SEABOARD CORP /DE/
Form 10-Q
October 31, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 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: 1-3390

Seaboard Corporation

(Exact name of registrant as specified in its charter)

Delaware	04-2260388
(State or other jurisdiction of incorporation) incorporation)	(I.R.S. Employer Identification No.) Identification No.)

9000 West 67th Street, Merriam, Kansas	66202
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (913) 676-8800

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 such files). Yes   No

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.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	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   .

There were 1,170,550 shares of common stock, $1.00 par value per share, outstanding on October 26, 2018.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
(Millions of dollars except share and per share amounts)	2018	2017	2018	2017
Net sales:				
Products (includes affiliate sales of $295, $293, $944 and $822)	$ 1,338	$ 1,135	$ 4,011	$ 3,413
Services (includes affiliate sales of $3, $0, $8 and $3)	273	238	815	732
Other	40	29	95	78
Total net sales	1,651	1,402	4,921	4,223
Cost of sales and operating expenses:				
Products	1,267	1,028	3,721	3,106
Services	235	206	717	641
Other	27	20	73	61
Total cost of sales and operating expenses	1,529	1,254	4,511	3,808
Gross income	122	148	410	415
Selling, general and administrative expenses	85	75	244	219
Operating income	37	73	166	196
Other income (expense):				
Interest expense	(12)	(9)	(31)	(19)
Interest income	3	2	7	9
Interest income from affiliates	—	6	2	18
Loss from affiliates	(18)	(3)	(40)	(10)
Other investment income, net	40	54	15	119
Foreign currency gains, net	9	3	7	12
Miscellaneous, net	1	(2)	(1)	(5)
Total other income (expense), net	23	51	(41)	124
Earnings before income taxes	60	124	125	320
Income tax expense	(26)	(43)	(52)	(96)
Net earnings	$ 34	$ 81	$ 73	$ 224
Less: Net loss attributable to noncontrolling interests	1	—	1	—
Net earnings attributable to Seaboard	$ 35	$ 81	$ 74	$ 224

Earnings per common share	$ 29.93	$ 69.28	$ 62.96	$ 191.63
Other comprehensive income (loss), net of income tax benefit (expense) of $(1), $1, $0 and $0:				
Foreign currency translation adjustment	(25)	(2)	(52)	(3)
Unrealized gain on investments	—	—	—	3
Unrecognized pension cost	1	1	(1)	3
Other comprehensive income (loss), net of tax	$ (24)	$ (1)	$ (53)	$ 3
Comprehensive income	10	80	20	227
Less: Comprehensive loss attributable to noncontrolling interests	1	—	1	—
Comprehensive income attributable to Seaboard	$ 11	$ 80	$ 21	$ 227
Average number of shares outstanding	1,170,550	1,170,550	1,170,550	1,170,550
Dividends declared per common share	$ 1.50	$ 1.50	$ 4.50	$ 4.50

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(Millions of dollars except share and per share amounts)	September 29, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 78	$ 116
Short-term investments	1,590	1,576
Receivables, net	506	482
Inventories	874	780
Other current assets	124	174
Total current assets	3,172	3,128
Net property, plant and equipment	1,098	1,077
Investments in and advances to affiliates	823	851
Other non-current assets	342	105
Total assets	$ 5,435	$ 5,161
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to banks	$ 162	$ 162
Current maturities of long-term debt	10	53
Accounts payable	227	272
Deferred revenue	83	81
Other current liabilities	287	250
Total current liabilities	769	818
Long-term debt, less current maturities	741	482
Deferred income taxes	143	112
Long-term income tax liability	95	111
Other liabilities	261	230
Total non-current liabilities	1,240	935
Commitments and contingent liabilities		
Stockholders' equity:		
Common stock of $1 par value. Authorized 1,250,000 shares; issued and outstanding 1,170,550 shares	1	1
Accumulated other comprehensive loss	(414)	(354)
Retained earnings	3,825	3,750
Total Seaboard stockholders' equity	3,412	3,397
Noncontrolling interests	14	11
Total equity	3,426	3,408
Total liabilities and stockholders' equity	$ 5,435	$ 5,161

See accompanying notes to condensed consolidated financial statements.

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SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
(Millions of dollars)	September 29, 2018	September 30, 2017
Cash flows from operating activities:		
Net earnings	$ 73	$ 224
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	101	88
Deferred income taxes	2	44
Loss from affiliates	40	10
Dividends received from affiliates	20	24
Other investment income, net	(15)	(119)
Other, net	16	(10)
Changes in assets and liabilities, net of acquisitions:		
Receivables, net of allowance	(8)	14
Inventories	(106)	(67)
Other current assets	60	(10)
Current liabilities, exclusive of debt	(28)	(5)
Other, net	11	5
Net cash from operating activities	166	198
Cash flows from investing activities:		
Purchase of short-term investments	(685)	(420)
Proceeds from the sale of short-term investments	667	428
Proceeds from the maturity of short-term investments	32	42
Capital expenditures	(95)	(118)
Cash paid for acquisition of businesses	(270)	(54)
Investments in and advances to affiliates, net	(26)	(87)
Principal payments received on notes receivable from affiliates	4	3
Purchase of long-term investments	(17)	(9)
Other, net	4	(1)
Net cash from investing activities	(386)	(216)
Cash flows from financing activities:		
Notes payable to banks, net	13	(20)
Proceeds from long-term debt	222	38
Principal payments of long-term debt	(43)	(13)
Dividends paid	(6)	(6)
Other, net	(1)	—
Net cash from financing activities	185	(1)
Effect of exchange rate changes on cash and cash equivalents	(3)	3
Net change in cash and cash equivalents	(38)	(16)
Cash and cash equivalents at beginning of year	116	77
Cash and cash equivalents at end of period	$ 78	$ 61

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Accounting Policies and Basis of Presentation

The condensed consolidated financial statements include the accounts of Seaboard Corporation and its domestic and foreign subsidiaries (“Seaboard”). All significant intercompany balances and transactions have been eliminated in consolidation. Seaboard’s investments in non-consolidated affiliates are accounted for by the equity method. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of Seaboard for the year ended December 31, 2017 as filed in its annual report on Form 10-K. Seaboard’s first three quarterly periods include approximately 13 weekly periods ending on the Saturday closest to the end of March, June and September. Seaboard’s year-end is December 31.

The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and cash flows. Except for new guidance adopted prospectively as discussed below, Seaboard has consistently applied all accounting policies as disclosed in the annual report on Form 10-K to all periods presented in these condensed consolidated financial statements. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year. As Seaboard conducts its commodity trading business with third parties, consolidated subsidiaries and non-consolidated affiliates on an interrelated basis, gross margin on non-consolidated affiliates cannot be clearly distinguished without making numerous assumptions primarily with respect to mark-to-market accounting for commodity derivatives.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to allowance for doubtful accounts, valuation of inventories, impairment of long-lived assets, potential write-down related to investments in and advances to affiliates and notes receivable from affiliates, income taxes and accrued pension liability. Actual results could differ from those estimates.

Supplemental Non-Cash Transaction

In conjunction with the January 2018 acquisition discussed further in Note 10, Seaboard incurred debt consisting of a $46 million note payable and contingent consideration with an estimated fair value of $14 million at the time of acquisition.

Adoption of Highly Inflationary Accounting in Argentina

GAAP requires the use of highly inflationary accounting for countries whose cumulative three-year inflation exceeds 100%. In the second quarter of 2018, the Argentine peso rapidly devalued relative to the U.S. dollar, which along with increased inflation, indicated that the three-year cumulative inflation in that country exceeded 100%. As a result, Seaboard adopted highly inflationary accounting as of July 1, 2018, for Seaboard’s Sugar segment. Under highly inflationary accounting, the Sugar segment’s functional currency became the U.S. dollar, and its income statement and balance sheet was measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities are reflected in foreign currency gains (losses), net. For the three month period ended September 29, 2018, Seaboard recognized $8 million in foreign currency gains related to the adoption of highly inflationary accounting as a result of its net monetary liability position.

Recently Issued Accounting Standards Adopted

On January 1, 2018, Seaboard adopted guidance that developed a single, comprehensive revenue recognition model for all contracts with customers using the cumulative effect transition method. The adjustment to opening retained earnings, which only included the impact of contracts that were not completed at the date of adoption, was less than $1 million. All of Seaboard's equity method investments must adopt the new standard by December 31, 2019. See Note 2 for additional details on the impact of adopting this new accounting standard.

On January 1, 2018, Seaboard adopted guidance that requires the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component is eligible for capitalization in inventory. The other components of net periodic benefit cost are presented outside of operating income and are not capitalizable. For the three and nine month periods of 2017, $2 million and $5 million, respectively, of net periodic benefit cost was reclassified from selling, general and administrative expenses to miscellaneous, net below operating income. Seaboard elected to apply the practical expedient to estimate amounts for comparative periods.

On January 1, 2018, Seaboard adopted guidance that eliminated cost method accounting and requires measuring equity investments, other than those accounted for using the equity method of accounting, at fair value and recognizing fair value changes in net income if a readily determinable fair value exists. On January 1, 2018, $7 million of accumulated other comprehensive loss was reclassified to retained earnings by means of a cumulative effect adjustment, and all future gains/losses on these equity investments is reflected in other investment income (loss), net. As of January 1, 2018, Seaboard had minimal investments without readily determinable fair values, which will be recorded at cost, less impairment, and plus or minus subsequent adjustments for observable price changes.

Recently Issued Accounting Standard Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance that a lessee should record a right-of-use ("ROU") asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are to be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The recognition, measurement, and presentation of expenses and cash flows arising from a financing lease have not significantly changed from the previous guidance. For operating leases, a lessee is required to: (1) recognize a ROU asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheet, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (3) classify all cash payments within operating activities in the statement of cash flows. Seaboard will adopt this guidance on January 1, 2019, for all consolidated subsidiaries and plans to apply most practical expedients and the optional transition relief issued in July 2018 that permits the recognition and measurement of leases at the date of adoption. Therefore, Seaboard will not restate comparative period financial information for the effects of this accounting standard. While Seaboard continues its process of assessing its leases and evaluating the effects this guidance will have on its consolidated financial statements, Seaboard expects the adoption will have a material increase in assets and liabilities on the consolidated balance sheet due to the recording of ROU assets and corresponding lease liabilities. Seaboard believes the most significant effects will relate to the recognition of new ROU assets and lease liabilities on its balance sheet for port and contract grower operating leases. Seaboard is in the process of implementing a new lease accounting system and evaluating its processes and internal controls. See Note 10 to the consolidated financial statements included in Seaboard's annual report for the year ended December 31, 2017, for information about Seaboard's lease obligations.

Note 2 – Revenue Recognition

Seaboard recognizes revenue when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration it expects to receive in exchange for those goods or services. A performance obligation, the unit of account in Topic 606 Revenue from Contracts with Customers ("Topic 606"), is a promise in a contract to transfer a distinct good or service to the customer. The majority of Seaboard's revenue arrangements consist of a single performance obligation as the promise to transfer the individual product or service is not separately identifiable from other promises in the contracts, including shipping and handling and customary storage, and, therefore, not distinct. Seaboard's transaction prices are mostly fixed, but occasionally include minimal variable consideration for early payment, volume and other similar discounts, which are highly probable based on the history with the respective customers. Taxes assessed by a governmental authority that are collected by Seaboard from a customer are excluded from sales.

Seaboard has multiple segments with diverse revenue streams. For additional information on Seaboard's segments, see Note 10. The following tables present Seaboard's sales disaggregated by revenue source and segment for the three and nine month periods ended September 29, 2018.

	Three Months Ended September 29, 2018							
(Millions of dollars)	Pork	Commodity Trading & Milling	Marine	Sugar	Power	All	Other	Consolidated Totals
Major Products/Services Lines:								
Products	$ 334	$ 894	$ —	$ 39	$ —	$ 5		$ 1,272
Transportation	4	—	259	—	—	—		263
Energy	66	—	—	4	34	—		104
Other	8	4	—	—	—	—		12
Segment/Consolidated Totals	$ 412	$ 898	$ 259	$ 43	$ 34	$ 5		$ 1,651

	Nine Months Ended September 29, 2018							
(Millions of dollars)	Pork	Commodity Trading & Milling	Marine	Sugar	Power	All	Other	Consolidated Totals
Major Products/Services Lines:								
Products	$ 1,060	$ 2,560	$ —	$ 149	$ —	$ 13		$ 3,782
Transportation	12	—	771	—	—	—		783
Energy	225	—	—	6	88	—		319
Other	23	14	—	—	—	—		37
Segment/Consolidated Totals	$ 1,320	$ 2,574	$ 771	$ 155	$ 88	$ 13		$ 4,921

Revenue from goods and services transferred to customers at a single point in time accounted for approximately 85% of Seaboard's net sales for the nine month period of 2018. Substantially all of the sales in Seaboard's Marine segment are recognized ratably over the transit time for each voyage as Seaboard believes this is a faithful depiction of the performance obligation to its customers.

Almost all of Seaboard's contracts with its customers are short-term, defined as less than one year. As of September 29, 2018, Seaboard had $14 million of remaining performance obligations that were unsatisfied, of which 11% is expected to be recognized as net sales in the fourth quarter of 2018, an additional 44% in 2019, and the remaining balance thereafter. Seaboard elected to use all practical expedients and therefore will not disclose the value of unsatisfied performance obligations for: (i) contracts with an original expected length of one year or less; and (ii) contracts for which revenue is recognized at the amount to which it has the right to invoice for services performed. Also, Seaboard will recognize a financing component only on obligations that extend longer than one year.

Deferred revenue represents cash payments received in advance of Seaboard's performance or revenue billed that is unearned. The Commodity Trading and Milling ("CT&M") segment, which operates internationally with sales in Africa, South America, the Caribbean and Asia, requires certain customers to pay in advance or upon delivery to avoid collection risk. The Marine segment's deferred revenue balance primarily relates to the unearned portion of billed revenue when a ship is on the water and has not arrived at the designated port. The Pork segment has a marketing agreement with Triumph Foods, LLC, of which certain fees paid at commencement are recognized over the term of the agreement. Deferred revenue balances are reduced when revenue is recognized. Deferred revenue recognized as revenue for the three and nine month periods of 2018 was $73 million and $229 million, respectively.

The primary impact of adopting the new guidance was the acceleration of revenue related to sales in Seaboard's CT&M segment that previously had not been recognized as a fixed and determinable price was not established at the time of sale. Under the new guidance, revenue is recognized when control is transferred, and adjustments are made to revenue for pending sale prices dependent upon market fluctuations, further processing, or other factors until sales prices are finalized. The following tables summarize the impacts of adoption on Seaboard's condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Three Months Ended September 29, 2018			Nine Months Ended September 29, 2018		
(Millions of dollars)	Balances Without Adoption of Topic 606	Adjustments	As Reported	Balances Without Adoption of Topic 606	Adjustments	As Reported
Total net sales	$ 1,658	$ (7)	$ 1,651	$ 4,899	$ 22	$ 4,921
Total cost of sales	$ 1,534	$ (5)	$ 1,529	$ 4,488	$ 23	$ 4,511
Net earnings	$ 36	$ (2)	$ 34	$ 74	$ (1)	$ 73

Consolidated Balance Sheet	September 29, 2018		
(Millions of dollars)	Balances Without Adoption of Topic 606	Adjustments	As Reported
Receivables, net	$ 500	$ 6	$ 506
Inventories	$ 907	$ (33)	$ 874
Deferred revenue	$ 109	$ (26)	$ 83
Total Seaboard stockholders' equity	$ 3,413	$ (1)	