

MOVADO GROUP INC
Form 10-Q
November 22, 2016

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, 2016

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, 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 Accelerated filer Non-accelerated filer 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 No

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of November 15, 2016 were 16,288,885 and 6,644,105, respectively.

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q

October 31, 2016

	Page
Part I <u>Financial Information (Unaudited)</u>	3
Item 1. <u>Consolidated Balance Sheets at October 31, 2016, January 31, 2016 and October 31, 2015</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended October 31, 2016 and October 31, 2015</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended October 31, 2016 and October 31, 2015</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended October 31, 2016 and October 31, 2015</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	31
Part II <u>Other Information</u>	32
Item 1. <u>Legal Proceedings</u>	32
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32

Item 6. Exhibits

33

Signature

34



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, 2016	January 31, 2016	October 31, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 199,758	\$ 228,188	\$ 181,180
Trade receivables, net	130,076	71,030	124,438
Inventories	169,402	162,465	178,965
Other current assets	28,096	27,352	29,954
Total current assets	527,332	489,035	514,537
Property, plant and equipment, net	34,867	38,553	41,331
Deferred and non-current income taxes	20,614	20,323	19,494
Other non-current assets	41,665	37,259	37,756
Total assets	\$ 624,478	\$ 585,170	\$ 613,118
LIABILITIES AND EQUITY			
Current liabilities:			
Loans payable to bank, current	\$ 3,000	\$ 5,000	\$ —
Accounts payable	22,443	27,308	29,514
Accrued liabilities	52,895	39,617	50,661
Income taxes payable	5,601	6,257	6,205
Total current liabilities	83,939	78,182	86,380
Loans payable to bank	35,000	35,000	40,000
Deferred and non-current income taxes payable	3,145	2,640	3,911
Other non-current liabilities	32,297	28,201	29,918
Total liabilities	154,381	144,023	160,209
Commitments and contingencies (Note 8)			
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;	271	270	270

27,138,206, 26,962,656 and 26,952,421 shares issued and outstanding,

respectively			
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;			
6,644,105, 6,644,105 and 6,644,105 shares issued and outstanding,			
respectively	66	66	66
Capital in excess of par value	182,834	178,118	179,879
Retained earnings	413,666	392,788	387,432
Accumulated other comprehensive income	77,057	68,505	79,173
Treasury Stock, 10,849,321, 10,664,512 and 10,553,569 shares,			
respectively, at cost	(203,797)	(199,195)	(196,379)
Total Movado Group, Inc. shareholders' equity	470,097	440,552	450,441
Noncontrolling interests	—	595	2,468
Total equity	470,097	441,147	452,909
Total liabilities and equity	\$624,478	\$585,170	\$613,118

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Net sales	\$179,818	\$185,629	\$421,967	\$451,659
Cost of sales	81,268	85,537	191,837	210,080
Gross profit	98,550	100,092	230,130	241,579
Selling, general, and administrative	67,479	66,638	183,590	183,016
Operating income	31,071	33,454	46,540	58,563
Other expense (Note 2)	(1,282)	-	(1,282)	-
Interest expense	(333)	(319)	(1,039)	(727)
Interest income	45	17	138	105
Income before income taxes	29,501	33,152	44,357	57,941
Provision for income taxes (Note 9)	9,286	11,242	14,450	20,458
Net income	20,215	21,910	29,907	37,483
Less: Net income attributed to noncontrolling interests	—	378	78	277
Net income attributed to Movado Group, Inc.	\$20,215	\$21,532	\$29,829	\$37,206
Basic income per share:				
Weighted basic average shares outstanding	23,055	23,167	23,074	23,690
Net income per share attributed to Movado Group, Inc.	\$0.88	\$0.93	\$1.29	\$1.57
Diluted income per share:				
Weighted diluted average shares outstanding	23,230	23,411	23,259	23,966
Net income per share attributed to Movado Group, Inc.	\$0.87	\$0.92	\$1.28	\$1.55
Dividends declared per share	0.13	\$0.11	0.39	\$0.33

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,	
	2016	2015	2016	2015
Comprehensive income, net of taxes:				
Net income including noncontrolling interests	\$20,215	\$21,910	\$29,907	\$37,483
Net unrealized gain / (loss) on investments, net of tax (benefit)				
of \$4, (\$10), \$1 and (\$3), respectively	6	(20)	8	(5)
Net change in effective portion of hedging contracts, net of				
tax (benefit) of (\$9), \$3, \$5 and \$3, respectively	(43)	16	31	12
Foreign currency translation adjustments	(6,319)	(6,366)	8,489	(19,573)
Comprehensive income including noncontrolling interests	13,859	15,540	38,435	17,917
Less: Comprehensive income attributed to noncontrolling				
interests	-	379	54	392
Total comprehensive income attributed to Movado Group, Inc.	\$13,859	\$15,161	\$38,381	\$17,525

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended October 31,	
	2016	2015
Cash flows from operating activities:		
Net income including noncontrolling interests	\$29,907	\$37,483
Adjustments to reconcile net income to net cash (used in) / provided by operating activities:		
Depreciation and amortization	8,520	9,438
Transactional losses / (gains)	2,663	(1,822)
Write-down of inventories	1,967	1,811
Deferred income taxes	230	679
Stock-based compensation	5,663	4,496
Excess tax expense from stock-based compensation	167	21
Impairment of long-term investment	1,282	—
Operating efficiency initiatives and other items	—	2,670
Loss on disposal of fixed assets	—	310
Changes in assets and liabilities:		
Trade receivables	(60,386)	(51,213)
Inventories	(7,657)	(15,183)
Other current assets	1,540	1,030
Accounts payable	(5,140)	2,442
Accrued liabilities	12,892	18,219
Income taxes payable	(917)	(866)
Other non-current assets	(5,123)	(89)
Other non-current liabilities	3,718	814
Net cash (used in) / provided by operating activities	(10,674)	10,240
Cash flows from investing activities:		
Capital expenditures	(3,847)	(5,827)
Short-term investment	(151)	—
Restricted cash deposits	(1,156)	—
Trademarks and other intangibles	(296)	(193)
Net cash (used in) investing activities	(5,450)	(6,020)
Cash flows from financing activities:		
Proceeds from bank borrowings	3,000	50,000
Repayments of bank borrowings	(5,000)	(10,000)
Stock options exercised and other changes	(1,256)	(227)
Excess tax expense from stock-based compensation	(167)	(21)
Dividends paid	(8,951)	(7,780)
Debt issuance cost	—	(339)
Purchase of incremental ownership of U.K. joint venture	(1,320)	—
Stock repurchase	(3,263)	(45,932)
Net cash (used in) financing activities	(16,957)	(14,299)

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Effect of exchange rate changes on cash and cash equivalents	4,651	(8,593)
Net (decrease) in cash and cash equivalents	(28,430)	(18,672)
Cash and cash equivalents at beginning of period	228,188	199,852
Cash and cash equivalents at end of period	\$199,758	\$181,180

See Notes to Consolidated Financial Statements

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, 2016 (the “2016 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, 2016 is derived from the audited annual financial statements, which are included in the Company’s 2016 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 2017 presentation. As a result of early adoption of ASU 2015-17, “Income Taxes: Balance Sheet Classification of Deferred Taxes,” current deferred tax assets and liabilities were reclassified to non-current in all periods presented.

NOTE 2 – 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, 2016 and 2015 and January 31, 2016:

	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

7

	Balance Sheet Location	Fair Value at January 31, 2016			
		Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$268	\$—	\$—	\$268
SERP assets - employer	Other non-current assets	1,168	—	—	1,168
SERP assets - employee	Other non-current assets	24,853	—	—	24,853
Hedge derivatives	Other current assets	—	64	—	64
Total		\$26,289	\$64	\$—	\$26,353
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$24,853	\$—	\$—	\$24,853
Hedge derivatives	Accrued liabilities	—	1,163	—	1,163
Total		\$24,853	\$1,163	\$—	\$26,016

	Balance Sheet Location	Fair Value at October 31, 2015			
		Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$300	\$—	\$—	\$300
SERP assets - employer	Other non-current assets	1,762	—	—	1,762
SERP assets - employee	Other non-current assets	25,730	—	—	25,730
Hedge derivatives	Other current assets	—	71	—	71
Total		\$27,792	\$71	\$—	\$27,863
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$25,730	\$—	\$—	\$25,730
Hedge derivatives	Accrued liabilities	—	1,121	—	1,121
Total		\$25,730	\$1,121	\$—	\$26,851

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, 2016. The Company had a long-term investment, which converted to common and preferred shares of a privately held company during the second quarter of fiscal 2016, accounted for under the cost method, with a carrying value of \$1.3 million. This investment is tested quarterly for impairment. Due to the increasingly competitive and difficult market conditions, the operating performance and business outlook for the Company's long-term investment declined significantly during the three months ended October 31, 2016. As such, the Company determined the investment 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 3 – EQUITY

The components of equity for the nine months ended October 31, 2016 and 2015 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity					Accumulated	Noncontrolling	
	Common	Class A	Capital in	Retained	Treasury	Other	Interests	
	Stock	Common	Excess of	Earnings	Stock	Comprehensive	Total	
	(\$)	(2)	Par Value			Income		
Balance, January 31, 2016	\$270	\$ 66	\$178,118	\$392,788	\$(199,195)	\$ 68,505	\$ 595	\$441,147
Net income				29,829			78	29,907
Dividends				(8,951)				(8,951)
Stock repurchase					(3,263)			(3,263)
Stock options exercised, net of tax of \$167	1		(86)		(1,339)			(1,424)
Supplemental executive retirement plan			150					150
Stock-based compensation expense			5,663					5,663
Net unrealized gain on investments, net of tax of \$1						8		8
Net change in effective portion of hedging contracts, net of tax of \$5						31		31
Joint venture incremental share purchase			(1,011)				(649)	(1,660)
Foreign currency translation adjustment (3)						8,513	(24)	8,489
Balance, October 31, 2016	\$271	\$ 66	\$182,834	\$413,666	\$(203,797)	\$ 77,057	\$ -	\$470,097