

SpartanNash Co
Form 10-Q
August 16, 2018

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 July 14, 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: 000-31127

SPARTANNASH COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Michigan	38-0593940
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
850 76 th Street, S.W.	
P.O. Box 8700	
Grand Rapids, Michigan	49518
(Address of Principal Executive Offices)	(Zip Code)

Edgar Filing: SpartanNash Co - Form 10-Q

(616) 878-2000

(Registrant's Telephone Number, Including Area Code)

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" and "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

As of August 14, 2018, the registrant had 35,932,825 outstanding shares of common stock, no par value.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q, in the Company's press releases and in the Company's website-accessible conference calls with analysts and investor presentations include "forward-looking statements" about the plans, strategies, objectives, goals or expectations of SpartanNash Company and subsidiaries ("SpartanNash" or "the Company"). These forward-looking statements are identifiable by words or phrases indicating that SpartanNash or management "expects," "anticipates," "plans," "believes," or "estimates," or that a particular occurrence or event "will," "may," "could," "should" or "will likely" result, occur or be pursued or "continue" in the future, that the "outlook" or "trend" is toward a particular result or occurrence, that a development is an "opportunity," "priority," "strategy," "focus," that the Company is "positioned" for a particular result, or similarly stated expectations. Accounting estimates, such as those described under the heading "Critical Accounting Policies" in Part I, Item 2 of this Quarterly Report on Form 10-Q, are inherently forward-looking. The Company's asset impairment and restructuring cost provisions are estimates and actual costs may be more or less than these estimates and differences may be material. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date of the Quarterly Report, other report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q, SpartanNash's Annual Report on Form 10-K for the fiscal year ended December 30, 2017 and other periodic reports filed with the Securities and Exchange Commission ("SEC"), there are many important factors that could cause actual results to differ materially. These risks and uncertainties include general business conditions, changes in overall economic conditions that impact consumer spending, the Company's ability to integrate acquired assets, the impact of competition and other factors which are often beyond the control of the Company, and other risks listed in the "Risk Factors" discussion in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017 and risks and uncertainties not presently known to the Company or that the Company currently deems immaterial.

This section and the discussions contained in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017 and in Part I, Item 2 "Critical Accounting Policy" of the Quarterly Report on Form 10-Q, are intended to provide meaningful cautionary statements for purposes of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. This should not be construed as a complete list of all of the economic, competitive, governmental, technological and other factors that could adversely affect the Company's expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to SpartanNash or that SpartanNash currently believes are immaterial also may impair its business, operations, liquidity, financial condition and prospects. The Company undertakes no obligation to update or revise its forward-looking statements to reflect developments that occur or information obtained after the date of this Quarterly Report.

PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	July 14, 2018	December 30, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 15,913	\$ 15,667
Accounts and notes receivable, net	355,050	344,057
Inventories, net	562,443	597,162
Prepaid expenses and other current assets	43,713	47,400
Property and equipment held for sale	8,654	—
Total current assets	985,773	1,004,286
Property and equipment, net	581,824	600,240
Goodwill	178,648	178,648
Intangible assets, net	131,159	134,430
Other assets, net	133,408	138,193
Total assets	\$ 2,010,812	\$ 2,055,797
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 364,700	\$ 376,977
Accrued payroll and benefits	59,155	65,156
Other accrued expenses	46,725	43,252
Current maturities of long-term debt and capital lease obligations	7,793	9,196
Total current liabilities	478,373	494,581
Long-term liabilities		
Deferred income taxes	49,128	42,050
Postretirement benefits	16,263	15,687
Other long-term liabilities	39,718	40,774
Long-term debt and capital lease obligations	702,864	740,755
Total long-term liabilities	807,973	839,266

Commitments and contingencies (Note 7)

Shareholders' equity

Common stock, voting, no par value; 100,000 shares

authorized; 35,934 and 36,466 shares outstanding	482,330	497,093
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	—	—
Accumulated other comprehensive loss	(14,989)	(15,136)
Retained earnings	257,125	239,993
Total shareholders' equity	724,466	721,950

Total liabilities and shareholders' equity	\$ 2,010,812	\$ 2,055,797
--	--------------	--------------

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Net sales	\$ 1,895,953	\$ 1,856,199	\$ 4,281,026	\$ 4,209,901
Cost of sales	1,630,293	1,585,173	3,672,152	3,581,499
Gross profit	265,660	271,026	608,874	628,402
Operating expenses				
Selling, general and administrative	236,202	231,532	545,261	554,311
Merger/acquisition and integration	804	622	3,010	4,638
Restructuring (gains) charges and asset impairment	(1,164)	(14)	5,037	1,008
Total operating expenses	235,842	232,140	553,308	559,957
Operating earnings	29,818	38,886	55,566	68,445
Other expenses and (income)				
Interest expense	6,969	5,682	15,747	12,997
Other, net	(236)	(123)	(461)	(313)
Total other expenses, net	6,733	5,559	15,286	12,684
Earnings before income taxes and discontinued operations	23,085	33,327	40,280	55,761
Income taxes	5,247	12,267	10,007	19,636
Earnings from continuing operations	17,838	21,060	30,273	36,125
Loss from discontinued operations, net of taxes	(66)	(31)	(158)	(71)
Net earnings	\$ 17,772	\$ 21,029	\$ 30,115	\$ 36,054
Basic earnings per share:				
Earnings from continuing operations	\$ 0.50	\$ 0.56	\$ 0.84	\$ 0.96
Loss from discontinued operations	(0.01)*	—	(0.01)*	—
Net earnings	\$ 0.49	\$ 0.56	\$ 0.83	\$ 0.96
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.50	\$ 0.56	\$ 0.84	\$ 0.96
Loss from discontinued operations	(0.01)*	—	(0.01)*	(0.01)*
Net earnings	\$ 0.49	\$ 0.56	\$ 0.83	\$ 0.95

See accompanying notes to condensed consolidated financial statements.

* Includes rounding

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Net earnings	\$ 17,772	\$ 21,029	\$ 30,115	\$ 36,054
Other comprehensive income, before tax				
Pension and postretirement liability adjustment	84	31	195	72
Total other comprehensive income, before tax	84	31	195	72
Income tax expense related to items of other comprehensive income	(21)	(11)	(48)	(27)
Total other comprehensive income, after tax	63	20	147	45
Comprehensive income	\$ 17,835	\$ 21,049	\$ 30,262	\$ 36,099

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 30, 2017	36,466	\$ 497,093	\$ (15,136)	\$ 239,993	\$ 721,950
Net earnings	—	—	—	30,115	30,115
Other comprehensive income	—	—	147	—	147
Dividends - \$0.36 per share	—	—	—	(12,983)	(12,983)
Share repurchases	(952)	(20,000)	—	—	(20,000)
Stock-based employee compensation	—	6,267	—	—	6,267
Issuances of common stock for stock bonus plan and associate stock purchase plan	28	574	—	—	574
Issuances of restricted stock	481	—	—	—	—
Cancellations of stock-based awards	(89)	(1,604)	—	—	(1,604)
Balance at July 14, 2018	35,934	\$ 482,330	\$ (14,989)	\$ 257,125	\$ 724,466

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	28 Weeks Ended	
	July 14, 2018	July 15, 2017
Cash flows from operating activities		
Net earnings	\$ 30,115	\$ 36,054
Loss from discontinued operations, net of tax	158	71
Earnings from continuing operations	30,273	36,125
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Non-cash restructuring, asset impairment and other charges	5,189	588
Depreciation and amortization	44,877	46,362
LIFO expense	1,694	2,282
Postretirement benefits (income) expense	(244)	399
Deferred taxes on income	7,077	14,565
Stock-based compensation expense	6,267	7,491
Other, net	(89)	(75)
Changes in operating assets and liabilities:		
Accounts receivable	(9,258)	(25,904)
Inventories	32,641	(12,764)
Prepaid expenses and other assets	(430)	(4,806)
Accounts payable	(10,390)	(2,369)
Accrued payroll and benefits	(5,373)	(18,961)
Postretirement benefit payments	(181)	(178)
Other accrued expenses and other liabilities	2,247	(4,398)
Net cash provided by operating activities	104,300	38,357
Cash flows from investing activities		
Purchases of property and equipment	(34,596)	(37,789)
Net proceeds from the sale of assets	6,139	3,701
Acquisitions, net of cash acquired	—	(214,595)
Loans to customers	(698)	(330)
Payments from customers on loans	1,021	1,437
Other	(7)	(225)
Net cash used in investing activities	(28,141)	(247,801)
Cash flows from financing activities		
Proceeds from senior secured credit facility	486,095	916,467
Payments on senior secured credit facility	(522,367)	(683,807)
Share repurchase	(20,000)	(7,873)
Net payments related to stock-based award activities	(1,604)	(3,163)
Repayment of other long-term debt	(4,790)	(4,283)
Financing fees paid	(122)	(252)
Proceeds from exercise of stock options	—	3,207
Dividends paid	(12,983)	(12,500)

Edgar Filing: SpartanNash Co - Form 10-Q

Net cash (used in) provided by financing activities	(75,771)	207,796
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	(142)	23
Net cash (used in) provided by discontinued operations	(142)	23
Net increase (decrease) in cash and cash equivalents	246	(1,625)
Cash and cash equivalents at beginning of period	15,667	24,351
Cash and cash equivalents at end of period	\$ 15,913	\$ 22,726

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of SpartanNash Company and its subsidiaries (“SpartanNash” or “the Company”). Intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 30, 2017.

In the opinion of management, the accompanying condensed consolidated financial statements, taken as a whole, contain all adjustments, including normal recurring items, necessary to present fairly the financial position of SpartanNash as of July 14, 2018, and the results of its operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The unaudited information in the condensed consolidated financial statements for the second quarters and year to date periods of 2018 and 2017 include the results of operations of the Company for the 12- and 28-week periods ended July 14, 2018 and July 15, 2017, respectively.

Note 2 – Adoption of New Accounting Standards and Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers – Topic 606” (“ASC 606”). The new guidance affects any reporting organization that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. As of the beginning of 2018, the Company adopted ASC 606 and all subsequent ASUs that modified ASC 606. Refer to Note 3, Revenue Recognition, for additional information about adoption of this guidance and additional disclosures required under the standard.

From a principal versus agent perspective, the Company determined that certain contracts in the Food Distribution segment that were historically reported on a gross basis are now required to be reported on a net basis, resulting in a corresponding decreases to both net sales and cost of sales of \$53.3 million and \$95.9 million in the second quarter and year-to-date period of 2018, respectively, from what would have been recognized under previous guidance. The implementation of the guidance had no impact on gross profit, net earnings, the balance sheet, cash flows, equity, or the timing of revenue recognition in current or prior periods. The adoption of the guidance using the full retrospective method resulted in decreases to fiscal 2017 net sales and cost of sales previously reported as shown in the following table:

	Full Year	4th	3rd	2nd	1st
	(52	Quarter	Quarter	Quarter	Quarter
(In thousands)	Weeks)	Weeks)	Weeks)	Weeks)	Weeks)
2017	\$ 164,283	\$ 38,725	\$ 38,246	\$ 38,510	\$ 48,802

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits.” ASU 2017-07 requires that the service cost component of pension and postretirement benefit costs be presented in the same line item as other current employee compensation costs and other components of those benefit costs be presented separately from the service cost component and outside a subtotal of income from operations, if presented. The ASU also requires that only the service cost component of pension and postretirement benefit costs is eligible for capitalization. The Company adopted this guidance as of the beginning of 2018. Accordingly, benefit costs other than service cost, are reflected in the condensed consolidated statements of earnings in Other, net, whereas they previously were recognized in Selling, general and administrative expenses. Retrospective application resulted in a decrease to Other, net and an increase in Selling, general and administrative expenses. The costs associated with the reclassifications were not material in either of the periods presented.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations – Clarifying the Definition of a Business.” ASU 2017-01 narrows the definition of a business and provides a screen to determine when a set of the three elements of a business – inputs, processes, and outputs – are not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. This guidance was effective as of the beginning of 2018. As no business combinations have occurred since the effective date, there has been no impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 provides guidance for lease accounting and stipulates that lessees will need to recognize a right-of-use asset and a lease liability for substantially all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease rent payments. Treatment in the consolidated statements of operations will be similar to the current treatment of operating and capital leases. The new guidance is effective on a modified retrospective basis for the Company in the first quarter of its fiscal year ending December 28, 2019. The Company has established a transition process which includes understanding the current leasing activities, identifying changes resulting from the new standard, designing tools to account for the change, and updating accounting policies, processes and controls over financial reporting. The adoption of this ASU will result in a significant increase to the Company's consolidated balance sheets for lease liabilities and right-of-use assets. Other effects of the adoption of this ASU are currently being evaluated by the Company.

Note 3 – Revenue

Revenue Recognition Accounting Policy

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods and services to a customer, in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. This is achieved through applying the following five-step model:

- 1. Identification of the contract, or contracts, with a customer
- 2. Identification of the performance obligations in the contract
- 3. Determination of the transaction price
- 4. Allocation of the transaction price to the performance obligations in the contract
- 5. Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes, with the exception of taxes assessed during the procurement process of select inventories. Greater than 99% of the Company's revenues are recognized at a point in time. Revenues from product sales are recognized when control of the goods is transferred to the customer, which occurs at a point in time, typically upon delivery or shipment to the customer, depending on shipping terms, or upon customer check-out in a corporate owned retail store. Freight revenues are also recognized upon delivery, at a point in time. Other revenues, including revenues from value-added services, are recognized as earned, over a period of time. All of the Company's revenues are domestic, as the Company has no performance obligations on international shipments subsequent to delivery to the domestic port. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments.

The Company evaluates whether it is the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis) with respect to each contract with customers. The Company determined that certain contracts in the Food Distribution segment that were historically reported on a gross basis are now required to be reported on a net basis, resulting in a corresponding decreases to both net sales and cost of sales.

Based upon the nature of the products the Company sells, its customers have limited rights of return which are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold. Certain contracts include rebates and other forms of variable consideration, including up-front rebates, rebates in arrears, rebatable incentives, flex funds, and product incentives, which may have tiered structures based on purchase volumes and which are accounted for as variable consideration. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction

price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. The Company believes that there will not be significant changes to its estimates of variable consideration, and has not constrained any consideration in any period presented.

9

Edgar Filing: SpartanNash Co - Form 10-Q

Disaggregation of Revenue

The following table provides information about disaggregated revenue by type of products and customers for each of the Company's reportable segments:

Sources of Revenue

The Company's main sources of revenue include the following:

(In thousands)	12 Weeks Ended July 14, 2018				28 Weeks Ended July 14, 2018			
	Food Distribution	Military	Retail	Total	Food Distribution	Military	Retail	Total
Type of products:								
Center store								
(a)	\$ 286,487	\$ 234,777	\$ 179,564	\$ 700,828	\$ 646,630	\$ 557,135	\$ 400,856	\$ 1,604,621
Fresh (b)	359,232	135,133	170,590	664,955	790,830	314,182	376,175	1,481,187
Non-food (c)	277,913	118,188	78,251	474,352	617,109	278,536	177,864	1,073,509
Fuel	—	—	35,979	35,979	—	—	75,442	75,442
Other	18,070	1,556	213	19,839	42,344	3,421	502	46,267
Total	\$ 941,702	\$ 489,654	\$ 464,597	\$ 1,895,953	\$ 2,096,913	\$ 1,153,274	\$ 1,030,839	\$ 4,281,026

Type of customers:								
Individuals	\$ —	\$ —	\$ 464,384	\$ 464,384	\$ —	\$ —	\$ 1,030,337	\$ 1,030,337
Manufacturers, brokers and distributors								
	47,244	472,991	—	520,235	108,868	1,118,668	—	1,227,536
Retailers	880,429	15,107	—	895,536	1,955,260	31,185	—	1,986,445
Other	14,029	1,556	213	15,798	32,785	3,421	502	36,708
Total	\$ 941,702	\$ 489,654	\$ 464,597	\$ 1,895,953	\$ 2,096,913	\$ 1,153,274	\$ 1,030,839	\$ 4,281,026

(In thousands)	12 Weeks Ended July 15, 2017				28 Weeks Ended July 15, 2017			
	Food Distribution	Military	Retail	Total	Food Distribution	Military	Retail	Total
Type of products:								
Center store								
(a)	\$ 276,886	\$ 226,756	\$ 190,710	\$ 694,352	\$ 629,076	\$ 540,433	\$ 427,455	\$ 1,596,964
Fresh (b)	358,654	128,205	181,856	668,715	791,183	301,742	402,598	1,495,523
Non-food (c)	248,373	114,947	79,465	442,785	552,918	269,488	182,047	1,004,453
Fuel	—	—	29,709	29,709	—	—	65,531	65,531
Other	19,213	1,169	256	20,638	44,097	2,727	606	47,430
Total	\$ 903,126	\$ 471,077	\$ 481,996	\$ 1,856,199	\$ 2,017,274	\$ 1,114,390	\$ 1,078,237	\$ 4,209,901

Type of customers:								
Individuals	\$ —	\$ —	\$ 481,740	\$ 481,740	\$ —	\$ —	\$ 1,077,631	\$ 1,077,631
Manufacturers, brokers and distributors								
	52,787	466,241	—	519,028	119,372	1,107,996	—	1,227,368
Retailers	835,412	3,667	—	839,079	1,863,880	3,667	—	1,867,547
Other	14,927	1,169	256	16,352	34,022	2,727	606	37,355

Total	\$ 903,126	\$ 471,077	\$ 481,996	\$ 1,856,199	\$ 2,017,274	\$ 1,114,390	\$ 1,078,237	\$ 4,209,901
-------	------------	------------	------------	--------------	--------------	--------------	--------------	--------------

(a) Center store includes dry grocery, frozen and beverages.

(b) Fresh includes produce, meat, dairy, deli, bakery, prepared proteins, seafood and floral.

(c) Non-food includes general merchandise, health and beauty care, tobacco products and pharmacy.

Customer Supply Agreements (CSAs) – The Company enters into CSAs (also known as Retail Sales and Service Agreements) with many of its retailer customers. These contracts obligate the Company to supply grocery and related products upon receipt of a purchase order from its customers. The contracts often specify minimum purchases a customer is required to make - in dollars or as a percentage of their total purchases - in order to earn certain rebates or incentives. In some cases, customers are required to repay certain advanced or loaned funds if they fail to meet purchase minimums or otherwise exit the supply agreement. Many of these contracts include various performance obligations other than providing grocery products, such as providing store resets, shelf tags, signage, or merchandising services. The Company has determined that these obligations are not material in the overall context of the contracts, and as such has not allocated transaction price to these obligations. Revenue is recognized under these contracts when control of the product passes to the customer, which may happen before or after delivery depending upon specified shipping terms.

Contracts with Manufacturers and Brokers to supply the Defense Commissary Agency (“DeCA”) and Other Government Agencies – DeCA operates a chain of 237 commissaries on U.S. military installations. DeCA contracts with manufacturers to obtain grocery products for the commissary system. Manufacturers either deliver the products to the commissaries themselves or, more commonly, contract with distributors such as SpartanNash to provide products to the commissaries. Manufacturers must authorize the distributors as their official representatives to DeCA, and the distributors must adhere to DeCA’s frequent delivery system (“FDS”) procedures governing matters such as product identification, ordering and processing, information exchange and resolution of discrepancies. The Company obtains distribution contracts with manufacturers through competitive bidding processes and direct negotiations. As commissaries need to be restocked, DeCA identifies the manufacturer with which an order is to be placed, determines which distributor is the manufacturer’s official representative for a particular commissary or exchange location, and then places a product order with that distributor under the auspices of DeCA’s master contract with the applicable manufacturer. The distributor selects that product from its existing inventory, delivers it to the commissary or port (in the case of overseas shipments) designated by DeCA, and bills the manufacturer for the product price plus a drayage fee that is typically based on a percentage of the purchase price, but may in some cases be based on a dollar amount per case or pound of product sold. The manufacturer then bills DeCA under the terms of its master contract. As control of the product passes to the customer upon delivery, revenue is recognized by SpartanNash at this point in time.

Revenue is recognized for the full amount paid by the vendor (for product and drayage) as the Company is a principal in the transaction and therefore should recognize revenue on a gross basis for these contracts. The FASB’s definition of a principal in the transaction is centered on controlling goods before they are transferred to the customer. Key considerations supporting that SpartanNash controls the goods for these contracts prior to transfer to the customer include the following: the Company has the ability to obtain substantially all of the remaining benefits from the assets by selling the goods and/or by pledging the related assets as collateral for borrowings, the Company is required to bear the risk of inventory loss prior to transfer to the customer, has shared responsibilities in the fulfillment and acceptability of the goods, and to a lesser extent, has some discretion in establishing the price for the goods sold to DeCA. Based on a thorough evaluation of all of the facts and circumstances, including a detailed assessment and interpretation of the revenue standard, the Company concluded that it is a principal in the transaction and should recognize revenue on a gross basis for these contracts.

Retail Sales – The corporate owned retail stores recognize revenue at the time the customer takes possession of the goods. While there are no formal contracts related to these sales, they are within the scope of ASC 606. Customer returns are not material. The Company does not recognize a sale when it awards customer loyalty points or sells gift cards and gift certificates; rather, a sale is recognized when the customer loyalty points, gift card or gift certificate are redeemed to purchase product. There were no significant changes to revenue recognition in the Retail segment under ASC 606 related to the accounting for gift card breakage and loyalty rewards, which are immaterial to the consolidated financial statements.

Contract Assets and Liabilities

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not receive pre-payment from its customers, or enter into commitments to provide goods or services that have terms greater than one year. As the performance obligation is part of a contract that has an original expected duration of less than one year, the Company has applied the practical expedient under ASC 606 to omit disclosures regarding remaining performance obligations.

For the first and second quarters of 2018 and 2017, revenue recognized from performance obligations related to prior periods (for example, due to changes in estimated rebates and incentives impacting the transaction price), was not material.

In the ordinary course of business, the Company may advance funds to certain independent retailers which are earned by the retailers primarily through achieving specified purchase volume requirements, as outlined in their supply agreements with the Company, or in limited instances, for remaining a SpartanNash customer for a specified time period. These advances must be repaid if the purchase volume requirements are not met or if the retailer no longer remains a customer for the specified time period. For volume based arrangements, the Company estimates the amount of the advanced funds earned by the retailers based on the expected volume of purchases by the retailer, and amortizes the advances as a reduction of the transaction price and revenue earned. These advances are not considered contract assets under ASC 606 as they are not generated through the transfer of goods or services to the retailers. These advances are included in Other assets, net on the Company's balance sheets.

When the Company transfers goods or services to a customer, payment is due - subject to normal terms - and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient under ASC 606 to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets. The Company had no contract assets for any period presented.

The following table presents the Company's accounts and notes receivable:

(In thousands)	July 14, 2018	December 30, 2017
Customer notes receivable	\$ 3,069	\$ 2,555
Customer accounts receivable	322,710	312,214
Other receivables	31,895	31,169
Allowance for doubtful accounts	(2,624)	(1,881)
Net current accounts and notes receivable	\$ 355,050	\$ 344,057
Long-term notes receivable	16,554	18,322
Allowance for doubtful accounts	(120)	(120)
Net long-term notes receivable	\$ 16,434	\$ 18,202

The Company does not typically incur incremental costs of obtaining a contract that are contingent upon successful contract execution and would therefore be capitalized. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that the Company would have recognized is one year or less.

Note 4 – Acquisitions

On January 6, 2017, the Company acquired certain assets and assumed certain liabilities of Caito Foods Service (“Caito”) and Blue Ribbon Transport (“BRT”) for \$214.6 million in cash, net of \$2.5 million of cash acquired. Acquired assets consist primarily of property and equipment of \$76.7 million, intangible assets of \$72.9 million, and working capital. Intangible assets are primarily composed of customer relationships, which are amortized over fifteen years, and indefinite lived trade names. In connection with the purchase, the Company provided certain earn-out opportunities that have the potential to pay the sellers an additional \$27.4 million, collectively, if the business achieves certain performance targets during the first three years after acquisition. As certain performance targets were not met in the first year after acquisition, the Company will be reimbursed a portion of the initial purchase price at an amount not to exceed the sum of: a) \$15.0 million, representing the funds paid into escrow, and b) any earn-out opportunities earned by the sellers. The reduction in purchase price will first be applied to funds paid into escrow and then as an offset against and a reduction to any payments owed on the various earn-out opportunities, with reimbursement made after the third-year anniversary of the acquisition date.

Caito is a leading supplier of fresh fruits and vegetables as well as value-added meal solutions to grocery retailers and food service distributors across the Southeast, Midwest and Eastern United States. BRT offers temperature-controlled distribution and logistics services throughout North America. The Company acquired Caito and BRT to strengthen its fresh product offerings to its existing customer base and to expand into fast-growing, value-added services, such as freshly-prepared centerplate and side dish categories.

The excess of the purchase price over the fair value of net assets acquired of \$46.3 million was recorded as goodwill in the consolidated balance sheet within the Food Distribution segment, and is deductible for tax purposes. During the measurement period, which ended January 5, 2018, the Company recorded opening balance sheet adjustments in the amount of \$1.3 million, which increased the balance of goodwill, associated with updated valuations of certain acquired long-lived assets. All adjustments were made during fiscal 2017.

Note 5 – Restructuring Charges and Asset Impairment

Edgar Filing: SpartanNash Co - Form 10-Q

The following table provides the activity of reserves for closed properties for the 28 week period ended July 14, 2018. Reserves for closed properties recorded in the condensed consolidated balance sheets are included in “Other accrued expenses” in Current liabilities and “Other long-term liabilities” in Long-term liabilities based on the timing of when the obligations are expected to be paid.

(In thousands)	Lease and Ancillary Costs	Severance	Total
Balance at December 30, 2017	\$ 17,889	\$ 3	\$ 17,892
Provision for closing charges	3,903	—	3,903
Provision for severance	—	139	139
Other	554	—	554
Changes in estimates	336	—	336
Accretion expense	323	—	323
Payments	(3,227)	(142)	(3,369)
Balance at July 14, 2018	\$ 19,778	\$ —	\$ 19,778

12

Edgar Filing: SpartanNash Co - Form 10-Q

Included in the liability are lease obligations recorded at the present value of future minimum lease payments, calculated using a risk-free interest rate, and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated sublease income.

Restructuring and asset impairment charges included in the condensed consolidated statements of earnings consisted of the following:

(In thousands)	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Asset impairment charges	\$ —	\$ —	\$ 1,470	\$ 521
Provision for closing charges	—	—	3,903	405
(Gain) loss on sales of assets related to closed facilities	(1,544)	850	(1,407)	673
Provision for severance	14	10	139	545
Other costs associated with distribution center and store closings	315	477	596	774
Changes in estimates	51	—	336	—
Lease termination adjustments	—	(1,351)	—	(1,910)
	\$ (1,164)	\$ (14)	\$ 5,037	\$ 1,008

Restructuring and asset impairment charges in the current year were primarily incurred in the Retail segment due to the economic and competitive environment of certain stores and in conjunction with the Company's retail store rationalization plan. The Company also realized a gain on the sale of a Military distribution center in the second quarter of 2018, an asset impairment charge related to certain discontinued Food Distribution warehouse equipment in the first quarter of 2018, and other closing costs related to a Food Distribution warehouse in the prior year. The changes in estimates relate to revised estimates of lease and ancillary costs associated with previously closed locations, due to deterioration of the condition of certain properties. The lease termination adjustments represent the benefits recognized in connection with lease buyouts negotiated related to previously closed stores.

Long-lived assets are measured at fair value on a nonrecurring basis using Level 3 inputs under the fair value hierarchy, as further described in Note 6 – Fair Value Measurements. Assets with a book value of \$1.8 million were measured at a fair value of \$0.3 million, resulting in an impairment charge of \$1.5 million in 2018. Assets with a book value of \$0.9 million were measured at a fair value of \$0.4 million, resulting in an impairment charge of \$0.5 million in 2017. Fair value of long-lived assets is determined by estimating the amount and timing of net future cash flows, discounted using a risk-adjusted rate of interest. The Company estimates future cash flows based on historical results of operations, external factors expected to impact future performance, experience and knowledge of the geographic area in which the assets are located, and when necessary, uses real estate brokers.

Note 6 – Fair Value Measurements

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability, reflecting the reporting entity's own assumptions about the assumptions that market participants would use in pricing.

Financial instruments include cash and cash equivalents, accounts and notes receivable, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, accounts and notes receivable, and accounts payable approximate fair value because of the short-term maturities of these financial instruments. See Note 5 for

discussion of the fair value measurements related to long-lived asset impairment charges. At July 14, 2018 and December 30, 2017, the book value and estimated fair value of the Company's debt instruments, excluding debt financing costs, were as follows:

(In thousands)	July 14, 2018	December 30, 2017
Book value of debt instruments, excluding debt financing costs:		
Current maturities of long-term debt and capital lease obligations	\$ 7,793	\$ 9,196
Long-term debt and capital lease obligations	708,460	747,172
Total book value of debt instruments	716,253	756,368
Fair value of debt instruments, excluding debt financing costs	718,366	757,966
Excess of fair value over book value	\$ 2,113	\$ 1,598

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities (Level 2 inputs and valuation techniques).

Certain of the Company's business combinations involve the potential for the receipt or payment of future contingent consideration upon the shortfall or achievement of various operating thresholds, respectively. The additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified EBITDA levels. For business combinations including contingent consideration provisions an asset or liability is recorded for the estimated fair value of the contingent consideration on the acquisition date. The fair value of the contingent consideration is remeasured at each reporting period with the change in fair value recognized as income or expense within operating expenses in the condensed consolidated statements of income. The Company measures the asset and liability on a recurring basis using Level 3 inputs.

The fair value of contingent consideration is measured using projected payment dates, discount rates, probabilities of payment, and projected EBITDA. Projected contingent payment or receipt amounts are discounted back to the current period using a discounted cash flow model. Projected EBITDA amounts are based on initial deal model forecasts at the time of acquisition as well as the Company's most recent internal operational budget, and include a probability weighted range of outcomes. Changes in projected EBITDA, probabilities of payment, discount rates, or projected payment dates may result in higher or lower fair value measurements. The recurring Level 3 fair value measurements of contingent consideration include the following significant unobservable inputs as of July 14, 2018:

Unobservable Input	Range
Discount rate	11.80%
Probability of payments	0% - 100%
Projected year(s) of payments	2018 - 2019

The fair value of contingent consideration receivable and payable associated with the Caito and BRT acquisition was \$18.4 million and \$3.4 million, respectively, as of July 14, 2018. The net receivable of \$15 million was recorded in other assets, net in the condensed consolidated balance sheets as there is a right of offset for the payable and receivable. Upon payment, the portion of the contingent consideration related to the acquisition date fair value is reported as a financing activity in the condensed consolidated statements of cash flows. Amounts received or paid in excess of the acquisition date fair value are reported as an operating activity in the consolidated statements of cash flows.

Note 7 – Commitments and Contingencies

The Company is engaged from time-to-time in routine legal proceedings incidental to its business. The Company does not believe that these routine legal proceedings, taken as a whole, will have a material impact on its business or financial condition. While the ultimate effect of such actions cannot be predicted with certainty, management believes that their outcome will not result in an adverse effect on the Company's consolidated financial position, operating results or liquidity.

From time to time, the Company may advance funds to independent retailers which are earned by the retailers primarily through achieving specified purchase volume requirements, as outlined in their supply agreements with the Company, or in limited instances, for remaining a SpartanNash customer for a specified time period. These advances must be repaid if the purchase volume requirements are not met or if the retailer no longer remains a customer for the specified time period. As of July 14, 2018, the Company has an unearned advance to one independent retailer for an amount representing approximately two percent of the Company's total assets. The Company's collateral related to the advanced funds is a security interest in select business assets of the independent retailer's stores, including select real property assets and other collateral, including a personal guarantee, from the shareholder. Despite the collateral, the Company may be unable to realize the entire unearned portion of the funds advanced to this independent retailer, and accordingly, has established a reserve of \$4.9 million related to the advance. During the fourth quarter of 2017, and in the context of a state law receivership proceeding, the customer rationalized its retail store base and entered into a new supply agreement with the Company, and assumed the obligation of the original agreement. Based on the expected cash flows generated from sales to this customer and consideration of the previously mentioned collateral, the Company believes it is adequately reserved as of July 14, 2018. However, if the customer's future performance and

related cash flows are negatively impacted by changes in economic, industry or market conditions, including changes in the business climate and competition, the Company may be unable to realize the remaining unearned portion of the advanced funds. Given the uncertainty regarding the previously mentioned factors that could impact the customer's future performance, the Company cannot reasonably estimate the additional amount of advanced funds, if any, which should be reserved. The Company estimates that the possible range of loss related to this customer is between zero and \$25.0 million, depending on the circumstances discussed above.

The Company contributes to the Central States Southeast and Southwest Pension Fund (“Central States Plan” or “the Plan”), a multi-employer pension plan, based on obligations arising from its collective bargaining agreements (“CBAs”) in Bellefontaine, Ohio, Lima, Ohio, and Grand Rapids, Michigan covering its supply chain associates at those locations. This Plan provides retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed by contributing employers and unions; however, SpartanNash is not a trustee. The trustees typically are responsible for determining the level of benefits to be provided to participants, as well as for such matters as the investment of the assets and the administration of the plan. The Company currently contributes to the Central States Plan under the terms outlined in the “Primary Schedule” of Central States’ Rehabilitation Plan or those outlined in the “Default Schedule.” Both the Primary and Default schedules require varying increases in employer contributions over the previous year’s contribution. Increases are set within the CBAs and vary by location. The Plan continues to be in red zone status, and according to the Pension Protection Act (“PPA”), is considered to be in “critical and declining” zone status. Among other factors, plans in the “critical and declining” zone are generally less than 65% funded and are projected to become insolvent within the next 15 years (or 20 years depending on the ratio of active-to-inactive participants). Based on the most recent information available to the Company, management believes that the present value of actuarial accrued liabilities in this multi-employer plan significantly exceeds the value of the assets held in trust to pay benefits. Because SpartanNash is one of a number of employers contributing to this plan, it is difficult to ascertain what the exact amount of the underfunding would be. Management is not aware of any significant change in funding levels since December 30, 2017. To reduce this underfunding, management expects meaningful increases in expense as a result of required incremental multi-employer pension plan contributions in future years. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined.

Note 8 – Associate Retirement Plans

During the 12 and 28-week periods ended July 14, 2018, the Company recognized net periodic pension income of \$0.1 million and \$0.2 million, respectively, related to the SpartanNash Company Pension Plan (“Pension Plan” or “Plan”) and net postretirement benefit costs of \$0.1 million and \$0.2 million, respectively, related to the SpartanNash Retiree Medical Plan. During the 12 and 28-week periods ended July 15, 2017, the Company recognized net periodic pension income of \$0.2 million and \$0.3 million, respectively, and net postretirement benefit costs of \$0.1 million and \$0.2 million, respectively for the aforementioned plans. Substantially all of these amounts are included in Other, net in the Condensed Consolidated Statements of Earnings.

On February 28, 2018, the Company’s Board of Directors granted approval to proceed with terminating the frozen Pension Plan. The Plan has been terminated as of July 31, 2018. The Company will offer participants the option to receive an annuity or lump sum distribution which may be rolled over into another qualified plan. The distribution of assets to plan participants is expected to take between 9 and 21 months. The Company will incur a one-time, pre-tax settlement charge of approximately \$22 million to recognize the deferred losses in AOCI upon distribution of the Plan assets and related recognition of the settlement. The Company expects to reduce administrative fees and premium funding costs as a result of the Plan termination.

The Company did not make any contributions to the SpartanNash Company Pension Plan during the 28 weeks ended July 14, 2018. Although no contributions are required, the Company expects to contribute approximately \$2.0 to \$3.0 million to the Pension Plan in 2018 to fund the plan termination liability. The Company expects to make contributions of \$0.4 million in 2018 to the Retiree Medical Plan.

The Company’s retirement programs also include defined contribution plans providing contributory benefits, as well as executive compensation plans for a select group of management personnel and/or highly compensated associates.

Multi-Employer Plans

In addition to the plans listed above, the Company participates in the Central States Southeast and Southwest Pension Fund, the Michigan Conference of Teamsters and Ohio Conference of Teamsters Health and Welfare plans (collectively referred to as “multi-employer plans”), and other company-sponsored defined contribution plans for most associates covered by collective bargaining agreements.

With respect to the Company’s participation in the Central States Plan, expense is recognized as contributions are funded. The Company’s contributions during the 12 weeks ended July 14, 2018 and July 15, 2017 were \$3.4 million. The Company’s contributions for the 28 weeks ended July 14, 2018 and July 15, 2017 were \$7.9 million and \$7.8 million, respectively. See Note 7 for further information regarding the Company’s participation in the Central States Plan.

Note 9 – Income Taxes

The effective income tax rate was 22.7% and 36.8% for the 12 weeks ended July 14, 2018 and July 15, 2017, respectively. For the 28 weeks ended July 14, 2018 and July 15, 2017, the effective income tax rate was 24.8% and 35.2%, respectively. The differences from the federal statutory rates of 21% and 35% for 2018 and 2017, respectively, are primarily due to state taxes, stock-based compensation and federal tax credits.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to reducing the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. In connection with initial analysis of the impact of the Tax Act, the Company recorded a provisional discrete income tax benefit of \$26.0 million in the period ended December 30, 2017 associated with the re-measurement of deferred tax assets and liabilities as a result of the reduction in the U.S. federal corporate tax rate. The Company has not completed its accounting for the income tax effects of certain elements of the Tax Act, but recorded provisional adjustments based on reasonable estimates, which have not materially changed since December 30, 2017. Those estimates may be impacted by the need for further analysis and future clarification and guidance regarding available tax accounting methods and elections, state tax conformity to federal tax changes and expected changes to U.S. Treasury regulations. The Company anticipates these estimates will be finalized on or before the due date of the federal return, which is October 15, 2018.

Note 10 – Stock-Based Compensation

The Company has a shareholder-approved stock incentive plan that provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, and other stock-based and stock-related awards to directors, officers and other key associates.

Stock-based compensation expense recognized and included in “Selling, general and administrative expenses” in the condensed consolidated statements of earnings, and related tax benefits were as follows:

(In thousands)	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Restricted stock	\$ 977	\$ 1,139	\$ 6,267	\$ 7,491
Tax benefits	(255)	(427)	(929)	(2,810)
Stock-based compensation expense, net of tax	\$ 722	\$ 712	\$ 5,338	\$ 4,681

The following table summarizes activity in the stock-based compensation plans for the 28 weeks ended July 14, 2018:

	Shares Under Options	Weighted Average Exercise Price	Restricted Stock Awards	Weighted Average Grant-Date Fair Value
Outstanding at December 30, 2017	47,928	\$ 16.52	613,744	\$ 30.32
Granted	—	—	480,936	16.99
Exercised/Vested	—	—	(255,741)	28.90
Cancelled/Forfeited	(14,400)	22.69	(4,691)	25.99
Outstanding at July 14, 2018	33,528	\$ 13.87	834,248	\$ 23.10

The Company has not issued any stock options since 2009 and all outstanding options are vested and exercisable at July 14, 2018.

As of July 14, 2018, total unrecognized compensation costs related to non-vested stock-based awards granted under the Company’s stock incentive plans were \$5.8 million for restricted stock, and are expected to be recognized over a weighted average period of 2.6 years. All compensation costs related to stock options have been recognized.

Note 11 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

(In thousands, except per share amounts)	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Numerator:				
Earnings from continuing operations	\$ 17,838	\$ 21,060	\$ 30,273	\$ 36,125
Adjustment for earnings attributable to participating securities	(414)	(357)	(644)	(640)
Earnings from continuing operations used in calculating earnings per share	\$ 17,424	\$ 20,703	\$ 29,629	\$ 35,485
Denominator:				
Weighted average shares outstanding, including participating securities	35,928	37,809	36,075	37,742
Adjustment for participating securities	(833)	(641)	(767)	(669)
Shares used in calculating basic earnings per share	35,095	37,168	35,308	37,073
Effect of dilutive stock options	13	22	12	45
Shares used in calculating diluted earnings per share	35,108	37,190	35,320	37,118
Basic earnings per share from continuing operations	\$ 0.50	\$ 0.56	\$ 0.84	\$ 0.96
Diluted earnings per share from continuing operations	\$ 0.50	\$ 0.56	\$ 0.84	\$ 0.96

Note 12 – Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

(In thousands)	28 Weeks Ended	
	July 14, 2018	July 15, 2017
Non-cash financing activities:		
Recognition of capital lease obligations	\$ 948	\$ 60
Non-cash investing activities:		
Capital expenditures included in accounts payable	3,527	609
Capital lease asset additions	948	60
Other supplemental cash flow information:		
Cash paid for interest	15,560	12,224

Note 13 – Reporting Segment Information

The following tables set forth information about the Company by reporting segment:

(In thousands)	Food			
	Distribution	Military	Retail	Total
12 Weeks Ended July 14, 2018				
Net sales to external customers	\$ 941,702	\$ 489,654	\$ 464,597	\$ 1,895,953
Inter-segment sales	198,388	—	—	198,388
Merger/acquisition and integration	745	—	59	804
Restructuring charges (gains) and asset impairment	100	(830)	(434)	(1,164)
Depreciation and amortization	7,318	2,763	8,926	19,007
Operating earnings	18,724	3,099	7,995	29,818
Capital expenditures	5,965	1,275	6,315	13,555
12 Weeks Ended July 15, 2017				
Net sales to external customers	\$ 903,126	\$ 471,077	\$ 481,996	\$ 1,856,199
Inter-segment sales	209,435	—	—	209,435
Merger/acquisition and integration	468	—	154	622
Restructuring charges (gains) and asset impairment	301	—	(315)	(14)
Depreciation and amortization	6,073	2,607	9,584	18,264
Operating earnings	23,176	2,501	13,209	38,886
Capital expenditures	8,275	1,603	8,435	18,313
28 Weeks Ended July 14, 2018				
Net sales to external customers	\$ 2,096,913	\$ 1,153,274	\$ 1,030,839	\$ 4,281,026
Inter-segment sales	451,712	—	—	451,712
Merger/acquisition and integration	2,940	4	66	3,010
Restructuring charges (gains) and asset impairment	1,360	(830)	4,507	5,037
Depreciation and amortization	16,858	6,441	20,945	44,244
Operating earnings	43,245	4,612	7,709	55,566
Capital expenditures	18,410	1,529	14,657	34,596
28 Weeks Ended July 15, 2017				
Net sales to external customers	\$ 2,017,274	\$ 1,114,390	\$ 1,078,237	\$ 4,209,901
Inter-segment sales	476,763	—	—	476,763
Merger/acquisition and integration	4,315	—	323	4,638
Restructuring charges and asset impairment	901	—	107	1,008
Depreciation and amortization	15,016	6,046	22,624	43,686
Operating earnings	48,447	3,381	16,617	68,445
Capital expenditures	14,029	4,054	19,706	37,789

(In thousands)	December	
	July 14, 2018	30, 2017
Total Assets		
Food Distribution	\$ 1,122,784	\$ 1,085,621
Military	403,198	432,818
Retail	481,356	533,912
Discontinued operations	3,474	3,446

Edgar Filing: SpartanNash Co - Form 10-Q

Total \$ 2,010,812 \$ 2,055,797

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

This Management's Discussion and Analysis of financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, the information contained under the caption "Forward-Looking Statements," which appears at the beginning of this report, and the information in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

Overview

SpartanNash, headquartered in Grand Rapids, Michigan, is a leading multi-regional grocery distributor and grocery retailer whose core businesses include distributing grocery products to a diverse group of independent and chain retailers, its corporate owned retail stores, military commissaries and exchanges in the United States, as well as premier fresh produce distribution and fresh food processing. The Company operates three reportable business segments: Food Distribution, Military and Retail.

The Company's Food Distribution segment provides a wide variety of nationally branded and private brand grocery products and perishable food products to approximately 2,100 independent retailers, the Company's corporate owned retail stores, food service distributors and other customers. The Food Distribution segment primarily conducts business in the Midwest and Southeast regions of the United States. Combined with the Military segment, the Company serves customers in all 50 states. The Company processes fresh-cut fruits and vegetables and other value-added meal solutions and supplies these products to grocery retailers and food service distributors. Through the Fresh Kitchen facility, the Company processes, cooks and packages fresh protein-based foods and complete meal solutions for a number of different customers.

The Company's Military segment contracts with manufacturers to distribute a wide variety of grocery products primarily to military commissaries and exchanges located in the United States, the District of Columbia, Europe, Cuba, Puerto Rico, Italy, Bahrain, Djibouti and Egypt. The Company has over 40 years of experience acting as a distributor to U.S. military commissaries and exchanges. The Company is the exclusive worldwide supplier of private brand products to U.S. military commissaries and is continuing to partner with DeCA in the rollout of private brand products to military commissaries which began during the second quarter of fiscal 2017.

At the end of the second quarter, the Company's Retail segment operated 140 corporate owned retail stores in the Midwest region primarily under the banners of Family Fare Supermarkets, VG's Food and Pharmacy, D&W Fresh Markets, Sun Mart and Family Fresh Market. The Company also offers pharmacy services in 83 of its corporate owned retail stores and operates 29 fuel centers. The retail stores have a "neighborhood market" focus to distinguish them from supercenters and limited assortment stores.

All fiscal quarters are 12 weeks, except for the Company's first quarter, which is 16 weeks and will generally include the Easter holiday. The fourth quarter includes the Thanksgiving and Christmas holidays, and depending on the fiscal year end, may include the New Year's holiday.

In certain geographic areas, the Company's sales and operating performance may vary with seasonality. Many stores are dependent on tourism and therefore, are most affected by seasons and weather patterns, including, but not limited to, the amount and timing of snowfall during the winter months and the range of temperature during the summer months.

2018 Second Quarter and Year-to-Date Highlights

During the second quarter of fiscal 2018, the Company's consolidated net sales increased \$39.8 million, or 2.1%, to \$1.90 billion from \$1.86 billion in the prior year quarter. Net sales for the year-to-date period ended July 14, 2018

increased \$71.1 million, or 1.7%, to \$4.28 billion from \$4.21 billion in the year-to-date period ended July 15, 2017. The increase in net sales was driven by continued sales growth in the Food Distribution and Military segments, partially offset by lower sales at Retail. The Company realized sequential improvements in comparable store sales within the Retail segment and executed plans to evolve its primary brand and deliver innovative solutions for a diverse customer base.

In June 2018, Caito Foods (“Caito”) initiated a voluntary product recall for fresh-cut watermelon, honeydew melon, cantaloupe and fresh-cut mixed fruit containing any of these melons produced at the Caito facility in Indianapolis, Indiana due to potential contamination with salmonella. In connection with the recall, the Company temporarily suspended production and distribution of the recalled products. During the second quarter, the Company recognized \$2.9 million in pre-tax estimated losses, or \$0.06 per diluted share after taxes, associated with the product recall related to the disposal of potentially contaminated and at-risk product and various distribution customer costs, as well as the estimated margin impact of lost sales opportunities, decreased efficiencies and increased production costs related to the interruption of fresh-cut fruit production at the Caito facility. Testing was performed within the manufacturing environment by third party food safety experts as well as the Food and Drug Administration (“FDA”) and no evidence of salmonella contamination was detected, a process which included over 500 tests among the various parties. The majority of the disruption to the Company's business associated with the product recall has subsided and Caito is receiving regular shipments from produce suppliers and has also resumed shipment of these fresh-cut melon products to its customers and seen a return of most of the pre-recall volumes in this business.

Despite the disruption caused by the voluntary product recall in the second quarter, the Company continues to execute against key elements of its long-term strategic plan and is committed to delivering increased value and convenience to its customers.

Second quarter and year-to-date 2018 operational highlights include:

- The Food Distribution segment realized sales growth of 4.3% for the quarter and 3.9% year-to-date compared to the prior year periods, driven largely by sales to existing customers, partially offset by reduced sales volume as a result of the product recall. The segment continues to attract customers and execute new opportunities which grow volume and expand the reach of the supply chain. The Company also remains focused on partnering with independent retailers to support their operations and enhance the consumer experience. The Company continues to realize strong customer retention, a testament to the success it has realized in these partnerships.
- The Company remains focused on product quality and safety throughout the organization and specifically within its fresh cut fruit and vegetable operations at Caito. Since the time of the voluntary product recall, the Company has been working diligently to ensure that suppliers are leaders in food safety and that consumers are provided the highest quality fresh products. While the new business development timeline is taking longer than anticipated, partly due to the recall, the Company is still focused on capitalizing on a strong pipeline of potential business, and remains optimistic about the long-term growth prospects of the business.
- The Military segment delivered both sales and earnings growth in the second quarter and year-to-date periods of 2018. The improved sales and earnings were driven by a combination of new commissary business in the Southwest as well as incremental volume associated with the expansion of the DeCA private brand program. The Company is pleased by the growth within this segment at a time when the overall trends within DeCA commissary business show negative, but improving, comparisons to the prior year.
- Despite an environment which continues to be highly competitive, the Retail segment achieved sequential improvement in comparable store sales for the second consecutive quarter, and also generated best in class results in key measures of customer satisfaction. The recent customer satisfaction results are evidence of the impact of the Company's recently refreshed brand positioning for Family Fare, which will be rolled out to four additional stores in the remainder of 2018. The Company remains committed to delivering on its initiatives centered on convenience, personalization, value beyond price, affordable wellness, local focus and social responsibility – all designed to deliver a superior shopping experience for customers.

For the remainder of 2018, the Company anticipates sustaining overall sales growth in the Food Distribution segment with both new and existing customers. The Food Distribution segment will face some challenges, however, as the Company anticipates lower sales and profit growth than originally expected from food processing operations. Despite strong interest in the product offerings, the new business development timeline is behind the Company's initial forecast and production efficiency improvements are behind plan, partially due to disruption caused by the voluntary product recall. Additionally, the timing of the roll out of a significant customer program is behind the Company's initial expectation. While this program has now launched, and the Company believes it will provide substantial volume going forward, the volume and profit contributions to the business for the second half of 2018 will be below the initial forecast. The ongoing expansion of the DeCA private brand program will contribute to sales growth in the Military segment for the remainder of 2018 and into 2019. However, the release of new products under the program will be behind the Company's initial expectations and is not anticipated to accelerate meaningfully in the second half of 2018. The Company continues to expect that Retail comparable store sales will improve to approximately flat by the end of the year as the stores benefit from several of the Company's innovative concepts and initiatives. Margin pressures and higher transportation and warehousing expenses are expected to moderate in the back half of the year as the Company executes its plans to begin mitigating these challenges, some of which relate to rapid growth in certain regions and some to a difficult operating environment.

Results of Operations

The following table sets forth items from the condensed consolidated statements of earnings as a percentage of net sales and the year-to-year percentage change in the dollar amounts:

	Percentage of Net Sales				Percentage Change	
	12 Weeks Ended		28 Weeks Ended		12 Weeks Ended	28 Weeks Ended
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017	July 14, 2018	July 14, 2018
Net sales	100.0	100.0	100.0	100.0	2.1	1.7
Gross profit	14.0	14.6	14.2	14.9	(2.0)	(3.1)
Selling, general and administrative expenses	12.5	12.5	12.7	13.2	2.0	(1.6)
Merger/acquisition and integration	—	—	0.1	0.1	29.3	(35.1)
Restructuring (gains) charges and asset impairment	(0.1)	—	0.1	—	**	**
Operating earnings	1.6	2.1	1.3	1.6	(23.3)	(18.8)
Other income and expenses	0.4	0.3	0.4	0.3	21.1	20.5
Earnings before income taxes and discontinued operations	1.2	1.8	0.9	1.3	(30.7)	(27.8)
Income tax expense	0.3	0.7	0.2	0.5	(57.2)	(49.0)
Earnings from continuing operations	0.9	1.1	0.7	0.9	(15.3)	(16.2)
Loss from discontinued operations, net of taxes	—	—	—	—	112.9	122.5
Net earnings	0.9	1.1	0.7	0.9	(15.5)	(16.5)

Note: Certain totals do not sum due to rounding.

** Not meaningful

Net Sales – The following table presents net sales by segment and variances in net sales:

(In thousands)	12 Weeks Ended			28 Weeks Ended		
	July 14, 2018	July 15, 2017	Variance	July 14, 2018	July 15, 2017	Variance
Food Distribution	\$ 941,702	\$ 903,126	\$ 38,576	\$ 2,096,913	\$ 2,017,274	\$ 79,639
Military	489,654	471,077	18,577	1,153,274	1,114,390	38,884
Retail	464,597	481,996	(17,399)	1,030,839	1,078,237	(47,398)
Total net sales	\$ 1,895,953	\$ 1,856,199	\$ 39,754	\$ 4,281,026	\$ 4,209,901	\$ 71,125

Net sales for the quarter ended July 14, 2018 (“second quarter”) increased \$39.8 million, or 2.1%, to \$1.90 billion from \$1.86 billion in the quarter ended July 15, 2017 (“prior year quarter”). Net sales for the year-to-date period ended July 14, 2018 (“year-to-date period”) increased \$71.1 million, or 1.7%, to \$4.28 billion from \$4.21 billion in the year-to-date period ended July 15, 2017 (“prior year-to-date period”). The increases were driven primarily by organic growth from existing customers in the Food Distribution segment and new business in the Military segment, which more than offset lower sales in the Retail segment and the impact of the voluntary product recall at Caito.

Food Distribution net sales, after intercompany eliminations, increased \$38.6 million, or 4.3%, to \$941.7 million in the second quarter from \$903.1 million in the prior year quarter. Net sales for the year-to-date period increased \$79.6 million, or 3.9%, from \$2.02 billion in the prior year-to-date period to \$2.10 billion. The second quarter and year-to-date increases were due to sales growth from existing customers.

Military net sales increased \$18.6 million, or 3.9%, to \$489.7 million in the second quarter from \$471.1 million in the prior year quarter. Net sales for the year-to-date period increased \$38.9 million, or 3.5%, from \$1.11 billion in the prior year-to-date period to \$1.15 billion. The increases were primarily due to new commissary business in the Southwest and incremental volume from the private brand program, partially offset by lower comparable sales at the DeCA operated commissaries.

Retail net sales decreased \$17.4 million, or 3.6%, to \$464.6 million in the second quarter from \$482.0 million in the prior year quarter. Net sales for the year-to-date period decreased \$47.4 million, or 4.4%, from \$1.08 billion in the prior year-to-date period to \$1.03 billion. The decrease in net sales was primarily attributable to lower sales resulting from the closures and sales of retail stores (\$15.5 million for the quarter and \$36.8 million year-to-date) and negative comparable store sales, partly offset by an increase in fuel prices. Comparable store sales, excluding fuel, were -1.9 percent for the quarter and -2.1 percent for the year-to-date period, and reflect continued strong competition within the industry. The Company defines a retail store as comparable when it is in operation for 14 accounting periods (a period equals four weeks), regardless of remodels, expansions or relocated stores. The Company's definition of comparable store sales may differ from similarly titled measures at other companies.

Gross Profit – Gross profit represents net sales less cost of sales, which for all non-production operations includes purchase costs, in-bound freight, physical inventory adjustments, markdowns and promotional allowances and excludes warehousing costs, depreciation and other administrative expenses. For the Company’s food processing operations, cost of sales includes direct product and production costs, inbound freight, purchasing and receiving costs, utilities, depreciation, and other indirect production costs and excludes out-bound freight and other administrative expenses. The Company’s gross profit definition may not be identical to similarly titled measures reported by other companies. Vendor allowances that relate to the buying and merchandising activities consist primarily of promotional allowances, which are generally allowances on purchased quantities and, to a lesser extent, slotting allowances, which are billed to vendors for the Company’s merchandising costs, such as setting up warehouse infrastructure. Vendor allowances are recognized as a reduction in cost of sales when the product is sold. Lump sum payments received for multi-year contracts are amortized over the life of the contracts based on contractual terms. The distribution segments include shipping and handling costs in the Selling, general and administrative section of operating expenses in the consolidated statements of earnings.

Gross profit decreased to \$265.7 million in the second quarter from \$271.0 million in the prior year quarter. As a percent of net sales, gross profit was 14.0% compared to 14.6% in the prior year quarter. Gross profit for the year-to-date period decreased \$19.5 million, or 3.1%, from \$628.4 million in the prior year-to-date period to \$608.9 million in the current year. As a percent of net sales, gross profit for the year-to-date period was 14.2% compared to 14.9% in the prior year-to-date period. As a percent of net sales, the second quarter and year-to-date changes in gross margin were primarily due to an increased mix of Food Distribution and Military sales as a percentage of the total sales combined with investments in margin in the Retail segment.

Selling, General and Administrative Expenses – Selling, general and administrative (“SG&A”) expenses consist primarily of salaries and wages, employee benefits, warehousing costs, store occupancy costs, shipping and handling, utilities, equipment rental, depreciation (to the extent not included in Cost of sales), out-bound freight and other administrative expenses.

SG&A expenses increased \$4.7 million, or 2.0%, to \$236.2 million in the second quarter from \$231.5 million in the prior year quarter, representing 12.5% of net sales in the second quarter compared to 12.5% in the prior year quarter. SG&A expenses for the year-to-date period decreased \$9.0 million, or 1.6%, from \$554.3 million in the prior year-to-date period to \$545.3 million, and decreased to 12.7% as a percentage of net sales compared to 13.2% in the prior year-to-date period. The year-to-date decrease in the rate of sales were primarily due to the mix of business operations and lower healthcare, partially offset by the impact of the product recall, investments in store labor, increased transportation costs within the Food Distribution and Military segments and higher incentive compensation expenses.

Merger/Acquisition and Integration – Second quarter and year-to-date period results included \$0.8 million and \$3.0 million, respectively, and prior year quarter and year-to-date results included \$0.6 million and \$4.6 million, respectively, of merger/acquisition and integration expenses, mainly associated with the merger of Spartan Stores, Inc. and Nash-Finch Company and the acquisition and integration of Caito and BRT.

Restructuring (Gains) Charges and Asset Impairment – Second quarter and year-to-date period results included gains of \$1.2 million and charges of \$5.0 million, respectively, net restructuring and asset impairment, primarily associated with the Company’s retail store and warehouse rationalization plans, partially offset by gains on sales of real estate in the second quarter. Prior year-to-date included \$1.0 million of restructuring and asset impairment charges which were incurred in the first quarter, primarily associated with the Company’s retail store and warehouse rationalization plans, partially offset by favorable lease terminations.

Operating Earnings – The following table presents operating earnings by segment and variances in operating earnings:

12 Weeks Ended

28 Weeks Ended

Edgar Filing: SpartanNash Co - Form 10-Q

(In thousands)	July 14, 2018	July 15, 2017	Variance	July 14, 2018	July 15, 2017	Variance
Food Distribution	\$ 18,724	\$ 23,176	\$ (4,452)	\$ 43,245	\$ 48,447	\$ (5,202)
Military	3,099	2,501	598	4,612	3,381	1,231
Retail	7,995	13,209	(5,214)	7,709	16,617	(8,908)
Total operating earnings	\$ 29,818	\$ 38,886	\$ (9,068)	\$ 55,566	\$ 68,445	\$ (12,879)

Operating earnings decreased \$9.1 million, or 23.3%, to \$29.8 million in the second quarter from \$38.9 million in the prior year quarter. Operating earnings for the year-to-date period decreased \$12.9 million, or 18.8%, to \$55.6 million from \$68.4 million in the prior year-to-date period. The second quarter decrease was primarily due the voluntary product recall, the factors impacting gross profit as described above, as well as higher transportation and health care costs compared to the prior year, partially offset by growth in sales and gains on sales of real estate. The year-to-date decrease was primarily due to restructuring and asset impairment charges, the product recall, lower margin rates and higher transportation costs.

Edgar Filing: SpartanNash Co - Form 10-Q

Food Distribution operating earnings decreased \$4.5 million, or 19.2%, to \$18.7 million in the second quarter from \$23.2 million in the prior year quarter. Operating earnings for the year-to-date period decreased \$5.2 million, or 10.7%, to \$43.2 million from \$48.5 million in the prior year-to-date period. The decrease for the quarter was primarily due to product recall charges and corresponding volume decline and production inefficiencies at the Caito Foods facility, lower inflation, higher health care costs and higher transportation costs and warehousing costs as part of the dramatic expansion of volumes in certain of our facilities. The year-to-date decrease was primarily driven by the product recall, lower inflation, the shift in customer mix, higher transportation costs and a change in timing of certain supplier programs.

Military operating earnings increased \$0.6 million, or 24.0%, to \$3.1 million from \$2.5 million in the prior year quarter. Operating earnings for the year-to-date period increased \$1.2 million, or 35.3%, to \$4.6 million from \$3.4 million in the prior year-to-date period. The increase for the quarter was primarily attributable to sales growth, margin improvements and a gain on the sale of real estate, partially offset by higher transportation and warehousing expenses, and healthcare costs. The year-to-date increase was driven by sales growth and margin improvements and the gain on the sale of real estate.

Retail operating earnings decreased \$5.2 million, or 53.6%, to \$8.0 million in the second quarter from \$13.2 million in the prior year quarter. Operating earnings for the year-to-date period decreased \$8.9 million, or 53.6%, to \$7.7 million from \$16.6 million in the prior year-to-date period. The decrease for the quarter was primarily attributable to investments in margin, lower comparable store sales, higher labor and health care costs and higher fees paid to pharmacy benefit managers, partially offset by the closure of underperforming stores. The decrease for the year-to-date period was primarily attributable to investments in margin and lower comparable store sales, partially offset by the closure of underperforming stores and lower healthcare costs.

Interest Expense – Interest expense increased \$1.3 million, or 22.8%, to \$7.0 million in the second quarter from \$5.7 million in the prior year quarter. Interest expense for the year-to-date period increased \$2.7 million, or 20.8%, from \$13.0 million in the prior year-to-date period to \$15.7 million. The increase in interest expense for the quarter was due to an increase in interest rates and increased borrowings compared to the same period in the prior year. The increase for the year-to-date period was due primarily to higher borrowings.

Income Taxes – The effective income tax rates were 22.7% and 36.8% for the second quarter and prior year quarter, respectively. For the year-to-date period and prior year-to-date period, the effective income tax rates were 24.8% and 35.2%, respectively. The differences from the federal statutory rates of 21% and 35% for 2018 and 2017, respectively, are primarily due to state taxes, stock compensation and tax credits. The tax impacts of stock-based compensation are primarily generated in the first quarter due to the timing of awards and vesting schedules.

Non-GAAP Financial Measures

In addition to reporting financial results in accordance with GAAP, the Company also provides information regarding adjusted operating earnings, adjusted earnings from continuing operations, and Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“adjusted EBITDA”). These are non-GAAP financial measures, as defined below, and are used by management to allocate resources, assess performance against its peers and evaluate overall performance. The Company believes these measures provide useful information for both management and its investors. The Company believes these non-GAAP measures are useful to investors because they provide additional understanding of the trends and special circumstances that affect its business. These measures provide useful supplemental information that helps investors to establish a basis for expected performance and the ability to evaluate actual results against that expectation. The measures, when considered in connection with GAAP results, can be used to assess the overall performance of the Company as well as assess the Company’s performance against its peers. These measures are also used as a basis for certain compensation programs sponsored by the Company. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with the Company request its financial results in these adjusted formats.

Current year adjusted operating earnings, adjusted earnings from continuing operations, and adjusted EBITDA exclude start-up costs associated with the new Fresh Kitchen operation through the start-up period, which concluded during the first quarter. The Fresh Kitchen is a newly constructed facility that provides the Company with the ability to process, cook, and package fresh protein-based foods and complete meal solutions. Given the Fresh Kitchen represents a new line of business for the Company, the start-up activities associated with testing, training, and preparing the Fresh Kitchen for production, as well as incorporating the related operations into the business, are considered “non-operational” or “non-core” in nature. The retirement stock compensation award represents incremental compensation expense in connection with an executive retirement that is also considered “non-operational” or “non-core” in nature.

Adjusted Operating Earnings

Adjusted operating earnings is a non-GAAP operating financial measure that the Company defines as operating earnings plus or minus adjustments for items that do not reflect the ongoing operating activities of the Company and costs associated with the closing of operational locations.

The Company believes that adjusted operating earnings provide a meaningful representation of its operating performance for the Company as a whole and for its operating segments. The Company considers adjusted operating earnings as an additional way to measure operating performance on an ongoing basis. Adjusted operating earnings is meant to reflect the ongoing operating performance of all of its distribution and retail operations; consequently, it excludes the impact of items that could be considered “non-operating” or “non-core” in nature, and also excludes the contributions of activities classified as discontinued operations. Because adjusted operating earnings and adjusted operating earnings by segment are performance measures that management uses to allocate resources, assess performance against its peers and evaluate overall performance, the Company believes it provides useful information for both management and its investors. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with the Company request its operating financial results in adjusted operating earnings format.

Adjusted operating earnings is not a measure of performance under accounting principles generally accepted in the United States of America (“GAAP”), and should not be considered as a substitute for operating earnings, cash flows from operating activities and other income or cash flow statement data. The Company’s definition of adjusted operating earnings may not be identical to similarly titled measures reported by other companies.

The retrospective adoption of ASU 2017-07 resulted in an immaterial decrease in operating earnings from the amount previously reported for the 12 and 28 weeks ended July 15, 2017.

Edgar Filing: SpartanNash Co - Form 10-Q

Following is a reconciliation of operating earnings to adjusted operating earnings for the 12 weeks and 28 weeks ended July 14, 2018 and July 15, 2017.

(In thousands)	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Operating earnings	\$ 29,818	\$ 38,886	\$ 55,566	\$ 68,445
Adjustments:				
Merger/acquisition and integration	804	622	3,010	4,638
Restructuring (gains) charges and asset impairment	(1,164)	(14)	5,037	1,008
Fresh Kitchen start-up costs	—	1,854	1,366	4,602
Stock compensation associated with executive retirement	—	—	—	1,172
Severance associated with cost reduction initiatives	344	21	618	24
Adjusted operating earnings	\$ 29,802	\$ 41,369	\$ 65,597	\$ 79,889
Reconciliation of operating earnings to adjusted operating earnings by segment:				
Food Distribution:				
Operating earnings	\$ 18,724	\$ 23,176	\$ 43,245	\$ 48,447
Adjustments:				
Merger/acquisition and integration	745	468	2,940	4,315
Restructuring charges and asset impairment	100	301	1,360	901
Fresh Kitchen start-up costs	—	1,854	1,366	4,602
Stock compensation associated with executive retirement	—	—	—	591
Severance associated with cost reduction initiatives	258	21	451	22
Adjusted operating earnings	\$ 19,827	\$ 25,820	\$ 49,362	\$ 58,878
Military:				
Operating earnings	\$ 3,099	\$ 2,501	\$ 4,612	\$ 3,381
Adjustments:				
Merger/acquisition and integration	—	—	4	—
Restructuring gains	(830)	—	(830)	—
Stock compensation associated with executive retirement	—	—	—	147
Severance associated with cost reduction initiatives	18	—	70	1
Adjusted operating earnings	\$ 2,287	\$ 2,501	\$ 3,856	\$ 3,529
Retail:				
Operating earnings	\$ 7,995	\$ 13,209	\$ 7,709	\$ 16,617
Adjustments:				
Merger/acquisition and integration	59	154	66	323
Restructuring (gains) charges and asset impairment	(434)	(315)	4,507	107
Stock compensation associated with executive retirement	—	—	—	434
Severance associated with cost reduction initiatives	68	—	97	1
Adjusted operating earnings	\$ 7,688	\$ 13,048	\$ 12,379	\$ 17,482

Adjusted Earnings from Continuing Operations

Adjusted earnings from continuing operations is a non-GAAP operating financial measure that the Company defines as earnings from continuing operations plus or minus adjustments for items that do not reflect the ongoing operating activities of the Company and costs associated with the closing of operational locations.

The Company believes that adjusted earnings from continuing operations provide a meaningful representation of its operating performance for the Company. The Company considers adjusted earnings from continuing operations as an additional way to measure operating performance on an ongoing basis. Adjusted earnings from continuing operations is meant to reflect the ongoing operating performance of all of its distribution and retail operations; consequently, it

excludes the impact of items that could be considered “non-operating” or “non-core” in nature, and also excludes the contributions of activities classified as discontinued operations. Because adjusted earnings from continuing operations is a performance measure that management uses to allocate resources, assess performance against its peers and evaluate overall performance, the Company believes it provides useful information for both management and its investors. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with the Company request its operating financial results in adjusted earnings from continuing operations format.

Edgar Filing: SpartanNash Co - Form 10-Q

Adjusted earnings from continuing operations is not a measure of performance under accounting principles generally accepted in the United States of America, and should not be considered as a substitute for net earnings, cash flows from operating activities and other income or cash flow statement data. The Company's definition of adjusted earnings from continuing operations may not be identical to similarly titled measures reported by other companies.

Following is a reconciliation of earnings from continuing operations to adjusted earnings from continuing operations for the 12 weeks and 28 weeks ended July 14, 2018 and July 15, 2017.

(In thousands, except per share amounts)	12 Weeks Ended			
	July 14, 2018		July 15, 2017	
	Earnings	per diluted share	Earnings	per diluted share
Earnings from continuing operations	\$ 17,838	\$ 0.50	\$ 21,060	\$ 0.56
Adjustments:				
Merger/acquisition and integration	804		622	
Restructuring gains and asset impairment	(1,164)		(14)	
Fresh Kitchen start-up costs	—		1,854	
Severance associated with cost reduction initiatives	344		21	
Total adjustments	(16)		2,483	
Income tax effect on adjustments (a)	48		(932)	
Total adjustments, net of taxes	32	—	1,551	0.04
Adjusted earnings from continuing operations	\$ 17,870	\$ 0.50	\$ 22,611	\$ 0.60

(In thousands, except per share amounts)	28 Weeks Ended			
	July 14, 2018		July 15, 2017	
	Earnings	per diluted share	Earnings	per diluted share
Earnings from continuing operations	\$ 30,273	\$ 0.84	\$ 36,125	\$ 0.96
Adjustments:				
Merger integration and acquisition expenses	3,010		4,638	
Restructuring charges and goodwill/asset impairment	5,037		1,008	
Fresh Kitchen start-up costs	1,366		4,602	
Severance associated with cost reduction initiatives	618		24	
Stock compensation associated with executive retirement	—		1,172	
Total adjustments	10,031		11,444	
Income tax effect on adjustments (a)	(2,388)		(4,295)	
Total adjustments, net of taxes	7,643	0.21	7,149	0.19
Adjusted earnings from continuing operations	\$ 37,916	\$ 1.05	\$ 43,274	\$ 1.15

(a) The income tax effect on adjustments is computed by applying the effective tax rate, before discrete tax items, to the total adjustments for the period.

Adjusted EBITDA

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("adjusted EBITDA") is a non-GAAP operating financial measure that the Company defines as net earnings plus interest, discontinued operations, depreciation and amortization, and other non-cash items including deferred (stock) compensation, the LIFO provision, as well as adjustments for items that do not reflect the ongoing operating activities of the Company and costs associated with the closing of operational locations.

The Company believes that adjusted EBITDA provides a meaningful representation of its operating performance for the Company as a whole and for its operating segments. The Company considers adjusted EBITDA as an additional

way to measure operating performance on an ongoing basis. Adjusted EBITDA is meant to reflect the ongoing operating performance of all of its distribution and retail operations; consequently, it excludes the impact of items that could be considered “non-operating” or “non-core” in nature, and also excludes the contributions of activities classified as discontinued operations. Because adjusted EBITDA and adjusted EBITDA by segment are performance measures that management uses to allocate resources, assess performance against its peers and evaluate overall performance, the Company believes it provides useful information for both management and its investors. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with the Company request its operating financial results in adjusted EBITDA format.

Adjusted EBITDA and adjusted EBITDA by segment are not measures of performance under accounting principles generally accepted in the United States of America, and should not be considered as a substitute for net earnings, cash flows from operating activities and other income or cash flow statement data. The Company's definitions of adjusted EBITDA and adjusted EBITDA by segment may not be identical to similarly titled measures reported by other companies.

The retrospective adoption of ASU 2017-07 resulted in an immaterial decrease in EBITDA from the amount previously reported for the 12 and 28 weeks ended July 15, 2017.

Edgar Filing: SpartanNash Co - Form 10-Q

Following is a reconciliation of net earnings to adjusted EBITDA for the 12 weeks and 28 weeks ended July 14, 2018 and July 15, 2017.

(In thousands)	12 Weeks Ended		28 Weeks Ended	
	July 14, 2018	July 15, 2017	July 14, 2018	July 15, 2017
Net earnings	\$ 17,772	\$ 21,029	\$ 30,115	\$ 36,054
Loss from discontinued operations, net of tax	66	31	158	71
Income tax expense	5,247	12,267	10,007	19,636
Other expenses, net	6,733	5,559	15,286	12,684
Operating earnings	29,818	38,886	55,566	68,445
Adjustments:				
LIFO expense	155	692	1,695	2,282
Depreciation and amortization	19,007	19,018	44,025	44,099
Merger/acquisition and integration	804	622	3,010	4,638
Restructuring (gains) charges and asset impairment	(1,164)	(14)	5,037	1,008
Fresh Kitchen start-up costs	—	1,854	1,366	4,602
Stock-based compensation	976	1,139	6,267	7,491
Other non-cash charges (gains)	94	(300)	(105)	(523)
Adjusted EBITDA	\$ 49,690	\$ 61,897	\$ 116,861	\$ 132,042
Reconciliation of operating earnings to adjusted EBITDA by segment:				
Food Distribution:				
Operating earnings	\$ 18,724	\$ 23,176	\$ 43,245	\$ 48,447
Adjustments:				
LIFO (benefit) expense	(82)	380	683	1,263
Depreciation and amortization	7,318	6,827	16,639	15,429
Merger/acquisition and integration	745	468	2,940	4,315
Restructuring charges and asset impairment	100	301	1,360	901
Fresh Kitchen start-up costs	—	1,854	1,366	4,602
Stock-based compensation	441	551	2,968	3,511
Other non-cash charges (gains)	205	(1)	420	46
Adjusted EBITDA	\$ 27,451	\$ 33,556	\$ 69,621	\$ 78,514
Military:				
Operating earnings	\$ 3,099	\$ 2,501	\$ 4,612	\$ 3,381
Adjustments:				
LIFO (benefit) expense	(26)	84	399	392
Depreciation and amortization	2,763	2,607	6,441	6,046
Merger/acquisition and integration	—	—	4	—
Restructuring gains	(830)	—	(830)	—
Stock-based compensation	220	165	1,025	1,127
Other non-cash gains	(77)	(14)	(149)	(16)
Adjusted EBITDA	\$ 5,149	\$ 5,343	\$ 11,502	\$ 10,930
Retail:				
Operating earnings	\$ 7,995	\$ 13,209	\$ 7,709	\$ 16,617
Adjustments:				
LIFO expense	263	228	613	627
Depreciation and amortization	8,926	9,584	20,945	22,624
Merger/acquisition and integration	59	154	66	323
Restructuring (gains) charges and asset impairment	(434)	(315)	4,507	107
Stock-based compensation	315	423	2,274	2,853
Other non-cash gains	(34)	(285)	(376)	(553)

Adjusted EBITDA	\$ 17,090	\$ 22,998	\$ 35,738	\$ 42,598
-----------------	-----------	-----------	-----------	-----------

Liquidity and Capital Resources

Cash Flow Information

The following table summarizes the Company's consolidated statements of cash flows:

(In thousands)	28 Weeks Ended	
	July 14, 2018	July 15, 2017
Cash flow activities		
Net cash provided by operating activities	\$ 104,300	\$ 38,357
Net cash used in investing activities	(28,141)	(247,801)
Net cash (used in) provided by financing activities	(75,771)	207,796
Net cash (used in) provided by discontinued operations	(142)	23
Net increase (decrease) in cash and cash equivalents	246	(1,625)
Cash and cash equivalents at beginning of the period	15,667	24,351
Cash and cash equivalents at end of the period	\$ 15,913	\$ 22,726

Net cash provided by operating activities. Net cash provided by operating activities increased during the current year-to-date period from the prior year-to-date period by approximately \$65.9 million was mainly due to the timing of working capital requirements, particularly improvements in inventory and accounts receivable, compared to the prior year.

Net cash used in investing activities. Net cash used in investing activities decreased \$219.7 million in the current year compared to the prior year primarily due to the acquisition made in the prior year.

The Food Distribution, Military and Retail segments utilized 53.2%, 4.4% and 42.4% of capital expenditures, respectively, in the current year.

Net cash (used in) provided by financing activities. Net cash used in financing activities increased \$283.6 million in the current year compared to the prior year primarily due to increases in cash provided by operating activities which were used to pay down debt, as well as borrowings on the revolving credit facility in the prior year to fund the acquisition and working capital.

Net cash (used in) provided by discontinued operations. Net cash used in discontinued operations contains the net cash flows of the Company's Retail and Food Distribution discontinued operations and is primarily composed of facility maintenance expenditures.

Debt Management

Total debt, including capital lease obligations and current maturities, was \$710.7 million and \$750.0 million as of July 14, 2018 and December 30, 2017, respectively. The decrease in total debt was driven by principal payments in the current year due to an increase in cash provided by operations.

Liquidity

The Company's principal sources of liquidity are cash flows generated from operations and its senior secured credit facility which has maximum available credit of \$1.0 billion. As of July 14, 2018, the senior secured revolving credit facility had outstanding borrowings of \$671.2 million. Additional available borrowings under the Company's \$1.0 billion credit facility are based on stipulated advance rates on eligible assets, as defined in the Credit Agreement. The Credit Agreement requires that the Company maintain excess availability of 10% of the borrowing base, as such term is defined in the Credit Agreement. The Company had excess availability after the 10% covenant of \$138.1 million at

July 14, 2018. Payment of dividends and repurchases of outstanding shares are permitted, provided that certain levels of excess availability are maintained. The credit facility provides for the issuance of letters of credit, of which \$11.8 million were outstanding as of July 14, 2018. The revolving credit facility matures December 2021, and is secured by substantially all of the Company's assets.

The Company believes that cash generated from operating activities and available borrowings under the credit facility will be sufficient to meet anticipated requirements for working capital, capital expenditures, dividend payments, and debt service obligations for the foreseeable future. However, there can be no assurance that the business will continue to generate cash flow at or above current levels or that the Company will maintain its ability to borrow under the credit facility.

The Company's current ratio (current assets to current liabilities) was 2.06-to-1 at July 14, 2018 compared to 2.03-to-1 at December 30, 2017, and its investment in working capital was \$507.4 million at July 14, 2018 compared to \$509.7 million at December 30, 2017. Net debt to total capital ratio was 0.49-to-1 at July 14, 2018 compared to 0.50-to-1 at December 30, 2017.

Edgar Filing: SpartanNash Co - Form 10-Q

Total net debt is a non-GAAP financial measure that is defined as long-term debt and capital lease obligations, plus current maturities of long-term debt and capital lease obligations, less cash and cash equivalents. The ratio of net debt to capital is a non-GAAP financial measure that is calculated by dividing net debt, as defined previously, by total capital (net debt plus total shareholders' equity). The Company believes both management and its investors find the information useful because it reflects the amount of long-term debt obligations that are not covered by available cash and temporary investments. Total net debt is not a substitute for GAAP financial measures and may differ from similarly titled measures of other companies.

Following is a reconciliation of long-term debt and capital lease obligations to total net long-term debt and capital lease obligations as of July 14, 2018 and December 30, 2017.

(In thousands)	July 14, 2018	December 30, 2017
Current maturities of long-term debt and capital lease obligations	\$ 7,793	\$ 9,196
Long-term debt and capital lease obligations	702,864	740,755
Total debt	710,657	749,951
Cash and cash equivalents	(15,913)	(15,667)
Total net long-term debt	\$ 694,744	\$ 734,284

For information on contractual obligations, see the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017. At July 14, 2018, there have been no material changes to the Company's significant contractual obligations outside the ordinary course of business.

Cash Dividends

During the year-to-date period ended July 14, 2018, the Company returned \$33.0 million to shareholders from dividend payments of \$13.0 million and share repurchases of \$20.0 million. A 9.1% increase in the quarterly dividend rate from \$0.165 per share to \$0.18 per share was approved by the Board of Directors and announced on March 15, 2018. Although the Company expects to continue to pay a quarterly cash dividend, adoption of a dividend policy does not commit the Board of Directors to declare future dividends. Each future dividend will be considered and declared by the Board of Directors at its discretion. Whether the Board of Directors continues to declare dividends depends on a number of factors, including the Company's future financial condition, anticipated profitability and cash flows and compliance with the terms of its credit facilities.

Under the senior revolving credit facility, the Company is generally permitted to pay dividends in any fiscal year up to an amount such that all cash dividends, together with any cash distributions and share repurchases, do not exceed \$25.0 million. Additionally, the Company is generally permitted to pay cash dividends in excess of \$25.0 million in any fiscal year so long as its Excess Availability, as defined in the senior revolving credit facility, is in excess of 10% of the Total Borrowing Base, as defined in the senior revolving credit facility, before and after giving effect to the repurchases and dividends.

Off-Balance Sheet Arrangements

The Company has also made certain commercial commitments that extend beyond July 14, 2018. These commitments consist primarily of operating leases and purchase commitments (as disclosed in the Company's Annual Report on Form 10-K for the year ended December 30, 2017), standby letters of credit of \$11.8 million as of July 14, 2018, and interest on long-term debt and capital lease obligations.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, inventories, intangible assets, assets held for sale, long-lived assets, income taxes, self-insurance reserves, restructuring costs, retirement benefits, stock-based compensation, contingencies and litigation. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Based on the Company's ongoing review, the Company makes adjustments it considers appropriate under the facts and circumstances. This discussion and analysis of the Company's financial condition and results of operations is based upon the Company's consolidated financial statements. The Company believes these accounting policies and others set forth in Item 8, Note 1 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017 should be reviewed as they are integral to the understanding the Company's financial condition and results of operations. The Company has discussed the development, selection and disclosure of these accounting policies with the Audit Committee of the Board of Directors. The accompanying financial statements are prepared using the same critical accounting policies discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

Recently Issued Accounting Standards

Refer to Note 2 in the notes to the condensed consolidated financial statements for further information.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in market risk of SpartanNash from the information provided in Part II, Item 7A, “Quantitative and Qualitative Disclosure About Market Risk,” of the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

ITEM 4. Controls and Procedures

An evaluation of the effectiveness of the design and operation of SpartanNash Company’s disclosure controls and procedures (as currently defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) was performed as of July 14, 2018 (the “Evaluation Date”). This evaluation was performed under the supervision and with the participation of SpartanNash Company’s management, including its Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and Chief Accounting Officer (“CAO”). As of the Evaluation Date, SpartanNash Company’s management, including the CEO, CFO and CAO, concluded that SpartanNash’s disclosure controls and procedures were effective as of the Evaluation Date to ensure that material information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934 is accumulated and communicated to management, including its principal executive and principal financial officers as appropriate to allow for timely decisions regarding required disclosure. During the second quarter there was no change in SpartanNash’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, SpartanNash’s internal control over financial reporting.

PART II

OTHER INFORMATION

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

The following table provides information regarding SpartanNash's purchases of its own common stock during the 12 week period ended July 14, 2018. These may include: (1) shares of SpartanNash common stock delivered in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options who exercised options, and (2) shares submitted for cancellation to satisfy tax withholding obligations that occur upon the vesting of the restricted shares. The value of the shares delivered or withheld is determined by the applicable stock compensation plan. For the second quarter of 2018, all shares purchased by SpartanNash related to shares submitted for cancellation to satisfy tax withholding obligations that occur upon the vesting of the restricted shares.

During the first quarter of 2016, the Board authorized and publicly announced a new five-year share repurchase program for \$50 million of SpartanNash's common stock. The remainder of this program was fully utilized in the first quarter of 2018. During the fourth quarter of 2017, the Board authorized an incremental, publicly announced \$50 million share repurchase program, expiring in 2022. No repurchases were made under these programs during the second quarter of 2018 and \$45.0 million remains available under the 2017 program.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share
April 22 - May 19, 2018		
Employee Transactions	—	\$ —
Repurchase Program	—	\$ —
May 20 - June 16, 2018		
Employee Transactions	1,821	\$ 19.99
Repurchase Program	—	\$ —
June 17 - July 14, 2018		
Employee Transactions	—	\$ —
Repurchase Program	—	\$ —
Total for quarter ended July 14, 2018		