

HELEN OF TROY LTD  
Form 10-Q  
October 10, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 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: 001-14669

HELEN OF TROY LIMITED

(Exact name of registrant as specified in its charter)

Bermuda 74-2692550  
(I.R.S.  
(State or other jurisdiction of Employer  
incorporation or organization) Identification  
No.)

Clarendon House  
2 Church Street  
Hamilton, Bermuda  
(Address of principal executive offices)

1 Helen of Troy Plaza 79912  
El Paso, Texas  
(Registrant's United States Mailing Address) (Zip Code)  
(915) 225-8000

(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 x 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 x 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 Accelerated Non-accelerated Smaller reporting Emerging growth  
filer x filer .. filer .. company .. 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.

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Yes " No "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at October 5, 2018

Common

Shares,

\$0.10

par 26,401,386 shares

value,

per

share

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HELEN OF TROY LIMITED AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except shares and par value)	August 31, 2018	February 28, 2018
Assets		
Assets, current:		
Cash and cash equivalents	\$ 19,915	\$ 20,738
Receivables - principally trade, less allowances of \$1,646 and \$2,912	313,615	275,565
Inventory	284,828	251,511
Prepaid expenses and other current assets	17,884	9,545
Income taxes receivable	125	349
Total assets, current	636,367	557,708
Property and equipment, net of accumulated depreciation of \$122,234 and \$115,202	128,271	123,503
Goodwill	602,320	602,320
Other intangible assets, net of accumulated amortization of \$174,831 and \$167,354	295,865	302,915
Deferred tax assets, net	11,696	16,654
Other assets, net of accumulated amortization of \$2,068 and \$2,022	20,069	20,617
Total assets	\$1,694,588	\$1,623,717
Liabilities and Stockholders' Equity		
Liabilities, current:		
Accounts payable, principally trade	\$ 151,208	\$ 129,341
Accrued expenses and other current liabilities	144,915	168,261
Long-term debt, current maturities	1,884	1,884
Total liabilities, current	298,007	299,486
Long-term debt, excluding current maturities	299,192	287,985
Deferred tax liabilities, net	8,449	7,096
Other liabilities, noncurrent	13,200	14,691
Total liabilities	618,848	609,258
Commitments and contingencies		
Stockholders' equity:		
Cumulative preferred stock, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued	—	—
Common stock, \$0.10 par. Authorized 50,000,000 shares; 26,380,366 and 26,575,634 shares issued and outstanding	2,635	2,658
Additional paid in capital	241,633	230,676
Accumulated other comprehensive income	4,647	631
Retained earnings	826,825	780,494
Total stockholders' equity	1,075,740	1,014,459
Total liabilities and stockholders' equity	\$1,694,588	\$1,623,717

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Income (Unaudited)

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2018	2017	2018	2017
Sales revenue, net	\$393,548	\$344,949	\$748,227	\$670,440
Cost of goods sold	238,375	201,472	446,496	395,393
Gross profit	155,173	143,477	301,731	275,047
Selling, general and administrative expense ("SG&A")	103,654	103,770	205,160	200,757
Asset impairment charges	—	—	—	4,000
Restructuring charges	859	—	2,584	—
Operating income	50,660	39,707	93,987	70,290
Nonoperating income, net	85	81	160	247
Interest expense	(2,755 )	(3,754 )	(5,442 )	(7,479 )
Income before income tax	47,990	36,034	88,705	63,058
Income tax expense	3,973	1,462	6,515	1,178
Income from continuing operations	44,017	34,572	82,190	61,880
Loss from discontinued operations, net of tax	—	(25,639 )	(381 )	(47,079 )
Net income	\$44,017	\$8,933	\$81,809	\$14,801
Earnings (loss) per share - basic:				
Continuing operations	\$1.67	\$1.27	\$3.11	\$2.28
Discontinued operations	—	(0.94 )	(0.01 )	(1.73 )
Total earnings per share - basic	\$1.67	\$0.33	\$3.09	\$0.55
Earnings (loss) per share - diluted:				
Continuing operations	\$1.66	\$1.26	\$3.09	\$2.26
Discontinued operations	—	(0.94 )	(0.01 )	(1.72 )
Total earnings per share - diluted	\$1.66	\$0.33	\$3.07	\$0.54
Weighted average shares of common stock used in computing earnings per share:				
Basic	26,359	27,232	26,467	27,154
Diluted	26,557	27,401	26,612	27,323

See accompanying notes to condensed consolidated financial statements.

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## HELEN OF TROY LIMITED AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)	Three Months Ended August 31,					
	2018			2017		
	Before Tax	Tax (Expense) Benefit	Net of Tax	Before Tax	Tax (Expense) Benefit	Net of Tax
Income from continuing operations	\$47,990	\$(3,973)	\$44,017	\$36,034	\$(1,462)	\$34,572
Loss from discontinued operations	—	—	—	(19,714)	(5,925)	(25,639)
Net income	47,990	(3,973)	44,017	16,320	(7,387)	8,933
Other comprehensive income						
Cash flow hedge activity - interest rate swap						
Changes in fair market value	137	(36)	101	—	—	—
Adoption of ASU No. 2018-02	—	—	—	—	—	—
Subtotal	137	(36)	101	—	—	—
Cash flow hedge activity - foreign currency contracts						
Changes in fair market value	(51)	22	(29)	(1,958)	484	(1,474)
Settlements reclassified to income	610	(103)	507	(578)	109	(469)
Adoption of ASU No. 2018-02	—	—	—	—	—	—
Subtotal	559	(81)	478	(2,536)	593	(1,943)
Total other comprehensive income (loss)	696	(117)	579	(2,536)	593	(1,943)
Comprehensive income (loss)	\$48,686	\$(4,090)	\$44,596	\$13,784	\$(6,794)	\$6,990
Six Months Ended August 31,						
(in thousands)	2018			2017		
	Before Tax	Tax (Expense) Benefit	Net of Tax	Before Tax	Tax (Expense) Benefit	Net of Tax
Income from continuing operations	\$88,705	\$(6,515)	\$82,190	\$63,058	\$(1,178)	\$61,880
Loss from discontinued operations	(484)	103	(381)	(53,645)	6,566	(47,079)
Net income	88,221	(6,412)	81,809	9,413	5,388	14,801
Other comprehensive income						
Cash flow hedge activity - interest rate swap						
Changes in fair market value	76	(21)	55	—	—	—
Adoption of ASU No. 2018-02	—	150	150	—	—	—
Subtotal	76	129	205	—	—	—
Cash flow hedge activity - foreign currency contracts						
Changes in fair market value	4,525	(600)	3,925	(4,203)	800	(3,403)
Settlements reclassified to income	(77)	(39)	(116)	(880)	163	(717)
Adoption of ASU No. 2018-02	—	2	2	—	—	—
Subtotal	4,448	(637)	3,811	(5,083)	963	(4,120)
Total other comprehensive income (loss)	4,524	(508)	4,016	(5,083)	963	(4,120)
Comprehensive income (loss)	\$92,745	\$(6,920)	\$85,825	\$4,330	\$6,351	\$10,681

See accompanying notes to condensed consolidated financial statements.

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## HELEN OF TROY LIMITED AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended August 31,	
(in thousands)	2018	2017
Cash provided by operating activities:		
Net income	\$81,809	\$14,801
Less: Loss from discontinued operations	(381 )	(47,079 )
Income from continuing operations	82,190	61,880
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	15,295	16,756
Amortization of financing costs	507	421
Provision for doubtful receivables	597	2,052
Non-cash share-based compensation	11,013	6,230
Non-cash intangible asset impairment charges	—	4,000
Loss (gain) on the sale or disposal of property and equipment	49	(10 )
Deferred income taxes and tax credits	5,650	(1,111 )
Changes in operating capital, net of effects of acquisition of businesses:		
Receivables	(38,647 )	(13,889 )
Inventories	(33,317 )	(37,824 )
Prepaid expenses and other current assets	(5,169 )	(4,516 )
Other assets and liabilities, net	(906 )	(2,415 )
Accounts payable	21,867	24,910
Accrued expenses and other current liabilities	(21,529 )	(5,668 )
Accrued income taxes	(289 )	8,588
Net cash provided by operating activities - continuing operations	37,311	59,404
Net cash used by operating activities - discontinued operations	(381 )	(9,405 )
Net cash provided by operating activities	36,930	49,999
Cash used by investing activities:		
Capital and intangible asset expenditures	(13,061 )	(7,605 )
Proceeds from the sale of property and equipment	—	13
Net cash used by investing activities - continuing operations	(13,061 )	(7,592 )
Net cash used by investing activities - discontinued operations	—	(9,209 )
Net cash used by investing activities	(13,061 )	(16,801 )
Cash used by financing activities:		
Proceeds from line of credit	292,300	249,000
Repayment of line of credit	(279,700)	(285,300)
Repayment of long-term debt	(1,900 )	(5,700 )
Proceeds from share issuances under share-based compensation plans	6,226	6,236
Payment of tax obligations resulting from cashless share award settlements	(4,551 )	(6,801 )
Payments for repurchases of common stock	(37,067 )	—
Net cash used by financing activities - continuing operations	(24,692 )	(42,565 )
Net cash used by financing activities - discontinued operations	—	—
Net cash used by financing activities	(24,692 )	(42,565 )

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Net decrease in cash and cash equivalents	(823 )	(9,367 )
Cash and cash equivalents, beginning balance	20,738	23,087
Cash and cash equivalents, ending balance	19,915	13,720
Less: Cash and cash equivalents of discontinued operations, ending balance	—	(375 )
Cash and cash equivalents of continuing operations, ending balance	\$19,915	\$14,095

See accompanying notes to condensed consolidated financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
August 31, 2018

Note 1 - Basis of Presentation and Related Information

The accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our consolidated financial position as of August 31, 2018 and February 28, 2018, and the results of our consolidated operations for the interim periods presented. We follow the same accounting policies when preparing quarterly financial data as we use for preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K for the fiscal year ended February 28, 2018, and our other reports on file with the Securities and Exchange Commission (the "SEC").

When used in these notes, unless otherwise indicated or the context suggests otherwise, references to "the Company", "our Company", "Helen of Troy", "we", "us", or "our" refer to Helen of Troy Limited and its subsidiaries. We refer to our common shares, par value \$0.10 per share, as "common stock." References to "the FASB" refer to the Financial Accounting Standards Board. References to "GAAP" refer to United States ("U.S.") generally accepted accounting principles. References to "ASU" refer to the codification of GAAP in the Accounting Standards Updates issued by the FASB. References to "ASC" refer to the codification of GAAP in the Accounting Standards Codification issued by the FASB.

We incorporated as Helen of Troy Corporation in Texas in 1968 and were reorganized as Helen of Troy Limited in Bermuda in 1994. We are a global designer, developer, importer, marketer, and distributor of an expanding portfolio of brand-name consumer products. We have three segments: Housewares, Health & Home, and Beauty. Our Housewares segment provides a broad range of innovative consumer products for the home. Product offerings include food preparation tools and storage containers; cleaning, bath and garden tools and accessories; infant and toddler care products; and insulated beverage and food containers. The Health & Home segment focuses on health care devices such as thermometers, humidifiers, blood pressure monitors, and heating pads; water filtration systems; and small home appliances such as portable heaters, fans, air purifiers, and insect control devices. Our Beauty segment products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid-, solid- and powder-based personal care and grooming products.

On December 20, 2017, we completed the divestiture of the Nutritional Supplements segment through the sale of Healthy Directions LLC and its subsidiaries to Direct Digital, LLC. The results of the Nutritional Supplements operations have been reported as discontinued operations for all periods presented in the consolidated financial statements. For more information, see Note 4 to these condensed consolidated financial statements. All other notes present results from continuing operations.

Our business is seasonal due to different calendar events, holidays and seasonal weather patterns. Historically, our highest sales volume and operating income occur in our third fiscal quarter ending November 30th. We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

Our condensed consolidated financial statements are prepared in U.S. Dollars. All intercompany accounts and transactions are eliminated in consolidation.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying

notes. Actual results may differ materially from those estimates.

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We have reclassified, combined or separately disclosed certain amounts in the prior years' condensed consolidated financial statements and accompanying footnotes to conform with the current period's presentation, including reclassifications for discontinued operations (see Note 4) and the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (see Notes 2 and 3).

Note 2 – New Accounting Pronouncements

Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new guidance requires the recognition of lease liabilities, representing future minimum lease payments, on a discounted basis, and corresponding right-of-use assets on a balance sheet for most leases, along with requirements for enhanced disclosures to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leasing arrangements. In July 2018, the FASB issued ASU 2018-10 and 2018-11 which permit application of the new guidance at the beginning of the year of adoption, recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, in addition to the method of applying the new guidance retrospectively to each prior reporting period presented. The ASU is effective for us on March 1, 2019. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities (Topic 815), which amends and simplifies hedge accounting with the intent of better aligning financial reporting for hedging relationships with an entity's risk management activities. The ASU is effective for us on March 1, 2019. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for us on March 1, 2020, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans. ASU 2018-14 removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and adds additional disclosures. The ASU is effective for us on March 1, 2021, with early adoption permitted. The amendments in ASU 2018-14 would need to be applied on a retrospective basis. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosures, modifies certain disclosures and adds additional disclosures. The ASU is effective for us on March 1, 2020, and interim periods within those fiscal years. Early adoption is permitted. Certain disclosures in ASU 2018-13 would need to be applied on a retrospective basis and others on a prospective basis. We are currently evaluating the impact this guidance may have on our consolidated financial statements.



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### Adopted

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. Adoption of this guidance in the first quarter of fiscal 2019 did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting (Topic 718). This update amends the scope of modification accounting surrounding share-based payment arrangements as issued in ASU 2016-09 by providing guidance on the various types of changes which would trigger modification accounting for share-based payment awards. Adoption of this guidance in the first quarter of fiscal 2019 did not have a material impact on our consolidated financial statements.

In January 2017, the FASB, issued ASU 2017-04, Intangibles–Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This guidance provides for a single-step quantitative test to identify and measure impairment, requiring an entity to recognize an impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit’s fair value. Adoption of this guidance in the first quarter of fiscal 2018 did not have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra–Entity Asset Transfers of Assets Other Than Inventory (Topic 740). ASU 2016-16 amends accounting guidance for intra-entity transfers of assets other than inventory to require the recognition of taxes when the transfer occurs. The amendment was effective for us on March 1, 2018. A modified retrospective approach is required for transition to the new guidance, with a cumulative-effect adjustment consisting of the net impact from (1) the write-off of any unamortized expense previously deferred and (2) recognition of any previously unrecognized deferred tax assets, net of any valuation allowance. The new guidance does not include any specific new disclosure requirements. Adoption of this guidance in the first quarter of fiscal 2019 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a framework for revenue recognition that replaces most existing GAAP revenue recognition guidance. We adopted the guidance in the first quarter of fiscal 2019. See Note 3 for a further discussion regarding the impact of adoption of this guidance on our consolidated financial statements.

### Note 3 – Revenue Recognition

We adopted the provisions of ASU 2014-9 in the first quarter of fiscal 2019, and we elected to adopt the standard using the retrospective method. The core principle of the guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Our revenue is primarily generated from the sale of non-customized consumer products to customers. Revenue is recognized when control of, and title to, the product sold transfers to the customer. Therefore, the timing and amount of revenue recognized was not materially impacted by the new guidance. We have thus concluded that the adoption of the guidance did not have a material impact on our consolidated financial statements. The provisions of the new guidance did however impact the classification of certain consideration paid to our customers. We therefore, have reclassified an immaterial amount of such payments from SG&A to a reduction of net sales revenue for all periods





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presented. Also, in accordance with the guidance, we reclassified an immaterial amount of estimated sales returns from a reduction of receivables to accrued expenses and other current liabilities for all periods presented. We elected to adopt the guidance using the full retrospective method.

We measure revenue as the amount of consideration for which we expect to be entitled, in exchange for transferring goods. Certain customers may receive cash incentives such as customer discounts (including volume or trade discounts), advertising discounts and other customer-related programs which are accounted for as variable consideration. In some cases, we apply judgment, such as contractual rates and historical payment trends, when estimating variable consideration. In accordance with the guidance, most variable consideration is classified as a reduction to net sales.

Sales taxes and other similar taxes are excluded from revenue. We elected to account for shipping and handling activities as a fulfillment cost as permitted by the guidance. We do not have unsatisfied performance obligations since our performance obligations are satisfied at a single point in time.

The effect of the adoption of ASU 2014-9 on the condensed consolidated financial statements from continuing operations is as follows:

(in thousands)	Before Reclassification February 28, 2018	Reclassification	After Reclassification February 28, 2018
Balance Sheet			
Receivables	\$ 273,168	\$ 2,397	\$ 275,565
Accrued expenses and other current liabilities	\$ 165,864	\$ 2,397	\$ 168,261

(in thousands)	Before Reclassification Three Months Ended August 31, 2017	Reclassification	After Reclassification Three Months Ended August 31, 2017
Statement of Income			
Sales revenue, net	\$ 347,205	\$ (2,256 )	\$ 344,949
SG&A	\$ 106,026	\$ (2,256 )	\$ 103,770

(in thousands)	Before Reclassification Six Months Ended August 31, 2017	Reclassification	After Reclassification Six Months Ended August 31, 2017
Statement of Income			
Sales revenue, net	\$ 675,191	\$ (4,751 )	\$ 670,440
SG&A	\$ 205,508	\$ (4,751 )	\$ 200,757

## Note 4 – Discontinued Operations

On December 20, 2017, we completed the divestiture of the Nutritional Supplements segment through the sale of Healthy Directions LLC and its subsidiaries to Direct Digital, LLC. The purchase price from the sale is comprised of \$46.0 million in cash, which was paid at closing, and a supplemental payment with a target value of \$25.0 million, payable on or before August 1, 2019. The final amount of the supplemental payment may be adjusted up or down based on the performance of Healthy Directions through February 28, 2018. In conjunction with the sale of the business, we have agreed to provide certain transition services for up to an eighteen-month period following the closing of the transaction.

There were no balance sheet amounts related to discontinued operations for either period presented. The results of operations associated with discontinued operations are presented in the following tables:

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(in thousands)	Three	Six Months Ended	
	Months Ended August 31, 2017	August 31, 2018 2017	
Sales revenue, net	\$31,257	\$—	\$62,876
Cost of goods sold	—9,056	—	18,292
Gross profit	—22,201	—	44,584
Selling, general and administrative expense ("SG&A")	—23,730	—	47,930
Asset impairment charges (1)	—18,070	—	50,070
Operating loss	—(19,599 )	—	(53,416 )
Gain (loss) on sale before income tax (2)	—	(484 )	—
Interest expense	—(115 )	—	(229 )
Loss before income tax	—(19,714 )	(484 )	(53,645 )
Income tax benefit (expense)	—(5,925 )	103	6,566
Loss from discontinued operations	\$—(25,639)	\$(381)	\$(47,079)

(1) Includes pre-tax non-cash asset impairment charges consisting of \$26.0 million to goodwill and \$6.0 million to indefinite-lived brand assets.

(2) Includes adjustments recorded in the first quarter of fiscal 2019 to the initial estimated gain on sale before income tax recorded in the fourth quarter of fiscal 2018.

## Note 5 – Supplemental Balance Sheet Information

## PROPERTY AND EQUIPMENT

(in thousands)	Estimated Useful Lives (Years)	August 31, 2018	February 28, 2018
Land	-	\$12,800	\$12,800
Building and improvements	3 - 40	106,983	106,870
Computer, software, furniture and other equipment	3 - 15	81,267	79,657
Tools, molds and other production equipment	1 - 10	35,555	33,466
Construction in progress	-	13,900	5,912
Property and equipment, gross		250,505	238,705
Less accumulated depreciation		(122,234 )	(115,202 )
Property and equipment, net		\$128,271	\$123,503

## ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)	August 31, 2018	February 28, 2018
Accrued compensation, benefits and payroll taxes	\$25,456	\$37,666
Accrued sales discounts and allowances	30,306	28,311
Accrued sales returns	25,025	24,842

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Accrued advertising	26,380	25,324
Accrued legal fees and settlements	1,552	17,243
Other	36,196	34,875
Total accrued expenses and other current liabilities	\$ 144,915	\$ 168,261

Note 6 – Goodwill and Intangible Assets

We perform annual impairment tests each fiscal year during the fourth quarter and interim impairment tests, if and when necessary.

During the first quarter of fiscal 2018, we performed interim impairment testing for a certain brand in our Beauty segment due to a revised financial projection. As a result of our testing, we recorded a pre-tax non-cash asset impairment charge of \$4.0 million (\$3.6 million after tax). The following table summarizes

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the carrying amounts and accumulated amortization for all intangible assets by segment as of the end of the periods presented:

(in thousands)	August 31, 2018			February 28, 2018				
	Gross Carrying Amount	Cumulative Goodwill Impairments	Accumulated Net Book Amortization Value	Gross Carrying Amount	Cumulative Goodwill Impairments	Accumulated Net Book Amortization Value		
<b>Housewares:</b>								
Goodwill	\$282,056	\$—	\$—	\$282,056	\$282,056	\$—	\$—	\$282,056
Trademarks - indefinite	134,200	—	—	134,200	134,200	—	—	134,200
Other intangibles - finite	41,205	—	(18,476 )	22,729	40,828	—	(17,530 )	23,298
Subtotal	457,461	—	(18,476 )	438,985	457,084	—	(17,530 )	439,554
<b>Health &amp; Home:</b>								
Goodwill	284,913	—	—	284,913	284,913	—	—	284,913
Trademarks - indefinite	54,000	—	—	54,000	54,000	—	—	54,000
Licenses - finite	15,300	—	(15,300 )	—	15,300	—	(15,300 )	—
Licenses - indefinite	7,400	—	—	7,400	7,400	—	—	7,400
Other intangibles - finite	117,636	—	(82,536 )	35,100	117,586	—	(77,128 )	40,458
Subtotal	479,249	—	(97,836 )	381,413	479,199	—	(92,428 )	386,771
<b>Beauty:</b>								
Goodwill	81,841	(46,490 )	—	35,351	81,841	(46,490 )	—	35,351
Trademarks - indefinite	30,407	—	—	30,407	30,407	—	—	30,407
Trademarks - finite	150	—	(100 )	50	150	—	(97 )	53
Licenses - indefinite	10,300	—	—	10,300	10,300	—	—	10,300
Licenses - finite	13,696	—	(12,324 )	1,372	13,696	—	(12,166 )	1,530
Other intangibles - finite	46,402	—	(46,095 )	307	46,402	—	(45,133 )	1,269
Subtotal	182,796	(46,490 )	(58,519 )	77,787	182,796	(46,490 )	(57,396 )	78,910
Total	\$1,119,506	\$(46,490 )	\$(174,831 )	\$898,185	\$1,119,079	\$(46,490 )	\$(167,354 )	\$905,235

The following table summarizes the amortization expense attributable to intangible assets recorded in SG&A in the condensed consolidated statements of income for the periods shown below, as well as our estimated amortization expense for fiscal 2019 through 2024:

Aggregate Amortization Expense	
For the three months ended (in thousands)	
August 31, 2018	\$3,402
August 31, 2017	4,690

Aggregate Amortization Expense	
For the six months ended (in thousands)	
August 31, 2018	\$7,522
August 31, 2017	9,538

Estimated Amortization Expense (in thousands)

Fiscal 2019	\$ 14,050
Fiscal 2020	13,121
Fiscal 2021	10,461
Fiscal 2022	4,049
Fiscal 2023	3,974
Fiscal 2024	3,665

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Note 7 – Share-Based Compensation Plans

We have equity awards outstanding under several share-based compensation plans. During the three- and six-months ended August 31, 2018, we had the following share-based compensation activity:

We issued 1,358 and 2,737 shares to non-employee Board members with a total grant date fair value of \$0.1 and \$0.2 million, respectively, and average share prices of \$90.45 and \$89.78, respectively.

We granted time-vested restricted stock units ("RSUs") that may be settled for 1,657 and 71,798 shares respectively, of common stock with average fair values at the grant dates of \$84.33 and \$86.19, respectively.

We granted performance-based restricted stock units ("PSUs") that may be settled for 76,064 of common stock with average fair value at the grant date of \$86.24 during the first quarter of fiscal 2019. No PSUs were granted during the second quarter of fiscal 2019.

RSUs for 656 and 37,067 shares vested and settled, respectively, with a total fair value at settlement of \$0.1 and \$3.3 million and an average share price of \$90.45 and \$89.11, respectively.

PSUs for 1,366 and 100,404 shares vested and settled, respectively, with a total grant date fair value of \$0.2 and \$9.2 million, and an average share price of \$115.80 and \$91.14, respectively.

Employees exercised stock options to purchase 67,417 and 111,184 shares of common stock, respectively.

The Helen of Troy Limited 2008 Employee Stock Purchase Plan ("2008 ESPP") became effective on September 1, 2008, and expired by its terms on September 1, 2018.

On August 22, 2018, our shareholders approved the 2018 Employee Stock Purchase Plan (the "2018 ESPP"). The aggregate number of shares of common stock that may be purchased under the 2018 ESPP will not exceed 750,000 shares. Under the terms of the plan, employees may authorize the withholding of up to 15% of their wages or salaries to purchase our shares of common stock, not to exceed \$25,000 of the fair market value of such shares for any calendar year. The purchase price for shares acquired under the 2018 ESPP is equal to the lower of 85% of the share's fair market value on either the first day of each option period or the last day of each period. The plan will expire by its terms on September 1, 2028. Shares of common stock purchased under the 2018 ESPP vest immediately at the time of purchase. Accordingly, the fair value award associated with their discounted purchase price is expensed at the time of purchase. We did not repurchase any common shares during the second quarter of fiscal 2019 under the 2018 ESPP.

The Helen of Troy Limited 2008 Stock Incentive Plan ("2008 Stock Incentive Plan") became effective on August 19, 2008, and expired by its terms on August 19, 2018.

On August 22, 2018, our shareholders approved the 2018 Stock Incentive Plan (the "2018 Plan"). The Helen of Troy Limited 2008 Non-Employee Directors Stock Incentive Plan ("2008 Directors' Plan") became effective on August 19, 2008, and expired by its terms on August 19, 2018. The 2018 Plan permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The 2018 Plan has 2,000,000 shares reserved for future issuance. There were no grants or issuances from the 2018 Plan during the second quarter of fiscal 2019.





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On September 18, 2018, we made a one-time grant of time-vested RSUs that may be settled for 74,100 shares of common stock with a fair value at grant date of \$125.55 per share.

We recorded the following share-based compensation expense in SG&A for the periods shown below:

	Three Months Ended August 31,	
(in thousands, except per share data)	2018	2017
Stock options	\$219	\$423
Directors stock compensation	175	200
Performance based and other stock awards	4,347	2,266
Employee stock purchase plan	—	263
Share-based compensation expense	4,741	3,152
Less income tax benefits	(341 )	(591 )
Share-based compensation expense, net of income tax benefits	\$4,400	\$2,561

Impact of share-based compensation on earnings per share from continuing operations:

	Six Months Ended August 31,	
(in thousands, except per share data)	2018	2017
Basic	\$0.17	\$0.09
Diluted	\$0.17	\$0.09
Stock options	\$527	\$962
Directors stock compensation	350	400
Performance based and other stock awards	9,918	4,725
Employee stock purchase plan	322	263
Share-based compensation expense	11,117	6,350
Less income tax benefits	(611 )	(1,081 )
Share-based compensation expense, net of income tax benefits	\$10,506	\$5,269

Impact of share-based compensation on earnings per share from continuing operations:

Basic	\$0.40	\$0.19
Diluted	\$0.39	\$0.19

#### Note 8 – Repurchase of Helen of Troy Common Stock

On May 10, 2017, our Board of Directors authorized the repurchase of up to \$400 million of our outstanding common stock. The authorization is effective for a period of three years and replaced our existing repurchase authorization, of which approximately \$82 million remained. These repurchases may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The number of shares purchased and the timing of the purchases will depend on a number of factors, including share price, trading volume and general market conditions, working capital requirements, general business conditions, financial conditions, any applicable contractual limitations, and other factors, including alternative investment opportunities. As of August 31, 2018, our repurchase authorization allowed for the purchase of \$285.8 million of common stock.

Our current equity-based compensation plans include provisions that allow for the “net exercise” of share-settled awards by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the equity holder can be paid for by having the equity holder tender back to the Company a number of shares at fair value equal to the amounts due. Net exercises are treated as purchases and retirements of shares.

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The following table summarizes our share repurchase activity for the periods shown:

	Three Months		Six Months	
	Ended August		Ended August	
(in thousands, except per share data)	31,	31,	31,	31,
	2018	2017	2018	2017
Common stock repurchased on the open market:				
Number of shares	—	—	407,025	—
Aggregate value of shares	\$—	\$—	\$37,067	\$—
Average price per share	\$—	\$—	\$91.07	\$—
Common stock received in connection with share-based compensation:				
Number of shares	7,477	1,858	57,072	72,565
Aggregate value of shares	\$692	\$185	\$5,173	\$6,973
Average price per share	\$92.55	\$99.59	\$90.65	\$96.09

## Note 9 – Restructuring Plan

In October 2017, we announced that we had approved a restructuring plan (referred to as “Project Refuel”) intended to enhance the performance of primarily the Beauty and former Nutritional Supplements segments. Project Refuel includes a reduction-in-force and the elimination of certain contracts and operating expenses. During the first quarter of fiscal 2019, we expanded Project Refuel to include the realignment and streamlining of our supply chain structure. We are targeting total annualized profit improvements of approximately \$8.0 to \$10.0 million over the duration of the plan. We estimate the plan will be completed by the first quarter of fiscal 2020, and expect to incur total restructuring charges in the range of approximately \$4.4 to \$5.5 million during the period of the plan. Restructuring provisions are determined based on estimates prepared at the time the restructuring actions are approved by management and are revised periodically.

During the three and six months ended August 31, 2018, we made cash restructuring payments of \$0.5 and \$1.6 million, respectively. We had a remaining liability of \$1.6 million as of August 31, 2018.

We incurred \$0.9 million and \$2.6 million of pre-tax restructuring charges during the three and six months ended August 31, 2018, respectively, related primarily to employee severance and termination benefits. The charges for the three months ended August 31, 2018 were primarily related to our Beauty segment. The charges for the six months ended August 31, 2018 were primarily related to our Beauty segment and for shared service supply chain initiatives. Our program to date has incurred \$4.4 million of pre-tax restructuring costs related to employee severance and termination benefits and contract termination costs.

## Note 10 – Commitments and Contingencies

Thermometer Patent Litigation – In January 2016, a jury ruled against us in a case that involved claims by Exergen Corporation. The case involved the alleged patent infringement related to two forehead thermometer models sold by our subsidiary, Kaz USA, Inc., in the United States. As a result of the jury verdict, we recorded a charge in fiscal 2016 including legal fees and other related expenses, of \$17.8 million (before and after tax). In June 2016, certain post-trial motions were concluded with Exergen Corporation being awarded an additional \$1.5 million of pre-judgment compensation. We accrued this additional amount in May 2016. In July 2016, we appealed the judgment to the United States Court of Appeals for the Federal Circuit. In March 2018, the Federal Circuit issued a decision, which reversed the district court’s verdict of infringement of one of the two patents at issue and remanded the damage award for a determination by the district court of the impact the reversal of infringement has on the damage

award. Following the remand, we entered into a settlement agreement, filed a Stipulation of Dismissal with Prejudice and made a settlement payment of \$15.0 million on May 31, 2018.

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Other Matters – We are involved in various other legal claims and proceedings in the normal course of operations. We believe the outcome of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. Notes 5, 11, 12 and 13 to these condensed consolidated financial statements provide additional information regarding certain of our significant commitments and contingencies.

## Note 11 – Long-Term Debt

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provided for an unsecured total revolving commitment of \$1.0 billion as of August 31, 2018. The commitment under the Credit Agreement terminates on December 7, 2021. Borrowings accrue interest under one of two alternative methods as described in the Credit Agreement. With each borrowing against our credit line, we can elect the interest rate method based on our funding needs at the time. We also incur loan commitment fees and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of August 31, 2018, the outstanding revolving loan principal balance was \$282.0 million (excluding prepaid financing fees) and the face amount of outstanding letters of credit was \$9.0 million. For the three- and six-months ended August 31, 2018, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.9% to 5.0% and 2.8% to 5.0%, respectively. For the three- and six-months ended August 31, 2017, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.5% to 4.8% and 2.3% to 4.8%, respectively. As of August 31, 2018, the amount available for borrowings under the Credit Agreement was \$709.0 million. Covenants in our debt agreements limit the amount of total indebtedness we can incur. As of August 31, 2018, these covenants effectively limited our ability to incur more than \$584.5 million of additional debt from all sources, including our Credit Agreement, or \$709.0 million in the event a qualified acquisition is consummated. The following table summarizes our long-term debt as of the end of the periods shown:

## LONG-TERM DEBT

(in thousands)	Original Date Borrowed	Interest Rates	Matures	August 31, 2018	February 28, 2018
Mississippi Business Finance Corporation Loan (the "MBFC Loan") (1)	03/13	Floating	03/23	\$22,327	\$24,219
Credit Agreement (2)	01/15	Floating	12/21	278,749	265,650
Total long-term debt				301,076	289,869
Less current maturities of long-term debt				(1,884 )	(1,884 )
Long-term debt, excluding current maturities				\$299,192	\$287,985

(1) The MBFC Loan is unsecured with an original balance of \$37.6 million and interest set and payable quarterly at a Base Rate, plus a margin of up to 1.0%, or applicable LIBOR plus a margin of up to 2.0%, as determined by the interest rate elected and the Leverage Ratio. The loan is subject to holder’s call on or after March 1, 2018. The loan can be prepaid without penalty. The remaining principal balance is payable as follows: \$1.9 million annually on March 1, 2019 through 2022; and \$14.8 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023.

(2) Floating interest rates are hedged with an interest rate swap to effectively fix interest rates on \$100 million of the outstanding principal balance under the Credit Agreement. Notes 12 and 13 to these condensed consolidated financial statements provide additional information regarding the interest rate swap.

At August 31, 2018 and February 28, 2018, our long-term debt has floating interest rates, and its book value approximates its fair value.

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All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. Our debt agreements require the maintenance of certain financial covenants, including maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms is defined in the various agreements). Our debt agreements also contain other customary covenants. We were in compliance with the terms of these agreements as of August 31, 2018.

## Note 12 – Fair Value

We classify our various assets and liabilities recorded or reported at fair value under a hierarchy prescribed by GAAP that prioritizes inputs to fair value measurement techniques into three broad levels:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;

Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

Assets and liabilities subject to classification are classified upon acquisition. When circumstances dictate the transfer of an asset or liability to a different level, our policy is to recognize the transfer at the beginning of the reporting period in which the event resulting in the transfer occurred.

The following tables present the fair value of our financial assets and liabilities measured on a recurring basis as of the end of the periods shown:

	Fair Values at August 31, 2018 (Level 2) (1)
(in thousands)	
Assets:	
Money market accounts	\$ 2,578
Interest rate swap	2,557
Foreign currency contracts	3,376
Total assets	\$ 8,511

	Fair Values at February 28, 2018 (Level 2) (1)
(in thousands)	
Assets:	
Money market accounts	\$ 1,107
Interest rate swap	2,481
Foreign currency contracts	642

Total assets \$ 4,230

Liabilities:

Floating rate debt \$ 289,869

Foreign currency contracts 2,606

Total liabilities \$ 292,475

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Our financial assets and liabilities are classified as Level 2 because their valuation is dependent on observable (1) inputs and other quoted prices for similar assets or liabilities, or model-derived valuations whose significant value drivers are observable.

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of the short maturity of these items.

We use derivatives for hedging purposes and our derivatives are primarily interest rate swaps, foreign currency contracts and cross-currency debt swaps. See Notes 11 and 13 to these condensed consolidated financial statements for more information on our hedging activities.

We classify our floating rate debt as a Level 2 item because the estimation of the fair market value requires the use of a discount rate based upon current market rates of interest for obligations with comparable remaining terms. Such comparable rates are considered significant other observable market inputs. The book value of the floating rate debt approximates its fair value as of the reporting date.

Our other non-financial assets include goodwill and other intangible assets, which we classify as Level 3 items. These assets are measured at fair value on a non-recurring basis as part of our impairment testing. Note 6 to these condensed consolidated financial statements contains additional information related to intangible asset impairments.

### Note 13 – Financial Instruments and Risk Management

**Foreign Currency Risk** - Our functional currency is the U.S. Dollar. By operating internationally, we are subject to foreign currency risk from transactions denominated in currencies other than the U.S. Dollar (“foreign currencies”). Such transactions include sales, certain inventory purchases and operating expenses. As a result of such transactions, portions of our cash, trade accounts receivable and trade accounts payable are denominated in foreign currencies. During the three and six months ended August 31, 2018, approximately 11% and 13% of our net sales revenue was in foreign currencies, respectively. During the three and six months ended August 31, 2017, approximately 13% of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos and Canadian Dollars.

In our condensed consolidated statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets, and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses are recognized in SG&A. During the three and six months ended August 31, 2018, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps of \$0.5 million and \$(1.2) million, respectively, in SG&A, and \$0.2 million and \$0.5 million, respectively, of income tax benefits in income tax expense. For the three and six months ended August 31, 2017, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of \$0.1 million and \$0.7 million, respectively, in SG&A, and \$(0.5) million and \$(0.6) million, respectively, in income tax expense.

We hedge against certain foreign currency exchange rate risk by using a series of forward contracts designated as cash flow hedges and mark-to-market derivatives to manage the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes.

Interest Rate Risk - Interest on our outstanding debt as of August 31, 2018 is based on floating interest rates. If short-term interest rates increase, we will incur higher interest expense on any future

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outstanding balances of floating rate debt. Floating interest rates are hedged with an interest rate swap to effectively fix interest rates on \$100.0 million of the outstanding principal balance under the Credit Agreement, which totaled \$282.0 million (excluding prepaid finance fees) as of August 31, 2018.

The following table summarizes the fair values of our derivative instruments as of the end of the periods shown:  
(in thousands) August 31, 2018

Derivatives designated as hedging instruments	Hedge Type	Final Settlement Date	Notional Amount	Prepaid Expenses and Other Current Assets	Other Assets	Accrued Expenses and Other Current Liabilities	Other Liabilities, Non-current
Foreign currency contracts - sell Euro	Cash flow	11/2019	€28,250	\$ 1,447	\$ —	—	\$ 20
Foreign currency contracts - sell Canadian Dollars	Cash flow	01/2020	\$21,000	580	—	—	19
Foreign currency contracts - sell Pounds	Cash flow	02/2020	£19,750	1,275	11	—	—
Foreign currency contracts - sell Mexican Pesos	Cash flow	09/2019	\$60,000	—	—	16	1
Interest rate swap	Cash flow	12/2021	\$100,000	791	1,766	—	—
Subtotal				4,093	1,777	16	40
Derivatives not designated under hedge accounting							
Foreign currency contracts - cross-currency debt swap - Euro	(1)	04/2020	\$5,280	—	63	—	—
Foreign currency contracts - cross-currency debt swaps - Pound	(1)	04/2020	\$6,395	—	—	—	171
Subtotal				—	63	—	171
Total fair value				4,093	1,840	16	211

(in thousands) February 28, 2018

Derivatives designated as hedging instruments	Hedge Type	Final Settlement Date	Notional Amount	Prepaid Expenses and Other Current Assets	Other Assets	Accrued Expenses and Other Current Liabilities	Other Liabilities, Non-current
Foreign currency contracts - sell Euro	Cash flow	07/2019	€38,000	\$ —	\$102	\$ 1,320	\$ —
Foreign currency contracts - sell Canadian Dollars	Cash flow	06/2019	\$27,750	378	101	—	—
Foreign currency contracts - sell Pounds	Cash flow	04/2019	£19,500	—	56	513	—
Foreign currency contracts - sell Mexican Pesos	Cash flow	05/2018	\$20,000	5	—	—	—
Interest rate swap	Cash flow	12/2021	\$100,000	539	1,942	—	—
Subtotal				922	2,201	1,833	—

## Derivatives not designated under hedge accounting

Foreign currency contracts - cross-currency debt swap - Euro	(1)	04/2020	\$5,280	—	—	—	208
Foreign currency contracts - cross-currency debt swaps - Pound	(1)	04/2020	\$6,395	—	—	—	565
Subtotal				—	—	—	773
Total fair value				\$ 922	\$2,201	\$ 1,833	\$ 773

(1) These are foreign currency contracts for which we have not elected hedge accounting. We refer to them as “cross-currency debt swaps”. They, in effect, adjust the currency denomination of a portion of our outstanding debt to the Euro and British Pound, as applicable, for the notional amounts reported, creating an economic hedge against currency movements.

The following table summarizes the pre-tax effect of derivative instruments for the periods shown:

(in thousands)	Three Months Ended August 31,							
	Gain (Loss) Recognized in OCI (effective portion)		Gain (Loss) Accumulated Other Comprehensive Income (Loss) into Income		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income		Gain (Loss) Recognized As Income	
	2018	2017	Location	2018	2017	Location	2018	2017
Currency contracts - cash flow hedges	\$ (51)	\$ (1,958)	SG&A	\$ (610)	\$ 578		\$ —	\$ —
Interest rate swaps - cash flow hedges	137	—	Interest expense	—	—	Interest expense	136	—
Cross-currency debt swaps - principal	—	—		—	—	SG&A	243	(215 )
Cross-currency debt swaps - interest	—	—		—	—	Interest Expense	—	—
Total	\$ 86	\$ (1,958)		\$ (610)	\$ 578		\$ 379	\$ (215)

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(in thousands)	Six Months Ended August 31,		Gain (Loss) Reclassified		Gain (Loss) Recognized			
	Gain (Loss) Recognized in OCI (effective portion)	Gain (Loss) Recognized in OCI (effective portion)	from Accumulated Other Comprehensive Income (Loss) into Income	from Accumulated Other Comprehensive Income (Loss) into Income	As Income	As Income		
	2018	2017	Location	2018	2017	Location	2018	2017
Currency contracts - cash flow hedges	\$4,525	\$(4,203)	SG&A	\$ 77	\$880	Interest expense	\$—	\$—
Interest rate swaps - cash flow hedges	76	—	Interest expense	—	—	Interest expense	211	—
Cross-currency debt swaps - principal	—	—		—	—	SG&A	666	(764 )
Cross-currency debt swaps - interest	—	—		—	—	Interest Expense	74	—
Total	\$4,601	\$(4,203)		\$ 77	\$880		\$951	\$(764)

We expect pre-tax net gains of \$4.1 million associated with foreign currency contracts and interest rate swaps currently reported in accumulated other comprehensive income, to be reclassified into income over the next twelve months. The amount ultimately realized, however, will differ as exchange rates vary and the underlying contracts settle.

Counterparty Credit Risk - Financial instruments, including foreign currency contracts and cross currency debt swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk by only dealing with counterparties who are substantial international financial institutions with significant experience using such derivative instruments. Although our theoretical credit risk is the replacement cost at the then-estimated fair value of these instruments, we believe that the risk of incurring credit losses is remote.

## Note 14 – Segment Information

The following tables present segment information included in continuing operations for the periods shown:

(in thousands)	Three Months Ended August 31, 2018			
	Housewares	Health & Home	Beauty	Total
Sales revenue, net	\$137,498	\$175,783	\$80,267	\$393,548
Restructuring charges	—	—	859	859
Operating income	28,329	13,631	8,700	50,660
Capital and intangible asset expenditures	5,642	2,466	771	8,879
Depreciation and amortization	1,522	4,229	1,562	7,313
(in thousands)	Three Months Ended August 31, 2017			
	Housewares	Health & Home	Beauty	Total
Sales revenue, net	\$115,124	\$146,063	\$83,762	\$344,949
Asset impairment charges	—	—	—	—
Operating income	23,340	7,415	8,952	39,707
Capital and intangible asset expenditures	2,267	1,133	123	3,523
Depreciation and amortization	1,419	4,183	2,813	8,415

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	Six Months Ended August 31, 2018			
(in thousands)	Housewares	Health & Home	Beauty	Total
Sales revenue, net	\$254,801	\$339,214	\$154,212	\$748,227
Restructuring charges	760	358	1,466	2,584
Operating income	50,512	33,288	10,187	93,987
Capital and intangible asset expenditures	7,296	4,655	1,110	13,061
Depreciation and amortization	3,006	8,377	3,912	15,295
	Six Months Ended August 31, 2017			
(in thousands)	Housewares	Health & Home	Beauty	Total
Sales revenue, net	\$213,789	\$294,352	\$162,299	\$670,440
Asset impairment charges	—	—	4,000	4,000
Operating income	41,276	21,659	7,355	70,290
Capital and intangible asset expenditures	4,758	2,246	601	7,605
Depreciation and amortization	2,846	8,321	5,589	16,756

We compute segment operating income based on net sales revenue, less cost of goods sold, SG&A, restructuring charges, and any asset impairment charges associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment, plus shared service and corporate overhead expenses that are allocable to the segment. We have reallocated corporate overhead that was previously allocated to our former Nutritional Supplements segment. We do not allocate nonoperating income and expense, including interest or income taxes, to operating segments.

## Note 15 – Income Taxes

Due to our organization in Bermuda and the ownership structure of our foreign subsidiaries, many of which are not owned directly or indirectly by a U.S. parent company, an immaterial amount of our foreign income is subject to U.S. taxation on a permanent basis under current law. Additionally, our intellectual property is largely owned by our foreign subsidiaries, resulting in proportionally higher earnings in jurisdictions with lower statutory tax rates, which decreases our overall effective tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. Among other changes, the Tax Act lowered the U.S. corporate income tax rate from 35% to 21% and established a modified territorial system requiring mandatory deemed repatriation tax on undistributed earnings of certain foreign subsidiaries. The Tax Act also has an impact on certain executive compensation that is no longer deductible.

For interim periods, our income tax expense and resulting effective tax rate are based upon an estimated annual effective tax rate adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. We considered the provisions of the Tax Act in calculating the estimated annual effective tax rate.

We continue to apply the guidance in Staff Accounting Bulletin No. 118 ("SAB 118") and as of August 31, 2018, we have not completed the accounting for all the tax effects enacted under Tax Act. We made reasonable estimates of those effects during fiscal 2018 and in the first and second quarters of fiscal 2019. We will continue to refine our estimates as additional guidance and information becomes available.



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For the three months ended August 31, 2018, income tax expense as a percentage of income before income tax was 8.3%. Income tax expense as a percentage of income before income tax was 4.1% for the same period last year. Income taxes for the three months ended August 31, 2018 included a \$0.2 million benefit from share-based compensation settlements. Income taxes for the three months ended August 31, 2017 included a tax benefit of \$2.2 million related to the favorable resolution of an uncertain tax position.

For the six months ended August 31, 2018, income tax expense as a percentage of income before income tax was 7.3%. Income tax expense as a percentage of income before income tax was 1.9% for the same period last year. Income taxes for the six months ended August 31, 2018 included a \$0.5 million benefit from share-based compensation settlements and a \$0.8 million benefit from the lapse of the statute of limitations related to an uncertain tax position. Income taxes for the six months ended August 31, 2017 included a \$2.6 million benefit from share-based compensation settlements and a \$2.8 million benefit related to the resolution of uncertain tax positions.

During fiscal 2017, we received an assessment from a state tax authority which adjusted taxable income applicable to the particular state resulting from interpretations of certain state income tax provisions applicable to our legal structure. We believe we have accurately reported our taxable income and are vigorously protesting the assessment through administrative processes with the state. We believe it is unlikely that the outcome of these matters will have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

## Note 16 – Earnings per Share

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during the period. We compute diluted earnings per share using the weighted average number of shares of common stock outstanding plus the effect of dilutive securities. Dilutive securities at any given point in time may consist of outstanding options to purchase common stock and issued and contingently issuable unvested RSUs and PSUs. See Note 7 to these condensed consolidated financial statements for more information regarding RSUs, PSUs and other performance based stock awards. Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive.

The following table presents our weighted average basic and diluted shares for the periods shown:

	Three Months Ended August 31,		Six Months Ended August 31,	
(in thousands)	2018	2017	2018	2017
Weighted average shares outstanding, basic	26,359	27,232	26,467	27,154
Incremental shares from share-based compensation arrangements	198	169	145	169
Weighted average shares outstanding, diluted	26,557	27,401	26,612	27,323
Dilutive securities, stock options	164	233	151	243
Dilutive securities, unvested or unsettled stock awards	228	141	114	110
Antidilutive securities	194	300	352	339



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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management’s discussion and analysis (“MD&A”) contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially due to a number of factors, including those discussed in Part I, Item 3. “Quantitative and Qualitative Disclosures about Market Risk” and “Information Regarding Forward-Looking Statements” in this report and “Risk Factors” in the Company’s most recent annual report on Form 10-K for the fiscal year ended February 28, 2018 (“Form 10-K”) and its other filings with the Securities and Exchange Commission (the “SEC”). This discussion should be read in conjunction with our condensed consolidated financial statements included under Part I, Item 1. of this report. When used in the MD&A, unless otherwise indicated or the context suggests otherwise, references to “the Company”, “our Company”, “Helen of Troy”, “we”, “us”, or “our” refer to Helen of Troy Limited and its subsidiaries. Throughout MD&A, we refer to our Leadership Brands, which are brands that have number-one and number-two positions in their respective categories and consist of the OXO, Honeywell, Braun, PUR, Hydro Flask, Vicks, and Hot Tools brands.

Throughout MD&A, we refer to certain measures used by management to evaluate financial performance. We also may refer to a number of financial measures that are not defined under GAAP, but have corresponding GAAP-based measures. Where non-GAAP measures appear, we provide tables reconciling these to their corresponding GAAP-based measures and refer to a discussion of their use. We believe these measures provide investors with important information that is useful in understanding our business results and trends.

OVERVIEW

We incorporated as Helen of Troy Corporation in Texas in 1968 and were reorganized as Helen of Troy Limited in Bermuda in 1994. We are a leading global consumer products company offering creative products and solutions for our customers through a diversified portfolio of well-recognized and widely-trusted brands. We have built leading market positions through new product innovation, product quality and competitive pricing. We currently operate in three segments consisting of Housewares, Health & Home, and Beauty. In fiscal 2015, we launched a transformational strategy to improve the performance of our business segments and strengthen our shared service capabilities. We believe we continue to make progress on achieving our strategic objectives.

In October 2017, we announced that we had approved a restructuring plan (referred to as “Project Refuel”) intended to enhance the performance of primarily the Beauty and former Nutritional Supplements segments. Project Refuel includes a reduction-in-force and the elimination of certain contracts and operating expenses. During the first quarter of fiscal 2019, we expanded Project Refuel to include the realignment and streamlining of our supply chain structure. For additional information regarding Project Refuel, see Note 9 to the accompanying condensed consolidated financial statements.

On December 20, 2017, we completed the divestiture of the Nutritional Supplements segment through the sale of Healthy Directions LLC and its subsidiaries to Direct Digital, LLC. The purchase price from the sale is comprised of \$46.0 million in cash, which was paid at closing, and a supplemental payment with a target value of \$25.0 million, payable on or before August 1, 2019. The final amount of the supplemental payment may be adjusted up or down based on the performance of Healthy Directions through February 28, 2018. We are currently in discussions regarding the final amount of the supplemental payment. At this stage, we are not yet able to predict the outcome of these discussions or the amount of the final settlement of the supplemental payment. Any resolution of this matter may require us to make an adjustment to the supplemental payment value in discontinued operations, which could be material. Following the sale, we no longer consolidate our former Nutritional Supplements segment’s operating results. Unless otherwise indicated, all results presented are from continuing operations.



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### Significant Trends Impacting the Business

#### Potential Impact of Tariffs

We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States. This concentration exposes us to risks associated with doing business globally, including changes in tariffs. The Office of the United States Trade Representative identified certain Chinese imported goods for additional tariffs to address China's trade policies and practices. The tariffs, could have a material adverse effect on our business and results of operations. This potential impact could be mitigated by a variety of factors. The USTR may also reduce the list of impacted tariff lines before the tariffs are implemented and later may grant specific product exclusions. It is too early to give any assurance as to the scope, duration, or impact of the tariffs, how successful our mitigation efforts will be, or the extent to which mitigation will be necessary.

#### Foreign Currency Exchange Rate Fluctuations

Due to the nature of our operations, we have exposure to the impact of fluctuations in exchange rates from transactions that are denominated in a currency other than our reporting currency (the U.S. Dollar). The most significant currencies affecting our operating results are the British Pound, Euro, Canadian Dollar, and Mexican Peso. For the three months ended August 31, 2018, changes in foreign currency exchange rates had an unfavorable impact on consolidated U.S. Dollar reported net sales revenue of approximately \$0.3 million, or 0.1%. For the six months ended August 31, 2018, net foreign currency exchange rate fluctuations favorably impacted our consolidated U.S. dollar reported net sales revenue by approximately \$3.2 million, or 0.5%.

#### Consumer Spending and Changes in Shopping Preferences

Our business depends upon discretionary consumer demand for most of our products and primarily operates within mature and highly developed consumer markets. The principal driver of our operating performance is the strength of the U.S. retail economy. Approximately 79% of our net sales were from U.S. shipments for the three months ended August 31, 2018, compared to 78% for the same period last year. For the six months ended August 31, 2018, U.S. shipments were approximately 77% of our net sales compared to 78% for the same period last year.

Additionally, the shift in consumer shopping preferences to online or multichannel shopping experiences has changed the concentration of our sales. For the three and six months ended August 31, 2018, our net sales to retail customers fulfilling end-consumer online orders and online sales directly to consumers comprised approximately 15% and 16%, respectively, of our total consolidated net sales revenue, and grew approximately 16% and 24%, respectively, over the same periods last year.

For the three and six months ended August 31, 2017, our net sales to retail customers fulfilling end-consumer online orders and online sales directly to consumers comprised approximately 15% and 14%, respectively, of our total consolidated net sales revenue, and grew approximately 18% and 23%, respectively, over the same periods last year.

With the continued growth in online sales across the retail landscape, many brick and mortar retailers are aggressively looking for ways to improve their customer delivery capabilities to be able to meet customer expectations. As a result, it will become increasingly important for us to leverage our distribution capabilities in order to meet the changing demands of our customers, as well as to increase our online capabilities to support our direct-to-consumer sales channels and online channel sales by our retail customers.

#### Variability of the Cough/Cold/Flu Season

Sales in several of our Health & Home segment categories are highly correlated to the severity of winter weather and cough/cold/flu incidence. In the U.S., the cough/cold/flu season historically runs from



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November through March, with peak activity normally in January to March. For the 2017-2018 season, fall and winter weather was unseasonably cold and cough/cold/flu incidence was significantly higher than the 2016-2017 season, which was a below average season.

### Second Quarter Fiscal 2019 Financial Results

Consolidated net sales revenue increased 14.1%, or \$48.6 million, to \$393.5 million for the three months ended August 31, 2018, compared to \$344.9 million for the same period last year. Net sales from our Leadership Brands were \$319.0 million for the three months ended August 31, 2018, compared to \$264.9 million for the same period last year.

Consolidated operating income was \$50.7 million for the three months ended August 31, 2018, compared to \$39.7 million for the same period last year. Consolidated operating income for the three months ended August 31, 2018 included pre-tax restructuring charges of \$0.9 million. Consolidated operating income for the three months ended August 31, 2017 included a \$3.6 million charge related to the bankruptcy of Toys "R" Us ("TRU").

Consolidated adjusted operating income increased 16.7%, or \$8.5 million, to \$59.6 million for the three months ended August 31, 2018, compared to \$51.1 million for the same period last year. Consolidated adjusted operating margin increased 0.3 percentage points to 15.1% of consolidated net sales revenue for the three months ended August 31, 2018, compared to 14.8% for the same period last year.

Income from continuing operations was \$44.0 million for the three months ended August 31, 2018, compared to \$34.6 million for the same period last year. Diluted earnings per share ("EPS") from continuing operations was \$1.66 for the three months ended August 31, 2018, compared to \$1.26 for the same period last year.

Adjusted income from continuing operations increased 16.2% to \$52.5 million for the three months ended August 31, 2018, compared to \$45.2 million for the same period last year. Adjusted diluted EPS from continuing operations increased 20.0% to \$1.98 for the three months ended August 31, 2018, compared to \$1.65 for the same period last year.

There was no income or loss from discontinued operations for the three months ended August 31, 2018. Loss from discontinued operations was \$25.6 million, or \$0.94 per diluted share, for the three months ended August 31, 2017.

Net income was \$44.0 million for the three months ended August 31, 2018, compared to \$8.9 million for the same period last year. Diluted EPS was \$1.66 for the three months ended August 31, 2018 compared to \$0.33 for the same period last year.

### Year-To-Date Fiscal 2019 Financial Results

Consolidated net sales revenue increased 11.6%, or \$77.8 million, to \$748.2 million for the six months ended August 31, 2018, compared to \$670.4 million for the same period last year. Net sales from our Leadership Brands were \$599.8 million for the six months ended August 31, 2018, compared to \$509.7 million for the same period last year.

Consolidated operating income was \$94.0 million for the six months ended August 31, 2018, compared to \$70.3 million for the same period last year. Consolidated operating income for the six months ended August 31, 2018 included pre-tax restructuring charges of \$2.6 million. Consolidated operating income for the six months ended August 31, 2017 included pre-tax non-



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cash impairment charges of \$4.0 million, and a pre-tax charge of \$3.6 million related to the bankruptcy of TRU.

Consolidated adjusted operating income increased 22.9%, or \$21.4 million, to \$115.1 million for the six months ended August 31, 2018, compared to \$93.7 million for the same period last year. Consolidated adjusted operating margin increased 1.4 percentage points to 15.4% of consolidated net sales revenue for the six months ended August 31, 2018, compared to 14.0% for the same period last year.

Income from continuing operations was \$82.2 million for the six months ended August 31, 2018, compared to \$61.9 million for the same period last year. Diluted EPS from continuing operations was \$3.09 for the six months ended August 31, 2018, compared to \$2.26 for the same period last year.

Adjusted income from continuing operations increased 22.6% to \$102.3 million for the six months ended August 31, 2018, compared to \$83.5 million for the same period last year. Adjusted diluted EPS from continuing operations increased 25.8% to \$3.85 for the six months ended August 31, 2018, compared to \$3.06 for the same period last year.

Loss from discontinued operations, net of tax, was \$0.4 million for the six months ended August 31, 2018, compared to \$47.1 million for the same period last year. Diluted loss per share from discontinued operations was \$0.01 for the six months ended August 31, 2018 compared to \$1.72 for the same period last year.

Net income was \$81.8 million for the six months ended August 31, 2018 compared to \$14.8 million for the same period last year. Diluted EPS was \$3.07 for the six months ended August 31, 2018 compared to \$0.54 for the same period last year.

Adjusted operating income, adjusted operating margin, adjusted income from continuing operations, and adjusted diluted EPS from continuing operations, as discussed above and on the pages that follow, are non GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further and reconciled to their applicable GAAP based measures contained in this MD&A on pages 30, 33, 37, 40 and 41.

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## RESULTS OF OPERATIONS

The following tables provide selected operating data, in U.S. Dollars, as a percentage of net sales revenue, and as a year-over-year percentage change:

(in thousands)	Three Months Ended August 31,				% of Sales Revenue, net		
	2018	2017	\$ Change	% Change	2018	2017	
Sales revenue by segment, net							
Housewares	\$137,498	\$115,124	\$22,374	19.4 %	34.9 %	33.4 %	
Health & Home	175,783	146,063	29,720	20.3 %	44.7 %	42.3 %	
Beauty	80,267	83,762	(3,495 )	(4.2 )%	20.4 %	24.3 %	
Total sales revenue, net	393,548	344,949	48,599	14.1 %	100.0 %	100.0 %	
Cost of goods sold	238,375	201,472	36,903	18.3 %	60.6 %	58.4 %	
Gross profit	155,173	143,477	11,696	8.2 %	39.4 %	41.6 %	
Selling, general and administrative expense ("SGA")	103,654	103,770	(116 )	(0.1 )%	26.3 %	30.1 %	
Asset impairment charges	—	—	—	*	— %	— %	
Restructuring charges	859	—	859	*	0.2 %	— %	
Operating income	50,660	39,707	10,953	27.6 %	12.9 %	11.5 %	
Nonoperating income, net	85	81	4	4.9 %	— %	— %	
Interest expense	(2,755 )	(3,754 )	999	(26.6 )%	(0.7 )%	(1.1 )%	
Income before income tax	47,990	36,034	11,956	33.2 %	12.2 %	10.4 %	
Income tax expense	3,973	1,462	2,511	171.8 %	1.0 %	0.4 %	
Income from continuing operations	44,017	34,572	9,445	27.3 %	11.2 %	10.0 %	
Loss from discontinued operations (1)	—	(25,639 )	25,639	(100.0)%	— %	(7.4 )%	
Net income	\$44,017	\$8,933	\$35,084	392.7 %	11.2 %	2.6 %	