

HERBALIFE NUTRITION LTD.
Form 10-Q
May 03, 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: 1-32381

HERBALIFE NUTRITION LTD.

(Exact name of registrant as specified in its charter)

Cayman Islands 98-0377871
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

P.O. Box 309GT

Ugland House, South Church Street

Grand Cayman, Cayman Islands

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(Address of principal executive offices) (Zip code)

(213) 745-0500

(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 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, 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

(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

Number of shares of registrant's common shares outstanding as of April 26, 2018 was 88,211,640.

TABLE OF CONTENTS

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	3
<u>Unaudited Condensed Consolidated Balance Sheets</u>	3
<u>Unaudited Condensed Consolidated Statements of Income</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	52
Item 4. <u>Controls and Procedures</u>	55
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	58
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	77
Item 3. <u>Defaults Upon Senior Securities</u>	78
Item 4. <u>Mine Safety Disclosures</u>	78
Item 5. <u>Other Information</u>	78
Item 6. <u>Exhibits</u>	78

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HERBALIFE NUTRITION LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

March 31, December 31,

2018 2017
(in millions, except share
and par value amounts)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,330.2	\$ 1,278.8
Receivables, net of allowance for doubtful accounts	103.3	93.3
Inventories	333.0	341.2
Prepaid expenses and other current assets	184.6	147.0
Total current assets	1,951.1	1,860.3
Property, plant, and equipment, at cost, net of accumulated depreciation and		
amortization	369.2	377.5
Marketing-related intangibles and other intangible assets, net	310.1	310.1
Goodwill	98.6	96.9
Other assets	239.7	250.3
Total assets	\$2,968.7	\$ 2,895.1
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$80.2	\$ 67.8
Royalty overrides	264.7	277.7
Current portion of long-term debt	102.3	102.4
Other current liabilities	463.7	458.9
Total current liabilities	910.9	906.8
Long-term debt, net of current portion	2,109.1	2,165.7
Other non-current liabilities	167.7	157.3
Total liabilities	3,187.7	3,229.8
Commitments and contingencies		
Shareholders' deficit:		
Common shares, \$0.001 par value; 1.0 billion shares authorized; 83.1 million (2018)		
and 82.3 million (2017) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	425.4	407.3
Accumulated other comprehensive loss	(147.3)	(165.4)
Accumulated deficit	(168.3)	(248.1)
Treasury stock, at cost, 5.0 million (2018) and 5.0 million (2017) shares	(328.9)	(328.6)

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Total shareholders' deficit	(219.0)	(334.7)
Total liabilities and shareholders' deficit	\$2,968.7	\$ 2,895.1

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE NUTRITION LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31, March 31,	
	2018	2017
	(in millions, except per share amounts)	
Net sales	\$1,176.9	\$ 1,102.1
Cost of sales	239.9	204.6
Gross profit	937.0	897.5
Royalty overrides	337.3	315.1
Selling, general, and administrative expenses	460.1	438.6
Other operating income	(16.2)	—
Operating income	155.8	143.8
Interest expense, net	39.9	30.2
Other expense, net	24.4	—
Income before income taxes	91.5	113.6
Income taxes	9.4	28.4
Net income	\$82.1	\$ 85.2
Earnings per share:		
Basic	\$ 1.13	\$ 1.03
Diluted	\$ 1.08	\$ 0.98
Weighted-average shares outstanding:		
Basic	72.7	83.1
Diluted	76.3	86.7

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE NUTRITION LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31	
	2018	2017
	(in millions)	
Net income	\$82.1	\$ 85.2
Other comprehensive income:		
Foreign currency translation adjustment, net of income taxes of \$1.1 and \$2.6 for the three months ended March 31, 2018 and 2017, respectively	21.2	23.0
Unrealized loss on derivatives, net of income taxes of \$— for both the three months ended March 31, 2018 and 2017	(3.1)	(7.5)
Total other comprehensive income	18.1	15.5
Total comprehensive income	\$100.2	\$ 100.7

See the accompanying notes to unaudited condensed consolidated financial statements.

HERBALIFE NUTRITION LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2018 (in millions)	March 31, 2017
Cash flows from operating activities:		
Net income	\$ 82.1	\$ 85.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25.6	24.5
Share-based compensation expenses	9.8	11.3
Non-cash interest expense	15.7	14.4
Deferred income taxes	3.3	(3.2)
Inventory write-downs	12.1	4.6
Foreign exchange transaction loss (gain)	0.5	(0.4)
Other	25.5	(1.0)
Changes in operating assets and liabilities:		
Receivables	(16.1)	(27.9)
Inventories	8.4	7.3
Prepaid expenses and other current assets	(11.9)	25.1
Accounts payable	16.4	5.0
Royalty overrides	(12.6)	(18.8)
Other current liabilities	(3.7)	44.6
Other	1.1	4.8
Net cash provided by operating activities	156.2	175.5

Cash flows from investing activities:		
Purchases of property, plant, and equipment	(15.6)	(24.5)
Other	—	0.1
Net cash used in investing activities	(15.6)	(24.4)
Cash flows from financing activities:		
Borrowings from senior secured credit facility, net of discount	—	1,274.0
Principal payments on senior secured credit facility and other debt	(24.5)	(413.4)
Proceeds from senior convertible notes	550.0	—
Repurchase of senior convertible notes	(582.5)	—
Debt issuance costs	(11.7)	(22.6)
Share repurchases	(54.2)	(58.1)
Proceeds from settlement of capped call transactions	27.1	—
Other	0.6	0.6
Net cash (used in) provided by financing activities	(95.2)	780.5
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	6.1	9.1
Net change in cash, cash equivalents, and restricted cash	51.5	940.7
Cash, cash equivalents, and restricted cash, beginning of period	1,295.5	