ENERGIZER HOLDINGS, INC.
Form 10-Q
February 03, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

Or

o 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: 001-36837

ENERGIZER HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Missouri	36-4802442
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
533 Maryville University Drive St. Louis, Missouri	63141
(Address of principal executive offices)	(Zip Code)

(314) 985-2000
(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 x No o

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 x No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x		o

Smaller reporting company

(Do not check if smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
Indicate the number of shares of Energizer Holdings, Inc. common stock, $.01 par value, outstanding as of the close of business on February 1, 2016: 61,829,820.

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ENERGIZER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Condensed)
(In millions, except per share data - Unaudited)

	For the Quarter ended December 31,	
	2015	2014
Net sales	$506.8	$501.3
Cost of products sold	277.0	267.5
Gross profit	229.8	233.8
Selling, general and administrative expense	83.7	110.6
Advertising and sales promotion expense	30.1	34.4
Research and development expense	6.1	6.2
Spin restructuring	0.9	1.1
Restructuring	2.2	(9.6)
Interest expense	12.9	12.5
Other financing items, net	(0.6)	(2.8)
Earnings before income taxes	94.5	81.4
Income taxes	29.0	19.7
Net earnings	$65.5	$61.7
Basic net earnings per share (1)	$1.06	$0.99
Diluted net earnings per share (1)	$1.05	$0.99
Statement of Comprehensive Income:		
Net earnings	$65.5	$61.7
Other comprehensive income/(loss), net of tax expense/(benefit)		
Foreign currency translation adjustments	(4.6)	(29.9)
Pension activity, net of tax of $0.5 and $(0.1), respectively.	2.1	(0.3)
Deferred gain on hedging activity, net of tax of $0.3 and $0.4, respectively.	0.7	1.1
Total comprehensive income	$63.7	$32.6

(1) On July 1, 2015 , Edgewell Personal Care Company (Edgewell) distributed 62.2 million shares of Energizer Holdings, Inc. (Energizer) common stock to Edgewell shareholders in connection with its spin-off of Energizer. See Note 1, Description of Business and Basis of Presentation, in the Consolidated Condensed Financial Statements for more information. Basic and diluted earnings per common share and the average number of common shares outstanding were retrospectively restated for the number of Energizer shares outstanding immediately following this transaction.

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed)Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Condensed)
(In millions - Unaudited)

Assets	December 31, 2015	September 30, 2015
Current assets		
Cash and cash equivalents	$556.4	$502.1
Trade receivables, less allowance for doubtful accounts of $6.6 and $7.0, respectively	181.2	155.5
Inventories	209.0	275.9
Other current assets	139.5	143.4
Total current assets	1,086.1	1,076.9
Property, plant and equipment, net	199.4	205.6
Goodwill	37.7	38.1
Other intangible assets	77.1	76.3
Deferred tax asset	160.3	163.1
Other assets	56.9	58.6
Total assets	$1,617.5	$1,618.6
Liabilities and Shareholders' Deficit		
Current liabilities		
Current maturities of long-term debt	$4.0	$3.0
Note payable	9.8	5.2
Accounts payable	155.7	167.0
Other current liabilities	277.3	291.2
Total current liabilities	446.8	466.4
Long-term debt	983.7	984.3
Other liabilities	219.5	228.0
Total liabilities	1,650.0	1,678.7
Shareholders' deficit		
Common stock	0.6	0.6
Additional paid-in capital	183.2	181.7
Retained earnings	56.6	6.9
Treasury stock	(21.8)	—
Accumulated other comprehensive loss	(251.1)	(249.3)
Total shareholders' deficit	(32.5)	(60.1)
Total liabilities and shareholders' deficit	$1,617.5	$1,618.6

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Condensed)
(In millions - Unaudited)

	For the Quarter ended December 31, 2015	2014
Cash Flow from Operating Activities		
Net earnings	$65.5	$61.7
Non-cash restructuring costs	3.1	—
Depreciation and amortization	7.8	10.7
Deferred income taxes	3.4	6.7
Share-based payments	4.6	3.2
Non-cash items included in income, net	(1.5)	(9.6)
Other, net	(4.7)	5.0
Changes in current assets and liabilities used in operations	13.4	(17.6)
Net cash from operating activities	91.6	60.1
Cash Flow from Investing Activities		
Capital expenditures	(3.3)	(10.0)
Proceeds from sale of assets	—	1.5
Acquisitions, net of cash acquired	—	(11.1)
Net cash used by investing activities	(3.3)	(19.6)
Cash Flow from Financing Activities		
Net increase in debt with original maturities of 90 days or less	5.4	—
Common stock purchased	(21.8)	—
Dividends paid	(15.4)	—
Excess tax benefits from share-based payments	0.8	—
Net transfers to Edgewell	—	(37.3)
Net cash used by financing activities	(31.0)	(37.3)
Effect of exchange rate changes on cash	(3.0)	(0.3)
Net increase in cash and cash equivalents	54.3	2.9
Cash and cash equivalents, beginning of period	502.1	89.6
Cash and cash equivalents, end of period	$556.4	$92.5

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.
NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS
DECEMBER 31, 2015
(In millions, except per share data - Unaudited)

(1) Description of Business and Basis of Presentation
Description of Business - Energizer Holdings, Inc., including its subsidiaries, (Energizer or the Company) is a global manufacturer, marketer and distributer of household batteries, specialty batteries and portable lights under the Energizer and Eveready brand names. Energizer offers batteries using lithium, alkaline, carbon zinc, nickel metal hydride, zinc air and silver oxide technologies.

On July 1, 2015, Energizer completed its legal separation from Edgewell Personal Care Company (Edgewell) via a tax free spin-off (the spin-off or spin). To effect the separation, Edgewell undertook a series of transactions to separate net assets and legal entities. As a result of these transactions, Energizer holds the Household Products' product group and Edgewell holds the Personal Care product group. As a result of the spin-off, Energizer operates as an independent, publicly traded company on the New York Stock Exchange trading under the symbol "ENR."

In conjunction with the spin-off, Edgewell distributed 62,193,281 shares of Energizer common stock to its shareholders. Under the terms of the spin-off, Edgewell common shareholders of record as of the close of business on June 16, 2015, the record date for the distribution, received one share of Energizer for each share of Edgewell common stock they held. Edgewell completed the distribution of Energizer common stock to its shareholders on July 1, 2015, the distribution date. Edgewell structured the distribution to be tax-free to its U.S. shareholders for U.S. federal income tax purposes.

Basis of Presentation - The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Energizer and its subsidiaries. All significant intercompany transactions are eliminated. Energizer has no material equity method investments, variable interests or non-controlling interests.

For the three months ended December 31, 2014, which was prior to the spin-off, our financial statements were prepared on a combined standalone basis derived from the financial statements and accounting records of Edgewell and included expense allocations for: (1) certain product warehousing and distribution; (2) various transaction process functions; (3) a consolidated sales force and management for certain countries; (4) certain support functions that were provided on a centralized basis within Edgewell and not recorded at the business division level, including, but not limited to, finance, audit, legal, information technology, human resources, communications, facilities, and compliance; (5) employee benefits and compensation; (6) share-based compensation and (7) financing costs. These expenses were allocated to Energizer on the basis of direct usage where identifiable, with the remainder allocated on a basis of global net sales, cost of sales, operating income, headcount or other measures of Energizer and Edgewell. Management believes the assumptions regarding allocated expenses reasonably reflect the utilization of services provided to or the benefit received by Energizer during the periods prior to the spin-off. Nevertheless, the allocations may not include all of the actual expenses that would have been incurred by Energizer and may not reflect our results of operations, financial position and cash flows had we been an independent standalone company during that period. It is not practicable to estimate actual costs that would have been incurred had Energizer been a standalone company during the periods prior to the spin-off. Actual costs that would have been incurred if Energizer had been a standalone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, such as information technology and infrastructure.

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed Consolidated Balance Sheet was derived from the audited financial statements included in Energizer's Report on Form 10-K, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior year financial statements to conform to the current presentation. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the financial statements and notes thereto for Energizer for the year ended September 30, 2015 included in the Annual Report on Form 10-K dated November 20, 2015.

Recently Adopted Accounting Pronouncements - During the quarter ended December 31, 2015, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-17, Balance Sheet Classification of Deferred Taxes. This guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet and results in each tax paying jurisdiction having either a noncurrent deferred tax asset or a noncurrent deferred tax liability. The netting of different jurisdictions' noncurrent deferred tax assets and liabilities is still prohibited.

As of December 31, 2015, the Company had a long term deferred tax asset balance of $160.3 and a long term deferred tax liability balance of $10.5. The Company applied this guidance retrospectively and the reclassification resulted in a long term deferred tax asset balance as of September 30, 2015 of $163.1, an increase of $49.3 to the previously reported balance. Additionally, the long term deferred tax liability increased $1.2, resulting in a balance of $8.8, as of September 30, 2015. The current portion of the deferred tax asset and deferred tax liability had previously been reported in Other current assets and Other current liabilities, respectively.

During the quarter ended December 31, 2015, the Company adopted FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, and FASB ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. These ASUs require most debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability rather than as an asset; however debt issuance costs relating to revolving credit facilities will remain in other assets. We adopted this standard for the first fiscal quarter of 2016 and applied it retrospectively to September 30, 2015. See Note 11, Debt. The balance for unamortized debt issuance costs that were reclassified to Debt and from Other assets were $10.3 and $10.7 at December 31, 2015 and September 30, 2015, respectively.

(2) Spin Costs

The Company incurred costs associated with the evaluation, planning and execution of the spin transaction. During the quarter ended December 31, 2015, the Company incurred $6.9 in spin costs including $6.0 recorded in SG&A and $0.9 recorded in spin restructuring. For the quarter ended December 31, 2014, the Company was allocated spin costs of $23.2 from Edgewell of which $22.1 was recorded in SG&A and $1.1 was recorded in spin restructuring. On a project to date basis, the total costs incurred and allocated to Energizer for the spin-off were $192.1, inclusive of the costs of early debt retirement recorded in fiscal 2015.

Energizer expects to incur approximately $3 of additional pre-tax spin costs through the end of fiscal year 2016.

Energizer does not include the spin restructuring costs in the results of its reportable segments. The estimated impact of allocating such charges to segment results would have been as follows:

	Quarter Ended December 31, 2015					
	North America	Latin America	EMEA	Asia Pacific	Corporate	Total
Severance and termination related costs	$(1.4)	$—	$0.6	$1.1	$—	$0.3
Other exit costs	—	0.1	0.4	0.1	—	0.6
Total	$(1.4)	$0.1	$1.0	$1.2	$—	$0.9

Quarter Ended December 31, 2014

	North America	Latin America	EMEA	Asia Pacific	Corporate	Total
Severance and termination related costs	$0.2	$0.2	$—	$0.3	$0.4	$1.1
Total	$0.2	$0.2	$—	$0.3	$0.4	$1.1

The following table represents the spin restructuring accrual activity and ending accrual balance at December 31, 2015 and December 31, 2014 included in other current liabilities on the Consolidated Condensed Balance Sheet.

	October 1, 2015	Charge to Income	Other (a)	Utilized Cash	Utilized Non-Cash	December 31, 2015
Severance and termination related costs	$12.0	$0.3	$(0.2)	$(6.5)	$—	$5.6
Other exit costs	0.3	0.6	—	(0.7)	—	0.2
Total	$12.3	$0.9	$(0.2)	$(7.2)	$—	$5.8

	October 1, 2014	Charge to Income	Other (a)	Utilized Cash	Utilized Non-Cash	December 31, 2014
Severance & Termination Related Costs	$—	$1.1	$—	$—	$—	$1.1
Total	$—	$1.1	$—	$—	$—	$1.1

(a) Includes the impact of currency translation.

(3) Restructuring

2013 Restructuring

In November 2012, Edgewell's Board of Directors authorized an enterprise-wide restructuring plan and delegated authority to management to determine the final actions with respect to this plan (2013 restructuring project). This initiative impacted Edgewell's Household Products and Personal Care businesses. In January 2014, Edgewell's Board of Directors authorized an expansion of scope of the previously announced 2013 restructuring project.

The pre-tax expense/(income) for charges and credits related to the 2013 restructuring project for Energizer for the three months ended December 31, 2015 and 2014 are noted in the tables below:

	Quarter Ended December 31, 2015					
	North America	Latin America	EMEA	Asia Pacific	Corporate	Total
Severance and related benefit costs	$0.2	$—	$—	$—	$—	$0.2
Consulting, program management and other exit costs	(0.2)	—	—	0.2	—	—
Net loss on asset sales	2.0	—	—	—	—	2.0
Total	$2.0	$—	$—	$0.2	$—	$2.2

	Quarter Ended December 31, 2014					
	North America	Latin America	EMEA	Asia Pacific	Corporate	Total
Severance and related benefit costs	$0.1	$—	$—	$—	$—	$0.1
Consulting, program management and other exit costs	0.8	0.1	0.2	0.2	—	1.3
Net gain on asset sales	—	—	—	(11.0)	—	(11.0)
Total	$0.9	$0.1	$0.2	$(10.8)	$—	$(9.6)

Total pre-tax restructuring charges since the inception of the project and through December 31, 2015, have totaled approximately $200. We expect the remaining costs for Energizer to be immaterial.

For the three months ended December 31, 2015, Energizer recorded pre-tax charges of $2.2, related to the 2013 restructuring project. For the quarter ended December 31, 2014, Energizer recorded a pre-tax restructuring credit of $9.6. Restructuring charges were reflected on a separate line in the unaudited Consolidated Condensed Statements of Earnings and Comprehensive Income. In addition, pretax costs of $0.1 associated with information technology enablement activities were recorded within SG&A on the unaudited Consolidated Condensed Statements of Earnings and Comprehensive Income for the quarter ended December 31, 2014. These information technology costs are considered part of the total project costs incurred for the 2013 restructuring project.

The following table summarizes the 2013 restructuring activities and related accrual (excluding certain information technology enablement charges related to the restructuring) for the quarter ended December 31, 2015 and 2014.

				Utilized		
	October 1, 2015	Charge to Income	Other(a)	Cash	Non-Cash	December 31, 2015
Severance & Termination Related Costs	$1.9	$0.2	$—	$(1.2)	$—	$0.9
Other Related Costs	2.1	—	—	(0.7)	—	1.4
Net loss on asset sales	—	2.0	—	—	(2.0)	—
Total	$4.0	$2.2	$—	$(1.9)	$(2.0)	$2.3

				Utilized		
	October 1, 2014	Charge to Income	Other (a)	Cash	Non-Cash	December 31, 2014
Severance & Termination Related Costs	$12.4	$0.1	$(7.3)	$(1.7)	$—	$3.5
Other Related Costs	—	1.3	—	(1.3)	—	—
Net (gain)/loss on asset sales	—	(11.0)	12.5	1.5	(3.0)	—
Total	$12.4	$(9.6)	$5.2	$(1.5)	$(3.0)	$3.5

(a) Includes the impact of currency translation

Other Activities

The Company is also streamlining certain manufacturing operations. During the quarter ended December 31, 2015, the Company recorded $1.1 of accelerated depreciation in cost of products sold on the unaudited Consolidated Condensed Statements of Earnings and Comprehensive Income related to the streamlining of a plant in North America. The streamlining of this plant is expected to be completed in fiscal 2016 and the overall charges are not expected to be material to the consolidated operations.

(4) Acquisitions

On December 12, 2014, Edgewell, on behalf of Energizer, completed an acquisition of a battery manufacturing facility in China, primarily related to the purchase of fixed assets, for a total purchase price of $12.1, $11.1 of which was paid during the three months ended December 31, 2014. The purchase price allocation was completed during fiscal 2015. We determined the fair values of assets acquired and liabilities assumed for purposes of allocating the purchase price in accordance with accounting guidance for business combinations. Based on the allocation of the purchase price, this transaction resulted in approximately $2.3 of goodwill.

(5) Venezuela

Effective January 1, 2010 and through March 31, 2015, the financial statements for our Venezuela subsidiary were consolidated under the rules governing the translation of financial information in a highly inflationary economy based on the use of the blended National Consumer Price Index in Venezuela. Through March 31, 2015, the results of the Venezuela subsidiary were still included in our consolidated financial statements using the consolidation method of accounting.

During the second fiscal quarter of 2015, Edgewell determined that the Venezuelan exchange control regulations resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, and have restricted the Company’s Venezuelan operations’ ability to pay dividends and settle intercompany obligations. The severe currency controls imposed by the Venezuelan government significantly limited management's ability to realize the benefits from earnings of the Company’s Venezuelan operations and access the resulting liquidity provided by those earnings. This lack of exchangeability resulted in a lack of control over the Venezuelan subsidiaries for accounting purposes. Edgewell deconsolidated its Venezuelan subsidiaries on March 31, 2015 and began accounting for its investment in its Venezuelan operations using the cost method of accounting.

Since the deconsolidation as of March 31, 2015, the Company’s financial results do not include the operating results of the Venezuelan operations. Instead, Energizer records revenue for sales of inventory to our Venezuelan operations in our consolidated financial statements to the extent cash is received. Further, dividends from Energizer’s Venezuelan subsidiaries are recorded as other income upon receipt of the cash.

The Company continues to evaluate its control over its Venezuela operations and does not believe that circumstances have changed in Venezuela's exchange control regulations that would lead to the Company having control over its operations.

(6) Income Taxes

On November 20, 2015, the FASB issued a new ASU which requires that all deferred taxes to be classified as either a non current asset or liability. During the quarter ended December 31, 2015, the Company early adopted the standard and applied it retroactively to September 30, 2015. See further discussion in Note 1, Description of Business and Basis of Presentation.

The three month effective tax rate was 30.7% for the first fiscal quarter of 2016 as compared to 24.2% for the prior year comparative period. The higher rate in the current period was due to a mix of earnings in higher tax rate jurisdictions, such as the U.S. The prior year rate was also favorably impacted by restructuring and spin costs incurred primarily in tax jurisdictions with higher statutory tax rates, which positively impacts the effective tax rate.

(7) Share-Based Payments

Total compensation cost charged against income for Energizer’s share-based compensation arrangements was $4.6 and $3.2 for three months ended December 31, 2015 and 2014, respectively, and was recorded in SG&A expense. The total income tax benefit recognized in the unaudited Consolidated Condensed Statements of Earnings and Comprehensive Income for share-based compensation arrangements was $1.7 and $1.2, for the three months ended December 31, 2015 and 2014, respectively.

Restricted Stock Equivalents (RSE)—(in whole dollars and total shares)

In November 2015, the Company granted RSE awards to a group of key employees which included approximately 106,000 shares that vest ratably over four years and granted RSE awards to a group of key executives of approximately 87,000 shares that vest on the third anniversary of the date of the grant. In addition, the Company granted approximately 290,000 performance shares to the group of key employees and key executives that will vest upon meeting target cumulative adjusted earnings per share and cumulative free cash flow as a percentage of sales metrics over the three year performance period. The closing stock price on the date of the grant used to determine the award fair value was $37.34.

(8) Earnings per share

Basic earnings per share is based on the average number of common shares outstanding during the period. Diluted earnings per share is based on the average number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of restricted stock equivalents.

The following table sets forth the computation of basic and diluted earnings per share for the quarter ended December 31, 2015 and 2014, respectively.

(in millions, except per share data)

	For the Quarter ended December 31,	
	2015	2014
Net earnings	$65.5	$61.7
Basic average shares outstanding	62.0	62.2
Effect of dilutive restricted stock equivalents	0.3	—
Diluted average shares outstanding	62.3	62.2
Basic earnings per common share	$1.06	$0.99
Diluted earnings per common share	$1.05	$0.99

For the quarter ended December 31, 2015, approximately 0.5 million anti-dilutive securities were not included in the diluted net earnings per share calculations.

For the quarter ended December 31, 2014, basic and diluted earnings per common share and the average number of common shares outstanding were retrospectively restated for the number of Energizer shares outstanding immediately following the spin-off. The same number of shares was used to calculate basic and diluted earnings per share since no Energizer equity awards were outstanding prior to the spin-off.

(9) Segments

Operations for Energizer are managed via four major geographic reportable segments: North America (the United States and Canada), Latin America, Europe, Middle East and Africa ("EMEA"), and Asia Pacific. Segment performance is evaluated based on segment operating profit, exclusive of general corporate expenses, share-based compensation costs, costs associated with most restructuring initiatives, business realignment activities, research & development costs, and other items determined to be corporate in nature. Financial items, such as interest income and expense, are managed on a global basis at the corporate level. The exclusion of substantially all restructuring and realignment costs from segment results reflects management's view on how it evaluates segment performance.

Energizer's operating model includes a combination of standalone and shared business functions between the geographic segments, varying by country and region of the world. Shared functions include IT and finance shared service costs. Energizer applies a fully allocated cost basis, in which shared business functions are allocated between segments. Such allocations are estimates, and do not represent the costs of such services if performed on a standalone basis.

Corporate assets shown in the following table include all cash, financial instruments and deferred tax assets that are managed outside of operating segments.

Segment sales and profitability for the quarter ended December 31, 2015 and 2014, respectively, are presented below.

	For the Quarter Ended December 31,	
	2015	2014