

ENERGIZER HOLDINGS, INC.
Form 10-Q
February 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

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: 001-36837

ENERGIZER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Missouri

36-4802442

(State or other jurisdiction of
incorporation or organization)

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

533 Maryville University Drive

St. Louis, Missouri

63141

(Address of principal executive offices)

(Zip Code)

(314) 985-2000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if smaller reporting company)

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 of Energizer Holdings, Inc. common stock, \$.01 par value, outstanding as of the close of
business on February 1, 2016: 61,829,820.

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ENERGIZER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Condensed)
(In millions, except per share data - Unaudited)

	For the Quarter ended December 31,	
	2015	2014
Net sales	\$506.8	\$501.3
Cost of products sold	277.0	267.5
Gross profit	229.8	233.8
Selling, general and administrative expense	83.7	110.6
Advertising and sales promotion expense	30.1	34.4
Research and development expense	6.1	6.2
Spin restructuring	0.9	1.1
Restructuring	2.2	(9.6)
Interest expense	12.9	12.5
Other financing items, net	(0.6)	(2.8)
Earnings before income taxes	94.5	81.4
Income taxes	29.0	19.7
Net earnings	\$65.5	\$61.7
Basic net earnings per share (1)	\$1.06	\$0.99
Diluted net earnings per share (1)	\$1.05	\$0.99
Statement of Comprehensive Income:		
Net earnings	\$65.5	\$61.7
Other comprehensive income/(loss), net of tax expense/(benefit)		
Foreign currency translation adjustments	(4.6)	(29.9)
Pension activity, net of tax of \$0.5 and \$(0.1), respectively.	2.1	(0.3)
Deferred gain on hedging activity, net of tax of \$0.3 and \$0.4, respectively.	0.7	1.1
Total comprehensive income	\$63.7	\$32.6

(1) On July 1, 2015, Edgewell Personal Care Company (Edgewell) distributed 62.2 million shares of Energizer Holdings, Inc. (Energizer) common stock to Edgewell shareholders in connection with its spin-off of Energizer. See Note 1, Description of Business and Basis of Presentation, in the Consolidated Condensed Financial Statements for more information. Basic and diluted earnings per common share and the average number of common shares outstanding were retrospectively restated for the number of Energizer shares outstanding immediately following this transaction.

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Condensed)
(In millions - Unaudited)

	December 31, 2015	September 30, 2015
Assets		
Current assets		
Cash and cash equivalents	\$556.4	\$502.1
Trade receivables, less allowance for doubtful accounts of \$6.6 and \$7.0, respectively	181.2	155.5
Inventories	209.0	275.9
Other current assets	139.5	143.4
Total current assets	1,086.1	1,076.9
Property, plant and equipment, net	199.4	205.6
Goodwill	37.7	38.1
Other intangible assets	77.1	76.3
Deferred tax asset	160.3	163.1
Other assets	56.9	58.6
Total assets	\$1,617.5	\$1,618.6
Liabilities and Shareholders' Deficit		
Current liabilities		
Current maturities of long-term debt	\$4.0	\$3.0
Note payable	9.8	5.2
Accounts payable	155.7	167.0
Other current liabilities	277.3	291.2
Total current liabilities	446.8	466.4
Long-term debt	983.7	984.3
Other liabilities	219.5	228.0
Total liabilities	1,650.0	1,678.7
Shareholders' deficit		
Common stock	0.6	0.6
Additional paid-in capital	183.2	181.7
Retained earnings	56.6	6.9
Treasury stock	(21.8) —
Accumulated other comprehensive loss	(251.1	) (249.3
Total shareholders' deficit	(32.5	) (60.1
Total liabilities and shareholders' deficit	\$1,617.5	\$1,618.6

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Condensed)
(In millions - Unaudited)

	For the Quarter ended December 31,	
	2015	2014
Cash Flow from Operating Activities		
Net earnings	\$65.5	\$61.7
Non-cash restructuring costs	3.1	—
Depreciation and amortization	7.8	10.7
Deferred income taxes	3.4	6.7
Share-based payments	4.6	3.2
Non-cash items included in income, net	(1.5	) (9.6
Other, net	(4.7	) 5.0
Changes in current assets and liabilities used in operations	13.4	(17.6
Net cash from operating activities	91.6	60.1
Cash Flow from Investing Activities		
Capital expenditures	(3.3	) (10.0
Proceeds from sale of assets	—	1.5
Acquisitions, net of cash acquired	—	(11.1
Net cash used by investing activities	(3.3	) (19.6
Cash Flow from Financing Activities		
Net increase in debt with original maturities of 90 days or less	5.4	—
Common stock purchased	(21.8) —
Dividends paid	(15.4) —
Excess tax benefits from share-based payments	0.8	—
Net transfers to Edgewell	—	(37.3
Net cash used by financing activities	(31.0	) (37.3
Effect of exchange rate changes on cash	(3.0	) (0.3
Net increase in cash and cash equivalents	54.3	2.9
Cash and cash equivalents, beginning of period	502.1	89.6
Cash and cash equivalents, end of period	\$556.4	\$92.5

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

DECEMBER 31, 2015

(In millions, except per share data - Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business - Energizer Holdings, Inc., including its subsidiaries, (Energizer or the Company) is a global manufacturer, marketer and distributor of household batteries, specialty batteries and portable lights under the Energizer and Eveready brand names. Energizer offers batteries using lithium, alkaline, carbon zinc, nickel metal hydride, zinc air and silver oxide technologies.

On July 1, 2015, Energizer completed its legal separation from Edgewell Personal Care Company (Edgewell) via a tax free spin-off (the spin-off or spin). To effect the separation, Edgewell undertook a series of transactions to separate net assets and legal entities. As a result of these transactions, Energizer holds the Household Products' product group and Edgewell holds the Personal Care product group. As a result of the spin-off, Energizer operates as an independent, publicly traded company on the New York Stock Exchange trading under the symbol "ENR."

In conjunction with the spin-off, Edgewell distributed 62,193,281 shares of Energizer common stock to its shareholders. Under the terms of the spin-off, Edgewell common shareholders of record as of the close of business on June 16, 2015, the record date for the distribution, received one share of Energizer for each share of Edgewell common stock they held. Edgewell completed the distribution of Energizer common stock to its shareholders on July 1, 2015, the distribution date. Edgewell structured the distribution to be tax-free to its U.S. shareholders for U.S. federal income tax purposes.

Basis of Presentation - The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Energizer and its subsidiaries. All significant intercompany transactions are eliminated. Energizer has no material equity method investments, variable interests or non-controlling interests.

For the three months ended December 31, 2014, which was prior to the spin-off, our financial statements were prepared on a combined standalone basis derived from the financial statements and accounting records of Edgewell and included expense allocations for: (1) certain product warehousing and distribution; (2) various transaction process functions; (3) a consolidated sales force and management for certain countries; (4) certain support functions that were provided on a centralized basis within Edgewell and not recorded at the business division level, including, but not limited to, finance, audit, legal, information technology, human resources, communications, facilities, and compliance; (5) employee benefits and compensation; (6) share-based compensation and (7) financing costs. These expenses were allocated to Energizer on the basis of direct usage where identifiable, with the remainder allocated on a basis of global net sales, cost of sales, operating income, headcount or other measures of Energizer and Edgewell. Management believes the assumptions regarding allocated expenses reasonably reflect the utilization of services provided to or the benefit received by Energizer during the periods prior to the spin-off. Nevertheless, the allocations may not include all of the actual expenses that would have been incurred by Energizer and may not reflect our results of operations, financial position and cash flows had we been an independent standalone company during that period. It is not practicable to estimate actual costs that would have been incurred had Energizer been a standalone company during the periods prior to the spin-off. Actual costs that would have been incurred if Energizer had been a standalone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, such as information technology and infrastructure.

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed Consolidated Balance Sheet was derived from the audited financial statements included in Energizer's Report on Form 10-K, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior year financial statements to conform to the current presentation. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the

financial statements and notes thereto for Energizer for the year ended September 30, 2015 included in the Annual Report on Form 10-K dated November 20, 2015.

Recently Adopted Accounting Pronouncements - During the quarter ended December 31, 2015, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-17, Balance Sheet Classification of Deferred Taxes. This guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet and results in each tax paying jurisdiction having either a noncurrent deferred tax asset or a noncurrent deferred tax liability. The netting of different jurisdictions' noncurrent deferred tax assets and liabilities is still prohibited.

As of December 31, 2015, the Company had a long term deferred tax asset balance of \$160.3 and a long term deferred tax liability balance of \$10.5. The Company applied this guidance retrospectively and the reclassification resulted in a long term deferred tax asset balance as of September 30, 2015 of \$163.1, an increase of \$49.3 to the previously reported balance. Additionally, the long term deferred tax liability increased \$1.2, resulting in a balance of \$8.8, as of September 30, 2015. The current portion of the deferred tax asset and deferred tax liability had previously been reported in Other current assets and Other current liabilities, respectively.

During the quarter ended December 31, 2015, the Company adopted FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, and FASB ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. These ASUs require most debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability rather than as an asset; however debt issuance costs relating to revolving credit facilities will remain in other assets. We adopted this standard for the first fiscal quarter of 2016 and applied it retrospectively to September 30, 2015. See Note 11, Debt. The balance for unamortized debt issuance costs that were reclassified to Debt and from Other assets were \$10.3 and \$10.7 at December 31, 2015 and September 30, 2015, respectively.

(2) Spin Costs

The Company incurred costs associated with the evaluation, planning and execution of the spin transaction. During the quarter ended December 31, 2015, the Company incurred \$6.9 in spin costs including \$6.0 recorded in SG&A and \$0.9 recorded in spin restructuring. For the quarter ended December 31, 2014, the Company was allocated spin costs of \$23.2 from Edgewise of which \$22.1 was recorded in SG&A and \$1.1 was recorded in spin restructuring. On a project to date basis, the total costs incurred and allocated to Energizer for the spin-off were \$192.1, inclusive of the costs of early debt retirement recorded in fiscal 2015.

Energizer expects to incur approximately \$3 of additional pre-tax spin costs through the end of fiscal year 2016.

Energizer does not include the spin restructuring costs in the results of its reportable segments. The estimated impact of allocating such charges to segment results would have been as follows:

	Quarter Ended December 31, 2015					
	North America	Latin America	EMEA	Asia Pacific	Corporate	Total
Severance and termination related costs	\$(1.4	) \$—	\$0.6	\$1.1	\$—	\$0.3
Other exit costs	—	0.1	0.4	0.1	—	0.6
Total	\$(1.4) \$0.1	\$1.0	\$1.2	\$—	\$0.9

Quarter Ended December 31, 2014

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	North America	Latin America	EMEA	Asia Pacific	Corporate	Total
Severance and termination related costs	\$0.2	\$0.2	\$—	\$0.3	\$0.4	\$1.1
Total	\$0.2	\$0.2	\$—	\$0.3	\$0.4	\$1.1

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The following table represents the spin restructuring accrual activity and ending accrual balance at December 31, 2015 and December 31, 2014 included in other current liabilities on the Consolidated Condensed Balance Sheet.

	October 1, 2015	Charge to Income	Other (a)	Utilized		December 31, 2015
				Cash	Non-Cash	
Severance and termination related costs	\$12.0	\$0.3	\$(0.2	) \$(6.5	) \$—	\$5.6
Other exit costs	0.3	0.6	—	(0.7	) —	0.2
Total	\$12.3	\$0.9	\$(0.2	) \$(7.2	) \$—	\$5.8

	October 1, 2014	Charge to Income	Other (a)	Utilized		December 31, 2014
				Cash	Non-Cash	
Severance & Termination Related Costs	\$—	\$1.1	\$—	\$—	\$—	\$1.1
Total	\$—	\$1.1	\$—	\$—	\$—	\$