

# MGP INGREDIENTS INC

## **FORM 8-K** (Current report filing)

Filed 11/02/17 for the Period Ending 11/02/17

|             |   |
|-------------|---|
| Address     | 1300 MAIN ST<br>ATCHISON, KS, 66002                           |
| Telephone   | 9133671480  |
| CIK         | 0000835011  |
| Symbol      | MGPI  |
| SIC Code    | 5180 - Wholesale-Beer, Wine and Distilled Alcoholic Beverages |
| Industry    | Food Processing   |
| Sector      | Consumer Non-Cyclicals  |
| Fiscal Year | 12/31   |

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549**

**FORM 8-K**

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

Date of Report (Date of earliest event reported): **November 2, 2017**

**MGP Ingredients, Inc.**  
(Exact name of registrant as specified in its charter)

**KANSAS**  
(State or other jurisdiction  
of incorporation)

**0-17196**  
(Commission  
File Number)

**45-4082531**  
(IRS Employer  
Identification No.)

**Cray Business Plaza  
100 Commercial Street  
Box 130  
Atchison, Kansas 66002**  
(Address of principal executive offices) (Zip Code)

**(913) 367-1480**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

On November 2, 2017, MGP Ingredients, Inc. (the "Company") issued a Press Release relating to financial results for the third quarter 2017, which ended September 30, 2017 (the "Press Release"). The Press Release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference. The Press Release is furnished pursuant to Item 2.02, "Results of Operations and Financial Condition," Item 7.01, "Regulation FD Disclosure" and Item 9.01, "Financial Statements and Exhibits."

The information in Item 2.02 of this Current Report, including in Exhibit 99.1, is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. Such information shall not be deemed incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except to the extent expressly incorporated by specific reference contained in such filing or document.

**Item 7.01. Regulation FD Disclosure.**

Attached as Exhibit 99.1, and incorporated into this Item 7.01 by reference, is the Press Release relating to the Company's financial results for the third quarter 2017, which ended September 30, 2017.

**Item 9.01. Financial Statements and Exhibits.**

(d) *Exhibits*.

**99.1\*** [Press Release dated November 2, 2017 furnished solely for the purpose of incorporation by reference into Items 2.02, 7.01 and 9.01.](#)

\*Filed herewith

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## SIGNATURES

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

MGP INGREDIENTS, INC.

Date: November 2, 2017

By: /s/ Thomas K. Pigott  
Thomas K. Pigott, Vice President and Chief Financial Officer



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# NEWS RELEASE

## **MGP INGREDIENTS REPORTS THIRD QUARTER 2017 RESULTS** ***Strong Premium Beverage Alcohol Net Sales Growth of 16%***

**ATCHISON, Kan., November 2, 2017 - MGP Ingredients, Inc. (Nasdaq/MGPI)**, a leading supplier of premium distilled spirits and specialty wheat proteins and starches, today reported results for the third quarter ended September 30, 2017.

### 2017 results compared to 2016

- Third quarter consolidated net sales increased 8.1% to \$86.3 million , as a result of growth in premium beverage alcohol and specialty ingredients.
- Third quarter consolidated gross profit increased 23.2% to \$18.6 million , reflecting stronger gross profit results in the Distillery Products segment.
- Consolidated gross margin increased 270 basis points to 21.6% for the third quarter, reflecting a 430 basis point improvement in the Distillery Products segment.
- Third quarter operating income declined 9.1% to \$10.5 million , as a result of a decrease in other operating income recorded in the prior year quarter.
- Equity method investment gain of \$11.4 million reflects the pre-tax impact of the sale of the Company's interest in Illinois Corn Processing, LLC ("ICP") during the third quarter.
- Net income increased 48.3% to \$14.1 million for the third quarter.
- Third quarter earnings per share, calculated on the two-tier method, increased to \$0.82 per share from \$0.55 per share in the prior year period, primarily due to the net gain on the sale of ICP and improved operating performance.

"We are very pleased with the quarter, as we continue to make progress against our long-term strategic goals," said Gus Griffin, president and CEO of MGP Ingredients. "Year to date, our operating income growth rate, excluding items in other operating income recorded in the third quarter of 2016, is at the high end of our guidance."

### **Distillery Products Segment - Premium Beverage Alcohol Growth of 16% Drives Strong Segment Results**

For the third quarter of 2017, net sales for the Distillery Products segment increased 8.5% to \$72.3 million , driven by a 16.1% increase in net sales of premium beverage alcohol. Gross profit improved to \$16.5 million , or 22.8% of net segment sales, compared with \$12.4 million , or 18.5% of net segment sales in the third quarter 2016.

Griffin said, "We continued to see strong demand for our premium beverage alcohol products this quarter, supported by our ability to build strong partnerships with existing customers as well as attract new customers. The continued strong growth of our premium beverage alcohol business, and the resulting favorable mix shift, more than offset the continued soft pricing for our DDG ("Dried Distillers Grain") co-product, and delivered both revenue and margin growth."

| <b>Food Grade Alcohol</b> | <b>Net Sales Quarter Ended<br/>September 30,</b> |             | <b>Quarter vs. Quarter Net Sales<br/>Change Increase/(Decrease)</b> |                 |
|---------------------------|--|-------------|---|-----------------|
|                           | <b>2017</b>                                      | <b>2016</b> | <b>\$ Change</b>  | <b>% Change</b> |
| Premium Beverage Alcohol  | \$ 43,941  | \$ 37,843   | \$ 6,098  | 16.1%           |
| Industrial Alcohol        | 19,310   | 19,114      | 196   | 1.0             |
| Food Grade Alcohol        | \$ 63,251  | \$ 56,957   | \$ 6,294  | 11.1%           |

### **Ingredient Solutions - Specialty Wheat Proteins Grow 18%**

For the 2017 third quarter, net sales in the Ingredient Solutions segment increased 5.8% to \$14.0 million . Gross profit decreased to \$2.1 million , or 15.2% of net segment sales, compared with \$2.8 million , or 20.8% of net segment sales in the third quarter 2016.

Griffin said, "We are particularly pleased with the progress and growth of our TruTex textured wheat protein business. The gains in our specialty wheat protein business were offset primarily by lower plant efficiencies, which we believe are temporary in nature."

### **Other**

Corporate selling, general and administrative expenses were \$8.2 million for the third quarter 2017 compared to \$7.0 million in the third quarter 2016, primarily due to an increase in personnel costs, professional fees, and advertising and promotion, primarily to support the brands initiative.

MGP's gain on the sale of the equity method investment of \$11.4 million reflects the pre-tax impact of the previously announced sale of the equity investment in ICP .

The corporate effective tax rate for the quarter was 34.6% compared with 19.5% a year ago. In the 2016 third quarter, the Company realized a gain from the adoption of an accounting standard (ASU 2016-09) that provided a tax benefit related to accounting for share-based compensation.

Earnings per share grew to \$0.82 for the third quarter 2017, compared with \$0.55 for the third quarter 2016, reflecting the sale of ICP of \$0.44 , as well as continued improved performance from operations, offset by the impact of a higher tax rate.

### **2017 and Long Term Guidance**

MGP is offering the following guidance for fiscal 2017 and beyond.

- Reconfirming previous guidance, operating income is expected to grow between 10% and 15% annually from 2016 through 2018. This guidance excludes the gain from the sale of equity interest in ICP and the gain from a favorable litigation settlement and asset sale gain recorded in the third quarter of 2016.
- Recognizing the difficulty of projecting three years in the future, our conservative estimate of growth in operating income in 2019 is 15% to 20% as sales of aged whiskey inventory becomes a more significant factor.
- Moderate growth is expected in net sales in 2017, subject to some volatility as the Company continues to shift sales from industrial to premium beverage alcohol.
- 2017 gross margins are expected to continue to grow versus 2016.
- 2017 effective tax rate is forecast to be 29% , and shares outstanding are expected to be approximately 16.8 million at year end.

## Conclusion

"Year to date, our results underscore the significant opportunities afforded by our long term strategy," Griffin added. "The divestiture of ICP, as reflected in our results this quarter, allows us to further sharpen our focus on our key growth platforms. We continue to make progress against that strategy by expanding our premium beverage alcohol product offerings, capabilities and sales coverage. At the same time, we continue to invest in building our inventory of aged whiskey, and remain well positioned to meet our partners' needs and support the growth of the category. The value of that inventory, at cost, now totals \$58.6 million ."

"Finally, while still very early, we continue to be pleased with the progress of our brands initiative, as we focus on developing both our organization and brand portfolio. As recently announced, we will ship our limited edition Remus Repeal Reserve later this month," Griffin concluded.

## About MGP Ingredients, Inc.

MGP is a leading producer and supplier of premium distilled spirits and specialty wheat proteins and starches. Distilled spirits include premium bourbon and rye whiskeys, gins and vodkas, which are carefully crafted through a combination of art and science and backed by over 150 years of experience. The Company's proteins and starches are created in the same manner and provide a host of functional, nutritional and sensory benefits for a wide range of food products. MGP additionally is a top producer of high quality industrial alcohol for use in both food and non-food applications. The Company is headquartered in Atchison, Kansas, where distilled alcohol products and food ingredients are produced. Premium spirits are also distilled and matured at the Company facility in Lawrenceburg, Indiana. For more information, visit [mgpingredients.com](http://mgpingredients.com).

## Cautionary Note Regarding Forward-Looking Statements

This news release contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this news release regarding the prospects of our industry and our prospects, plans, financial position, business strategy, guidance on growth in operating income, net sales, gross margin, and future effective tax rate may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as "intend," "plan," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "will," "could," "encouraged," "opportunities," "potential" and/or the negatives or variations of these terms or similar terminology. They reflect management's current beliefs and estimates of future economic circumstances, industry conditions, Company performance, and Company financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) disruptions in operations at our Atchison facility or our Indiana facility, (ii) the availability and cost of grain and flour, and fluctuations in energy costs, (iii) the effectiveness of our grain purchasing program to mitigate our exposure to commodity price fluctuations, (iv) the effectiveness or execution of our strategic plan, (v) potential adverse effects to operations and our system of internal controls related to the loss of key management personnel, (vi) the competitive environment and related market conditions, (vii) the ability to effectively pass raw material price increases on to customers, (viii) our ability to maintain compliance with all applicable loan agreement covenants, (ix) our ability to realize operating efficiencies, (x) actions of governments, and (xi) consumer tastes and preferences. For further information on these and other risks and uncertainties that may affect our business, including risks specific to our Distillery Products and Ingredient Solutions segments, see Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.

**For More Information**

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**MGP INGREDIENTS, INC.**  
**OPERATING INCOME ROLLFORWARD**

| <b>Operating income quarter-versus-quarter</b>                   | <b>Operating Income</b> | <b>Change</b> |                   |
|--|-------------------------|---------------|-------------------|
| Operating income for the quarter ended September 30, 2016        | \$ 11,525               |               |                   |
| Increase in gross profit - distillery products segment           | 4,137                   | 35.9          | pp <sup>(a)</sup> |
| Decrease in gross profit - ingredient solutions segment          | (633)                   | (5.5)         | pp                |
| Decrease in other operating income, net                          | (3,385)                 | (29.3)        | pp                |
| Increase in SG&A expenses  | (1,173)                 | (10.2)        | pp                |
| <b>Operating income for the quarter ended September 30, 2017</b> | <b>\$ 10,471</b>        | <b>(9.1)%</b> |                   |

<sup>(a)</sup> Percentage points ("pp").

| <b>Operating income year to date-versus-year to date</b>                     | <b>Operating Income</b> | <b>Change</b> |                   |
|--|-------------------------|---------------|-------------------|
| Operating income for the year to date period ended September 30, 2016        | \$ 31,377               |               |                   |
| Increase in gross profit - distillery products segment                       | 8,190                   | 26.1          | pp <sup>(a)</sup> |
| Increase in gross profit - ingredient solutions segment                      | 603                     | 1.9           | pp                |
| Decrease in other operating income, net                                      | (3,385)                 | (10.8)        | pp                |
| Increase in SG&A expenses  | (4,408)                 | (14.0)        | pp                |
| <b>Operating income for the year to date period ended September 30, 2017</b> | <b>\$ 32,377</b>        | <b>3.2 %</b>  |                   |

<sup>(a)</sup> Percentage points ("pp").

**MGP INGREDIENTS, INC.**  
**EARNINGS PER SHARE ROLLFORWARD**

| <b>Change in basic and diluted earnings per share quarter-versus-quarter</b>         | <b>Basic and Diluted EPS</b> | <b>Change</b> |                   |
|--|------------------------------|---------------|-------------------|
| Basic and diluted earnings per share for the quarter ended September 30, 2016        | \$ 0.55                      |               |                   |
| Change in operations <sup>(a)</sup>  | 0.09                         | 16.4          | pp <sup>(b)</sup> |
| Change in other operating income, net <sup>(a)</sup>                                 | (0.14)                       | (25.5)        | pp                |
| Change in gain on sale of equity method investment                                   | 0.44                         | 80.0          | pp                |
| Change in equity method investment earnings (loss) <sup>(a)</sup>                    | (0.03)                       | (5.5)         | pp                |
| Tax: Net effect of ASU 2016-09   | (0.08)                       | (14.5)        | pp                |
| Change in income attributable to participating securities                            | (0.01)                       | (1.8)         | pp                |
| <b>Basic and diluted earnings per share for the quarter ended September 30, 2017</b> | <b>\$ 0.82</b>               | <b>49.1 %</b> |                   |

<sup>(a)</sup> Changes are net of tax based on the effective tax rate for the base year (2016), excluding the effect of the ASU 2016-09 adoption on the 2016 rate.

<sup>(b)</sup> Percentage points ("pp").

| <b>Change in basic and diluted earnings per share year to date period-versus-year to date period</b> | <b>Basic and Diluted EPS</b> | <b>Change</b> |                   |
|--|------------------------------|---------------|-------------------|
| Basic and diluted earnings per share for the year to date period ended September 30, 2016            | \$ 1.33                      |               |                   |
| Change in operations <sup>(a)</sup>  | 0.18                         | 13.5          | pp <sup>(b)</sup> |
| Change in other operating income, net <sup>(a)</sup>   | (0.13)                       | (9.7)         | pp                |
| Change in gain on sale of equity method investment   | 0.44                         | 33.1          | pp                |
| Change in equity method investment earnings (loss) <sup>(a)</sup>                                    | (0.10)                       | (7.5)         | pp                |
| Change in weighted average shares outstanding  | (0.01)                       | (0.8)         | pp                |
| Change in income attributable to participating securities  | (0.01)                       | (0.8)         | pp                |
| <b>Basic and diluted earnings per share for the year to date period ended September 30, 2017</b>     | <b>\$ 1.70</b>               | <b>27.8 %</b> |                   |

<sup>(a)</sup> Changes are net of tax based on the effective tax rate for the base year (2016), excluding the effect of the ASU 2016-09 adoption on the 2016 rate.

<sup>(b)</sup> Percentage points ("pp").

**MGP INGREDIENTS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

|  | Quarter Ended         |                       | Year to Date Ended    |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 | September 30,<br>2017 | September 30,<br>2016 |
| Sales  | \$ 87,852             | \$ 83,711             | \$ 267,089            | \$ 243,076            |
| Less: excise taxes   | 1,519                 | 3,820                 | 7,834                 | 5,958                 |
| Net sales  | 86,333                | 79,891                | 259,255               | 237,118               |
| Cost of sales  | 67,708                | 64,770                | 202,764               | 189,420               |
| Gross profit   | 18,625                | 15,121                | 56,491                | 47,698                |
| Selling, general and administrative expenses                               | 8,154                 | 6,981                 | 24,114                | 19,706                |
| Other operating income, net  | —                     | (3,385)               | —                     | (3,385)               |
| <b>Operating income</b>  | <b>10,471</b>         | <b>11,525</b>         | <b>32,377</b>         | <b>31,377</b>         |
| Gain on sale of equity method investment                                   | 11,381                | —                     | 11,381                | —                     |
| Equity method investment earnings (loss)                                   | —                     | 664                   | (348)                 | 2,260                 |
| Interest expense, net  | (224)                 | (341)                 | (934)                 | (980)                 |
| Income before income taxes   | 21,628                | 11,848                | 42,476                | 32,657                |
| Income tax expense   | 7,491                 | 2,316                 | 13,292                | 9,758                 |
| <b>Net income</b>  | <b>\$ 14,137</b>      | <b>\$ 9,532</b>       | <b>\$ 29,184</b>      | <b>\$ 22,899</b>      |
| Income attributable to participating securities                            | 414                   | 294                   | 806                   | 711                   |
| Net income attributable to common shareholders and used in EPS calculation | \$ 13,723             | \$ 9,238              | \$ 28,378             | \$ 22,188             |
| <b>Share information:</b>  |                       |                       |                       |                       |
| Diluted weighted average common shares                                     | 16,751,346            | 16,653,717            | 16,735,378            | 16,626,024            |
| <b>Basic and diluted earnings per common share</b>                         | <b>\$ 0.82</b>        | <b>\$ 0.55</b>        | <b>\$ 1.70</b>        | <b>\$ 1.33</b>        |
| Dividends and dividend equivalents per common share                        | \$ 0.89               | \$ 0.02               | \$ 0.97               | \$ 0.10               |

**MGP INGREDIENTS, INC.**  
**CONSOLIDATED BALANCE SHEET (UNAUDITED)**

| (Dollars in thousands)                         | September 30,<br>2017 | December 31,<br>2016 | (Dollars in thousands)                                 | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|--|-----------------------|----------------------|
| <b>ASSETS</b>                                  |                       |                      | <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                       |                      |
| Current Assets:                                |                       |                      | Current Liabilities:                                   |                       |                      |
| Cash and cash equivalents                      | \$ 7,113              | \$ 1,569             | Current maturities of long-term debt                   | \$ 368                | \$ 4,359             |
| Receivables                                    | 37,451                | 26,085               | Accounts payable                                       | 20,710                | 20,342               |
| Inventory                                      | 89,652                | 78,858               | Accounts payable to affiliate, net                     | —                     | 3,349                |
| Prepaid expenses                               | 2,508                 | 1,684                | Accrued expenses                                       | 9,715                 | 8,945                |
| Refundable income taxes                        | 233                   | 2,705                |  |                       |                      |
| <b>Total Current Assets</b>                    | <b>136,957</b>        | <b>110,901</b>       | <b>Total Current Liabilities</b>                       | <b>30,793</b>         | <b>36,995</b>        |
|  |                       |                      | Other Liabilities:                                     |                       |                      |
|  |                       |                      | Long-term debt, less current maturities                | 21,496                | 16,218               |
|  |                       |                      | Revolving credit facility                              | 12,296                | 15,424               |
| Property and equipment                         | 255,974               | 246,219              | Deferred credits                                       | 2,361                 | 2,978                |
| Less accumulated depreciation and amortization | (161,540)             | (153,428)            | Accrued retirement, health and life insurance benefits | 3,381                 | 3,604                |
| <b>Net Property, Plant and Equipment</b>       | <b>94,434</b>         | <b>92,791</b>        | Deferred income taxes                                  | 3,788                 | 3,432                |
| Equity method investments                      | —                     | 18,934               | Other noncurrent liabilities                           | 465                   | 393                  |
| Other assets                                   | 2,626                 | 2,710                | <b>Total Liabilities</b>                               | <b>74,580</b>         | <b>79,044</b>        |
|  |                       |                      | Stockholders' equity                                   | 159,437               | 146,292              |
| <b>TOTAL ASSETS</b>                            | <b>\$ 234,017</b>     | <b>\$ 225,336</b>    | <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>      | <b>\$ 234,017</b>     | <b>\$ 225,336</b>    |