

Ascena Retail Group, Inc.
Form 10-K
September 19, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended July 30, 2016

or

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

Commission file number 0-11736

ASCENA RETAIL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware 30-0641353
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

933 MacArthur Boulevard, Mahwah, New Jersey 07430
(Address of principal executive offices) (Zip Code)

(551) 777-6700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$1.5 billion as of January 23, 2016, based on the last reported sales price on the NASDAQ Global Select Market on that date. As of September 14, 2016, 194,213,926 shares of voting common shares were outstanding.

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on December 8, 2016 are incorporated into Part III of this Form 10-K.

ASCENA RETAIL GROUP, INC.
 FORM 10-K
 FISCAL YEAR ENDED JULY 30, 2016
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the section labeled Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and the risk factors that we have included elsewhere in this report. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our results, level of activity, performance or achievements to be materially different from any future results, level of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. We generally identify these statements by words or phrases such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “may,” “should,” “estimate,” “predict,” “project,” “potential,” “continue,” “optimistic,” or the negative of such terms or other similar expressions.

Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed below under Item 1A. Risk Factors, and other factors discussed in this Annual Report on Form 10-K and other reports we file with the Securities and Exchange Commission. We disclaim any intent or obligation to update or revise any forward-looking statements as a result of developments occurring after the period covered by this report.

WEBSITE ACCESS TO COMPANY REPORTS

We maintain our corporate Internet website at www.ascenaretail.com. The information on our Internet website is not incorporated by reference into this report. We make available, free of charge through publication on our Internet website, a copy of our Annual Reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, including any amendments to those reports, as filed with or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after they have been so filed or furnished. Information relating to corporate governance at Ascena Retail Group, Inc., including our Code of Ethics for the Chief Executive Officer and Senior Financial Officers, information concerning our directors, committees of the Board of Directors, including committee charters, and transactions in Ascena Retail Group, Inc. securities by directors and executive officers, is also available at our website.

In this Form 10-K, references to “ascena,” “ourselves,” “we,” “us,” “our” or “Company” or other similar terms refer to Ascena Retail Group, Inc. and its subsidiaries, unless the context indicates otherwise. The Company utilizes a 52-53 week fiscal year ending on the last Saturday in July. As such, fiscal year 2016 ended on July 30, 2016 and reflected a 53-week period (“Fiscal 2016”); fiscal year 2015 ended on July 25, 2015 and reflected a 52-week period (“Fiscal 2015”); and fiscal year 2014 ended on July 26, 2014 and reflected a 52-week period (“Fiscal 2014”). All references to “Fiscal 2017” refer to our 52-week period that will end on July 29, 2017.

PART I

Item 1. Business.

General

The Company is a leading national specialty retailer of apparel for women and tween girls. The Company operates, through its 100% owned subsidiaries, ecommerce operations and approximately 4,900 stores throughout the United States, Canada and Puerto Rico. The Company had annual revenue for the fiscal year ended July 30, 2016 of approximately \$7.0 billion. The Company and its subsidiaries are collectively referred to herein as the “Company,”

“ascena,” “we,” “us,” “our” and “ourselves,” unless the context indicates otherwise.

Acquisition of ANN INC.

On August 21, 2015, the Company acquired 100% of the outstanding common stock of ANN INC. ("ANN"), a retailer of women's apparel, shoes and accessories sold primarily under the Ann Taylor and LOFT brands, for an aggregate purchase price of approximately \$2.1 billion (the "ANN Acquisition"). The purchase price consisted of approximately \$1.75 billion in cash and the issuance of 31.2 million shares of the Company's common stock valued at approximately \$345 million, based on the Company's stock price on the date of the acquisition, as more fully described in Note 5 to the accompanying consolidated financial statements. The cash portion of the purchase price was funded with borrowings under a \$1.8 billion seven-year, variable-rate term loan described in Note 11 to the accompanying consolidated financial statements. The acquisition is intended to diversify our portfolio of brands that serve the needs of women of different ages, sizes and demographics. ANN's operating results for the post-acquisition period from August 22, 2015 to July 30, 2016 are included in the accompanying consolidated statement of operations for Fiscal 2016.

Our Brands and Products

The Company classifies its businesses into six reportable segments: ANN, Justice, Lane Bryant, maurices, dressbarn and Catherines.

ANN

The ANN segment includes 1,022 specialty retail and outlet stores, ecommerce operations and certain licensed franchises in international territories which allow customers to shop in more than 100 countries worldwide. The ANN segment offers modern feminine classics and versatile fashion choices, sold primarily under the Ann Taylor and LOFT brands. ANN focuses on providing a wide selection of fashion and everyday essentials to help women look their best and feel confident. ANN retail stores are located in mall locations, lifestyle centers and outlet centers.

Justice

The Justice segment includes 937 specialty retail and outlet stores, ecommerce operations and certain licensed franchises in international territories. The Justice brand offers fashionable apparel to girls who are ages 6 to 12 in an environment designed to match the energetic lifestyle of tween girls. Justice creates, designs and develops its own exclusive Justice branded merchandise in-house. This allows Justice to maintain creative control and respond as quickly as fashion trends dictate. The Justice merchandise mix represents the broad assortment that its girl wants in her store - a mix of apparel, accessories, footwear, intimates and lifestyle products, such as cosmetics, bedroom furnishings and electronics, to meet all of her needs. Justice retail stores are located in mall locations, strip shopping centers, lifestyle centers and outlet centers.

Lane Bryant

The Lane Bryant segment includes 772 specialty retail and outlet stores, and ecommerce operations. Lane Bryant is a widely recognized brand name in plus-size fashion with stores concentrated in suburban and small towns, offering fashionable and sophisticated apparel at a moderate price point to female customers in plus-sizes 14-28 through its namesake and Cacique private labels, along with select national brands. Merchandise assortment offerings include intimate apparel, wear-to-work and casual sportswear, accessories, select footwear and social occasion apparel. Lane Bryant retail stores are located in mall locations, strip shopping centers, lifestyle centers and outlet centers.

maurices

The maurices segment includes 993 specialty retail and outlet stores, and ecommerce operations, offering up-to-date core and plus-size fashion apparel. maurices stores are concentrated in small markets (approximately 25,000 to 150,000 people), and cater to local market preferences through a core merchandise assortment that is refined to reflect individual store demands. Through its proprietary label, the maurices product line encompasses women's casual clothing, career wear, dressy apparel, active wear and accessories. maurices retail stores are typically located near large discount and department stores to capitalize on the traffic those retailers generate, while differentiating itself by offering a wider selection of style, color and current fashion, along with an elevated shopping experience.

dressbarn

The dressbarn segment includes 809 specialty retail and outlet stores, and ecommerce operations, offering moderate-to-better quality career, special occasion and casual fashion for working women in a comfortable, easy-to-shop environment staffed by friendly, service oriented associates. dressbarn's individual store assortments vary

depending on local demographics, seasonality and past sales patterns. dressbarn retail stores are located primarily in convenient strip shopping centers in major trading and high-density markets and in surrounding suburban areas.

Catherines

The Catherines segment includes 373 specialty retail stores and ecommerce operations, offering a full range of plus sizes (16-34) and extended sizes (28-34). Catherines offers classic apparel and accessories to female customers in the moderate price range for wear-to-work and casual lifestyles. Catherines retail stores are concentrated in suburban and small towns and are primarily located in strip shopping centers.

The tables below present net sales and operating income (loss) by segment for the last three fiscal years:

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Net sales:	(millions)		
ANN ^(a)	\$2,330.9	\$—	\$—
Justice	1,106.3	1,276.8	1,384.3
Lane Bryant	1,130.3	1,095.9	1,080.0
maurices	1,101.3	1,060.6	971.4
dressbarn	993.3	1,023.6	1,022.5
Catherines	333.3	346.0	332.4
Total net sales	\$6,995.4	\$4,802.9	\$4,790.6
	Fiscal 2016	Fiscal 2015	Fiscal 2014
Operating income (loss):	(millions)		
ANN ^(a)	\$13.3	\$—	\$—
Justice	29.0	(62.8)	99.3
Lane Bryant	20.6	(308.0)	(4.3)
maurices	105.6	125.9	86.0
dressbarn	(13.6)	10.7	39.4
Catherines	16.3	31.0	24.4
Unallocated acquisition and integration expenses	(77.4)	(31.7)	(34.0)
Total operating income (loss)	\$93.8	\$(234.9)	\$210.8

^(a) The results of ANN for the post-acquisition period from August 22, 2015 to July 30, 2016 are included within the Company's consolidated results of operations for Fiscal 2016.

Over the past five fiscal years, our sales have grown to approximately \$7.0 billion in Fiscal 2016 from \$3.4 billion in Fiscal 2012. This growth has been a result of both our acquisitions and organic growth. We currently operate approximately 4,900 stores throughout the United States, Canada and Puerto Rico. We have diversified our business by brand, price point and target consumer as well as by geography throughout North America. Our ANN, Justice and maurices segments now operate 13 stores, 42 stores and 35 stores, respectively, in Canada. We will continue evaluating other international opportunities for our family of brands. In addition to our store presence, we sell merchandise through our primary ecommerce websites: anntaylor.com; LOFT.com; louandgrey.com; shopjustice.com; lanebryant.com; cacique.com; maurices.com; dressbarn.com and catherines.com.

Over the past five fiscal years, we have invested approximately \$4.1 billion in acquisitions, capital improvements, supply chain integration and technology infrastructure improvements, which were funded through cash, debt and the issuance of common stock. We intend to continue to execute our long-term strategies, which include, among other things, growth through selective acquisitions, investment in our operational infrastructure and expansion of our omni-channel businesses and technology platforms.

Seasonality of Business

Our individual segments are typically affected by seasonal sales trends primarily resulting from the timing of holiday and back-to-school shopping periods. In particular, sales at Justice tend to be significantly higher during the fall season, which occurs during the first and second quarters of our fiscal year, as this includes the back-to-school period and the December holiday season. Our Lane Bryant, dressbarn and Catherines segments tend to experience higher sales during the spring season, which include the Easter and Mother's Day holidays. Our ANN and maurices segments have relatively balanced sales across the Fall and Spring seasons. As a result, our operational results and cash flows

may fluctuate materially in any quarterly period depending on, among other things, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays and changes in merchandise mix.

Omni-channel

The Company continues to invest in our technology platforms to support the growth of o