

WEIGHT WATCHERS INTERNATIONAL INC

Form 10-Q

May 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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: 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Virginia 11-6040273
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)
675 Avenue of the Americas, 6th Floor, New York, New York 10010

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 589-2700

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(Former name, former address and former fiscal year, if changed since last report)

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 No

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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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 common stock outstanding as of April 30, 2018 was 66,282,229.

WEIGHT WATCHERS INTERNATIONAL, INC.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS AT

(IN THOUSANDS)

	March 31, 2018	December 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$117,615	\$83,054
Receivables (net of allowances: March 31, 2018 - \$2,166 and December 30, 2017 - \$2,001)	29,482	23,913
Inventories	24,478	31,728
Prepaid income taxes	58,716	43,488
Prepaid expenses and other current assets	26,728	26,805
TOTAL CURRENT ASSETS	257,019	208,988
Property and equipment, net	47,209	47,978
Franchise rights acquired	752,374	754,040
Goodwill	155,273	156,281
Other intangible assets, net	45,179	46,536
Deferred income taxes	25,314	12,447
Other noncurrent assets	24,746	19,730
TOTAL ASSETS	\$1,307,114	\$1,246,000
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	\$77,000	\$82,750
Accounts payable	32,700	24,356
Salaries and wages payable	47,855	62,179
Accrued marketing and advertising	15,297	18,154
Accrued interest	30,152	10,834
Other accrued liabilities	58,744	58,251
Derivative payable	0	12,171
Deferred revenue	94,673	74,332
TOTAL CURRENT LIABILITIES	356,421	343,027
Long-term debt, net	1,703,725	1,740,612
Deferred income taxes	213,549	143,591
Other	29,342	30,289
TOTAL LIABILITIES	2,303,037	2,257,519
Redeemable noncontrolling interest	4,178	4,467
TOTAL DEFICIT		
Common stock, \$0 par value; 1,000,000 shares authorized; 120,352	0	0

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shares issued at March 31, 2018 and 118,947 shares issued at December 30, 2017

Treasury stock, at cost, 54,114 shares at March 31, 2018 and 54,258

shares at December 30, 2017	(3,203,331)	(3,208,836)
Retained earnings	2,210,168	2,203,317
Accumulated other comprehensive loss	(6,938)	(10,467)
TOTAL DEFICIT	(1,000,101)	(1,015,986)
TOTAL LIABILITIES AND TOTAL DEFICIT	\$1,307,114	\$ 1,246,000

The accompanying notes are an integral part of the consolidated financial statements.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF NET INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended March	
	31, 2018	April 1, 2017
Service revenues, net	\$328,669	\$261,476
Product sales and other, net	79,554	67,587
Revenues, net	408,223	329,063
Cost of services	139,778	124,885
Cost of product sales and other	47,442	40,081
Cost of revenues	187,220	164,966
Gross profit	221,003	164,097
Marketing expenses	98,919	86,429
Selling, general and administrative expenses	60,011	47,435
Operating income	62,073	30,233
Interest expense	35,866	28,142
Other (income) expense, net	(235)	640
Income before income taxes	26,442	1,451
Benefit from income taxes	(12,617)	(9,128)
Net income	39,059	10,579
Net loss attributable to the noncontrolling interest	53	74
Net income attributable to Weight Watchers International, Inc.	\$39,112	\$10,653
Earnings Per Share attributable to Weight Watchers International, Inc.		
Basic	\$0.60	\$0.17
Diluted	\$0.56	\$0.16
Weighted average common shares outstanding		
Basic	65,123	63,978
Diluted	69,501	66,527

The accompanying notes are an integral part of the consolidated financial statements.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

	Three Months Ended March	
	31, 2018	April 1, 2017
Net income	\$39,059	\$10,579
Other comprehensive gain:		
Foreign currency translation (loss) gain	(3,425)	3,402
Income tax benefit (expense) on foreign currency translation		
(loss) gain	868	(1,327)
Foreign currency translation (loss) gain, net of taxes	(2,557)	2,075
Gain on derivatives	11,167	5,512
Income tax expense on gain on derivatives	(2,832)	(2,150)
Gain on derivatives, net of taxes	8,335	3,362
Total other comprehensive gain	5,778	5,437
Comprehensive income	44,837	16,016
Net loss attributable to the noncontrolling interest	53	74
Foreign currency translation loss (gain), net of taxes		
attributable to the noncontrolling interest	236	(105)
Comprehensive loss (income) attributable to the noncontrolling		
interest	289	(31)
Comprehensive income attributable to Weight Watchers		
International, Inc.	\$45,126	\$15,985

The accompanying notes are an integral part of the consolidated financial statements.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Three Months Ended March	
	31, 2018	April 1, 2017
Operating activities:		
Net income	\$39,059	\$10,579
Adjustments to reconcile net income to cash		
provided by operating activities:		
Depreciation and amortization	11,154	12,862
Amortization of deferred financing costs and debt discount	1,914	1,485
Impairment of intangible and long-lived assets	0	97
Write-off of net assets due to cessation of Spain		
operations	0	70
Share-based compensation expense	4,384	2,334
Deferred tax (benefit) provision	(457)	4,395
Allowance for doubtful accounts	(49)	(872)
Reserve for inventory obsolescence	6,423	2,949
Foreign currency exchange rate (gain) loss	(367)	572
Changes in cash due to:		
Receivables	(5,562)	(1,011)
Inventories	1,241	4,637
Prepaid expenses	(15,088)	(10,131)
Accounts payable	7,510	3,249
Accrued liabilities	(2,175)	(25,794)
Deferred revenue	22,932	31,054
Other long term assets and liabilities, net	(6,328)	(38)
Income taxes	8,868	5,902
Cash provided by operating activities	73,459	42,339
Investing activities:		
Capital expenditures	(1,753)	(3,411)
Capitalized software expenditures	(5,966)	(7,071)
Other items, net	(24)	(3)
Cash used for investing activities	(7,743)	(10,485)
Financing activities:		
Net borrowings (payments) on revolver	(25,000)	0
Payments on long-term debt	(19,250)	(5,250)
Taxes paid related to net share settlement of equity awards	(2,128)	(1,170)
Proceeds from stock options exercised	14,679	666

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Cash used for financing activities	(31,699)	(5,754)
Effect of exchange rate changes on cash and cash equivalents	544	437
Net increase in cash and cash equivalents	34,561	26,537
Cash and cash equivalents, beginning of period	83,054	