WOLVERINE WORLD WIDE INC /DE/
Form 10-Q
November 07, 2018

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 29, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-06024

WOLVERINE WORLD WIDE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	38-1185150
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
9341 Courtland Drive N.E., Rockford, Michigan	49351
(Address of Principal Executive Offices)	(Zip Code)

(616) 866-5500
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x
There were 94,839,829 shares of common stock, $1 par value, outstanding as of October 26, 2018.

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FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements," which are statements relating to future, not past, events. In this context, forward-looking statements often address management's current beliefs, assumptions, expectations, estimates and projections about future business and financial performance, national, regional or global political, economic and market conditions, and the Company itself. Such statements often contain words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "should," "will," variations of such w similar expressions. Forward-looking statements, by their nature, address matters that are, to varying degrees, uncertain. Uncertainties that could cause the Company's performance to differ materially from what is expressed in forward-looking statements include, but are not limited to, the following:

- changes in general economic conditions, employment rates, business conditions, interest rates, tax policies and other factors affecting consumer spending in the markets and regions in which the Company's products are sold;
- the inability for any reason to effectively compete in global footwear, apparel and consumer-direct markets;
- the inability to maintain positive brand images and anticipate, understand and respond to changing footwear and apparel trends and consumer preferences;
- the inability to effectively manage inventory levels;
- increases or changes in duties, tariffs, quotas or applicable assessments in countries of import and export;
- foreign currency exchange rate fluctuations;
- currency restrictions;
- capacity constraints, production disruptions, quality issues, price increases or other risks associated with foreign sourcing;
- the cost and availability of raw materials, inventories, services and labor for contract manufacturers;
- labor disruptions;
- changes in relationships with, including the loss of, significant wholesale customers;
- risks related to the significant investment in, and performance of, the Company's consumer-direct operations;
- risks related to expansion into new markets and complementary product categories as well as consumer-direct operations;
- the impact of seasonality and unpredictable weather conditions;
- changes in general economic conditions and/or the credit markets on the Company's distributors, suppliers and retailers;
- increase in the Company's effective tax rates;
- failure of licensees or distributors to meet planned annual sales goals or to make timely payments to the Company;
- the risks of doing business in developing countries and politically or economically volatile areas;
- the ability to secure and protect owned intellectual property or use licensed intellectual property;
- the impact of regulation, regulatory and legal proceedings and legal compliance risks, including compliance with federal, state and local laws and regulations relating to the protection of the environment, environmental remediation and other related costs, and litigation or other legal proceedings relating to the protection of the environment or environmental effects on human health;
- the potential breach of the Company's databases, or those of its vendors, which contain certain personal information or payment card data;
- problems affecting the Company's distribution system, including service interruptions at shipping and receiving ports;
- strategic actions, including new initiatives and ventures, acquisitions and dispositions, and the Company's success in integrating acquired businesses, and implementing new initiatives and ventures;
- the risk of impairment to goodwill and other intangibles;
- the success of the Company's restructuring and realignment initiatives; and
- changes in future pension funding requirements and pension expenses.

These uncertainties could cause a material difference between an actual outcome and a forward-looking statement. The uncertainties included here are not exhaustive and are described in more detail in Part I, Item 1A: "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (the "2017 Form 10-K"). Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company does not undertake an obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Operations and Comprehensive Income
(Unaudited)

(In millions, except per share data)	Quarter Ended September 29, 2018	Quarter Ended September 30, 2017	Year-To-Date Ended September 29, 2018	Year-To-Date Ended September 30, 2017
Revenue	$558.6	$ 581.3	$1,659.6	$ 1,771.4
Cost of goods sold	326.5	349.4	965.4	1,070.8
Restructuring costs	—	1.2	—	8.3
Gross profit	232.1	230.7	694.2	692.3
Selling, general and administrative expenses	161.6	170.5	488.6	523.8
Restructuring and other related costs	—	23.0	—	65.6
Environmental and other related costs	2.1	—	7.6	—
Operating profit	68.4	37.2	198.0	102.9
Other expenses:				
Interest expense, net	5.8	8.6	18.7	23.4
Other expense (income), net	(1.3)	1.5	(7.2)	9.2
Total other expenses	4.5	10.1	11.5	32.6
Earnings before income taxes	63.9	27.1	186.5	70.3
Income tax expense	5.0	4.3	25.5	10.2
Net earnings	58.9	22.8	161.0	60.1
Less: net earnings (loss) attributable to noncontrolling interests	0.1	(0.4)	0.2	(0.5)
Net earnings attributable to Wolverine World Wide, Inc.	$58.8	$ 23.2	$160.8	$ 60.6
Net earnings per share (see Note 3):				
Basic	$0.62	$ 0.24	$1.69	$ 0.63
Diluted	$0.60	$ 0.24	$1.65	$ 0.62
Comprehensive income	$60.8	$ 27.6	$163.3	$ 68.0
Less: comprehensive income (loss) attributable to noncontrolling interests	0.3	(0.4)	0.4	—
Comprehensive income attributable to Wolverine World Wide, Inc.	$60.5	$ 28.0	$162.9	$ 68.0
Cash dividends declared per share	$0.08	$ 0.06	$0.24	$ 0.18

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
(Unaudited)

(In millions, except share data)	September 29, 2018	December 30, 2017	September 30, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$ 228.1	$ 481.0	$ 342.7
Accounts receivable, less allowances: September 29, 2018 – $29.7 December 30, 2017 – $31.5 September 30, 2017 – $37.0	364.0	271.3	294.5
Inventories:			
Finished products, net	309.2	265.2	331.5
Raw materials and work-in-process, net	15.2	11.5	7.3
Total inventories	324.4	276.7	338.8
Prepaid expenses and other current assets	32.2	45.3	44.0
Total current assets	948.7	1,074.3	1,020.0
Property, plant and equipment:			
Gross cost	393.7	391.1	410.0
Accumulated depreciation	(262.3)	(254.4)	(267.8)
Property, plant and equipment, net	131.4	136.7	142.2
Other assets:			
Goodwill	427.5	429.8	429.9
Indefinite-lived intangibles	604.5	604.5	673.1
Amortizable intangibles, net	73.1	77.0	78.5
Deferred income taxes	4.0	4.3	4.4
Other	79.9	72.4	70.6
Total other assets	1,189.0	1,188.0	1,256.5
Total assets	$ 2,269.1	$ 2,399.0	$ 2,418.7

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets – continued
(Unaudited)

(In millions, except share data)	September 29, 2018	December 30, 2017	September 30, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 139.5	$ 162.3	$ 141.7
Accrued salaries and wages	32.2	40.0	36.2
Other accrued liabilities	124.4	122.0	100.1
Current maturities of long-term debt	60.0	37.5	48.8
Borrowings under revolving credit agreements and other short-term notes	1.5	0.5	3.7
Total current liabilities	357.6	362.3	330.5
Long-term debt, less current maturities	601.0	744.6	744.2
Accrued pension liabilities	81.2	142.2	133.8
Deferred income taxes	99.4	84.2	150.5
Other liabilities	67.6	110.5	49.6
Stockholders' equity:			
Wolverine World Wide, Inc. stockholders' equity:			
Common stock – par value $1, authorized 320,000,000 shares; shares issued (including shares in treasury):			
September 29, 2018 – 107,587,377 shares			
December 30, 2017 – 106,405,449 shares			
September 30, 2017 – 105,956,497 shares	107.6	106.4	105.9
Additional paid-in capital	190.6	149.2	134.1
Retained earnings	1,138.3	992.2	1,058.4
Accumulated other comprehensive loss	(81.2)	(75.2)	(73.7)
Cost of shares in treasury:			
September 29, 2018 – 12,746,435 shares			
December 30, 2017 – 10,345,141 shares			
September 30, 2017 – 10,347,476 shares	(299.0)	(223.0)	(223.0)
Total Wolverine World Wide, Inc. stockholders' equity	1,056.3	949.6	1,001.7
Noncontrolling interest	6.0	5.6	8.4
Total stockholders' equity	1,062.3	955.2	1,010.1
Total liabilities and stockholders' equity	$ 2,269.1	$ 2,399.0	$ 2,418.7

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
(Unaudited)

(In millions)	Year-To-Date Ended September 29, 2018	September 30, 2017
OPERATING ACTIVITIES		
Net earnings	$161.0	$ 60.1
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	22.6	28.0
Deferred income taxes	12.3	(13.2)
Stock-based compensation expense	21.2	19.1
Pension contribution	(60.7)	(11.1)
Pension and SERP expense	4.0	11.2
Restructuring and other related costs	—	73.9
Cash payments related to restructuring costs	(4.8)	(58.9)
Environmental and other related costs, net of cash payments	(6.3)	—
Loss/(gain) on sale of a business and other assets	0.3	(7.0)
Other	6.5	(12.1)
Changes in operating assets and liabilities:		
Accounts receivable	(95.4)	(24.3)
Inventories	(49.2)	(15.1)
Other operating assets	(3.2)	1.9
Accounts payable	(21.8)	(10.0)
Income taxes payable	8.2	(1.1)
Other operating liabilities	(28.7)	8.1
Net cash provided by (used in) operating activities	(34.0)	49.5
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(15.3)	(28.7)
Proceeds from sale of a business and other assets	2.2	38.0
Other	(1.7)	(4.1)
Net cash provided by (used in) investing activities	(14.8)	5.2
FINANCING ACTIVITIES		
Net borrowings under revolving credit agreements and other short-term notes	1.0	0.3
Payments on long-term debt	(122.6)	(26.2)
Payments of debt issuance costs	—	(0.1)
Cash dividends paid	(21.0)	(17.4)
Purchases of common stock for treasury	(69.9)	(51.5)
Purchases of shares under employee stock plans	(8.1)	(5.2)
Proceeds from the exercise of stock options	23.2	11.9
Contributions from noncontrolling interests	—	0.8
Net cash used in financing activities	(197.4)	(87.4)
Effect of foreign exchange rate changes	(6.7)	5.6
Decrease in cash and cash equivalents	(252.9)	(27.1)
Cash and cash equivalents at beginning of the year	481.0	369.8
Cash and cash equivalents at end of the period	$228.1	$ 342.7

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
Quarters Ended September 29, 2018 and September 30, 2017
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Wolverine World Wide, Inc. (the "Company") is a leading designer, marketer and licensor of a broad range of quality casual footwear and apparel; performance outdoor and athletic footwear and apparel; children's footwear; industrial work shoes, boots and apparel; and uniform shoes and boots. The Company's portfolio of owned and licensed brands includes: Bates®, Cat®, Chaco®, Harley-Davidson®, Hush Puppies®, HyTest®, Keds®, Merrell®, Saucony®, Sperry®, Stride Rite® and Wolverine®. Licensing and distribution arrangements with third parties extend the global reach of the Company's brand portfolio. The Company also operates a consumer-direct division to market both its own brands and branded footwear and apparel from other manufacturers, as well as a leathers division that markets Wolverine Performance Leathers™.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for a complete presentation of the financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included in the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's 2017 Form 10-K.

As described in Note 2, the Company adopted Accounting Standards Updates ("ASU") 2017-07 at the beginning of the first quarter of 2018. As part of the adoption, the prior period non-service cost components of pension expense have been reclassified to other expense to conform with the new presentation. In addition, as described in Note 15, the Company realigned certain components within its operating segments during the first quarter of 2018. All prior period disclosures have been restated to reflect the new reportable operating segments.

Fiscal Year

The Company's fiscal year is the 52 or 53-week period that ends on the Saturday nearest to December 31. Fiscal years 2018 and 2017 both have 52 weeks. The Company reports its quarterly results of operations on the basis of 13-week quarters for each of the first three fiscal quarters and a 13 or 14-week period for the fiscal fourth quarter. References to particular years or quarters refer to the Company's fiscal years ended on the Saturday nearest to December 31 or the fiscal quarters within those years.

Revenue Recognition

Effective December 31, 2017, the Company adopted ASU 2014-09, Revenue from Contracts with Customers, using the modified retrospective method. Under the modified retrospective method, the impact of applying the standard is recognized as a cumulative effect on retained earnings. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the year-to-date ended September 29, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. For additional information, refer to Note 6.

Cost of Goods Sold

Cost of goods sold includes the actual product costs, including inbound freight charges and certain outbound freight charges, purchasing, sourcing, inspection and receiving costs. Warehousing costs are included in selling, general and administrative expenses.

Seasonality

The Company's business is subject to seasonal influences that can cause significant differences in revenue, earnings and cash flows from quarter to quarter; however, the differences have followed a consistent pattern in recent years.

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2. NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued the following ASUs that have been adopted by the Company during 2018. The following is a summary of the effect of adoption of these new standards.

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers (as amended by ASUs 2015-14, 2016-08, 2016-10, 2016-11, 2016-12, 2017-13 and 2017-14)	The core principle of the guidance is that an entity 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. The guidance also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.	The Company adopted the new revenue standard using the modified retrospective method at the beginning of the first quarter. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the year-to-date ended September 29, 2018. See Note 6 for the impact of the adoption of this standard, as well as additional disclosures around the Company's revenue from contracts with customers.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	Enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of financial statements.	The adoption of the new standard in 2018 did not have, nor does the Company believe it will have, a material impact on the accounting for its financial assets and financial liabilities.
ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Sponsors of benefit plans are required to present service cost in the same line item or items as other current employee compensation costs, and present the remaining components of net benefit cost in one or more separate line items outside of income from operations, while also limiting the components of net benefit cost eligible to be capitalized to service cost.	The Company now presents non-service pension costs as a component of Other expense (income), net. Non-services costs of $1.9 million and $5.8 million for the quarter and year-to-date ended September 30, 2017, respectively, have been retrospectively adjusted from Selling, general and administrative expenses to Other expense (income) to conform with the new presentation.
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	Seeks to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities and to reduce the complexity of and simplify the application of hedge accounting. This ASU eliminates the requirement to separately measure and report hedge ineffectiveness.	The Company reclassified $0.2 million of unrecognized losses related to its cross currency swap from accumulated other comprehensive income to retained earnings. This reclassification was effective as of the beginning of 2018.
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	Allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Adoption of this ASU will eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of	The Company reclassified $7.9 million of stranded tax effects resulting from the Tax Cuts and Jobs Act related to its cross currency swap and unamortized actuarial losses related to its pension plans from accumulated other comprehensive income to retained earnings. This reclassification was effective as of the

information reported to financial statement users.	beginning of 2018.

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The FASB has issued the following ASUs that have not yet been adopted by the Company. The following is a summary of the planned adoption period and anticipated impact of adopting these new standards.

Standard	Description	Planned Period of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2016-02, Leases (as amended by ASU 2018-11)	The core principle is that a lessee shall recognize a lease liability in its statement of financial position for the present value of all future lease payments. A lessee would also recognize a right-of-use asset representing its right to use the underlying asset for the lease term. Under a new transition method, a reporting entity will apply the new lease requirements at the effective date and continue to report comparative periods presented in the financial statements in the period of adoption under current GAAP.	Q1 2019	Upon adoption in the first quarter of 2019, the Company will recognize a right-of-use asset and a lease liability for the present value of future minimum rental payments for its portfolio of operating leases. The Company does not expect a material impact to its results of operations or cash flows related to the adoption of this standard. The Company plans to adopt the new standard using the modified retrospective approach and elect the package of practical expedients for leases existing as of the transition date.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	Seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.	Q1 2020	The Company is evaluating the impacts of the new standard on its existing financial instruments, including trade receivables.

3. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with FASB Accounting Standards Codification ("ASC") Topic 260, Earnings Per Share ("ASC 260"). ASC 260 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. Under the guidance in ASC 260, the Company's unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and must be included in the computation of earnings per share pursuant to the two-class method.

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The following table sets forth the computation of basic and diluted earnings per share.

(In millions, except per share data)	Quarter Ended September 29, 2018	Quarter Ended September 30, 2017	Year-To-Date Ended September 29, 2018	Year-To-Date Ended September 30, 2017
Numerator:				
Net earnings attributable to Wolverine World Wide, Inc.	$58.8	$ 23.2	$160.8	$ 60.6
Adjustment for earnings allocated to non-vested restricted common stock	(1.2)	(0.5)	(3.4)	(1.3)
Net earnings used in calculating basic earnings per share	57.6	22.7	157.4	59.3
Adjustment for earnings reallocated from non-vested restricted common stock	—	—	0.1	—
Net earnings used in calculating diluted earnings per share	$57.6	$ 22.7	$157.5	$ 59.3
Denominator:				
Weighted average shares outstanding	94.9	96.1	95.2	96.6
Adjustment for non-vested restricted common stock	(1.7)	(2.1)	(1.8)	(2.2)
Shares used in calculating basic earnings per share	93.2	94.0	93.4	94.4
Effect of dilutive stock options	2.1	1.8	2.0	1.6
Shares used in calculating diluted earnings per share	95.3	95.8	95.4	96.0
Net earnings per share:				
Basic	$0.62	$ 0.24	$1.69	$ 0.63
Diluted	$0.60	$ 0.24	$1.65	$ 0.62

For the quarter and year-to-date ended September 29, 2018, options relating to 18,779