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CONSTELLATION BRANDS INC  
Form 8-K  
January 03, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 2, 2002  
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CONSTELLATION BRANDS, INC.  
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(Exact name of registrant  
as specified in its charter)

Delaware ----- (State or other jurisdiction of incorporation)	001-08495 ----- (Commission File Number)	16-0716709 ----- (IRS Employer Identification No.)
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300 WillowBrook Office Park, Fairport, New York 14450  
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(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (585) 218-2169  
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(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS AND REGULATION FD DISCLOSURE.  
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Constellation Brands, Inc. released the following information on January 2, 2002, regarding its third quarter 2002 results:

CONSTELLATION REPORTS 19 PERCENT EARNINGS PER SHARE GROWTH  
15TH CONSECUTIVE DOUBLE-DIGIT QUARTERLY INCREASE

FAIRPORT, NEW YORK, JANUARY 2, 2002 - Constellation Brands, Inc. (NYSE: STZ and STZ.B) today reported diluted earnings per share of \$1.11 for the quarter ended November 30, 2001, an increase of 19 percent over earnings per diluted share of \$0.93 for the prior year third quarter.

Richard Sands, Chairman and Chief Executive Officer of Constellation, said, "Constellation's earnings growth underscores the strength of our balanced growth strategy, particularly in an uncertain economic environment. We achieved 10

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percent organic sales growth this quarter, well ahead of our targets, and with acquisitions our net income increased 42 percent."

Sands continued, "Highlights of the quarter included: 42 percent improvement in sales of Ravenswood wine over the prior year period; 11 percent sales growth in our imported beer business led by Corona Extra; tremendous success in our U.K. wine business driven by the most popular brand in the U.K., Stowells of Chelsea; and 31 percent growth in our U.K. wholesale business."

"The beverage alcohol industry and, in particular, Constellation's portfolio of brands, are well positioned to weather an uncertain economy. We are on track to deliver better than 15 percent earnings per share growth in the fourth quarter and expect to continue our earnings growth into fiscal 2003 and beyond," Sands concluded.

### CONSOLIDATED RESULTS

Net sales reached \$764 million for the quarter ended November 30, 2001 ("Third Quarter 2002"), a 21 percent increase over the quarter ended November 30, 2000 ("Third Quarter 2001"). Approximately half of the growth resulted from the inclusion of brands acquired in the Turner Road Vintners and Corus acquisitions in March 2001, including Vendange, Talus and Alice White, and from the Ravenswood brand, which was acquired in July 2001 (collectively, the "Acquisitions"). Excluding the Acquisitions, net sales increased 10 percent; attributed primarily to growth in imported beer, the U.K. wine business and the U.K. wholesale business. Net sales for the nine months ended November 30, 2001 ("Nine Months 2002"), reached \$2.1 billion, a 16 percent increase as compared to the nine months ended November 30, 2000 ("Nine Months 2001"). There was no significant foreign currency impact on consolidated net sales for Third Quarter 2002 or Nine Months 2002.

Gross profit reached \$258 million for Third Quarter 2002, a 24 percent increase over Third Quarter 2001. The improvement in gross profit resulted from increased sales and an 80 basis point improvement in gross profit margin. The increase in gross profit margin to 33.8 percent resulted primarily from sales of higher margin brands from the Acquisitions. Gross profit and gross profit margin for Nine Months 2002 were \$698 million and 32.5 percent, respectively, compared to \$593 million and 32.0 percent for Nine Months 2001.

Selling, general and administrative expenses were \$150 million for Third Quarter 2002, a 22 percent increase from \$123 million for Third Quarter 2001. Advertising and promotion costs associated with brands from the Acquisitions and higher advertising and promotion costs associated with the U.K. branded business were the primary reasons for the increase in selling, general and administrative expenses. Third Quarter 2002 selling, general and administrative expenses, as a percent of net sales, were 19.6 percent, an increase of 10 basis points over the same period a year ago. Selling, general and administrative expenses as a percent of net sales for Nine Months 2002 were favorable by 50 basis points compared to the prior period. Selling, general and administrative expenses were \$430 million for Nine Months 2002 compared to \$379 million reported for the same period last year.

Operating income increased to \$109 million for Third Quarter 2002 from \$85 million for Third Quarter 2001, an increase of 28 percent. For Nine Months 2002, operating income was \$268 million compared to \$213 million for Nine Months 2001.

Equity in earnings of Pacific Wine Partners, an equally owned joint venture with BRL Hardy, was \$1.2 million for Third Quarter 2002. Pacific Wine Partners' results reflect its first full quarter of operations and includes the results of operations of the Blackstone Winery assets, which were acquired on October 16, 2001.

Although debt outstanding at the end of Third Quarter 2002 was \$216 million greater than the prior year period, net interest expense was virtually unchanged at \$27 million as a result of a lower average borrowing rate. Net interest

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expense for Nine Months 2002 was \$86 million, up from \$82 million for Nine Months 2001.

As a result of these factors, net income reached \$50 million for Third Quarter 2002, a 42 percent increase compared to net income of \$35 million for Third Quarter 2001. Earnings per diluted share for Third Quarter 2002 were \$1.11, a 19 percent increase over earnings per diluted share of \$0.93 for Third Quarter 2001. Net income and earnings per diluted share for Nine Months 2002 were \$109 million and \$2.51, respectively, versus \$79 million and \$2.12 for Nine Months 2001.

### BARTON RESULTS

Barton's Third Quarter 2002 net sales were \$261 million, an eight percent increase as compared to Third Quarter 2001. Beer sales increased 11 percent, led by volume increases in Corona Extra, Modelo Especial, Negra Modelo and St. Pauli Girl. Spirits sales increased one percent due to increases in bulk whiskey sales partially offset by slightly lower branded spirits sales. Operating income was \$48 million for Third Quarter 2002, an increase of three percent compared to the prior year.

Barton's net sales and operating income reached \$817 million and \$143 million, respectively, for Nine Months 2002, increases of seven percent and five percent, respectively, compared to the prior year.

### CANANDAIGUA WINE RESULTS

Net sales for Canandaigua Wine for Third Quarter 2002 increased 33 percent to \$245 million. Most of the increase resulted from the addition of sales from brands acquired in the Turner Road Vintners and Corus acquisitions. Excluding the acquired brands, branded net sales grew five percent driven by volume.

Operating income reached \$36 million, an increase of \$20 million or 123 percent compared to the prior year. The increase was the result of additional profits from the acquired brands and the positive impact of lower grape prices.

Net sales and operating income for Nine Months 2002 were \$648 million and \$76 million, respectively, compared to \$517 million and \$34 million for Nine Months 2001.

### MATTHEW CLARK RESULTS

Matthew Clark's net sales for Third Quarter 2002 were \$220 million versus \$180 million reported for the comparable quarter a year ago, an increase of 22 percent. Wholesale sales increased 31 percent for Third Quarter 2002 driven by strong sales to national accounts. Branded sales increased 11 percent led by extremely strong sales in table wine, particularly Stowells of Chelsea and the California wine portfolio, partially offset by slightly lower cider sales. Operating income for Third Quarter 2002 reached \$18 million, slightly lower when compared to the prior year.

Net sales for Nine Months 2002 were \$600 million versus \$519 million reported for the same period last year, an increase of 15 percent. Net sales increased 20 percent adjusting for the impact of foreign currency fluctuations. Operating income for Nine Months 2002 was \$40 million compared to \$41 million for the prior year.

### FRANCISCAN RESULTS

Franciscan's net sales for Third Quarter 2002 were \$44 million versus \$28 million reported for the comparable quarter last year, an increase of 57 percent. Most of the increase was due to sales of the Ravenswood brand, which was acquired during July 2001. Driven by the addition of Ravenswood, operating income increased 46 percent, reaching \$13 million.

Net sales and operating income for Nine Months 2002 were \$101 million and \$28 million, respectively, an increase of 42 percent and 52 percent compared to Nine Months 2001.

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### OUTLOOK

The following statements are management's current expectations for the Company's three months ending February 28, 2002 ("Fourth Quarter 2002"), and fiscal year ending

February 28, 2002 ("Fiscal 2002"). These statements are made as of the date of this press release and are forward-looking. Actual results may differ materially from these expectations due to a number of risks and uncertainties.

- Diluted earnings per share for Fourth Quarter 2002 are expected to be within a range of \$0.56 to \$0.59 versus \$0.48 reported for Fourth Quarter 2001.
- Diluted earnings per share for Fiscal 2002 are expected to be within a range of \$3.05 to \$3.08 versus \$2.60 reported for Fiscal 2001.

With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company will adopt Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", beginning March 1, 2002. Therefore, the Company's earnings expectations do not reflect the impact of SFAS 142 as it relates to the amortization of goodwill and intangible assets acquired prior to July 1, 2001. The Company's preliminary assessment of the financial impact of SFAS 142 is that if the standard was adopted as of March 1, 2001, the Company's operating income for the fiscal year ending February 28, 2002, would be approximately \$24 million higher.

All share and per share amounts in this press release, including within the financial statements, reflect the two-for-one stock split of both the Company's Class A and Class B common stock, which was distributed in the form of a stock dividend on May 14, 2001.

### STATUS OF BUSINESS OUTLOOK

During the quarter, Constellation may reiterate the estimates set forth above under the heading Outlook (collectively, the "Outlook"). Prior to the start of the Quiet Period (described below), the public can continue to rely on the Outlook as still being Constellation's current expectations on the matters covered, unless Constellation publishes a notice stating otherwise.

Beginning February 15, 2002, Constellation will observe a "Quiet Period" during which the Outlook no longer constitutes the Company's current expectations. During the Quiet Period, the Outlook should be considered to be historical, speaking as of prior to the Quiet Period only and not subject to update by the Company. During the Quiet Period, Constellation's representatives will not comment concerning the Outlook or Constellation's financial results or expectations. The Quiet Period will extend until the day when Constellation's next quarterly Earnings Release is published, presently scheduled for Thursday, April 11, 2002.

### FORWARD-LOOKING STATEMENTS

The statements made under the heading Outlook, as well as all other statements set forth in this press release which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. The Company's forward-looking statements are based on management's current expectations and unless otherwise noted do not take into account the impact of any future acquisition, merger or any other business combination, divestiture or financing that may be completed after the date of this release. Any projections of future results of operations, and in particular, (i) the Company's estimated diluted earnings per share for the quarter ending February 28, 2002, and (ii) the Company's estimated diluted

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earnings per share for the twelve months ending February 28, 2002, should not be construed in any manner as a guarantee that such results will in fact occur. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company contained in this

press release are also subject to the following risks and uncertainties: expectations that our recent acquisitions and our joint venture will achieve certain sales projections and meet certain cost targets; the successful integration of our recent acquisitions; wholesalers and retailers may give higher priority to products of our competitors; raw material supply, production or shipment difficulties could adversely affect our ability to supply our customers; increased competitive activities in the form of pricing, advertising and promotions could adversely impact consumer demand for our products and/or result in higher than expected selling, general and administrative expenses; a general decline in alcohol consumption; increases in federal and state excise taxes on beverage alcohol products; changes in foreign exchange rates. For additional information about risks and uncertainties that could adversely affect the Company's forward-looking statements, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended February 28, 2001.

### ABOUT CONSTELLATION

Constellation Brands, Inc. is a leader in the production and marketing of beverage alcohol brands in North America and the United Kingdom and is a leading independent drinks wholesaler in the United Kingdom. As the second largest supplier of wine, the second largest importer of beer and the fourth largest supplier of distilled spirits, Constellation is the largest single-source supplier of these products in the United States. In the United Kingdom, Constellation is a leading marketer of wine and the second largest producer and marketer of cider. With its broad product portfolio, Constellation believes it is distinctly positioned to satisfy an array of consumer preferences across all beverage alcohol categories. Leading brands in Constellation's portfolio include: Franciscan Oakville Estate, Simi, Estancia, Ravenswood, Corona Extra, Modelo Especial, St. Pauli Girl, Almaden, Arbor Mist, Talus, Vendange, Alice White, Black Velvet, Fleischmann's, Schenley, Ten High, Stowells of Chelsea, Blackthorn and K.

### CONFERENCE CALL DETAILS

A conference call to discuss the quarterly results will be hosted by Richard Sands, Chairman and CEO, and Tom Summer, Executive Vice President and CFO, on Thursday, January 3, 2002, at 11:00 a.m. EST. The conference call can be accessed by dialing (800) 860-2442. A live listen-only web cast of the conference call is available on the Internet at Constellation's web site: [www.cbrands.com](http://www.cbrands.com) under "Investor Information." If you are unable to participate in the conference call, there will be a replay available on Constellation's web site or by dialing (877) 344-7529 or (412) 858-1440 from approximately 1:30 p.m. EST on Thursday, January 3, 2002, through 12:00 a.m. EST on Friday, January 11, 2002.

Digital Playback Instructions - Courtesy of ChorusCall  
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1. Dial 877-DIG-PLAY (877-344-7529 / toll-free) or 412-858-1440.
2. Enter '246' when prompted for your account number followed by the # sign.
3. Please press '1' to play a recorded conference.
4. Please enter '264708' when prompted to enter the conference number followed by the # sign.
5. Please clearly state your name and company name when prompted to do so followed by any key.
6. Please press '1' to begin the conference playback.

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOLLOW

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

	November 30, 2001	February 28, 2001
	-----	-----
ASSETS		
-----		
CURRENT ASSETS:		
Cash and cash investments	\$ 9,454	\$ 145,672
Accounts receivable, net	473,835	314,262
Inventories, net	831,889	670,018
Prepaid expenses and other current assets	72,175	61,037
	-----	-----
Total current assets	1,387,353	1,190,989
PROPERTY, PLANT AND EQUIPMENT, net	561,667	548,614
OTHER ASSETS	1,178,471	772,566
	-----	-----
Total assets	\$ 3,127,491	\$ 2,512,169
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES:		
Notes payable	\$ 159,493	\$ 4,184
Current maturities of long-term debt	80,039	54,176
Accounts payable	217,550	114,793
Accrued excise taxes	49,977	55,954
Other accrued expenses and liabilities	290,482	198,053
	-----	-----
Total current liabilities	797,541	427,160
LONG-TERM DEBT, less current maturities	1,259,088	1,307,437
DEFERRED INCOME TAXES	131,953	131,974
OTHER LIABILITIES	33,628	29,330
STOCKHOLDERS' EQUITY	905,281	616,268
	-----	-----
Total liabilities and stockholders' equity	\$ 3,127,491	\$ 2,512,169
	=====	=====

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share data)

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000	Percent Change
	-----	-----	-----
Gross sales	\$ 987,776	\$ 833,447	19%
Net sales	\$ 764,074	\$ 629,577	21%
Cost of product sold	(505,666)	(421,524)	20%
	-----	-----	
Gross profit	258,408	208,053	24%
Selling, general and administrative expenses	(149,585)	(122,815)	22%
	-----	-----	
Operating income	108,823	85,238	28%
Equity in earnings of joint venture	1,165	-	n/a
Interest expense, net	(27,249)	(26,983)	1%
	-----	-----	
Income before income taxes	82,739	58,255	42%
Provision for income taxes	(33,096)	(23,302)	42%
	-----	-----	
Net income	\$ 49,643	\$ 34,953	42%
	=====	=====	
Earnings per common share:			
Basic	\$ 1.14	\$ 0.95	20%
Diluted	\$ 1.11	\$ 0.93	19%
Weighted average common shares outstanding:			
Basic	43,429	36,788	18%
Diluted	44,739	37,469	19%
Segment Information:			
Net sales:			
Barton			
Beer	\$ 181,264	\$ 163,292	11%
Spirits	79,826	79,096	1%
	-----	-----	
Net sales	\$ 261,090	\$ 242,388	8%
Canandaigua Wine			
Branded	\$ 223,558	\$ 162,112	38%
Other	21,414	22,310	-4%
	-----	-----	
Net sales	\$ 244,972	\$ 184,422	33%
Matthew Clark			
Branded	\$ 88,205	\$ 79,355	11%
Wholesale	131,842	100,725	31%
	-----	-----	
Net sales	\$ 220,047	\$ 180,080	22%
Franciscan	\$ 43,672	\$ 27,818	57%
Intersegment eliminations	\$ (5,707)	\$ (5,131)	11%
	-----	-----	
Consolidated net sales	\$ 764,074	\$ 629,577	21%
	=====	=====	
Operating income:			
Barton	\$ 47,822	\$ 46,370	3%
Canandaigua Wine	36,377	16,281	123%
Matthew Clark	17,872	18,431	-3%

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Franciscan	13,169	9,001	46%
Corporate Operations and Other	(6,417)	(4,845)	32%
	-----	-----	
Consolidated operating income	\$ 108,823	\$ 85,238	28%
	=====	=====	

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share data)

	Nine Months Ended November 30, 2001	Nine Months Ended November 30, 2000	Percent Change
	-----	-----	-----
Gross sales	\$ 2,774,023	\$ 2,436,637	14%
Net sales	\$ 2,146,959	\$ 1,852,647	16%
Cost of product sold	(1,448,925)	(1,260,082)	15%
	-----	-----	
Gross profit	698,034	592,565	18%
Selling, general and administrative expenses	(430,287)	(379,159)	13%
	-----	-----	
Operating income	267,747	213,406	25%
Equity in earnings of joint venture	1,028	-	n/a
Interest expense, net	(86,408)	(81,797)	6%
	-----	-----	
Income before income taxes	182,367	131,609	39%
Provision for income taxes	(72,947)	(52,644)	39%
	-----	-----	
Net income	\$ 109,420	\$ 78,965	39%
	=====	=====	
Earnings per common share:			
Basic	\$ 2.58	\$ 2.16	19%
Diluted	\$ 2.51	\$ 2.12	18%
Weighted average common shares outstanding:			
Basic	42,362	36,615	16%
Diluted	43,570	37,283	17%
Segment Information:			
Net sales:			
Barton			
Beer	\$ 593,435	\$ 538,585	10%
Spirits	223,657	224,203	0%
	-----	-----	
Net sales	\$ 817,092	\$ 762,788	7%
Canandaigua Wine			
Branded	\$ 591,232	\$ 455,950	30%
Other	56,653	60,767	-7%
	-----	-----	
Net sales	\$ 647,885	\$ 516,717	25%
Matthew Clark			
Branded	\$ 233,349	\$ 225,338	4%
Wholesale	366,317	293,958	25%
	-----	-----	
Net sales	\$ 599,666	\$ 519,296	15%
Franciscan	\$ 101,258	\$ 71,100	42%
Intersegment eliminations	\$ (18,942)	\$ (17,254)	10%
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Consolidated net sales	\$ 2,146,959 =====	\$ 1,852,647 =====	16%
Operating income:			
Barton	\$ 143,234	\$ 135,818	5%
Canandaigua Wine	75,706	34,481	120%
Matthew Clark	40,157	41,027	-2%
Franciscan	28,315	18,659	52%
Corporate Operations and Other	(19,665)	(16,579)	19%
	-----	-----	
Consolidated operating income	\$ 267,747 =====	\$ 213,406 =====	25%

### 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, hereunto duly authorized.

CONSTELLATION BRANDS, INC.

Dated: January 3, 2002

By: /s/ Thomas S. Summer

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Thomas S. Summer, Executive Vice  
President and Chief Financial  
Officer

### INDEX TO EXHIBITS

- (1) UNDERWRITING AGREEMENT  
Not Applicable.
- (2) PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION  
Not Applicable.
- (4) INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES  
Not Applicable.
- (16) LETTER RE CHANGE IN CERTIFYING ACCOUNTANT  
Not Applicable.
- (17) LETTER RE DIRECTOR RESIGNATION  
Not Applicable.
- (20) OTHER DOCUMENTS OR STATEMENTS TO SECURITY HOLDERS  
Not Applicable.
- (23) CONSENTS OF EXPERTS AND COUNSEL

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Not Applicable.

(24) POWER OF ATTORNEY

Not Applicable.

(99) ADDITIONAL EXHIBITS

None