

MOVADO GROUP INC  
Form 10-Q  
May 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended April 30, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                    to

Commission File Number: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

New York  
(State or Other Jurisdiction

of Incorporation or Organization)

650 From Road, Ste. 375

Paramus, New Jersey  
(Address of Principal Executive Offices)

13-2595932  
(IRS Employer

Identification No.)

07652-3556  
(Zip Code)

(201) 267-8000

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for that past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

		Non-accelerated filer (Do not check if a smaller reporting company)
Large accelerated filer	Accelerated filer	
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of May 22, 2018 were 16,470,139 and 6,626,950, respectively.

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q

April 30, 2018

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	April 30, 2018	January 31, 2018	April 30, 2017
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 176,959	\$ 214,811	\$ 233,594
Trade receivables, net	79,965	83,098	66,457
Inventories	159,032	151,676	160,376
Other current assets	36,213	32,015	32,555
Total current assets	452,169	481,600	492,982
Property, plant and equipment, net	23,560	24,671	31,962
Deferred and non-current income taxes	8,157	6,443	24,864
Goodwill	58,484	60,269	—
Other intangibles, net	21,720	23,124	1,386
Other non-current assets	48,042	49,273	43,847
Total assets	\$ 612,132	\$ 645,380	\$ 595,041
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Loans payable to bank, current	\$ —	\$ 25,000	\$ 5,000
Accounts payable	29,333	24,364	22,981
Accrued liabilities	43,972	47,943	37,530
Income taxes payable	4,650	2,989	1,349
Total current liabilities	77,955	100,296	66,860
Loans payable to bank	—	—	25,000
Deferred and non-current income taxes payable	32,998	33,063	3,312
Other non-current liabilities	40,231	41,686	35,349
Total liabilities	151,184	175,045	130,521
Commitments and contingencies (Note 9)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares			
issued	—	—	—
Common Stock, \$0.01 par value, 100,000,000 shares authorized;	276	273	273

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27,579,421, 27,342,802 and 27,286,230 shares issued and outstanding,

respectively

Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;

6,626,950, 6,641,950 and 6,651,950 shares issued and outstanding,

respectively

Capital in excess of par value	66	66	67
Retained earnings	194,792	189,808	186,628
Accumulated other comprehensive income	391,526	388,739	408,778
Treasury Stock, 11,093,282, 11,046,671 and 10,943,527 shares, respectively, at cost	85,004	100,343	74,893
	(210,716)	(208,894)	(206,119)
Total Movado Group, Inc. shareholders' equity	460,948	470,335	464,520
Total liabilities and equity	\$612,132	\$645,380	\$595,041

See Notes to Consolidated Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30,	
	2018	2017
Net sales	\$127,149	\$99,265
Cost of sales	59,625	50,128
Gross profit	67,524	49,137
Selling, general, and administrative	59,385	52,785
Operating income / (loss)	8,139	(3,648 )
Interest expense	(222 )	(356 )
Interest income	57	122
Income / (loss) before income taxes	7,974	(3,882 )
(Benefit) / provision for income taxes (Note 10)	(141 )	277
Net income / (loss) attributed to Movado Group, Inc.	\$8,115	\$(4,159 )
Basic income per share:		
Weighted basic average shares outstanding	23,097	23,075
Net income / (loss) per share attributed to Movado Group, Inc.	\$0.35	\$(0.18 )
Diluted income per share:		
Weighted diluted average shares outstanding	23,448	23,075
Net income / (loss) per share attributed to Movado Group, Inc.	\$0.35	\$(0.18 )
Dividends declared per share	\$0.20	\$0.13

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2018	2017
Comprehensive income / (loss), net of taxes:		
Net income / (loss)	\$8,115	\$(4,159)
Net unrealized gain / (loss) on investments, net of tax (benefit) of		
\$(5) and \$(6), respectively	14	(12 )
Net change in effective portion of hedging contracts, net of tax		
(benefit) of \$(25) and \$(26), respectively	(127 )	(145 )
Foreign currency translation adjustments	(15,226)	(1,730)
Total other comprehensive (loss), net of taxes	\$(15,339)	\$(1,887)
Total comprehensive (loss) attributed to Movado Group, Inc.	\$(7,224 )	\$(6,046)

See Notes to Consolidated Financial Statements



## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2018	2017
Cash flows from operating activities:		
Net income / (loss)	\$8,115	\$(4,159 )
Adjustments to reconcile net income / (loss) to net cash (used in) operating activities:		
Depreciation and amortization	3,383	2,885
Transactional (gains)	(242 )	(712 )
Write-down of inventories	483	359
Deferred income taxes	(1,553 )	(64 )
Stock-based compensation	1,214	1,243
Cost savings initiative	—	6,334
Changes in assets and liabilities:		
Trade receivables	443	493
Inventories	(11,548 )	(7,953 )
Other current assets	(6,583 )	(3,833 )
Accounts payable	5,690	(4,155 )
Accrued liabilities	(3,315 )	(3,981 )
Income taxes payable	1,722	(2,800 )
Other non-current assets	988	(1,489 )
Other non-current liabilities	(1,417 )	1,278
Net cash (used in) operating activities	(2,620 )	(16,554 )
Cash flows from investing activities:		
Capital expenditures	(1,686 )	(397 )
Trademarks and other intangibles	(168 )	(40 )
Net cash (used in) investing activities	(1,854 )	(437 )
Cash flows from financing activities:		
Repayments of bank borrowings	(25,000 )	—
Stock options exercised and other changes	3,105	(692 )
Dividends paid	(4,604 )	(2,982 )
Stock repurchase	(1,186 )	(1,028 )
Net cash (used in) financing activities	(27,685 )	(4,702 )
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(5,693 )	(992 )
Net (decrease) in cash, cash equivalents, and restricted cash	(37,852 )	(22,685 )
Cash, cash equivalents, and restricted cash at beginning of period	215,411	256,879
Cash, cash equivalents, and restricted cash at end of period	\$177,559	\$234,194
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$176,959	\$233,594

Restricted cash included in other non-current assets	600	600
Cash, cash equivalents, and restricted cash	\$177,559	\$234,194

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”), in a manner consistent with that used in the preparation of the annual audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2018 (the “2018 Annual Report on Form 10-K”). The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. The consolidated balance sheet data at January 31, 2018 is derived from the audited annual financial statements, which are included in the Company’s 2018 Annual Report on Form 10-K and should be read in connection with these interim unaudited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

NOTE 1 – RECLASSIFICATIONS

As discussed below in Note 2 Changes to Critical Accounting Policies, certain reclassifications were made to prior years’ financial statement amounts and related note disclosures to conform to fiscal 2019 presentation.

NOTE 2 - CHANGES TO CRITICAL ACCOUNTING POLICIES

Revenue

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which supersedes nearly all existing revenue recognition guidance. Subsequent to the issuance of Topic 606, the FASB clarified the guidance through several Accounting Standard Updates; hereinafter the collection of revenue guidance is referred to as “ASC 606”.

On February 1, 2018, the Company adopted ASC 606 using the modified retrospective method and the Company recognized a reduction of \$0.7 million to opening retained earnings as the cumulative effect of adopting the new revenue standard. This adjustment did not have a material impact on the Company's Consolidated Financial Statements. (See Note 17 - Revenue for additional disclosures required by ASC 606).

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) — Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. With this standard, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. We adopted this guidance on February 1, 2018, and the guidance has been retrospectively applied to all periods presented. The changes to the beginning of period balance presented in the consolidated statement of cash flows are as follows (in thousands):

	January 31, 2018		January 31, 2017	
	As adjusted	As previously reported	As adjusted	As previously reported
Cash and cash equivalents	\$214,811	\$214,811	\$256,279	\$256,279
Restricted funds included in other non-current assets	600	—	600	—
Beginning of period balance presented in the statement of cash flows	\$215,411	\$214,811	\$256,879	\$256,279

## NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – Unobservable inputs based on the Company's assumptions.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands) as of April 30, 2018 and 2017 and January 31, 2018:

	Balance Sheet Location	Fair Value at April 30, 2018			
		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$251	\$ —	\$ —	\$251
Short-term investment	Other current assets	157	—	—	157
SERP assets - employer	Other non-current assets	1,008	—	—	1,008
SERP assets - employee	Other non-current assets	37,210	—	—	37,210
Hedge derivatives	Other current assets	—	124	—	124
<b>Total</b>		<b>\$38,626</b>	<b>\$ 124</b>	<b>\$ —</b>	<b>\$38,750</b>
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$37,210	\$ —	\$ —	\$37,210
Hedge derivatives	Accrued liabilities	—	704	—	704
<b>Total</b>		<b>\$37,210</b>	<b>\$ 704</b>	<b>\$ —</b>	<b>\$37,914</b>

	Balance Sheet Location	Fair Value at January 31, 2018			
		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$275	\$ —	\$ —	\$275
Short-term investment	Other current assets	164	—	—	164
SERP assets - employer	Other non-current assets	994	—	—	994
SERP assets - employee	Other non-current assets	38,577	—	—	38,577
Hedge derivatives	Other current assets	—	544	—	544
<b>Total</b>		<b>\$40,010</b>	<b>\$ 544</b>	<b>\$ —</b>	<b>\$40,554</b>
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$38,577	\$ —	\$ —	\$38,577
Hedge derivatives	Accrued liabilities	—	46	—	46
<b>Total</b>		<b>\$38,577</b>	<b>\$ 46</b>	<b>\$ —</b>	<b>\$38,623</b>

	Balance Sheet Location	Fair Value at April 30, 2017			
		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$291	\$ —	\$ —	\$291
Short-term investment	Other current assets	147	—	—	147

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SERP assets - employer	Other non-current assets	1,241	—	—	1,241
SERP assets - employee	Other non-current assets	32,421	—	—	32,421
Hedge derivatives	Other current assets	—	205	—	205
<b>Total</b>		<b>\$34,100</b>	<b>\$ 205</b>	<b>\$ —</b>	<b>\$34,305</b>
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$32,421	\$ —	\$ —	\$32,421
Hedge derivatives	Accrued liabilities	—	162	—	162
<b>Total</b>		<b>\$32,421</b>	<b>\$ 162</b>	<b>\$ —</b>	<b>\$32,583</b>

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the short-term investment, which is a guaranteed investment certificate, is based on its purchase price plus one half of a percent calculated annually. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances. The hedge derivatives are entered into by the Company principally to reduce its exposure to Swiss franc and Euro exchange rate risks. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates and quoted interest rates.

NOTE 4 – EQUITY

The components of equity for the three months ended April 30, 2018 and 2017 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity						Accumulated Other Comprehensive Income Total
	Class A	Capital in		Retained	Treasury	Comprehensive	
	Common	Common	Excess of	Earnings	Stock		
	Stock (\$)	Stock (2)	Par Value				
Balance, January 31, 2018	\$273	\$ 66	\$189,808	\$388,739	\$(208,894)	\$ 100,343	\$470,335
Net income				8,115			8,115
Dividends				(4,604)			(4,604)
Adoption of new revenue recognition standard (Topic 606)				(724)			(724)
Stock repurchase					(1,186)		(1,186)
Stock options exercised	3		3,738		(636)		3,105
Supplemental executive retirement plan			32				32
Stock-based compensation expense			1,214				1,214
Net unrealized gain on investments, net of tax of \$5						14	14
Net change in effective portion of hedging contracts, net of tax benefit of \$25						(127)	(127)
Foreign currency translation						(15,226)	(15,226)

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adjustment (3)							
Balance, April 30, 2018	\$ 276	\$ 66	\$ 194,792	\$ 391,526	\$(210,716)	\$ 85,004	\$ 460,948
	Class A Common Stock			Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income
	Stock (1)	Stock (2)	Par Value	Earnings	Stock	Income	Total
Balance, January 31, 2017	\$272	\$ 66	\$ 185,354	\$415,919	\$(204,398)	\$ 76,780	\$473,993
Net (loss)				(4,159 )			(4,159 )
Dividends				(2,982 )			(2,982 )
Stock repurchase					(1,028 )		(1,028 )
Stock options exercised	1	1	(1 )		(693 )		(692 )
Supplemental executive retirement plan				32			32
Stock-based compensation expense				1,243			1,243
Net unrealized loss on investments, net of tax benefit of \$6						(12 )	(12 )