: PUBLIX SUPER MARKETS INC - Form 10-Q

The Company's common stock is not traded on an established securities market. The amount of common stock offered to the Company for repurchase is not within the control of the Company, but is at the discretion of the stockholders. The Company does not believe that these repurchases of its common stock are within the scope of a publicly announced plan or program (although the terms of the plans discussed above have been communicated to the participants). Thus, the Company does not believe that it has made any repurchases during the three months ended March 26, 2016 required to be disclosed in the last two columns of the table.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The following financial information from the Quarterly Report on Form 10-Q for the quarter ended March 26, 2016 is formatted in Extensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, 101 (ii) Condensed Consolidated Statements of Earnings, (iii) Condensed Consolidated Statements of Comprehensive Earnings, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PUBLIX SUPER MARKETS, INC.

Date: May 2, 2016 /s/ John A. Attaway, Jr.
John A. Attaway, Jr., Secretary

Date: May 2, 2016 /s/ David P. Phillips
David P. Phillips, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)