

WEIGHT WATCHERS INTERNATIONAL INC
Form 10-Q
August 07, 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 June 30, 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

(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 every Interactive Data File required to be submitted 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 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 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 July 31, 2018 was 66,623,118.

WEIGHT WATCHERS INTERNATIONAL, INC.

TABLE OF CONTENTS

	Page No.
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	2
<u>Unaudited Consolidated Balance Sheets at June 30, 2018 and December 30, 2017</u>	2
<u>Unaudited Consolidated Statements of Net Income for the three and six months ended June 30, 2018 and July 1, 2017</u>	3
<u>Unaudited Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and July 1, 2017</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and July 1, 2017</u>	5

	<u>Notes to Unaudited Consolidated Financial Statements</u>	6
	<u>Cautionary Notice Regarding Forward-Looking Statements</u>	23
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4.	<u>Controls and Procedures</u>	43
<u>PART II—OTHER INFORMATION</u>		
Item 1.	<u>Legal Proceedings</u>	44
Item 1A.	<u>Risk Factors</u>	44
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3.	<u>Defaults Upon Senior Securities</u>	44
Item 4.	<u>Mine Safety Disclosures</u>	44
Item 5.	<u>Other Information</u>	44
Item 6.	<u>Exhibits</u>	45

Signatures

46



PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS AT

(IN THOUSANDS)

	June 30, 2018	December 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 167,755	\$ 83,054
Receivables (net of allowances: June 30, 2018 - \$2,021 and December 30, 2017 - \$2,001)	27,401	23,913
Inventories	18,649	31,728
Prepaid income taxes	49,193	43,488
Prepaid expenses and other current assets	28,457	26,805
TOTAL CURRENT ASSETS	291,455	208,988
Property and equipment, net	48,138	47,978
Franchise rights acquired	750,335	754,040
Goodwill	153,130	156,281
Other intangible assets, net	54,113	46,536
Deferred income taxes	15,239	12,447
Other noncurrent assets	24,142	19,730
TOTAL ASSETS	\$ 1,336,552	\$ 1,246,000
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	\$ 118,498	\$ 82,750
Accounts payable	22,952	24,356
Salaries and wages payable	56,678	62,179
Accrued marketing and advertising	12,242	18,154
Accrued interest	25,249	10,834
Other accrued liabilities	60,125	58,251
Derivative payable	0	12,171
Deferred revenue	83,878	74,332
TOTAL CURRENT LIABILITIES	379,622	343,027
Long-term debt, net	1,644,471	1,740,612
Deferred income taxes	204,304	143,591
Other	31,151	30,289
TOTAL LIABILITIES	2,259,548	2,257,519
Redeemable noncontrolling interest	4,004	4,467
TOTAL DEFICIT		
Common stock, \$0 par value; 1,000,000 shares authorized; 120,353	0	0

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shares issued at June 30, 2018 and 118,947 shares issued at December 30, 2017

Treasury stock, at cost, 53,765 shares at June 30, 2018 and 54,258

shares at December 30, 2017	(3,189,796)	(3,208,836)
Retained earnings	2,271,593	2,203,317
Accumulated other comprehensive loss	(8,797)	(10,467)
TOTAL DEFICIT	(927,000)	(1,015,986)
TOTAL LIABILITIES AND TOTAL DEFICIT	\$ 1,336,552	\$ 1,246,000

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

2

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF NET INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Service revenues, net	\$343,730	\$283,001	\$672,399	\$544,477
Product sales and other, net	66,017	58,672	145,571	126,259
Revenues, net	409,747	341,673	817,970	670,736
Cost of services	128,159	120,325	267,939	245,210
Cost of product sales and other	36,794	32,335	84,236	72,416
Cost of revenues	164,953	152,660	352,175	317,626
Gross profit	244,794	189,013	465,795	353,110
Marketing expenses	55,421	41,968	154,340	128,397
Selling, general and administrative expenses	61,665	50,839	121,676	98,273
Operating income	127,708	96,206	189,779	126,440
Interest expense	35,866	27,092	71,732	55,234
Other expense (income), net	1,333	(488)	1,097	154
Gain on early extinguishment of debt	0	(1,554)	0	(1,554)
Income before income taxes	90,509	71,156	116,950	72,606
Provision for income taxes	19,825	25,992	7,208	16,864
Net income	70,684	45,164	109,742	55,742
Net loss attributable to the noncontrolling interest	36	9	90	83
Net income attributable to Weight Watchers International, Inc.	\$70,720	\$45,173	\$109,832	\$55,825
Earnings Per Share attributable to Weight Watchers International, Inc.				
Basic	\$1.07	\$0.70	\$1.67	\$0.87
Diluted	\$1.01	\$0.67	\$1.57	\$0.83
Weighted average common shares outstanding				
Basic	66,400	64,269	65,761	64,124
Diluted	70,154	67,737	69,914	67,304

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		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income	\$70,684	\$45,164	\$109,742	\$55,742
Other comprehensive (loss) gain:				
Foreign currency translation (loss) gain	(3,804)	2,630	(7,229)	6,031
Income tax benefit (expense) on foreign currency translation (loss) gain	965	(1,026)	1,833	(2,352)
Foreign currency translation (loss) gain, net of taxes	(2,839)	1,604	(5,396)	3,679
Gain (loss) on derivatives	1,130	(1,136)	12,297	4,377
Income tax (expense) benefit on gain on derivatives	(287)	443	(3,119)	(1,707)
Gain (loss) on derivatives, net of taxes	843	(693)	9,178	2,670
Total other comprehensive (loss) gain	(1,996)	911	3,782	6,349
Comprehensive income	68,688	46,075	113,524	62,091
Net loss attributable to the noncontrolling interest	36	9	90	83
Foreign currency translation loss, net of taxes attributable to the noncontrolling interest	137	146	373	41
Comprehensive loss attributable to the noncontrolling interest	173	155	463	124
Comprehensive income attributable to Weight Watchers International, Inc.	\$68,861	\$46,230	\$113,987	\$62,215

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)

	Six Months Ended	
	June 30, 2018	July 1, 2017
Operating activities:		
Net income	\$ 109,742	\$ 55,742
Adjustments to reconcile net income to cash		
provided by operating activities:		
Depreciation and amortization	21,774	25,554
Amortization of deferred financing costs and debt discount	4,122	2,861
Impairment of intangible and long-lived assets	0	60
Write-off of net assets due to cessation of Spain		
operations	0	70
Share-based compensation expense	9,675	4,817
Deferred tax provision	752	10,331
Allowance for doubtful accounts	54	(857)
Reserve for inventory obsolescence	8,338	4,962
Foreign currency exchange rate loss	868	150
Gain on early extinguishment of debt	0	(1,802)
Changes in cash due to:		
Receivables	(9,650)	3,490
Inventories	4,999	5,887
Prepaid expenses	(3,023)	4,338
Accounts payable	(798)	(19,727)
Accrued liabilities	(1,696)	(28,575)
Deferred revenue	13,259	21,847
Other long term assets and liabilities, net	(4,309)	144
Income taxes	14,480	8,823
Cash provided by operating activities	168,587	98,115
Investing activities:		
Capital expenditures	(7,733)	(5,614)
Capitalized software expenditures	(13,118)	(13,419)
Other items, net	(9,669)	(86)
Cash used for investing activities	(30,520)	(19,119)
Financing activities:		
Net (payments) borrowings on revolver	(25,000)	0
Payments on long-term debt	(38,500)	(83,334)
Taxes paid related to net share settlement of equity awards	(11,139)	(3,648)
Proceeds from stock options exercised	23,262	1,258
Cash used for financing activities	(51,377)	(85,724)

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Effect of exchange rate changes on cash and cash equivalents	(1,989)	2,557
Net increase (decrease) in cash and cash equivalents	84,701	(4,171)