

Spectrum Brands Holdings, Inc.
Form 10-Q
February 01, 2017
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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 January 1, 2017

OR

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

For the transition period from to

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Commission File No.	Name of Registrant, State of Incorporation, Address of Principal Offices, and Telephone No.	IRS Employer Identification No.
001-34757	Spectrum Brands Holdings, Inc. (a Delaware corporation) 3001 Deming Way Middleton, WI 53562 (608) 275-3340	27-2166630

www.spectrumbrands.com

333-192634-03

SB/RH Holdings, LLC

27-2812840

(a Delaware limited liability company)

3001 Deming Way

Middleton, WI 53562

(608) 275-3340

Indicate by check mark whether the registrants (1) have 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.

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

Indicate by check mark whether the registrants have submitted electronically and posted on their 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).

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

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. (Check one):

Registrant	Large Accelerated Filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Spectrum Brands Holdings, Inc.	X			
SB/RH Holdings, LLC			X	

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

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

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As of January 30, 2017, there were outstanding 58,822,651 shares of Spectrum Brands Holdings, Inc.'s common stock, par value \$0.01 per share.

SB/RH Holdings, LLC meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this report with a reduced disclosure format as permitted by general instruction H(2).

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Forward-Looking Statements

We have made or implied certain forward-looking statements in this report. All statements, other than statements of historical facts included in this report, including the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding our business strategy, future operations, financial condition, estimated revenues, projected costs, projected synergies, prospects, plans and objectives of management, as well as information concerning expected actions of third parties, are forward-looking statements. When used in this report, the words anticipate, intend, plan, estimate, believe, expect, project, could, will, should, may and similar expressions are also intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

Since these forward-looking statements are based upon our current expectations of future events and projections and are subject to a number of risks and uncertainties, many of which are beyond our control and some of which may change rapidly, actual results or outcomes may differ materially from those expressed or implied herein, and you should not place undue reliance on these statements. Important factors that could cause our actual results to differ materially from those expressed or implied herein include, without limitation:

- the impact of our indebtedness on our business, financial condition and results of operations;
- the impact of restrictions in our debt instruments on our ability to operate our business, finance our capital needs or pursue or expand business strategies;
 - any failure to comply with financial covenants and other provisions and restrictions of our debt instruments;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- our inability to successfully integrate and operate new acquisitions at the level of financial performance anticipated;
- the unanticipated loss of key members of senior management;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers’ willingness to advance credit;
- interest rate and exchange rate fluctuations;
- the loss of, or a significant reduction in, sales to any significant retail customer(s);
- competitive promotional activity or spending by competitors, or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where we do business;
- changes in consumer spending preferences and demand for our products;
- our ability to develop and successfully introduce new products, protect our intellectual property and avoid infringing the intellectual property of third parties;
- our ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;

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- the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);
- public perception regarding the safety of our products, including the potential for environmental liabilities, product liability claims, litigation and other claims;
- the impact of pending or threatened litigation;
- changes in accounting policies applicable to our business;
- government regulations;
- the seasonal nature of sales of certain of our products;
- the effects of climate change and unusual weather activity; and
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets.

Some of the above-mentioned factors are described in further detail in the sections entitled “Risk Factors” in our annual and quarterly reports (including this report), as applicable. You should assume the information appearing in this report is accurate only as of the end of the period covered by this report, or as otherwise specified, as our business, financial condition, results of operations and prospects may have changed since that date. Except as required by applicable law, including the securities laws of the United States (“U.S.”) and the rules and regulations of the United States Securities and Exchange Commission (“SEC”), we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

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SPECTRUM BRANDS HOLDINGS, INC.

SB/RH HOLDINGS, LLC

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This report is a combined report of Spectrum Brands Holdings, Inc. and SB/RH Holdings, LLC. The combined notes to the condensed consolidated financial statements include notes representing Spectrum Brands Holdings, Inc. and SB/RH Holdings, LLC and certain notes related specifically to SB/RH Holdings, LLC.

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Signatures

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Financial Position

January 1, 2017 and September 30, 2016

(in millions, unaudited)

	January 1, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 143.3	\$ 275.3
Trade receivables, net	489.2	482.6
Other receivables	57.0	55.6
Inventories	779.7	740.6
Prepaid expenses and other current assets	80.5	78.8
Total current assets	1,549.7	1,632.9
Property, plant and equipment, net	568.2	542.1
Deferred charges and other	44.2	43.2
Goodwill	2,464.5	2,478.4
Intangible assets, net	2,327.9	2,372.5
Total assets	\$ 6,954.5	\$ 7,069.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 42.5	\$ 164.0
Accounts payable	532.4	580.1
Accrued wages and salaries	65.1	122.9
Accrued interest	41.2	39.3
Other current liabilities	186.7	189.3
Total current liabilities	867.9	1,095.6
Long-term debt, net of current portion	3,613.7	3,456.2
Deferred income taxes	563.1	532.7
Other long-term liabilities	124.4	140.6
Total liabilities	5,169.1	5,225.1

Commitments and contingencies

Shareholders' equity:

Common Stock	0.6	0.6
Additional paid-in capital	2,088.7	2,073.6
Accumulated earnings	106.1	63.6
Accumulated other comprehensive loss, net of tax	(247.7)	(229.4)
Treasury stock, at cost	(205.9)	(108.3)
Total shareholders' equity	1,741.8	1,800.1
Noncontrolling interest	43.6	43.9
Total equity	1,785.4	1,844.0
Total liabilities and equity	\$ 6,954.5	\$ 7,069.1

See accompanying notes to the condensed consolidated financial statements

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SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Income

For the three month periods ended January 1, 2017 and January 3, 2016

(in millions, except per share figures, unaudited)

	January 1, 2017	January 3, 2016
Net sales	\$ 1,211.8	\$ 1,218.8
Cost of goods sold	760.7	778.0
Restructuring and related charges	1.1	0.1
Gross profit	450.0	440.7
Selling	189.8	187.1
General and administrative	88.6	86.3
Research and development	14.4	13.8
Acquisition and integration related charges	4.1	9.9
Restructuring and related charges	2.1	1.1
Total operating expenses	299.0	298.2
Operating income	151.0	142.5
Interest expense	55.8	58.4
Other non-operating (income) expense, net	(1.1)	3.5
Income from operations before income taxes	96.3	80.6
Income tax expense	31.1	6.9
Net income	65.2	73.7
Net income attributable to non-controlling interest	—	0.1
Net income attributable to controlling interest	\$ 65.2	\$ 73.6
Earnings Per Share		
Basic earnings per share	\$ 1.10	\$ 1.24
Diluted earnings per share	1.10	1.24
Dividends per share	0.38	0.33
Weighted Average Shares Outstanding		
Basic	59.3	59.2
Diluted	59.5	59.2

See accompanying notes to the condensed consolidated financial statements

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Comprehensive Income

For the three month periods ended January 1, 2017 and January 3, 2016

(in millions, unaudited)

	January 1, 2017	January 3, 2016
Net income	\$ 65.2	\$ 73.7
Other comprehensive (loss) income, net of tax:		
Foreign currency translation loss, net tax of \$3.9 and \$0.0, respectively	(46.1)	(20.5)
Unrealized gain on hedging activity, net tax of \$(14.2) and \$(0.7), respectively	24.2	3.7
Defined benefit pension gain, net tax of \$(1.2) and \$(0.3), respectively	3.3	1.1
Other comprehensive loss, net of tax	(18.6)	(15.7)
Comprehensive income	46.6	58.0
Comprehensive loss attributable to non-controlling interest	(0.3)	(0.1)
Comprehensive income attributable to controlling interest	\$ 46.9	\$ 58.1

See accompanying notes to the condensed consolidated financial statements

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SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

For the three month periods ended January 1, 2017 and January 3, 2016

(in millions, unaudited)

	January 1, 2017	January 3, 2016
Cash flows from operating activities		
Net income	\$ 65.2	\$ 73.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	23.6	23.6
Depreciation	22.4	23.0
Share based compensation	8.8	10.1
Amortization of debt issuance costs	1.8	2.1
Write-off of debt issuance costs	1.9	—
Non-cash debt accretion	0.2	0.3
Deferred tax expense (benefit)	19.6	(9.7)
Net changes in operating assets and liabilities	(137.7)	(346.6)
Net cash provided (used) by operating activities	5.8	(223.5)
Cash flows from investing activities		
Purchases of property, plant and equipment	(28.0)	(17.4)
Proceeds from sales of property, plant and equipment	0.1	0.1
Other investing activities	(0.8)	—

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Net cash used by investing activities	(28.7)	(17.3)
Cash flows from financing activities		
Proceeds from issuance of debt	177.1	230.0
Payment of debt	(135.9)	(5.9)
Payment of debt issuance costs	(0.5)	(1.1)
Payment of cash dividends	(22.6)	(19.5)
Treasury stock purchases	(97.6)	(40.2)
Share based tax withholding payments, net of proceeds upon vesting	(23.2)	(5.3)
Net cash (used) provided by financing activities	(102.7)	158.0
Effect of exchange rate changes on cash and cash equivalents	(6.4)	(3.1)
Net decrease in cash and cash equivalents	(132.0)	(85.9)
Cash and cash equivalents, beginning of period	275.3	247.9
Cash and cash equivalents, end of period	\$ 143.3	\$ 162.0
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 44.5	\$ 61.6
Cash paid for taxes	\$ 10.4	\$ 10.0
Non cash investing activities		
Acquisition of property, plant and equipment through capital leases	\$ 31.1	\$ 8.4
Non cash financing activities		
Issuance of shares through stock compensation plan	\$ 52.2	\$ 36.0

See accompanying notes to the condensed consolidated financial statements

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SB/RH HOLDINGS, LLC