

PUBLIX SUPER MARKETS INC
Form 10-Q
May 01, 2019

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 March 30, 2019
Commission File Number 0-00981

PUBLIX SUPER MARKETS, INC.
(Exact name of Registrant as specified in its charter)
Florida 59-0324412
(State of incorporation) (I.R.S. Employer Identification No.)

3300 Publix Corporate Parkway 33811
Lakeland, Florida
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (863) 688-1188

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the Registrant's common stock outstanding as of April 15, 2019 was 718,464,000.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PUBLIX SUPER MARKETS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts are in thousands, except par value)

(Unaudited)

| | March 30, 2019 | December 29, 2018 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,012,142 | 599,264 |
| Short-term investments | 525,667 | 560,992 |
| Trade receivables | 694,921 | 682,981 |
| Inventories | 1,737,264 | 1,848,735 |
| Prepaid expenses | 57,348 | 122,224 |
| Total current assets | 4,027,342 | 3,814,196 |
| Long-term investments | 6,790,916 | 6,016,438 |
| Other noncurrent assets | 463,824 | 515,265 |
| Operating lease right-of-use assets | 2,860,491 | — |
| Property, plant and equipment | 14,498,163 | 14,174,564 |
| Accumulated depreciation | (5,670,436) | (5,537,947) |
| Net property, plant and equipment | 8,827,727 | 8,636,617 |
| | \$22,970,300 | 18,982,516 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$1,901,726 | 1,864,604 |
| Accrued expenses: | | |
| Contributions to retirement plans | 273,697 | 540,760 |
| Self-insurance reserves | 146,387 | 145,241 |
| Salaries and wages | 191,926 | 132,916 |
| Other | 365,519 | 321,080 |
| Current portion of long-term debt | 5,010 | 4,954 |
| Current portion of operating lease liabilities | 327,399 | — |
| Federal and state income taxes | 119,441 | — |
| Total current liabilities | 3,331,105 | 3,009,555 |
| Deferred income taxes | 507,146 | 420,757 |
| Self-insurance reserves | 223,927 | 222,419 |
| Accrued postretirement benefit cost | 105,406 | 105,308 |
| Long-term debt | 161,639 | 162,711 |
| Operating lease liabilities | 2,535,134 | — |
| Other noncurrent liabilities | 109,203 | 67,102 |
| Total liabilities | 6,973,560 | 3,987,852 |
| Common stock related to Employee Stock Ownership Plan (ESOP) | 3,510,183 | 3,134,999 |
| Stockholders' equity: | | |
| Common stock of \$1 par value. Authorized 1,000,000 shares; issued 721,671 shares in 2019 and 715,445 shares in 2018 | 721,671 | 715,445 |
| Additional paid-in capital | 3,719,040 | 3,458,004 |
| Retained earnings | 11,635,790 | 10,840,654 |
| Treasury stock at cost, 2,800 shares in 2019 | (119,972) | — |

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| | | |
|---|--------------|--------------|
| Accumulated other comprehensive earnings (losses) | 4,052 | (55,762) |
| Common stock related to ESOP | (3,510,183) | (3,134,999) |
| Total stockholders' equity | 12,450,398 | 11,823,342 |
| Noncontrolling interests | 36,159 | 36,323 |
| Total equity | 15,996,740 | 14,994,664 |
| | \$22,970,300 | 18,982,516 |

See accompanying notes to condensed consolidated financial statements.

1

PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (Amounts are in thousands, except per share amounts)
 (Unaudited)

| | Three Months Ended | |
|---------------------------------------|--------------------|-------------------|
| | March 30, 2019 | March 31, 2018 |
| Revenues: | | |
| Sales | \$9,674,197 | 9,273,466 |
| Other operating income | 85,913 | 72,341 |
| Total revenues | 9,760,110 | 9,345,807 |
| Costs and expenses: | | |
| Cost of merchandise sold | 6,966,392 | 6,681,457 |
| Operating and administrative expenses | 1,937,143 | 1,830,393 |
| Total costs and expenses | 8,903,535 | 8,511,850 |
| Operating profit | 856,575 | 833,957 |
| Investment income | 367,187 | 4,138 |
| Other nonoperating income, net | 19,313 | 22,028 |
| Earnings before income tax expense | 1,243,075 | 860,123 |
| Income tax expense | 262,104 | 179,852 |
| Net earnings | \$980,971 | 680,271 |
| Weighted average shares outstanding | 716,026 | 734,195 |
| Earnings per share | \$1.37 | 0.93 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
 (Amounts are in thousands)
 (Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 30, 2019 | March 31, 2018 |
| Net earnings | \$980,971 | 680,271 |
| Other comprehensive earnings: | | |
| Unrealized gain (loss) on debt securities net of income taxes of \$20,292 and \$(8,175) in 2019 and 2018, respectively. | 59,521 | (23,981) |
| Reclassification adjustment for net realized loss on debt securities net of income taxes of \$100 and \$8 in 2019 and 2018, respectively. | 293 | 22 |
| Adjustment to postretirement benefit obligation net of income taxes of \$193 in 2018. | — | 565 |
| Comprehensive earnings | \$1,040,785 | 656,877 |

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts are in thousands)

(Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 30, 2019 | March 31, 2018 |
| Cash flows from operating activities: | | |
| Cash received from customers | \$9,698,829 | 9,258,298 |
| Cash paid to employees and suppliers | (8,317,811) | (7,945,490) |
| Income taxes refunded (paid) | 1,152 | (232,909) |
| Self-insured claims paid | (81,196) | (89,413) |
| Dividends and interest received | 47,433 | 47,053 |
| Other operating cash receipts | 84,794 | 71,169 |
| Other operating cash payments | (4,845) | (3,906) |
| Net cash provided by operating activities | 1,428,356 | 1,104,802 |
| Cash flows from investing activities: | | |
| Payment for capital expenditures | (254,836) | (449,980) |
| Proceeds from sale of property, plant and equipment | 2,196 | 5,750 |
| Payment for investments | (664,667) | (392,027) |
| Proceeds from sale and maturity of investments | 310,379 | 310,943 |
| Net cash used in investing activities | (606,928) | (525,314) |
| Cash flows from financing activities: | | |
| Payment for acquisition of common stock | (333,857) | (432,894) |
| Proceeds from sale of common stock | 113,196 | 106,814 |
| Dividends paid | (185,835) | (168,597) |
| Repayment of long-term debt | (2,263) | (21,687) |
| Other, net | 209 | 1,306 |
| Net cash used in financing activities | (408,550) | (515,058) |
| Net increase in cash and cash equivalents | 412,878 | 64,430 |
| Cash and cash equivalents at beginning of period | 599,264 | 579,925 |
| Cash and cash equivalents at end of period | \$1,012,142 | 644,355 |

See accompanying notes to condensed consolidated financial statements. (Continued)

3

PUBLIX SUPER MARKETS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Amounts are in thousands)
 (Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 30, 2019 | March 31, 2018 |
| Reconciliation of net earnings to net cash provided by operating activities: | | |
| Net earnings | \$980,971 | 680,271 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 174,049 | 160,170 |
| Increase in last-in, first out (LIFO) reserve | 10,230 | 7,664 |
| Retirement contributions paid or payable in common stock | 101,071 | 92,225 |
| Deferred income taxes | 65,997 | (6,434) |
| (Gain) loss on disposal and impairment of property, plant and equipment | (1,146) | 724 |
| (Gain) loss on investments | (325,171) | 24,955 |
| Net amortization of investments | 12,280 | 18,917 |
| Changes in operating assets and liabilities providing (requiring) cash: | | |
| Trade receivables | (12,718) | (75,403) |
| Inventories | 101,241 | 65,914 |
| Other assets | 81,108 | (30,468) |
| Accounts payable and accrued expenses | 133,002 | 212,173 |
| Federal and state income taxes | 192,131 | (49,372) |
| Other liabilities | (84,689) | 3,466 |
| Total adjustments | 447,385 | 424,531 |
| Net cash provided by operating activities | \$1,428,356 | 1,104,802 |

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts are in thousands, except per share amounts)

(Unaudited)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Common Stock (Acquired from) Sold to Stock- holders | Accumu- lated Other Compre- hensive Earnings (Losses) | Common Stock Related to ESOP | Total Stock- holders' Equity |
|--|-----------------|----------------------------------|----------------------|--|---|---------------------------------------|------------------------------------|
| 2019 | | | | | | | |
| Balances at December 29, 2018 | \$715,445 | 3,458,004 | 10,840,654 | — | (55,762) | (3,134,999) | 11,823,342 |
| Comprehensive earnings | — | — | 980,971 | — | 59,814 | — | 1,040,785 |
| Dividends, \$0.26 per share | — | — | (185,835) | — | — | — | (185,835) |
| Contribution of 8,587 shares to retirement plans | 5,605 | 235,017 | — | 127,329 | — | — | 367,951 |
| Acquisition of 7,802 shares from stockholders | — | — | — | (333,857) | — | — | (333,857) |
| Sale of 2,641 shares to stockholders | 621 | 26,019 | — | 86,556 | — | — | 113,196 |
| Change for ESOP related shares | — | — | — | — | — | (375,184) | (375,184) |
| Balances at March 30, 2019 | \$721,671 | 3,719,040 | 11,635,790 | (119,972) | 4,052 | (3,510,183) | 12,450,398 |
| 2018 | | | | | | | |
| Balances at December 30, 2017 | \$733,440 | 3,139,647 | 10,044,564 | — | 152,636 | (3,053,138) | 11,017,149 |
| Comprehensive earnings | — | — | 680,271 | — | (23,394) | — | 656,877 |
| Dividends, \$0.23 per share | — | — | (168,597) | — | — | — | (168,597) |
| Contribution of 8,440 shares to retirement plans | 6,221 | 261,423 | — | 81,780 | — | — | 349,424 |
| Acquisition of 10,714 shares from stockholders | — | — | — | (432,894) | — | — | (432,894) |
| Sale of 2,590 shares to stockholders | 531 | 21,632 | — | 84,651 | — | — | 106,814 |
| Change for ESOP related shares | — | — | — | — | — | (402,207) | (402,207) |
| Cumulative effect of net unrealized gain on equity securities reclassified to retained earnings | — | — | 198,310 | — | (198,310) | — | — |
| Balances at March 31, 2018 | \$740,192 | 3,422,702 | 10,754,548 | (266,463) | (69,068) | (3,455,345) | 11,126,566 |

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1)Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Publix Super Markets, Inc. and subsidiaries (Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, the accompanying statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments that are of a normal and recurring nature necessary to present fairly the Company's financial position and results of operations. Due to the seasonal nature of the Company's business, the results of operations for the three months ended March 30, 2019 are not necessarily indicative of the results for the entire 2019 fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 29, 2018. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2)Fair Value of Financial Instruments

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, trade receivables and accounts payable, approximates their respective carrying amounts due to their short-term maturity.

The fair value of investments is based on market prices using the following measurement categories:

Level 1 – Fair value is determined by using quoted prices in active markets for identical investments. Investments included in this category are equity securities (exchange traded funds and individual equity securities).

Level 2 – Fair value is determined by using other than quoted prices. By using observable inputs (for example, benchmark yields, interest rates, reported trades and broker dealer quotes), the fair value is determined through processes such as benchmark curves, benchmarking of like securities and matrix pricing of corporate, state and municipal bonds by using pricing of similar bonds based on coupons, ratings and maturities. Investments included in this category are primarily debt securities (tax exempt and taxable bonds), including restricted investments in taxable bonds held as collateral.

Level 3 – Fair value is determined by using other than observable inputs. Fair value is determined by using the best information available in the circumstances and requires significant management judgment or estimation. No investments are currently included in this category.

Following is a summary of fair value measurements for investments as of March 30, 2019 and December 29, 2018:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------|----------------------------|-----------|-----------|---------|
| | (Amounts are in thousands) | | | |
| March 30, 2019 | \$7,316,583 | 2,635,206 | 4,681,377 | — |
| December 29, 2018 | 6,577,430 | 2,372,931 | 4,204,499 | — |

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(3) Investments

(a) Debt Securities

Following is a summary of debt securities as of March 30, 2019 and December 29, 2018:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|----------------------------|-------------|------------------------------|-------------------------------|---------------|
| (Amounts are in thousands) | | | | |
| March 30, 2019 | | | | |
| Tax exempt bonds | \$1,189,068 | 633 | 5,227 | 1,184,474 |
| Taxable bonds | 2,982,504 | 34,563 | 20,931 | 2,996,136 |
| Restricted investments | 169,529 | 5,419 | — | 174,948 |
| | \$4,341,101 | 40,615 | 26,158 | 4,355,558 |
| December 29, 2018 | | | | |
| Tax exempt bonds | \$1,256,673 | 184 | 12,759 | 1,244,098 |
| Taxable bonds | 2,527,468 | 1,737 | 55,085 | 2,474,120 |
| Restricted investment | 160,318 | 520 | 346 | 160,492 |
| | \$3,944,459 | 2,441 | 68,190 | 3,878,710 |

The Company maintains restricted investments primarily for the benefit of the Company's insurance carrier related to self-insurance reserves. These investments are held as collateral and not used for claim payments.

The cost and fair value of debt securities by expected maturity as of March 30, 2019 and December 29, 2018 are as follows:

| | March 30, 2019 | | December 29, 2018 | |
|--|----------------|---------------|-------------------|---------------|
| | Cost | Fair Value | Cost | Fair Value |
| (Amounts are in thousands) | | | | |
| Due in one year or less | \$526,776 | 525,667 | 563,272 | 560,992 |
| Due after one year through five years | 3,068,926 | 3,062,717 | 2,831,916 | 2,768,971 |
| Due after five years through ten years | 738,951 | 760,561 | 542,488 | 541,852 |
| Due after ten years | 6,448 | 6,613 | 6,783 | 6,895 |
| | \$4,341,101 | 4,355,558 | 3,944,459 | 3,878,710 |

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Following is a summary of temporarily impaired debt securities by the time period impaired as of March 30, 2019 and December 29, 2018:

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|----------------------------|------------------------|----------------------|------------------------|----------------------|---------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (Amounts are in thousands) | | | | | | |
| March 30, 2019 | | | | | | |
| Tax exempt bonds | \$2,812 | 19 | 1,100,840 | 5,208 | 1,103,652 | 5,227 |
| Taxable bonds | 45,531 | 310 | 1,364,633 | 20,621 | 1,410,164 | 20,931 |
| | \$48,343 | 329 | 2,465,473 | 25,829 | 2,513,816 | 26,158 |
| December 29, 2018 | | | | | | |
| Tax exempt bonds | \$25,150 | 95 | 1,182,783 | 12,664 | 1,207,933 | 12,759 |
| Taxable bonds | 645,379 | 5,821 | 1,464,208 | 49,264 | 2,109,587 | 55,085 |
| Restricted investment | 28,687 | 346 | — | — | 28,687 | 346 |
| | \$699,216 | 6,262 | 2,646,991 | 61,928 | 3,346,207 | 68,190 |

There are 310 debt securities contributing to the total unrealized losses of \$26,158,000 as of March 30, 2019. Unrealized losses related to debt securities are primarily due to increases in interest rates impacting the market value of certain bonds. The Company continues to receive scheduled principal and interest payments on these debt securities.

(b) Equity Securities

In 2018, the Company adopted the Accounting Standards Update (ASU) requiring equity securities be measured at fair value with net unrealized gains and losses from changes in the fair value recognized in earnings (fair value adjustment). The fair value of equity securities was \$2,961,025,000 and \$2,698,720,000 as of March 30, 2019 and December 29, 2018, respectively.

Prior to adoption of the ASU, equity securities were classified as available-for-sale and measured at fair value. Changes in fair value determined to be temporary were reported in other comprehensive earnings net of income taxes. Upon adoption of the ASU, the Company reclassified the cumulative effect of the net unrealized gain on equity securities net of income taxes as of December 31, 2017 of \$198,310,000 from accumulated other comprehensive earnings to retained earnings. The fair value adjustment includes the cumulative effect of the ASU reclassified to retained earnings as of December 31, 2017.

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(c) Investment Income

In the following table, net realized gain on the sale of investments represents the difference between the cost and the proceeds from the sale of debt and equity securities. The net realized gain on the sale of investments excludes the net gain on the sale of equity securities previously recognized through the fair value adjustment, which is presented separately.

Following is a summary of investment income for the three months ended March 30, 2019 and March 31, 2018:

| | Three Months Ended | |
|--|-------------------------------|-------------------|
| | March 30, 2019 | March 31, 2018 |
| | (Amounts are in thousands) | |
| Interest and dividend income | \$42,016 | 29,093 |
| Net realized gain on sale of investments | 4,211 | 7,024 |
| | 46,227 | 36,117 |
| Fair value adjustment, due to net unrealized gain (loss), on equity securities held at end of period | 314,348 | (25,782) |
| Net loss (gain) on sale of equity securities previously recognized through fair value adjustment | 6,612 | (6,197) |
| | \$367,187 | 4,138 |

(4) Leases

(a) Lessee

In 2019, the Company adopted the ASU requiring the lease rights and obligations arising from existing and new lease agreements be recognized as assets and liabilities on the balance sheet. The Company adopted the ASU on a modified retrospective basis and elected the transitional provisions eliminating the requirement to restate reporting periods prior to the date of adoption. The Company also elected to not reassess the original conclusions reached regarding lease identification, lease classification and initial direct costs for leases entered into prior to the adoption of the ASU. As of December 30, 2018, the Company recognized its operating lease right-of-use assets and operating lease liabilities on the balance sheet. The adoption of the ASU did not have a material effect on the Company's results of operations and had no effect on the Company's cash flows.

The Company included finance lease right-of-use assets of \$118,879,000 in net property, plant and equipment and finance lease liabilities of \$22,998,000 and \$84,631,000 in other accrued expenses and other noncurrent liabilities, respectively, on the condensed consolidated balance sheet as of March 30, 2019.

The Company conducts a major portion of its retail operations from leased locations. The Company determines whether a lease exists at inception. Initial lease terms are typically 20 years followed by five year renewal options and may include rent escalation clauses. A renewal option is included in the right-of-use asset and lease liability to the extent it is reasonably certain the option will be exercised. The present value of future payments for each lease is determined by using the Company's incremental borrowing rate at the time of lease commencement. Additionally, the Company has operating leases for certain transportation and other equipment with initial lease terms ranging up to five years.

Operating lease expense primarily represents fixed lease payments for operating leases recognized on a straight-line basis over the applicable lease term. Variable lease expense represents the payment of real estate taxes, insurance, maintenance and, for certain locations, additional rentals based on a percentage of sales in excess of stipulated minimums (excess rent). The payment of variable real estate taxes, insurance and maintenance is generally based on the Company's pro-rata share of total shopping center square footage. The Company estimates excess rent, where applicable, based on annual sales projections and uses the straight-line method to amortize the cost to variable lease

expense.

9

PUBLIX SUPER MARKETS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Lease expense for the three months ended March 30, 2019 was as follows:

| | |
|-------------------------------------|---|
| | Three Months Ended March 30, 2019 (Amounts are in thousands) |
| Operating lease expense | \$ 110,665 |
| Finance lease expense: | |
| Amortization of right-of-use assets | 1,940 |
| Interest on lease liabilities | 648 |
| Variable lease expense | 14,417 |
| Sublease rental income | (893) |
| | \$ 126,777 |

Supplemental cash flow information related to leases for the three months ended March 30, 2019 was as follows:

| | |
|--|---|
| | Three Months Ended March 30, 2019 (Amounts are in thousands) |
| Operating cash flows from rent paid for operating lease liabilities | \$ 104,659 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 114,637 |

The weighted-average remaining lease term and weighted-average discount rate as of March 30, 2019 are as follows:

| | |
|--|-------------------|
| | March 30, 2019 |
| Weighted-average remaining lease term: | |
| Operating leases | 12 years |
| Finance leases | 19 years |
| Weighted-average discount rate: | |
| Operating leases | 3.4 % |
| Finance leases | 4.0 % |

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Maturities of lease liabilities as of March 30, 2019 are as follows:

| Year | Operating Leases | Finance Leases |
|------------------------|-------------------------------|-------------------|
| | (Amounts are in thousands) | |
| 2019 | \$317,231 | 24,260 |
| 2020 | 399,526 | 6,284 |
| 2021 | 365,660 | 6,284 |
| 2022 | 329,782 | 6,284 |
| 2023 | 287,010 | 21,000 |
| Thereafter | 1,861,004 | 72,785 |
| | 3,560,213 | 136,897 |
| Less: Imputed interest | (697,680) | (29,268) |
| | \$2,862,533 | 107,629 |

As of March 30, 2019, the Company has lease agreements that have not yet commenced with fixed lease payments totaling \$309,266,000. These leases will commence in future periods with terms ranging up to 20 years.

(b)Lessor

The Company leases space in owned shopping centers to tenants under noncancelable operating leases. The Company determines whether a lease exists at inception. Initial lease terms are typically five years followed by five year renewal options and may include rent escalation clauses. Lease income primarily represents fixed lease payments received from tenants recognized on a straight-line basis over the applicable lease term. Variable lease income represents the receipt of real estate taxes, insurance, maintenance and, for certain locations, excess rent.

Total lease income for the three months ended March 30, 2019 was as follows:

| | |
|-----------------------|---|
| | Three Months Ended March 30, 2019 (Amounts are in thousands) |
| Lease income | \$ 35,917 |
| Variable lease income | 9,875 |
| | \$ 45,792 |

PUBLIX SUPER MARKETS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Fixed lease payments to be received for all noncancelable operating leases as of March 30, 2019 are as follows:

| | |
|----------------------------|------------|
| Year | |
| (Amounts are in thousands) | |
| 2019 | \$ 108,010 |
| 2020 | 123,535 |
| 2021 | 97,773 |
| 2022 | 72,916 |
| 2023 | 51,429 |
| Thereafter | 172,138 |
| | \$625,801 |

(5) Consolidation of Joint Ventures and Long-Term Debt

From time to time, the Company enters into a joint venture (JV), in the legal form of a limited liability company, with certain real estate developers to partner in the development of a shopping center with the Company as the anchor tenant. The Company consolidates certain of these JVs in which it has a controlling financial interest. As of March 30, 2019, the carrying amounts of the assets and liabilities of the consolidated JVs were \$144,963,000 and \$72,471,000, respectively. As of December 29, 2018, the carrying amounts of the assets and liabilities of the consolidated JVs were \$144,197,000 and \$71,342,000, respectively. The assets are owned by and the liabilities are obligations of the JVs, not the Company, except for a portion of the long-term debt of certain JVs guaranteed by the Company. The JVs are financed with capital contributions from the members, loans and/or the cash flows generated by the JV owned shopping centers once in operation. Total earnings attributable to noncontrolling interests for 2019 and 2018 were immaterial. The Company's involvement with these JVs does not have a significant effect on the Company's financial condition, results of operations or cash flows.

The Company's long-term debt results primarily from the consolidation of loans of certain JVs and loans assumed in connection with the acquisition of certain shopping centers with the Company as the anchor tenant. No loans were assumed during the three months ended March 30, 2019 and March 31, 2018. Maturities of JV loans range from June 2020 through April 2027 and have variable interest rates based on a LIBOR index plus 175 to 250 basis points. Maturities of assumed shopping center loans range from December 2020 through January 2027 and have fixed interest rates ranging from 3.7% to 7.5%.

(6) Retirement Plan

The Company has a trustee, noncontributory Employee Stock Ownership Plan (ESOP) for the benefit of eligible employees. Since the Company's common stock is not traded on an established securities market, the ESOP includes a put option for shares of the Company's common stock distributed from the ESOP. Shares are distributed from the ESOP primarily to separated vested participants and certain eligible participants who elect to diversify their account balances. Under the Company's administration of the ESOP's put option, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for a specified time period after distribution of the shares from the ESOP. The fair value of distributed shares subject to the put option totaled \$413,135,000 and \$288,580,000 as of March 30, 2019 and December 29, 2018, respectively. The cost of the shares held by the ESOP totaled \$3,097,048,000 and \$2,846,419,000 as of March 30, 2019 and December 29, 2018, respectively. Due to the Company's obligation under the put option, the distributed shares subject to the put option and the shares held by the ESOP are classified as temporary equity in the mezzanine section of the condensed consolidated balance sheets and totaled \$3,510,183,000 and \$3,134,999,000 as of March 30, 2019 and December 29, 2018, respectively. The fair value of the shares held by the ESOP totaled \$8,147,858,000 and \$8,061,399,000 as of March 30, 2019 and December 29, 2018, respectively.

PUBLIX SUPER MARKETS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(7) Accumulated Other Comprehensive Earnings (Losses)

A reconciliation of the changes in accumulated other comprehensive earnings (losses) net of income taxes for the three months ended March 30, 2019 and March 31, 2018 is as follows:

| | Investments | Postretirement Benefit | Accumulated Other Comprehensive Earnings (Losses) |
|---|-------------|---------------------------|---|
| (Amounts are in thousands) | | | |
| 2019 | | | |
| Balances at December 29, 2018 | \$(49,033) | (6,729) | (55,762) |
| Unrealized gain on debt securities | 59,521 | — | 59,521 |
| Net realized loss on debt securities reclassified to investment income | 293 | — | 293 |
| Net other comprehensive earnings | 59,814 | — | 59,814 |
| Balances at March 30, 2019 | \$10,781 | (6,729) | 4,052 |
| 2018 | | | |
| Balances at December 30, 2017 | \$168,057 | (15,421) | 152,636 |
| Unrealized loss on debt securities | (23,981) | — | (23,981) |
| Net realized loss on debt securities reclassified to investment income | 22 | — | 22 |
| Adjustment to postretirement benefit obligation | — | 565 | 565 |
| Net other comprehensive (losses) earnings | (23,959) | 565 | (23,394) |
| Cumulative effect of net unrealized gain on equity securities reclassified to retained earnings | (198,310) | — | (198,310) |
| Balances at March 31, 2018 | \$(54,212) | (14,856) | (69,068) |

(8) Subsequent Event

On April 1, 2019, the Company declared a quarterly dividend on its common stock of \$0.30 per share or \$215,500,000, payable May 1, 2019 to stockholders of record as of the close of business April 15, 2019.

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

Overview

The Company is engaged in the retail food industry and as of March 30, 2019 operated 1,215 supermarkets in Florida, Georgia, Alabama, South Carolina, Tennessee, North Carolina and Virginia. For the three months ended March 30, 2019, six supermarkets were opened (including two replacement supermarkets) and 34 supermarkets were remodeled. Two supermarkets were closed during the period. The replacement supermarkets that opened during the three months ended March 30, 2019 replaced one supermarket closed during the same period and one supermarket closed during a previous period. The remaining supermarket closed in 2019 will be replaced on site in a subsequent period. In the normal course of operations, the Company replaces supermarkets and closes supermarkets that are not meeting performance expectations. The impact of future supermarket closings is not expected to be material.

Results of Operations

Sales

Sales for the three months ended March 30, 2019 were \$9.7 billion as compared with \$9.3 billion for the three months ended March 31, 2018, an increase of \$400.7 million or 4.3%. The increase in sales for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 was primarily due to new supermarket sales and a 1.9% increase in comparable store sales (supermarkets open for the same weeks in both periods, including replacement supermarkets). Sales for supermarkets that are replaced on site are classified as new supermarket sales since the replacement period for the supermarket is generally 9 to 12 months. The Company estimates the increase in sales for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 was \$105 million or 1.2% lower due to the effect of the Easter holiday being in the second quarter in 2019 and in the first quarter in 2018. Comparable store sales for the three months ended March 30, 2019 increased primarily due to increased product costs.

Gross profit

Gross profit (sales less cost of merchandise sold) as a percentage of sales was 28.0% for the three months ended March 30, 2019 and March 31, 2018.

Operating and administrative expenses

Operating and administrative expenses as a percentage of sales were 20.0% and 19.7% for the three months ended March 30, 2019 and March 31, 2018, respectively. The increase in operating and administrative expenses as a percentage of sales for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 was primarily due to an increase in payroll costs as a percentage of sales.

Operating profit

Operating profit as a percentage of sales was 8.9% and 9.0% for the three months ended March 30, 2019 and March 31, 2018, respectively. Operating profit as a percentage of sales for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 remained relatively unchanged.

Investment income

Investment income was \$367.2 million and \$4.1 million for the three months ended March 30, 2019 and March 31, 2018, respectively. The increase in investment income for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 was primarily due to net unrealized gains on equity securities. Excluding the impact of net unrealized gains on equity securities in 2019 and net unrealized losses on equity securities in 2018, investment income would have been \$46.2 million and \$36.1 million for the three months ended March 30, 2019 and March 31, 2018, respectively.

Income tax expense

The effective income tax rate was 21.1% and 20.9% for the three months ended March 30, 2019 and March 31, 2018, respectively. The effective income tax rate for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 remained relatively unchanged.

Net earnings

Net earnings were \$981.0 million or \$1.37 per share and \$680.3 million or \$0.93 per share for the three months ended March 30, 2019 and March 31, 2018, respectively. Net earnings as a percentage of sales were 10.1% and 7.3% for the three months ended March 30, 2019 and March 31, 2018, respectively. The increase in net earnings as a percentage of sales for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 was primarily due to net unrealized gains on equity securities.

Net earnings and earnings per share for the three months ended March 30, 2019 and March 31, 2018 were impacted by net unrealized gains and losses on equity securities. Excluding the impact of net unrealized gains on equity securities in 2019 and net unrealized losses on equity securities in 2018, net earnings would have been \$741.7 million or \$1.04 per share and 7.7% as a percentage of sales for the three months ended March 30, 2019 and \$704.2 million or \$0.96 per share and 7.6% as a percentage of sales for the three months ended March 31, 2018.

Non-GAAP Financial Measures

In addition to reporting financial results for the three months ended March 30, 2019 and March 31, 2018 in accordance with GAAP, the Company presents net earnings and earnings per share excluding the impact of equity securities being measured at fair value with net unrealized gains and losses from changes in the fair value recognized in earnings (fair value adjustment). These measures are not in accordance with, or an alternative to, GAAP. The Company excludes the impact of the fair value adjustment since it is primarily due to temporary equity market fluctuations that do not reflect the Company's operations. The Company believes this information is useful in providing period-to-period comparisons of the results of operations. Following is a reconciliation of net earnings to net earnings excluding the impact of the fair value adjustment for the three months ended March 30, 2019 and March 31, 2018:

| | Three Months Ended | |
|--|---|----------------------|
| | March 30, 2019 | March 31, 2018 |
| | (amounts are in millions, except per share amounts) | |
| Net earnings | \$981.0 | 680.3 |
| Fair value adjustment, due to net unrealized (gain) loss, on equity securities held at end of period | (314.3) | 25.8 |
| Net (loss) gain on sale of equity securities previously recognized through fair value adjustment | (6.6) | 6.2 |
| Income tax expense (benefit) ⁽¹⁾ | 81.6 | (8.1) |
| Net earnings excluding impact of fair value adjustment | \$741.7 | 704.2 |
| Weighted average shares outstanding | 716.0 | 734.2 |
| Earnings per share excluding impact of fair value adjustment | \$1.04 | 0.96 |

⁽¹⁾ Income tax expense (benefit) is based on the Company's combined federal and state statutory income tax rates.

Liquidity and Capital Resources

Cash and cash equivalents, short-term investments and long-term investments totaled \$8,328.7 million as of March 30, 2019, as compared with \$7,176.7 million as of December 29, 2018 and \$7,159.9 million as of March 31, 2018. The increase from the first quarter of 2018 to the first quarter of 2019 was primarily due to net unrealized gains on equity securities and decreases in income taxes paid, capital expenditures and common stock repurchases.

Net cash provided by operating activities

Net cash provided by operating activities was \$1,428.4 million and \$1,104.8 million for the three months ended March 30, 2019 and March 31, 2018, respectively. The increase in net cash provided by operating activities for the three months ended March 30, 2019 as compared with the three months ended March 31, 2018 was primarily due to 2017 federal income tax payments extended to 2018 due to Hurricane Irma in 2017.

Net cash used in investing activities

Net cash used in investing activities was \$606.9 million and \$525.3 million for the three months ended March 30, 2019 and March 31, 2018, respectively. The primary use of net cash in investing activities for the three months ended March 30, 2019 was funding capital expenditures and net increases in investment securities. Capital expenditures for the three months ended March 30, 2019 totaled \$254.8 million. These expenditures were incurred in connection with the opening of six supermarkets (including two replacement supermarkets) and remodeling 34 supermarkets.

Expenditures were also incurred for supermarkets and remodels in progress, new or enhanced information technology hardware and applications and the acquisition of shopping centers with the Company as the anchor tenant. For the three months ended March 30, 2019, the payment for investments, net of the proceeds from the sale and maturity of investments, was \$354.3 million.

Net cash used in financing activities

Net cash used in financing activities was \$408.6 million and \$515.1 million for the three months ended March 30, 2019 and March 31, 2018, respectively. The primary use of net cash in financing activities was funding net common stock repurchases and dividend payments. Net common stock repurchases totaled \$220.7 million and \$326.1 million for the three months ended March 30, 2019 and March 31, 2018, respectively. The Company currently repurchases common stock at the stockholders' request in accordance with the terms of the Employee Stock Purchase Plan (ESPP), Non-Employee Directors Stock Purchase Plan (Directors Plan), 401(k) Plan and ESOP. The amount of common stock offered to the Company for repurchase is not within the control of the Company, but is at the discretion of the stockholders. The Company expects to continue to repurchase its common stock, as offered by its stockholders from time to time, at its then current value. However, with the exception of certain shares distributed from the ESOP, such purchases are not required and the Company retains the right to discontinue them at any time.

Dividends

The Company paid quarterly dividends on its common stock totaling \$185.8 million or \$0.26 per share and \$168.6 million or \$0.23 per share during the three months ended March 30, 2019 and March 31, 2018, respectively.

Capital expenditures projection

Capital expenditures for the remainder of 2019 are expected to be approximately \$1,300 million, primarily consisting of new supermarkets, remodeling existing supermarkets, new or enhanced information technology hardware and applications and the acquisition of shopping centers with the Company as the anchor tenant. The shopping center acquisitions are financed with internally generated funds and assumed debt, if prepayment penalties for the debt are determined to be significant. This capital program is subject to continuing change and review.

Cash requirements

In 2019, cash requirements for operations, capital expenditures, common stock repurchases and dividend payments are expected to be financed by internally generated funds or liquid assets. Based on the Company's financial position, it is expected short-term and long-term borrowings would be available to support the Company's liquidity requirements, if needed.

Forward-Looking Statements

From time to time, certain information provided by the Company, including written or oral statements made by its representatives, may contain forward-looking information as defined in Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Forward-looking information includes statements about the future performance of the Company, which is based on management's assumptions and beliefs in light of the information currently available to them. When used, the words "plan," "estimate," "project," "intend," "expect," "believe" and other similar expressions, as they relate to the Company, are intended to identify such forward-looking statements. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from those statements including, but not limited to, the following: competitive practices and pricing in the food and drug industries generally and particularly in the Company's principal markets; results of programs to increase sales, including private label sales; results of programs to control or reduce costs; changes in buying, pricing and promotional practices; changes in shrink management; changes in the general economy; changes in consumer spending; changes in population, employment and job growth in the Company's principal markets; and other factors affecting the Company's business within or beyond the Company's control. These factors include changes in the rate of inflation, changes in federal, state and local laws and regulations, adverse determinations with respect to litigation or other claims, ability to recruit and retain employees, increases in operating costs including, but not limited to, labor costs, credit card fees and utility costs, particularly electric rates, ability to construct new supermarkets or complete remodels as rapidly as planned and stability of product costs. Other factors and assumptions not identified above could also cause the actual results to differ materially from those set forth in the forward-looking statements. Except as may be required by applicable law, the Company assumes no obligation to publicly update these forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments. There have been no material changes in the market risk factors from those disclosed in the Company's Form 10-K for the year ended December 29, 2018.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer each concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information has been accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure. There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the quarter ended March 30, 2019 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As reported in the Company's Form 10-K for the year ended December 29, 2018, the Company is subject from time to time to various lawsuits, claims and charges arising in the normal course of business. The Company believes its recorded reserves are adequate in light of the probable and estimable liabilities. The estimated amount of reasonably possible losses for lawsuits, claims and charges, individually and in the aggregate, is considered to be immaterial. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in the Company's Form 10-K for the year ended December 29, 2018.

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

Issuer Purchases of Equity Securities

Shares of common stock repurchased by the Company during the three months ended March 30, 2019 were as follows (amounts are in thousands, except per share amounts):

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾ | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ |
|--|----------------------------------|------------------------------|---|---|
| December 30, 2018 through February 2, 2019 | 1,797 | \$42.70 | N/A | N/A |
| February 3, 2019 through March 2, 2019 | 1,273 | 42.70 | N/A | N/A |
| March 3, 2019 through March 30, 2019 | 4,732 | 42.85 | N/A | N/A |
| Total | 7,802 | \$42.79 | N/A | N/A |

Common stock is made available for sale by the Company only to its current employees and members of its Board of Directors through the ESPP and Directors Plan and to participants of the 401(k) Plan. In addition, common stock ⁽¹⁾ is provided to employees through the ESOP. The Company currently repurchases common stock subject to certain terms and conditions. The ESPP, Directors Plan, 401(k) Plan and ESOP each contain provisions prohibiting any transfer for value without the owner first offering the common stock to the Company.

The Company's common stock is not traded on an established securities market. The amount of common stock offered to the Company for repurchase is not within the control of the Company, but is at the discretion of the stockholders. The Company does not believe that these repurchases of its common stock are within the scope of a publicly announced plan or program (although the terms of the plans discussed above have been communicated to the participants). Thus, the Company does not believe that it has made any repurchases during the three months ended March 30, 2019 required to be disclosed in the last two columns of the table.