

MOVADO GROUP INC
Form 10-Q
November 21, 2017

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 October 31, 2017

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: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

New York
(State or Other Jurisdiction

of Incorporation or Organization)

650 From Road, Ste. 375

Paramus, New Jersey
(Address of Principal Executive Offices)

13-2595932
(IRS Employer

Identification No.)

07652-3556
(Zip Code)

(201) 267-8000

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(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 that past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

		Non-accelerated filer (Do not check if a smaller reporting company)
Large accelerated filer	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 outstanding of the registrant's Common Stock and Class A Common Stock as of November 14, 2017 were 16,298,173 and 6,641,950, respectively.

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q

October 31, 2017

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	October 31, 2017	January 31, 2017	October 31, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 155,484	\$ 256,279	\$ 199,758
Trade receivables, net	132,941	66,847	130,076
Inventories	169,866	153,167	169,402
Other current assets	26,361	28,487	28,096
Total current assets	484,652	504,780	527,332
Property, plant and equipment, net	24,637	34,173	34,867
Deferred and non-current income taxes	23,610	24,837	20,614
Goodwill	56,316	—	—
Other intangibles, net	22,568	1,633	1,730
Other non-current assets	47,783	42,379	39,935
Total assets	\$ 659,566	\$ 607,802	\$ 624,478
LIABILITIES AND EQUITY			
Current liabilities:			
Loans payable to bank, current	\$ 5,000	\$ 5,000	\$ 3,000
Accounts payable	28,014	27,192	22,443
Accrued liabilities	62,666	35,061	52,895
Income taxes payable	5,192	4,149	5,601
Total current liabilities	100,872	71,402	83,939
Loans payable to bank	25,000	25,000	35,000
Deferred and non-current income taxes payable	7,501	3,322	3,145
Other non-current liabilities	38,752	34,085	32,297
Total liabilities	172,125	133,809	154,381
Commitments and contingencies (Note 9)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued	—	—	—
Common Stock, \$0.01 par value, 100,000,000 shares authorized;	273	272	271

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27,324,319, 27,176,656 and 27,138,206 shares issued and outstanding,

respectively

Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;

6,641,950, 6,644,105 and 6,644,105 shares issued and outstanding,

respectively

	66	66	66
Capital in excess of par value	189,332	185,354	182,834
Retained earnings	425,649	415,919	413,666
Accumulated other comprehensive income	80,388	76,780	77,057
Treasury Stock, 11,026,671, 10,869,321 and 10,849,321 shares, respectively, at cost	(208,267)	(204,398)	(203,797)
Total Movado Group, Inc. shareholders' equity	487,441	473,993	470,097
Noncontrolling interests	—	—	—
Total equity	487,441	473,993	470,097
Total liabilities and equity	\$659,566	\$607,802	\$624,478

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Net sales	\$190,693	\$179,818	\$418,739	\$421,967
Cost of sales	86,623	81,268	199,406	191,837
Gross profit	104,070	98,550	219,333	230,130
Selling, general, and administrative	78,885	67,479	189,479	183,590
Operating income	25,185	31,071	29,854	46,540
Other expense (Note 3)	—	(1,282)	—	(1,282)
Interest expense	(445)	(333)	(1,191)	(1,039)
Interest income	110	45	361	138
Income before income taxes	24,850	29,501	29,024	44,357
Provision for income taxes (Note 10)	7,490	9,286	10,341	14,450
Net income	17,360	20,215	18,683	29,907
Less: Net income attributed to noncontrolling interests	—	—	—	78
Net income attributed to Movado Group, Inc.	\$17,360	\$20,215	\$18,683	\$29,829
Basic income per share:				
Weighted basic average shares outstanding	23,079	23,055	23,080	23,074
Net income per share attributed to Movado Group, Inc.	\$0.75	\$0.88	\$0.81	\$1.29
Diluted income per share:				
Weighted diluted average shares outstanding	23,273	23,230	23,261	23,259
Net income per share attributed to Movado Group, Inc.	\$0.75	\$0.87	\$0.80	\$1.28
Dividends declared per share	\$0.13	\$0.13	\$0.39	\$0.39

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Comprehensive income, net of taxes:				
Net income including noncontrolling interests	\$17,360	\$20,215	\$18,683	\$29,907
Net unrealized (loss) / gain on investments, net of tax (benefit) of				
\$(6), \$4, \$(6) and \$1, respectively	(13)	6	(12)	8
Net change in effective portion of hedging contracts, net of tax				
(benefit) of \$88, \$(9), \$9 and \$5, respectively	448	(43)	37	31
Foreign currency translation adjustments	(5,525)	(6,319)	3,583	8,489
Comprehensive income including noncontrolling interests	12,270	13,859	22,291	38,435
Less: Comprehensive income attributed to noncontrolling interests	—	—	—	54
Total comprehensive income attributed to Movado Group, Inc.	\$12,270	\$13,859	\$22,291	\$38,381

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended October 31,	
	2017	2016
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 18,683	\$ 29,907
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	9,842	8,520
Transactional (gains) / losses	(859)	2,663
Write-down of inventories	1,930	1,967
Deferred income taxes	719	230
Stock-based compensation	3,644	5,663
Impairment of long-term investment	—	1,282
Cost savings initiative	13,437	—
Changes in assets and liabilities:		
Trade receivables	(62,175)	(60,386)
Inventories	(14,562)	(7,657)
Other current assets	1,647	1,540
Accounts payable	334	(5,140)
Accrued liabilities	18,296	12,892
Income taxes payable	373	(917)
Other non-current assets	(5,399)	(5,123)
Other non-current liabilities	4,664	3,718
Net cash (used in) operating activities	(9,426)	(10,841)
Cash flows from investing activities:		
Capital expenditures	(3,575)	(3,847)
Short-term investment	—	(151)
Restricted cash deposits	1,018	(1,156)
Trademarks and other intangibles	(500)	(296)
Acquisition, net of cash acquired	(78,991)	—
Net cash (used in) investing activities	(82,048)	(5,450)
Cash flows from financing activities:		
Proceeds from bank borrowings	—	3,000
Repayments of bank borrowings	—	(5,000)
Stock options exercised and other changes	(626)	(1,256)
Dividends paid	(8,953)	(8,951)
Purchase of incremental ownership of U.K. joint venture	—	(1,320)
Stock repurchase	(3,004)	(3,263)
Net cash (used in) financing activities	(12,583)	(16,790)
Effect of exchange rate changes on cash and cash equivalents	3,262	4,651

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Net (decrease) in cash and cash equivalents	(100,795)	(28,430)
Cash and cash equivalents at beginning of period	256,279	228,188
Cash and cash equivalents at end of period	\$155,484	\$199,758

See Notes to Consolidated Financial Statements

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MOVADO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”), in a manner consistent with that used in the preparation of the annual audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2017 (the “2017 Annual Report on Form 10-K”). The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. The consolidated balance sheet data at January 31, 2017 is derived from the audited annual financial statements, which are included in the Company’s 2017 Annual Report on Form 10-K and should be read in connection with these interim unaudited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

NOTE 1 – RECLASSIFICATIONS

Certain reclassifications were made to prior years’ financial statement amounts and related note disclosures to conform to fiscal 2018 presentation. As a result of the adoption of ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” excess tax benefits and deficiencies related to share-based compensation are reported as operating activities in the statement of cash flows.

NOTE 2 - CHANGES TO CRITICAL ACCOUNTING POLICIES

As a result of the acquisition of JLB Brands Ltd., the owner of the Olivia Burton brand, in the second quarter of fiscal 2018, the Company has made the following additions to its critical accounting policies related to intangible assets and goodwill (see Note 17 – Acquisitions).

Intangibles

In accordance with applicable guidance, the Company estimates and records the fair value of purchased intangible assets at the time of its acquisition, which in the acquisition of the Olivia Burton brand primarily consist of a trade name and customer relationships. The fair values of these intangible assets are estimated based on independent third-party appraisals. Finite-lived intangible assets are amortized over their respective estimated useful lives and are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying values may not be fully recoverable. Estimates of fair value for finite-lived intangible assets are primarily determined using discounted cash flows, with consideration of market comparisons and recent transactions. This approach uses significant estimates and assumptions, including projected future cash flows, discount rates and growth rates.

Goodwill

At the time of acquisition, in accordance with applicable guidance, the Company records all acquired net assets at their estimated fair values. These estimated fair values are based on management's assessments and independent third-party appraisals. The excess of the purchase consideration over the aggregate estimated fair values of the acquired net assets is recorded as goodwill.

Goodwill is not amortized but will be assessed for impairment at least annually. Under applicable guidance, the Company generally performs its annual goodwill impairment analysis using a qualitative approach to determine whether it is more likely than not that the fair value of goodwill is less than its carrying value. If, based on the results of the qualitative assessment, it is concluded that it is more likely than not that the fair value of goodwill is less than its carrying value, a quantitative test is performed. The Company early adopted ASU 2017-04 "Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment" (see Note 14 – Accounting Changes and Recent Accounting Pronouncements) on a prospective basis during the second quarter of fiscal 2018 in light of goodwill in the period, associated with the acquisition of the Olivia Burton brand.

The quantitative impairment test is performed to measure the amount of impairment loss, if any. The quantitative impairment test identifies the existence of potential impairment by comparing the fair value of each reporting unit with its carrying value, including goodwill. If a reporting unit's carrying amount exceeds its fair value, the Company will record an impairment charge, as an operating expense item, based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit.

Determination of the fair value of a reporting unit and the fair value of individual assets and liabilities of a reporting unit is based on management's assessment, including the consideration of independent third-party appraisals when necessary. Furthermore, this determination is subjective in nature and involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the amount of any such charge. Estimates of fair value are primarily determined using discounted cash flows, market comparisons, and recent transactions. These approaches use significant estimates and assumptions, including projected future cash flows, discount rates, growth rates, and determination of appropriate market comparisons.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – Unobservable inputs based on the Company's assumptions.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands) as of October 31, 2017 and 2016 and January 31, 2017:

	Balance Sheet Location	Fair Value at October 31, 2017			
		Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$291	\$ —	\$ —	\$291
Short-term investment	Other current assets	156	—	—	156
SERP assets - employer	Other non-current assets	1,538	—	—	1,538
SERP assets - employee	Other non-current assets	35,532	—	—	35,532
Hedge derivatives	Other current assets	—	67	—	67
Total		\$37,517	\$ 67	\$ —	\$37,584
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$35,532	\$ —	\$ —	\$35,532
Hedge derivatives	Accrued liabilities	—	685	—	685
Total		\$35,532	\$ 685	\$ —	\$36,217

Fair Value at January 31, 2017

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	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$ 309	\$ —	\$ —	\$ 309
Short-term investment	Other current assets	154	—	—	154
SERP assets - employer	Other non-current assets	1,091	—	—	1,091
SERP assets - employee	Other non-current assets	30,831	—	—	30,831
Hedge derivatives	Other current assets	—	145	—	145
Total		\$ 32,385	\$ 145	\$ —	\$ 32,530
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$ 30,831	\$ —	\$ —	\$ 30,831
Hedge derivatives	Accrued liabilities	—	211	—	211
Total		\$ 30,831	\$ 211	\$ —	\$ 31,042

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	Balance Sheet Location	Fair Value at October 31, 2016			
		Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$280	\$ —	\$ —	\$280
Short-term investment	Other current assets	150	—	—	150
SERP assets - employer	Other non-current assets	1,464	—	—	1,464
SERP assets - employee	Other non-current assets	28,495	—	—	28,495
Hedge derivatives	Other current assets	—	141	—	141
Total		\$30,389	\$ 141	\$ —	\$30,530
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$28,495	\$ —	\$ —	\$28,495
Hedge derivatives	Accrued liabilities	—	391	—	391
Total		\$28,495	\$ 391	\$ —	\$28,886

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the short-term investment, which is a guaranteed investment certificate, is based on its purchase price plus one half of a percent calculated annually. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances. The hedge derivatives are entered into by the Company principally to reduce its exposure to Swiss franc and Euro exchange rate risks. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates and quoted interest rates. The carrying amount of debt approximated fair value as of October 31, 2017.

During the three months ended October 31, 2016, the Company determined that an investment in a privately held company experienced an other than temporary impairment and recorded a charge of \$1.3 million, in other expenses in the Company's Consolidated Statements of Operations, to reduce the carrying value to zero in the United States location of the Wholesale segment.

NOTE 4 – EQUITY

The components of equity for the nine months ended October 31, 2017 and 2016 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity							Total
	Class A				Accumulated			
	Common		Capital in		Other			
	Stock (1)	Stock (2)	Excess of Par Value	Retained Earnings	Treasury Stock	Comprehensive Income	Noncontrolling Interests	
Balance, January 31, 2017	\$272	\$ 66	\$185,354	\$415,919	\$(204,398)	\$ 76,780	\$ —	\$473,993
Net income				18,683				18,683
Dividends				(8,953)				(8,953)
Stock repurchase					(3,004)			(3,004)
Stock options exercised	1		238		(865)			(626)
Supplemental executive retirement plan			96					96
Stock-based compensation expense			3,644					3,644
Net unrealized loss on investments, net of tax benefit of \$6						(12)		(12)
Net change in effective portion of hedging contracts, net of tax of \$9						37		37
Foreign currency translation adjustment (3)						3,583		3,583
Balance, October 31, 2017	\$273	\$ 66	\$189,332	\$				