

HELEN OF TROY LTD
Form 10-Q
July 10, 2017
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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 May 31, 2017

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

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(Exact name of registrant as specified in its charter)

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

2 Church Street

Hamilton, Bermuda
(Address of principal executive offices)

1 Helen of Troy Plaza El Paso, Texas (Registrant's United States Mailing Address)	79912 (Zip Code)
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(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 No

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

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

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Large accelerated filer Accelerated filer Non-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.

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

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 July 5, 2017
Common Shares, \$0.10 par value, per share	27,224,833 shares

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HELEN OF TROY LIMITED AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Balance Sheets (Unaudited)

(in thousands, except shares and par value)	May 31, 2017	February 28, 2017
Assets		
Assets, current:		
Cash and cash equivalents	\$ 16,508	\$ 23,087
Receivables - principally trade, less allowances of \$8,296 and \$5,656	207,795	229,928
Inventory	312,025	289,122
Prepaid expenses and other current assets	11,874	11,699
Income taxes receivable	2,942	2,242
Total assets, current	551,144	556,078
Property and equipment, net of accumulated depreciation of \$110,022 and \$106,561	135,599	134,935
Goodwill	672,929	698,929
Other intangible assets, net of accumulated amortization of \$172,072 and \$165,388	411,002	419,489
Deferred tax assets, net	2,046	1,955
Other assets, net of accumulated amortization of \$1,953 and \$1,930	1,963	1,710
Total assets	\$ 1,774,683	\$ 1,813,096
Liabilities and Stockholders' Equity		
Liabilities, current:		
Accounts payable, principally trade	\$ 136,426	\$ 111,763
Accrued expenses and other current liabilities	133,771	153,200
Long-term debt, current maturities	20,601	24,404
Total liabilities, current	290,798	289,367
Long-term debt, excluding current maturities	433,240	461,211
Deferred tax liabilities, net	7,637	20,091
Other liabilities, noncurrent	18,569	21,661
Total liabilities	750,244	792,330
Commitments and contingencies		
Stockholders' equity:		

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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; 27,219,125 and 27,028,665 shares		
issued and outstanding	2,722	2,703
Additional paid in capital	218,724	218,760
Accumulated other comprehensive income (loss)	(1,004)	1,173
Retained earnings	803,997	798,130
Total stockholders' equity	1,024,439	1,020,766
Total liabilities and stockholders' equity	\$ 1,774,683	\$ 1,813,096

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except per share data)	Three Months Ended	
	May 31, 2017	2016
Sales revenue, net	\$ 359,605	\$ 347,938
Cost of goods sold	203,156	195,511
Gross profit	156,449	152,427
Selling, general and administrative expense ("SG&A")	123,683	122,129
Asset impairment charges	36,000	7,400
Operating income (loss)	(3,234)	22,898
Nonoperating income, net	166	149
Interest expense	(3,839)	(3,651)
Income (loss) before income taxes	(6,907)	19,396
Income tax expense (benefit):		
Current	(601)	3,772
Deferred	(12,174)	(3,402)
Net income	\$ 5,868	\$ 19,026
Earnings per share:		
Basic	\$ 0.22	\$ 0.69
Diluted	\$ 0.22	\$ 0.68
Weighted average shares of common stock used in computing net earnings per share:		
Basic	27,076	27,773
Diluted	27,245	28,147

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands)	Three Months Ended May 31, 2017			2016		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Income (loss)	\$ (6,907)	\$ 12,775	\$ 5,868	\$ 19,396	\$ (370)	\$ 19,026
Cash flow hedge activity - foreign currency contracts						
Changes in fair market value	(2,245)	316	(1,929)	(1,019)	233	(786)
Settlements reclassified to income	(302)	54	(248)	158	(56)	102
Total other comprehensive income (loss)	(2,547)	370	(2,177)	(861)	177	(684)
Comprehensive income (loss)	\$ (9,454)	\$ 13,145	\$ 3,691	\$ 18,535	\$ (193)	\$ 18,342

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows (Unaudited)

(in thousands)	Three Months Ended May 31,	
	2017	2016
Cash provided (used) by operating activities:		
Net income	\$ 5,868	\$ 19,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,797	10,956
Amortization of financing costs	325	290
Provision for doubtful receivables	(37)	347
Non-cash share-based compensation	3,191	5,614
Non-cash intangible asset impairment charges	36,000	7,400
(Gain) loss on the sale or disposal of property and equipment	(10)	20
Deferred income taxes and tax credits	(12,174)	(3,458)
Changes in operating capital, net of effects of acquisition of businesses:		
Receivables	22,170	20,524
Inventories	(22,903)	(11,160)
Prepaid expenses and other current assets	(1,182)	(3,393)
Other assets and liabilities, net	(2,725)	(4,934)
Accounts payable	24,713	4,819
Accrued expenses and other current liabilities	(20,954)	(7,021)
Accrued income taxes	(1,336)	2,706
Net cash provided by operating activities	41,743	41,736
Cash provided (used) by investing activities:		
Capital and intangible asset expenditures	(13,027)	(5,154)
Proceeds from the sale of property and equipment	13	2
Payments to acquire businesses, net of cash acquired	-	(209,258)
Net cash used by investing activities	(13,014)	(214,410)
Cash provided (used) by financing activities:		
Proceeds from line of credit	131,200	100,200
Repayment of line of credit	(157,600)	(129,100)
Repayment of long-term debt	(5,700)	(3,800)
Payment of financing costs	-	(14)
Proceeds from share issuances under share-based compensation plans	3,580	3,127
Payment of tax obligations resulting from cashless share award settlements	(6,788)	(424)
Net cash used by financing activities	(35,308)	(30,011)
Net decrease in cash and cash equivalents	(6,579)	(202,685)
Cash and cash equivalents, beginning balance	23,087	225,800
Cash and cash equivalents, ending balance	\$ 16,508	\$ 23,115

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

May 31, 2017

Note 1 - Basis of Presentation and Related Information

The accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of May 31, 2017 and February 28, 2017, 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, 2017, and our other reports on file with the Securities and Exchange Commission (the "SEC").

In this report and the accompanying consolidated condensed financial statements and 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. References to "the FASB" refer to the Financial Accounting Standards Board. References to "GAAP" refer to 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 four segments: Housewares, Health & Home, Nutritional Supplements, 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 healthcare 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 Nutritional Supplements segment is a leading provider of premium branded vitamins, minerals and supplements, topical skin products and other health products sold directly to consumers. 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.

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.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated condensed financial statements and accompanying notes. Actual results may differ materially from those estimates.

Our consolidated condensed financial statements are prepared in U.S. Dollars and include the accounts of Helen of Troy Limited and its wholly owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

We have reclassified, combined or separately disclosed certain amounts in the prior years' consolidated condensed financial statements and accompanying footnotes to conform to the current year's presentation.

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Note 2 – New Accounting Pronouncements

Not Yet Adopted

In October 2016, the FASB issued ASU 2016-16, “Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other Than Inventory.” 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 will be effective for us in fiscal 2019 with early adoption permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. A modified retrospective approach will be 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. The new guidance may impact our effective tax rate, after adoption. We are currently evaluating the impact this guidance may have on our consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 will require lessees to recognize on their balance sheets “right-of-use assets” and corresponding lease liabilities, measured on a discounted basis over the lease term. Virtually all leases will be subject to this treatment except leases that meet the definition of a “short-term lease.” For expense recognition, the dual model requiring leases to be classified as either operating or finance leases has been retained from the prior standard. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. Classification will use criteria very similar to those applied in current lease accounting, but without explicit bright lines. The new lease guidance will essentially eliminate off-balance sheet financing. The guidance is effective for us in fiscal 2021. The new standard must be adopted using a modified retrospective transition and requires the new guidance to be applied at the beginning of the earliest comparative period presented. We are currently evaluating the effect this new accounting guidance may have on our consolidated financial position, results of operations and cash flows.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”, issued as a new Topic, ASC Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. 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. We will be required to adopt the new standard in fiscal 2019 and can adopt either retrospectively or as a cumulative effect adjustment as of the date of adoption. We are currently evaluating the effect of this new accounting guidance. Therefore, we have not yet selected a transition method nor have we determined the impact that the new standard may have on our consolidated financial position, results of operations and cash flows.

Unless otherwise discussed above, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial position, results of operations and cash flows upon adoption.

Adopted

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. We adopted the new guidance in the first quarter of fiscal 2018, applying it on a prospective basis. The application of this guidance has not had a material impact on our financial position, results of operations or cash flows.

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Note 3 – Commitments and Contingencies

Thermometer Patent Litigation – In January 2016, a jury ruled against the Company 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. The Company continues to vigorously pursue its appellate rights and defend against the underlying judgment.

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.

Product Warranties – Most of our products are under warranty against defects in material and workmanship for periods ranging from two to five years. We estimate our warranty accrual using our historical experience and believe that this is the most reliable method by which we can estimate our warranty liability. The following table summarizes the activity in our accrual for the periods shown:

ACCRUAL FOR WARRANTY RETURNS

(in thousands)	Three Months Ended	
	May 31,	
	2017	2016
Beginning balance	\$ 21,766	\$ 20,622
Additions to the accrual	12,239	14,523
Reductions of the accrual - payments and credits issued	(13,376)	(16,164)
Ending balance	\$ 20,629	\$ 18,981

Notes 7, 10, 12 and 13 to these consolidated condensed financial statements provide additional information regarding certain of our significant commitments and contingencies.

Note 4 – 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 restricted share units (RSUs) and performance-based restricted share units (PSUs). Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive. See Note 15 to these consolidated condensed financial statements for more information regarding share-based payment awards.

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

WEIGHTED AVERAGE DILUTED SECURITIES

(in thousands)	Three Months Ended May 31,	
	2017	2016
Weighted average shares outstanding, basic	27,076	27,773
Incremental shares from share-based payment arrangements	169	374
Weighted average shares outstanding, diluted	27,245	28,147
Dilutive securities, stock options	253	425
Dilutive securities, unvested or unsettled stock awards	79	333
Antidilutive securities, stock options and unvested or unsettled stock awards	378	143

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Note 5 – Segment Information

The following tables present segment information for the periods shown:

THREE MONTHS ENDED

(in thousands)

	Housewares	Health &	Nutritional		Total
	(1)	Home	Supplements	Beauty	
May 31, 2017					
Sales revenue, net	\$ 98,428	\$ 150,266	\$ 31,619	\$ 79,292	\$ 359,605
Asset impairment charges	-	-	32,000	4,000	36,000
Operating income (loss)	18,106	14,560	(34,599)	(1,301)	(3,234)
Capital and intangible asset expenditures	2,491	1,113	8,945	478	13,027
Depreciation and amortization	1,427	4,138	2,456	2,776	10,797

	Housewares	Health &	Nutritional		Total
	(1)	Home	Supplements	Beauty	
May 31, 2016					
Sales revenue, net	\$ 84,603	\$ 146,355	\$ 35,940	\$ 81,040	\$ 347,938
Asset impairment charges	-	-	5,000	2,400	7,400
Operating income (loss)	15,500	9,604	(5,272)	3,066	22,898
Capital and intangible asset expenditures	589	1,189	1,562	1,814	5,154
Depreciation and amortization	1,329	5,233	1,960	2,434	10,956

(1) The three months ended May 31, 2017 includes a full three months of operating results for Hydro Flask compared to two and a half months for the three months ended May 31, 2016.

We compute segment operating income based on net sales revenue, less cost of goods sold, SG&A, 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 do not allocate nonoperating income and expense, including interest or income taxes, to operating segments.

Note 6 – Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component and related tax effects for the fiscal 2018 year-to-date are as follows:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

(in thousands)	Unrealized Holding Gains (Losses) on Cash Flow Hedges (1)
Balance at February 28, 2017	\$ 1,173
Other comprehensive income before reclassification	(2,245)
Amounts reclassified out of accumulated other comprehensive income	(302)
Tax effects	370
Other comprehensive income (loss)	(2,177)
Balance at May 31, 2017	\$ (1,004)

(1) Represents activity associated with certain foreign currency contracts. Balances at May 31, 2017 and February 28, 2017 include net deferred tax benefits (expense) of \$0.1 and (\$0.2) million, respectively.

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Note 7 – Supplemental Balance Sheet Information

PROPERTY AND EQUIPMENT

(in thousands)	Estimated Useful Lives (Years)	May 31, 2017	February 28, 2017
Land	-	\$ 12,800	\$ 12,800
Building and improvements	3 - 40	109,046	109,026
Computer, furniture and other equipment	3 - 15	84,083	81,122
Tools, molds and other production equipment	1 - 10	31,876	31,157
Construction in progress	-	7,816	7,391
Property and equipment, gross		245,621	241,496
Less accumulated depreciation		(110,022)	(106,561)
Property and equipment, net		\$ 135,599	\$ 134,935

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)	May 31, 2017	February 28, 2017
Accrued compensation, benefits and payroll taxes	\$ 20,158	\$ 34,917
Accrued sales returns, discounts and allowances	22,719	27,377
Accrued warranty returns	20,629	21,766
Accrued advertising	21,410	23,747
Accrued legal fees and settlements	17,347	16,908
Accrued royalties	9,107	9,553
Accrued property, sales and other taxes	7,443	6,564
Accrued freight and duty	4,407	3,454
Accrued product liability	1,805	2,141
Derivative liabilities, current	1,572	47
Other	7,174	6,726
Total accrued expenses and other current liabilities	\$ 133,771	\$ 153,200

OTHER LIABILITIES, NONCURRENT

(in thousands)	May 31, 2017	February 28, 2017
Deferred compensation liability	\$ 4,016	\$ 6,560
Liability for uncertain tax positions	5,975	6,611
Other liabilities	8,578	8,490
Total other liabilities, noncurrent	\$ 18,569	\$ 21,661

Note 8 – Goodwill and Intangible Assets

Impairments in the First Quarter of Fiscal 2018 – We continue to evaluate strategic alternatives for our Nutritional Supplements business, which could include a transaction to divest the business, investments in online interface and e-commerce platforms, restructuring or realignment programs, and consolidating our operations and functions. We believe that over the longer-term, these alternatives are designed to enhance revenue growth and profitability; however, over the short-term, certain of these alternatives may have a disproportionate impact on our income relative to the cost savings or generate other charges or losses. During the first quarter of 2018, we received information regarding the potential fair value of our Nutritional Supplements business that we concluded should be considered when determining if impairments of our long-lived assets, including goodwill, had occurred. Consequently, we performed interim impairment testing to determine whether our long-lived assets, including goodwill, associated with our Nutritional Supplements segment were impaired. As a result of our testing, we recorded non-cash asset impairment charges totaling \$32.0 million (\$19.6 million after tax), consisting of \$6.0 million (\$3.7 million after tax) to the segment's indefinite-lived trademarks, and \$26.0 million (\$15.9 million after tax) to the segment's goodwill.

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The fair values used in our impairment tests were determined using a weighted average of various valuation methods including estimated future discounted cash flows and other market data. The valuation techniques utilized assumptions we believed to be appropriate in the circumstances; however, future circumstances attributable to a strategic change in the Nutritional Supplements segment, such as those mentioned in previous paragraph, could result in changes to those assumptions and other charges or losses relating to the segment may be recorded and could be material. For example, if we determine that a divestiture is the probable outcome of our strategic review, we expect to perform additional impairment tests with updated assumptions. We are unable to project what, if any, expense, charges or losses will be in future periods.

In our Beauty segment, we performed interim impairment testing in the first quarter of fiscal 2018 for a certain brand as a result of a revised financial projection. As a result of our testing, we recorded a non-cash impairment charge of \$4.0 million (\$3.5 million after tax).

Impairment Testing in Fiscal 2017 – Our annual impairment testing for goodwill and indefinite-lived intangible assets had historically occurred in the first quarter of our fiscal year. In December 2016, we elected to change our annual impairment testing to the fourth quarter of our fiscal year. Accordingly, for fiscal 2017 we completed impairment tests during the first and fourth fiscal quarters. As a result of our testing of indefinite-lived trademarks in the fourth quarter, we recorded non-cash asset impairment charges of \$5.0 million (\$3.2 million after tax). As a result of our testing of indefinite-lived trademarks in the first quarter, we recorded non-cash asset impairment charges of \$7.4 million (\$5.1 million after tax). The charges in both quarters were related to certain brand assets and trademarks in our Beauty and Nutritional Supplements segments, which were written down to their estimated fair values, determined on the basis of our estimated future discounted cash flows using the relief from royalty valuation method.

Due to recent declines in revenue associated with our Nutritional Supplements segment, our annual impairment testing of goodwill and other intangible assets for the segment reflected a fair value that was in excess of the carrying value by a smaller margin than occurred in previous impairment tests. In addition, the fair value of the indefinite-lived brand asset was determined to be less than the carrying value and impairments of \$9.5 million were recorded during fiscal 2017. The fair values used for our impairment testing in fiscal 2017 were estimated using a weighted average approach, which heavily weighted a valuation derived from a discounted cash flow model based on the Company's estimates of future cash flows and based on management's intentions with respect to the business.

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The following table summarizes the carrying amounts and associated accumulated amortization for all intangible assets by operating segment as of the end of the periods shown:

GOODWILL AND INTANGIBLE ASSETS

(in thousands)	May 31, 2017				February 28, 2017			
	Gross Carrying Amount	Cumulative Goodwill Impairments	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Cumulative Goodwill Impairments	Accumulated Amortization	Net Book Value
Housewares:								
Goodwill	\$ 282,056	\$ -	\$ -	\$ 282,056	\$ 282,056	\$ -	\$ -	\$ 282,056
Trademarks - indefinite	134,200	-	-	134,200	134,200	-	-	134,200
Other intangibles - finite	40,481	-	(16,123)	24,358	40,393	-	(15,476)	24,917
Total Housewares	456,737	-	(16,123)	440,614	456,649	-	(15,476)	441,173
Health & Home:								
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	117,091	-	(68,813)	48,278	116,982	-	(66,027)	50,955
Total Health & Home	478,704	-	(84,113)	394,591	478,595	-	(81,327)	397,268
Nutritional Supplements:								
Goodwill	96,609	(26,000)	-	70,609	96,609	-	-	96,609
Brand assets - indefinite	50,020	-	-	50,020	56,020	-	-	56,020
Other intangibles - finite	52,180	-	(18,553)	33,627	44,180	-	(16,715)	27,465

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Total Nutritional Supplements	198,809	(26,000)	(18,553)	154,256	196,809	-	(16,715)	18
Beauty: Goodwill	81,841	(46,490)	-	35,351	81,841	(46,490)	-	35
Trademarks - indefinite	41,854	-	-	41,854	45,854	-	-	45
Trademarks - finite	150	-	(93)	57	150	-	(92)	58
Licenses - indefinite	10,300	-	-	10,300	10,300	-	-	10
Licenses - finite	13,696	-	(11,928)	1,768	13,696	-	(11,849)	1,8
Other intangibles - finite	46,402	-	(41,262)	5,140	46,402	-	(39,929)	6,4
Total Beauty	194,243	(46,490)	(53,283)	94,470	198,243	(46,490)	(51,870)	99
Total goodwill and intangible assets	\$ 1,328,493	\$ (72,490)	\$ (172,072)	\$ 1,083,931	\$ 1,330,296	\$ (46,490)	\$ (165,388)	\$ 1,1

The following table summarizes the amortization expense attributable to intangible assets recorded in SG&A in the consolidated condensed statements of income for the periods shown below, as well as our estimated amortization expense for fiscal 2018 through 2023.

AMORTIZATION OF INTANGIBLE ASSETS

Aggregate Amortization Expense (in thousands)

For the three months ended

May 31, 2017	\$ 6,685
May 31, 2016	\$ 7,204

Estimated Amortization Expense (in thousands)

Fiscal 2018	\$ 25,965
Fiscal 2019	\$ 21,025
Fiscal 2020	\$ 19,910
Fiscal 2021	\$ 17,349
Fiscal 2022	\$ 6,841
Fiscal 2023	\$ 4,700

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Note 9 – Acquisitions

Hydro Flask Acquisition - On March 18, 2016, we completed the acquisition of all membership units of Steel Technology, LLC, doing business as Hydro Flask. Hydro Flask is a leading designer, distributor and marketer of high performance insulated stainless steel food and beverage containers for active lifestyles. The aggregate purchase price for the transaction was approximately \$209.3 million, net of cash acquired. Significant assets acquired include receivables, inventory, prepaid expenses, property and equipment, trade names, technology assets, customer relationships, and goodwill. Acquisition-related expenses, incurred during fiscal 2016, were approximately \$0.7 million (before and after tax).

We accounted for the acquisition as the purchase of a business and recorded the excess purchase price as goodwill, which is not expected to be deductible for income tax purposes. We completed our analysis of the economic lives of all the assets acquired and determined the appropriate fair values of the acquired assets. We assigned \$59.0 million to trade names with indefinite economic lives. We assigned \$10.3 million to technology assets and \$14.2 million to customer relationships and are amortizing these assets over expected lives of 10 and 24 years, respectively. For technology assets, we considered the average life cycle of the underlying products, which range from 7 - 15 years, and the overall average life of the associated patent portfolio. For the customer relationships, we used historical attrition rates to assign an expected life.

The following schedule presents the net assets of Hydro Flask recorded at the acquisition date, excluding cash acquired:

HYDRO FLASK - NET ASSETS RECORDED UPON ACQUISITION AT MARCH 18, 2016

(in thousands)

Assets:	
Receivables	\$ 7,955
Inventory	6,243
Prepaid expenses and other current assets	336
Property and equipment	1,108
Goodwill	116,053
Trade names - indefinite	59,000
Technology assets - definite	10,300
Customer relationships - definite	14,200
Subtotal - assets	215,195

Liabilities:

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Accounts payable	2,275
Accrued expenses	3,662
Subtotal - liabilities	5,937
Net assets recorded	\$ 209,258

The fair values of the above assets acquired and liabilities assumed were estimated by applying income and market approaches. Key assumptions include various discount rates based upon a 12.3% weighted average cost of capital; royalty rates used in the determination of trade names and technology asset values of 6% and 2%, respectively; and a customer attrition rate used in the determination of customer relationship values of approximately 4% per year.

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Note 10 – 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 billion as of May 31, 2017. 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 May 31, 2017, the outstanding revolving loan principal balance was \$414.3 million and the face amount of outstanding letters of credit was \$1.5 million. For the fiscal quarter ended May 31, 2017, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.3% to 4.5%. For the fiscal quarter ended May 31, 2016, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.9% to 4.0%. As of May 31, 2017, the amount available for borrowings under the Credit Agreement was \$584.2 million. Covenants in our debt agreements limit the amount of total indebtedness we can incur. As of May 31, 2017, these covenants effectively limited our ability to incur more than \$309.8 million of additional debt from all sources, including our Credit Agreement.

The following table summarizes our long-term debt as of the end of the periods shown:

LONG-TERM DEBT

(dollars in thousands)	Original Date Borrowed	Interest Rates	Matures	May 31, 2017	February 28, 2017
\$37.6 million unsecured loan with the Mississippi Business Finance Corporation (the "MBFC Loan"), interest is 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. Loan subject to holder's call on or after March 1, 2018. Loan can be prepaid without penalty. (1)	03/13	Floating	03/23	\$ 24,207	\$ 29,903
\$100 million unsecured Senior Notes payable at a fixed interest rate of 3.9%. Interest payable semi-annually. Annual principal payments of \$20 million began in January 2014. Prepayment of notes are subject to a "make whole" premium.	01/11	3.9 %	01/18	19,834	19,763

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Credit Agreement	01/15	Floating	12/21	409,800	435,949
Total long-term debt				453,841	485,615
Less current maturities of long-term debt				(20,601)	(24,404)
Long-term debt, excluding current maturities				\$ 433,240	\$ 461,211

(1) A \$5.7 million principal payment was made on March 1, 2017. The remaining principal balance of the MBFC loan is payable as follows: \$1.9 million annually on March 1, 2018 through 2022; and \$14.8 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023.

The fair market value of the fixed rate debt at May 31, 2017, computed using a discounted cash flow analysis and comparable market rates was \$20.1 million, compared to the \$19.8 million book value. Our other long-term debt has floating interest rates, and its book value approximates its fair value at May 31, 2017.

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 May 31, 2017.

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Note 11 – Income Taxes

Due to the Company's organization in Bermuda and the ownership structure of its 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 foreign subsidiaries, resulting in proportionally higher earnings in jurisdictions with lower statutory tax rates, which decreases our overall effective tax rate.

Income taxes for the three months ended May 31, 2017 provided a benefit of \$12.8 million, compared to tax expense of \$0.4 million for the same period last year. Income taxes for the three months ended May 31, 2017 includes a \$12.9 million benefit associated with impairment charges, \$2.5 million benefit from the recognition of excess tax benefits from share-based compensation settlements and exercises and a \$0.6 million benefit from the lapse of the statute of limitations related to an uncertain tax position. Income taxes for the three months ended May 31, 2016 includes a \$1.1 million tax benefit from the recognition of excess tax benefits from share-based compensation settlements and exercises and a \$1.4 million benefit from the resolution of an uncertain tax position.

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.

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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 OF FINANCIAL ASSETS AND LIABILITIES

(in thousands)	Fair Values at May 31, 2017 (Level 2) (1)
Assets:	
Money market accounts	\$ 3,517
Foreign currency contracts	716
Total assets	\$ 4,233

Liabilities:	
Fixed rate debt (2)	\$ 20,127
Floating rate debt	434,006
Foreign currency contracts	1,692
Total liabilities	\$ 455,825

(in thousands)	Fair Values at February 28, 2017 (Level 2) (1)
Assets:	
Money market accounts	\$ 2,711
Foreign currency contracts	2,167
Total assets	\$ 4,878

Liabilities:	
Fixed rate debt (2)	\$ 20,105
Floating rate debt	465,852
Foreign currency contracts	47
Total liabilities	\$ 486,004

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

(2) Debt values are reported at estimated fair value in these tables, but are recorded in the accompanying consolidated balance sheets at the undiscounted value of remaining principal payments due.

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of the short maturity of these items. Money market accounts are included in cash and cash equivalents in the accompanying consolidated condensed balance sheets and are classified as Level 2 items.

We use derivatives for hedging purposes and our derivatives are primarily foreign currency contracts and cross-currency debt swaps. See Notes 6, 7 and 13 to these consolidated condensed financial statements for more information on our hedging activities.

We classify our fixed and floating rate debt as Level 2 items because the estimation of the fair market value of these financial assets 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 fair market value of the fixed rate debt was computed using a discounted cash flow analysis and discount rates of 1.3% at May 31, 2017 and 1.8% at February 28, 2017. All other long-term debt has floating interest rates, and its book value 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 8 to these

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consolidated condensed financial statements contains additional information regarding impairment testing and related 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 months ended May 31, 2017, approximately 12% of our net sales revenue was in foreign currencies. During the three months ended May 31, 2016, approximately 14% of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos and Canadian Dollars. We make most of our inventory purchases from the Far East and primarily use the U.S. Dollar for such purchases. In our consolidated condensed 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 from remeasurement of the balance sheet are recognized in SG&A. For the three months ended May 31, 2017, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of \$0.6 million in SG&A, and (\$0.1) million in income tax expense. For the three months ended May 31, 2016, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of \$0.2 million in SG&A.

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 protect against 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 May 31, 2017 is both floating and fixed. Fixed rates are in place on \$20 million of Senior Notes at 3.9% and floating rates are in place on the balance of all other debt outstanding, which totaled \$438.6 million as of May 31, 2017. If short-term interest rates increase, we will incur higher interest rates on any future outstanding balances of floating rate debt.

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The following table summarizes the fair values of our derivative instruments as of the end of the periods shown:

FAIR VALUES OF DERIVATIVE INSTRUMENTS

		May 31, 2017					
		Final Settlement	Notional	Prepaid Expenses and Other Current	Other	Accrued Expenses and Other Current	Other Liabilities,
(in thousands)	Hedge Type	Date	Amount	Assets	Assets	Liabilities	Non-current
Derivatives designated as hedging instruments							
Foreign currency contracts - sell Euro	Cash flow	5/2018	€ 29,750	\$ -	\$ -	\$ 995	\$ -
Foreign currency contracts - sell Canadian Dollars	Cash flow	6/2018	\$ 20,750	425	15	-	-
Foreign currency contracts - sell Pounds	Cash flow	2/2018	£ 15,250	-	-	292	-
Foreign currency contracts - sell Mexican Pesos	Cash flow	2/2018	\$ 50,000	-	-	285	-
Subtotal				425	15	1,572	-
Derivatives not designated under hedge accounting							
Foreign currency contracts - cross-currency debt swaps - Euro	(1)	4/2020	\$ 5,280	-	276	-	-
Foreign currency contracts - cross-currency debt swaps - Pound	(1)	4/2020	\$ 6,395	-	-	-	120
Subtotal				-	276	-	120
Total fair value				\$ 425	\$ 291	\$ 1,572	\$ 120

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Derivatives designated as hedging instruments	Hedge Type	Final Settlement Date	Notional Amount	Prepaid Expenses and Other Current		Accrued Expenses and Other Current		Other Liabilities, Non-current
				Assets	Assets	Liabilities	Liabilities	
Foreign currency contracts - sell Euro	Cash flow	2/2018	€ 27,500	\$ 727	\$ -	\$ -	\$ -	-
Foreign currency contracts - sell Canadian Dollars	Cash flow	6/2018	\$ 26,000	155	32	-	-	-
Foreign currency contracts - sell Pounds	Cash flow	2/2018	£ 13,500	548	-	-	-	-
Foreign currency contracts - sell Mexican Pesos	Cash flow	2/2018	\$ 59,600	-	-	47	-	-
Subtotal				1,430	32	47	-	-
Derivatives not designated under hedge accounting								
Foreign currency contracts - cross-currency debt swap - Euro	(1)	1/2018	\$ 10,000	705	-	-	-	-
Total fair value				\$ 2,135	\$ 32	\$ 47	\$ -	\$ -

(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 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:

PRE-TAX EFFECT OF DERIVATIVE INSTRUMENTS

(in thousands)	Three Months Ended May 31,		Gain / (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income Location		Gain / (Loss) Recognized As Income Location	
	2017	2016	2017	2016	2017	2016
			SG&A			
	\$ (2,245)	\$ (1,019)	\$ 302	\$ (158)	\$ -	\$ -

Currency contracts - cash flow hedges							
Cross-currency debt swaps - principal	-	-	-	-	SG&A	(549)	52
Total	\$ (2,245)	\$ (1,019)	\$ 302	\$ (158)		\$ (549)	\$ 52

We expect pre-tax net losses of \$1.1 million associated with foreign currency contracts 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 change 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.

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Note 14 – 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 new 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 May 31, 2017, our repurchase authorization allowed for the purchase of \$394.3 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 option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. Net exercises are accounted for as a purchase and retirement of shares.

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

SHARE REPURCHASES

(in thousands, except per share data)	Three Months Ended	
	May 31, 2017	2016
Common stock received in connection with share-based compensation:		
Number of shares	70,707	4,606
Aggregate value of shares (in thousands)	\$ 6,788	\$ 442
Average price per share	\$ 95.99	\$ 96.03

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Note 15 – Share-Based Compensation Plans

We have equity awards outstanding under several share-based compensation plans. During the three months ended May 31, 2017, we had the following share-based compensation activity:

- We issued 1,424 restricted shares to non-employee Board members with a total grant date fair value of \$0.1 million and an average share price of \$98.45.
- We granted time-vested restricted stock units (“RSUs”) that may be settled for 69,807 shares of common stock with average fair values at the grant dates of \$95.87 per unit. We also granted performance-based restricted stock units (“PSUs”) for 65,010 shares of common stock, with an average fair value of \$96.80 per unit.
- Employee RSUs for 33,266 shares vested and settled with a total grant date fair value of \$3.3 million, and an average share price of \$98.39. Employee PSUs for 149,884 shares vested and settled with a total grant date fair value of \$14.3 million, and an average share price of \$95.55.
- Employees exercised stock options to purchase 76,593 shares of common stock.

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

SHARE-BASED PAYMENT EXPENSE

(in thousands, except per share data)	Three Months Ended	
	May 31,	
	2017	2016
Stock options	\$ 539	\$ 740
Directors stock compensation	200	175
Performance based and other stock awards	2,512	4,751
Share-based payment expense	3,251	5,666
Less income tax benefits	(490)	(1,521)
Share-based payment expense, net of income tax benefits	\$ 2,761	\$ 4,145

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Earnings per share impact of share-based payment expense:

Basic	\$ 0.10	\$ 0.15
Diluted	\$ 0.10	\$ 0.15

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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 and its other filings with the Securities and Exchange Commission (the “SEC”). This discussion should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1. of this report.

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 operate in four segments consisting of Housewares, Health & Home, Nutritional Supplements, 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.

Significant Trends Impacting the Business

Nutritional Supplements Business

Due to recent declines in revenue associated with our Nutritional Supplements segment, our annual impairment testing of goodwill and other intangible assets for the segment reflected a fair value that was in excess of the carrying value of the segment by a smaller margin than occurred in previous impairment tests. In addition, the fair value of the

indefinite lived brand asset was determined to be less than the carrying value and impairments of \$9.5 million were recorded during fiscal 2017. The fair values used for our impairment testing in fiscal 2017 were estimated using a weighted average approach, which heavily weighted a valuation derived from a discounted cash flow model based on the Company's estimates of future cash flows and based on management's intentions with respect to the business.

We continue to evaluate strategic alternatives for our Nutritional Supplements business, which could include a transaction to divest the business, investments in online interface and e-commerce platforms, restructuring or realignment programs, and consolidating our operations and functions. We believe that over the longer-term, these alternatives are designed to enhance revenue growth and profitability; however, over the transitional near-term, certain of these alternatives may have a disproportionate impact on our income relative to the cost savings or generate other charges or losses. During the first quarter of 2018, we received information regarding the potential fair value of our Nutritional Supplements business that we concluded should be considered when determining if impairments of our long-lived assets, including goodwill, had occurred. Consequently, we performed interim impairment testing to determine whether our long-lived assets, including goodwill, associated with our Nutritional Supplements segment were impaired. As a result of our testing, we recorded non-cash asset impairment charges totaling \$32.0 million (\$19.6 million after tax), consisting of \$6.0 million (\$3.7 million after tax) to the segment's indefinite-lived trademarks, and \$26.0 million (\$15.9 million after tax) to the segment's goodwill.

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The fair values used in our impairment tests were determined using a weighted average of various valuation methods including estimated future discounted cash flows and using other market data. The valuation techniques utilized assumptions we believed to be appropriate in the circumstances; however, future circumstances attributable to a strategic change in the Nutritional Supplements segment, such as those mentioned in previous paragraph, could result in changes to those assumptions and other charges or losses relating to the segment may be recorded and could be material. For example, if we determine that a divestiture is the probable outcome of our strategic review, we expect to perform additional impairment tests with updated assumptions. We are unable to project what, if any, expense, charges or losses will be in future periods.

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 May 31, 2017, the impact of net foreign currency exchange rate fluctuations negatively impacted our consolidated U.S. dollar reported net sales revenue by approximately \$2.2 million. Over the last three fiscal years, these currencies have been generally weakening against the U.S. Dollar. Although the foreign currencies referred to above generally strengthened toward the end of the fiscal quarter, weighted average exchange rates for the three months ended May 31, 2017 were still unfavorable compared to the same period last year.

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, as approximately 81%, 80% and 79% of our consolidated net sales were from U.S. shipments in fiscal 2017, 2016 and 2015, respectively. Additionally, the shift in consumer shopping preferences to online or multichannel shopping experiences has shifted the concentration of our sales. For fiscal 2017, 2016 and 2015, our net sales to customers fulfilling end-consumer online orders and online sales directly to consumers comprised approximately 13%, 10% and 9%, respectively, of our total consolidated net sales revenue for each fiscal year and grew over 30% in fiscal 2017. For the first quarter of fiscal 2018, our net sales to customers fulfilling end-consumer online orders and online sales directly to consumers comprised approximately 13.6% of our total consolidated net sales revenue and grew approximately 30% compared to the same period 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 November through March, with peak activity normally in January to March. For the 2016-2017 season, fall and winter season weather was mild and reports of cough/cold/flu incidence were below the 2015-2016 season, which was a below average season. We expect that the weakness in the most recent cough/cold/flu season will have an unfavorable impact on initial replenishment of affected categories during fiscal 2018, due to high retail inventory levels.

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First Quarter Fiscal 2018 Financial Results

- Consolidated net sales revenue increased 3.4%, or \$11.7 million, to \$359.6 million for the three months ended May 31, 2017, compared to \$347.9 million for the same period last year.
- Consolidated operating loss was \$3.2 million for the three months ended May 31, 2017, compared to operating income of \$22.9 million in the same period last year. Consolidated operating loss for the three months ended May 31, 2017 includes pre-tax non-cash impairment charges of \$36.0 million, compared to \$7.4 million in the same period last year.
- Consolidated adjusted operating income decreased 4.4%, or \$1.9 million, to \$42.6 million for the three months ended May 31, 2017, compared to \$44.6 million in the same period last year. Consolidated adjusted operating margin decreased 0.9 percentage points to 11.9% of consolidated net sales revenue in the three months ended May 31, 2017, compared to 12.8% in the same period last year.
- Net income was \$5.9 million for the three months ended May 31, 2017, compared to \$19.0 million for the same period last year. Diluted EPS decreased to \$0.22 in the three months ended May 31, 2017, compared to \$0.68 in the same period last year.
- Adjusted income increased 4.3% to \$37.4 million in the three months ended May 31, 2017, compared to \$35.9 million in the same period last year. Adjusted diluted EPS increased 7.9% to \$1.37 in the three months ended May 31, 2017, compared to \$1.27 in the same period last year.

Adjusted operating income, adjusted operating margin, adjusted income, and adjusted diluted EPS 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, on pages 25 through 29.

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our selected operating data, in U.S. Dollars, as a year-over-year percentage change and as a percentage of net sales revenue. We will refer to this table in the discussion of results of operations which follows:

(In thousands)	Three Months Ended		\$ Change	% Change	% of Sales	
	May 31, 2017	2016			Revenue, net 2017	2016
Sales revenue by segment, net						
Housewares (1)	\$ 98,428	\$ 84,603	\$ 13,825	16.3	% 27.4	% 24.3 %
Health & Home	150,266	146,355	3,911	2.7	% 41.8	% 42.1 %
Nutritional Supplements	31,619	35,940	(4,321)	(12.0)	% 8.8	% 10.3 %
Beauty	79,292	81,040	(1,748)	(2.2)	% 22.0	% 23.3 %
Total sales revenue, net	359,605	347,938	11,667	3.4	% 100.0	%