

HAIN CELESTIAL GROUP INC

Form 10-Q

November 08, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q

---

(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 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 No. 0-22818

---

THE HAIN CELESTIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

---

Delaware

22-3240619

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1111 Marcus Avenue

11042

Lake Success, New York

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (516) 587-5000

---

Table of Contents

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 (section 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, a 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 ☒

As of November 5, 2018, there were 104,063,382 shares outstanding of the registrant’s Common Stock, par value \$.01 per share.

---

Table of Contents

THE HAIN CELESTIAL GROUP, INC.  
Index

	Part I - Financial Information	Page
Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets - September 30, 2018 and June 30, 2018</u>	<u>3</u>
	<u>Consolidated Statements of Operations - Three months ended September 30, 2018 and 2017</u>	<u>4</u>
	<u>Consolidated Statements of Comprehensive Income (Loss) - Three months ended September 30, 2018 and 2017</u>	<u>5</u>
	<u>Consolidated Statement of Stockholders' Equity - Three months ended September 30, 2018</u>	<u>6</u>
	<u>Consolidated Statements of Cash Flows - Three months ended September 30, 2018 and 2017</u>	<u>7</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
Item 4.	<u>Controls and Procedures</u>	<u>38</u>
	Part II - Other Information	
	Items 3, 4 and 5 are not applicable	
Item 1.	<u>Legal Proceedings</u>	<u>39</u>
Item 1A.	<u>Risk Factors</u>	<u>41</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
Item 6.	<u>Exhibits</u>	<u>41</u>
	<u>Exhibit</u>	<u>42</u>
	<u>Index</u>	
	<u>Signatures</u>	<u>43</u>

Table of Contents

Cautionary Note Regarding Forward Looking Information

This Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (the “Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, relating to our business and financial outlook, which are based on our current beliefs, assumptions, expectations, estimates, forecasts and projections about future events only as of the date of this Quarterly Report on Form 10-Q, and are not statements of historical fact. We make such forward-looking statements pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

Many of our forward-looking statements include discussions of trends and anticipated developments under the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as the use of “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “intends,” “predicts,” “potential” or similar expressions, or the negative of those expressions. These forward-looking statements include, among other things, our beliefs or expectations relating to our business strategy, growth strategy, market price, brand portfolio and product performance, the seasonality of our business, our results of operations and financial condition, our Securities and Exchange Commission (“SEC”) filings, enhancing internal controls and remediating material weaknesses. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict. Therefore, our actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date hereof, unless it is specifically otherwise stated to be made as of a different date. We undertake no obligation to further update any such statement to reflect new information, the occurrence of future events or circumstances or otherwise.

The forward-looking statements in this filing do not constitute guarantees or promises of future performance. Factors that could cause or contribute to such differences may include, but are not limited to, the impact of competitive products, changes to the competitive environment, changes to consumer preferences, our ability to manage our supply chain effectively, changes in raw materials, freight, commodity costs and fuel, consolidation of customers, reliance on independent distributors, general economic and financial market conditions, risks associated with our international sales and operations, our ability to execute and realize cost savings initiatives, including, but not limited to, cost reduction initiatives under Project Terra and stock-keeping unit (“SKU”) rationalization plans, the identification and remediation of material weaknesses in our internal controls over financial reporting, our ability to manage our financial reporting and internal control system processes, potential liabilities due to legal claims, government investigations and other regulatory enforcement actions, costs incurred due to pending and future litigation, the availability of key personnel and changes in management team, potential liability if our products cause illness or physical harm, impairments in the carrying value of goodwill or other intangible assets, our ability to identify and complete acquisitions or divestitures and integrate acquisitions, the availability of organic and natural ingredients, the reputation of our brands, risks relating to the protection of intellectual property, cybersecurity risks, unanticipated expenditures and other risks described in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 under the heading “Risk Factors” and Part II, Item 1A, “Risk Factors” set forth herein, as well as in other reports that we file in the future.

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2018 AND JUNE 30, 2018

(In thousands, except par values)

	September 30, 2018 (Unaudited)	June 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$55,871	\$106,557
Accounts receivable, less allowance for doubtful accounts of \$1,850 and \$1,828, respectively	246,519	252,708
Inventories	414,479	391,525
Prepaid expenses and other current assets	58,183	59,946
Current assets of discontinued operations	239,809	240,851
Total current assets	1,014,861	1,051,587
Property, plant and equipment, net	315,926	310,172
Goodwill	1,019,693	1,024,136
Trademarks and other intangible assets, net	502,356	510,387
Investments and joint ventures	21,153	20,725
Other assets	29,041	29,667
Total assets	\$2,903,030	\$2,946,674
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$226,418	\$229,993
Accrued expenses and other current liabilities	136,890	116,001
Current portion of long-term debt	28,498	26,605
Current liabilities of discontinued operations	46,407	49,846
Total current liabilities	438,213	422,445
Long-term debt, less current portion	693,429	687,501
Deferred income taxes	73,223	86,909
Other noncurrent liabilities	12,741	12,770
Total liabilities	1,217,606	1,209,625
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock - \$.01 par value, authorized 5,000 shares; issued and outstanding: none	—	—
Common stock - \$.01 par value, authorized 150,000 shares; issued: 108,507 and 108,422 shares, respectively; outstanding: 104,002 and 103,952 shares, respectively	1,085	1,084
Additional paid-in capital	1,148,330	1,148,196
Retained earnings	840,906	878,516
Accumulated other comprehensive loss	(197,411 )	(184,240 )
	1,792,910	1,843,556
Less: Treasury stock, at cost, 4,505 and 4,470 shares, respectively	(107,486 )	(106,507 )
Total stockholders' equity	1,685,424	1,737,049

Total liabilities and stockholders' equity	\$2,903,030	\$2,946,674
See notes to consolidated financial statements.		

Table of Contents

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017  
(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2018	2017
Net sales	\$560,833	\$589,219
Cost of sales	461,239	465,831
Gross profit	99,594	123,388
Selling, general and administrative expenses	82,257	86,081
Amortization of acquired intangibles	3,905	4,574
Project Terra costs and other	10,333	4,850
Chief Executive Officer Succession Plan expense, net	19,553	—
Accounting review and remediation costs, net of insurance proceeds	3,414	(1,358 )
Long-lived asset impairment	4,236	—
Operating (loss) income	(24,104 )	29,241
Interest and other financing expense, net	7,705	6,282
Other expense/(income), net	600	(3,127 )
(Loss) income from continuing operations before income taxes and equity in net income of equity-method investees	(32,409 )	26,086
(Benefit) provision for income taxes	(9,483 )	7,484
Equity in net loss (income) of equity-method investees	175	(11 )
Net (loss) income from continuing operations	\$(23,101 )	\$18,613
Net (loss) income from discontinued operations, net of tax	(14,324 )	1,233