AMCON DISTRIBUTING CO
Form 10-Q
July 18, 2018
Table of Contents

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 June 30, 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 1-15589

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-0702918 (I.R.S. Employer Identification No.)
7405 Irvington Road, Omaha NE (Address of principal executive offices)	68122 (Zip code)

Registrant’s telephone number, including area code: (402) 331-3727

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a 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 Registrant had 615,988 shares of its $.01 par value common stock outstanding as of July 16, 2018.

Table of Contents

Form 10-Q

3rd Quarter

INDEX

	PAGE
PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed consolidated balance sheets at June 30, 2018 (unaudited) and September 30, 2017	3
Condensed consolidated unaudited statements of operations for the three and nine months ended June 30, 2018 and 2017	4
Condensed consolidated unaudited statements of cash flows for the nine months ended June 30, 2018 and 2017	5
Notes to condensed consolidated unaudited financial statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	22
PART II — OTHER INFORMATION	
Item 1. Legal Proceedings	23
Item 1A. Risk Factors	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3. Defaults Upon Senior Securities	23
Item 4. Mine Safety Disclosures	23
Item 5. Other Information	24
Item 6. Exhibits	24

2

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Balance Sheets

June 30, 2018 and September 30, 2017

	June 2018 (Unaudited)	September 2017
ASSETS		
Current assets:		
Cash	$ 275,320	$ 523,065
Accounts receivable, less allowance for doubtful accounts of $0.8 million at both June 2018 and September 2017	33,943,794	30,690,403
Inventories, net	51,009,431	72,909,996
Prepaid and other current assets	10,062,688	4,218,811
Total current assets	95,291,233	108,342,275
Property and equipment, net	13,715,318	13,307,986
Goodwill	6,349,827	6,349,827
Other intangible assets, net	3,430,561	3,494,311
Other assets	315,416	310,488
Total assets	$ 119,102,355	$ 131,804,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 19,122,752	$ 17,631,552
Accrued expenses	8,127,663	7,553,089
Accrued wages, salaries and bonuses	2,669,243	3,477,966
Income taxes payable	555,820	544,069
Current maturities of long-term debt	382,209	373,645
Total current liabilities	30,857,687	29,580,321
Credit facility	20,485,436	29,037,182
Deferred income tax liability, net	1,663,832	2,336,263
Long-term debt, less current maturities	2,360,276	2,648,179
Other long-term liabilities	37,067	34,100
Shareholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized	—	—

Common stock, $.01 par value, 3,000,000 shares authorized, 615,988 shares outstanding at June 2018 and 678,006 shares outstanding at September 2017	8,441	8,314
Additional paid-in capital	22,042,155	20,825,919
Retained earnings	62,953,155	60,935,911
Treasury stock at cost	(21,305,694)	(13,601,302)
Total shareholders’ equity	63,698,057	68,168,842
Total liabilities and shareholders' equity	$ 119,102,355	$ 131,804,887

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

Table of Contents

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Operations

for the three and nine months ended June 30, 2018 and 2017

	For the three months ended June		For the nine months ended June	
	2018	2017	2018	2017
Sales (including excise taxes of $96.2 million and $95.1 million, and $267.9 million and $271.8 million, respectively)	$ 349,043,200	$ 332,842,200	$ 959,763,695	$ 936,994,299
Cost of sales	329,930,190	314,818,453	905,392,747	883,180,664
Gross profit	19,113,010	18,023,747	54,370,948	53,813,635
Selling, general and administrative expenses	17,008,355	16,587,055	48,981,383	48,105,878
Depreciation and amortization	614,710	474,890	1,683,618	1,531,292
	17,623,065	17,061,945	50,665,001	49,637,170
Operating income	1,489,945	961,802	3,705,947	4,176,465
Other expense (income):				
Interest expense	261,510	180,266	777,065	545,719
Other (income), net	(18,615)	(16,513)	(51,158)	(37,250)
	242,895	163,753	725,907	508,469
Income from operations before income tax expense	1,247,050	798,049	2,980,040	3,667,996
Income tax expense	462,000	413,000	376,000	1,748,000
Net income available to common shareholders	$ 785,050	$ 385,049	$ 2,604,040	$ 1,919,996
Basic earnings per share available to common shareholders	$ 1.21	$ 0.57	$ 3.85	$ 2.82
Diluted earnings per share available to common shareholders	$ 1.18	$ 0.56	$ 3.79	$ 2.78
Basic weighted average shares outstanding	651,170	678,938	676,103	679,858
Diluted weighted average shares outstanding	664,688	691,701	686,576	690,840
Dividends declared and paid per common share	$ 0.18	$ 0.18	$ 0.82	$ 0.82

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

Table of Contents

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Cash Flows

for the nine months ended June 30, 2018 and 2017

	June 2018	June 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,604,040	$ 1,919,996
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	1,619,868	1,332,542
Amortization	63,750	198,750
Gain on sale of property and equipment	(5,300)	(30,854)
Equity-based compensation	957,656	1,193,005
Deferred income taxes	(672,431)	120,367
Provision for losses on doubtful accounts	23,000	42,000
Inventory allowance	(267,389)	4,852
Other	2,967	2,296
Changes in assets and liabilities:		
Accounts receivable	(3,276,391)	(1,044,423)
Inventories	22,167,954	(701,279)
Prepaid and other current assets	(5,843,877)	771,870
Other assets	(4,928)	(38,358)
Accounts payable	1,584,358	322,325
Accrued expenses and accrued wages, salaries and bonuses	125,758	(659,813)
Income taxes payable	11,751	7,059
Net cash flows from operating activities	19,090,786	3,440,335
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,120,358)	(1,761,431)
Proceeds from sales of property and equipment	5,300	42,655
Net cash flows from investing activities	(2,115,058)	(1,718,776)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	1,043,415,401	950,104,143
Repayments under revolving credit facility	(1,051,967,147)	(950,313,271)
Principal payments on long-term debt	(279,339)	(271,031)
Repurchase of common stock	(7,704,392)	(1,038,060)
Dividends on common stock	(586,796)	(579,848)
Withholdings on the exercise of equity-based awards	(101,200)	(107,082)
Net cash flows from financing activities	(17,223,473)	(2,205,149)
Net change in cash	(247,745)	(483,590)

Cash, beginning of period	523,065	605,380
Cash, end of period	$ 275,320	$ 121,790
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 764,557	$ 545,719
Cash paid during the period for income taxes	1,036,680	1,620,574
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified in accounts payable	8,203	9,881
Issuance of common stock in connection with the vesting and exercise of		
equity-based awards	1,183,091	1,262,763

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

Table of Contents

AMCON Distributing Company and Subsidiaries

Notes to Condensed Consolidated Unaudited Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

AMCON Distributing Company and Subsidiaries ("AMCON" or the "Company") operate two business segments:

- Our wholesale distribution segment ("Wholesale Segment") distributes consumer products and provides a full range of programs and services to our customers that are focused on helping them manage their business and increase their profitability. We primarily operate in the Central, Rocky Mountain, and Southern regions of the United States.

- Our retail health food segment ("Retail Segment") operates fourteen health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In November 2017, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

Our wholesale business offers retailers the ability to take advantage of manufacturer and Company sponsored sales and marketing programs, merchandising and product category management services, and the use of information systems and data services that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales and profits. In addition, our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management, efficiency in processing small orders, and frequency of deliveries. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory, merchandising expertise, information systems, and accessing trade credit.

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross dock facilities, include approximately 641,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, ITG Brands, Hershey, Kelloggs, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. We do not maintain any long-term purchase contracts with our suppliers.

RETAIL SEGMENT

Our Retail Segment is a specialty retailer of natural/organic groceries and dietary supplements which focuses on providing high quality products at affordable prices, with an exceptional level of customer service and nutritional consultation. All of the products carried in our stores must meet strict quality and ingredient guidelines, and include offerings such as gluten-free and antibiotic-free groceries and meat products, as well as products containing no artificial colors, flavors, preservatives, or partially hydrogenated oils. We design our retail sites in an efficient and flexible small-store format, which emphasizes a high energy and shopper-friendly environment.

Table of Contents

We operate within the natural products retail industry, which is a subset of the U.S. grocery industry. This industry includes conventional, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, health food stores, dietary supplement retailers, drug stores, farmers markets, mail order and online retailers, and multi-level marketers.

Our Retail Segment operates fourteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. These stores carry over 32,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was established in 1935, operates seven stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of seven locations in Arkansas, Missouri, Nebraska, and Oklahoma.

FINANCIAL STATEMENTS

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ("financial statements") contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2017, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to "we", "us", "our", the "Company", and "AMCON" shall mean AMCON Distributing Company and its subsidiari
Additionally, the three month fiscal periods ended June 30, 2018 and June 30, 2017 have been referred to throughout this quarterly report as Q3 2018 and Q3 2017, respectively. The fiscal balance sheet dates as of June 30, 2018 and September 30, 2017 have been referred to as June 2018 and September 2017, respectively.

ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, "Revenue from Contracts with Customers." This ASU and related amendments supersedes the revenue recognition requirements in "Accounting Standard Codification 605 - Revenue Recognition" and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2017 (Fiscal 2019 for the Company), and for interim periods within that fiscal year. The Company is in the data aggregation and quantification phase of its review of this new standard, and is working to assess the impact and our approach towards adopting this ASU.

In February 2016, FASB issued ASU No. 2016-02 "Leases” ("ASU 2016-02"). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases greater than one year in duration and classified as operating leases under previous GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (Fiscal 2020 for the Company), and for interim periods within that fiscal year. The Company is currently evaluating this ASU and its potential impact on our consolidated financial statements including the potential capitalization of all operating leases on the Company’s balance sheet.

Table of Contents

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which introduces a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2019 (fiscal 2021 for the Company) with early adoption permitted. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). The new guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 requires goodwill impairment to be measured as the amount by which a reporting unit’s carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. ASU 2017-04 requires prospective application and is effective for annual periods beginning after December 15, 2019 (Fiscal 2021 for the Company) with early adoption permitted. The Company is currently evaluating this ASU and its potential impact on our consolidated financial statements.

2. INVENTORIES

Inventories consisted of finished goods and are stated at the lower of cost (determined on a FIFO basis for our wholesale segment and using the retail method for our retail segment) or net realizable value. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company’s customers or sold at retail. Finished goods included total reserves of approximately $0.5 million at June 2018 and $0.8 million at September 2017. These reserves include the Company’s obsolescence allowance, which reflects estimated unsalable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

Table of Contents

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill by reporting segment of the Company consisted of the following:

	June 2018	September 2017
Wholesale Segment	$ 4,436,950	$ 4,436,950
Retail Segment	1,912,877	1,912,877
	$ 6,349,827	$ 6,349,827

Other intangible assets of the Company consisted of the following:

	June 2018	September 2017
Trademarks and tradenames (Retail Segment)	$ 3,373,269	$ 3,373,269
Customer relationships (Wholesale Segment) (less accumulated amortization of approximately $2.1 million and $2.0 million at June 2018 and September 2017, respectively)	57,292	