

RALPH LAUREN CORP
Form 10-Q
February 04, 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 26, 2015

or

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

Commission File Number: 001-13057

Ralph Lauren Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

650 Madison Avenue,
New York, New York

(Address of principal executive offices)

(212) 318-7000

(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 (Do not check if a smaller reporting company) 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

At January 29, 2016, 58,133,458 shares of the registrant's Class A common stock, \$.01 par value, and 25,881,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

RALPH LAUREN CORPORATION
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RALPH LAUREN CORPORATION
CONSOLIDATED BALANCE SHEETS

| | December 26, 2015 (millions) (unaudited) | March 28, 2015 |
|--|---|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$527 | \$500 |
| Short-term investments | 688 | 644 |
| Accounts receivable, net of allowances of \$277 million and \$251 million | 473 | 655 |
| Inventories | 1,271 | 1,042 |
| Income tax receivable | 70 | 57 |
| Deferred tax assets | 154 | 145 |
| Prepaid expenses and other current assets | 269 | 281 |
| Total current assets | 3,452 | 3,324 |
| Property and equipment, net | 1,564 | 1,436 |
| Deferred tax assets | 38 | 45 |
| Goodwill | 901 | 903 |
| Intangible assets, net | 248 | 267 |
| Other non-current assets | 138 | 131 |
| Total assets | \$6,341 | \$6,106 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$15 | \$234 |
| Accounts payable | 195 | 210 |
| Income tax payable | 55 | 27 |
| Accrued expenses and other current liabilities | 949 | 715 |
| Total current liabilities | 1,214 | 1,186 |
| Long-term debt | 596 | 298 |
| Non-current liability for unrecognized tax benefits | 80 | 116 |
| Other non-current liabilities | 647 | 615 |
| Commitments and contingencies (Note 14) | | |
| Total liabilities | 2,537 | 2,215 |
| Equity: | | |
| Class A common stock, par value \$.01 per share; 100.9 million and 100.0 million shares issued; 58.1 million and 60.4 million shares outstanding | 1 | 1 |
| Class B common stock, par value \$.01 per share; 25.9 million shares issued and outstanding | — | — |
| Additional paid-in-capital | 2,236 | 2,117 |
| Retained earnings | 6,015 | 5,787 |
| Treasury stock, Class A, at cost; 42.8 million and 39.6 million shares | (4,248 |) (3,849 |
| Accumulated other comprehensive loss | (200 |) (165 |
| Total equity | 3,804 | 3,891 |
| Total liabilities and equity | \$6,341 | \$6,106 |
| See accompanying notes. | | |

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------------------|----------------------|----------------------|----------------------|
| | December 26, 2015 | December 27, 2014 | December 26, 2015 | December 27, 2014 |
| | (millions, except per share data) | | | |
| | (unaudited) | | | |
| Net sales | \$ 1,899 | \$ 1,986 | \$ 5,399 | \$ 5,603 |
| Licensing revenue | 47 | 47 | 135 | 132 |
| Net revenues | 1,946 | 2,033 | 5,534 | 5,735 |
| Cost of goods sold ^(a) | (852 |) (874 |) (2,361 |) (2,401 |
| Gross profit | 1,094 | 1,159 | 3,173 | 3,334 |
| Selling, general, and administrative expenses ^(a) | (833 |) (837 |) (2,494 |) (2,461 |
| Amortization of intangible assets | (5 |) (6 |) (17 |) (19 |
| Impairment of assets | (9 |) — |) (24 |) (2 |
| Restructuring and other charges | (58 |) (1 |) (123 |) (7 |
| Total other operating expenses, net | (905 |) (844 |) (2,658 |) (2,489 |
| Operating income | 189 | 315 | 515 | 845 |
| Foreign currency losses | (3 |) (8 |) (9 |) (14 |
| Interest expense | (6 |) (3 |) (14 |) (12 |
| Interest and other income, net | 2 | — | 5 | 4 |
| Equity in losses of equity-method investees | (1 |) (3 |) (7 |) (9 |
| Income before provision for income taxes | 181 | 301 | 490 | 814 |
| Provision for income taxes | (50 |) (86 |) (135 |) (236 |
| Net income | \$ 131 | \$ 215 | \$ 355 | \$ 578 |
| Net income per common share: | | | | |
| Basic | \$ 1.55 | \$ 2.44 | \$ 4.15 | \$ 6.53 |
| Diluted | \$ 1.54 | \$ 2.41 | \$ 4.11 | \$ 6.46 |
| Weighted average common shares outstanding: | | | | |
| Basic | 84.9 | 88.1 | 85.7 | 88.5 |
| Diluted | 85.5 | 89.0 | 86.3 | 89.5 |
| Dividends declared per share | \$ 0.50 | \$ 0.45 | \$ 1.50 | \$ 1.35 |
| ^(a) Includes total depreciation expense of: | \$ (71 |) \$ (72 |) \$ (210 |) \$ (200 |

See accompanying notes.

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|----------------------|----------------------|----------------------|
| | December 26, 2015 | December 27, 2014 | December 26, 2015 | December 27, 2014 |
| | (millions) (unaudited) | | | |
| Net income | \$ 131 | \$ 215 | \$ 355 | \$ 578 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation losses | (26 |) (74 |) (13 |) (174 |
| Net gains (losses) on cash flow hedges | (8 |) 12 | (24 |) 37 |
| Net gains on defined benefit plans | 1 | — | 2 | 1 |
| Other comprehensive loss, net of tax | (33 |) (62 |) (35 |) (136 |
| Total comprehensive income | \$ 98 | \$ 153 | \$ 320 | \$ 442 |

See accompanying notes.

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended | |
|---|----------------------|----------------------|
| | December 26, 2015 | December 27, 2014 |
| | (millions) | |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Net income | \$355 | \$578 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 227 | 219 |
| Deferred income tax benefit | (4 |) (11 |
| Equity in losses of equity-method investees | 7 | 9 |
| Non-cash stock-based compensation expense | 79 | 60 |
| Non-cash impairment of assets | 24 | 2 |
| Excess tax benefits from stock-based compensation arrangements | (9 |) (7 |
| Other non-cash charges, net | 20 | (20 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 176 | 155 |
| Inventories | (251 |) (240 |
| Prepaid expenses and other current assets | 24 | (77 |
| Accounts payable and accrued liabilities | 218 | 101 |
| Income tax receivables and payables | — | 101 |
| Deferred income | (8 |) (13 |
| Other balance sheet changes, net | (6 |) 33 |
| Net cash provided by operating activities | 852 | 890 |
| Cash flows from investing activities: | | |
| Capital expenditures | (325 |) (300 |
| Purchases of investments | (637 |) (1,156 |