WILLIAMS SONOMA INC
Form 10-Q
September 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 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: 001-14077

WILLIAMS-SONOMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-2203880**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3250 Van Ness Avenue, San Francisco, CA	**94109**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (415) 421-7900

(Former name, former address and former fiscal year, if changed since last report)

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.

Large accelerated filer		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

As of August 26, 2018, 80,554,866 shares of the registrant s Common Stock were outstanding.

WILLIAMS-SONOMA, INC.

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JULY 29, 2018

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ITEM 1. FINANCIAL STATEMENTS

WILLIAMS-SONOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 29,	July 30,	July 29,	July 30,
In thousands, except per share amounts	2018	2017	2018	2017
E-commerce net revenues	$ 686,942	$ 630,793	$ 1,333,122	$ 1,211,303
Retail net revenues	588,232	570,813	1,145,052	1,101,810
Net revenues	1,275,174	1,201,606	2,478,174	2,313,113
Cost of goods sold	811,232	778,895	1,582,068	1,494,642
Gross profit	463,942	422,711	896,106	818,471
Selling, general and administrative expenses	389,776	341,127	755,390	674,413
Operating income	74,166	81,584	140,716	144,058
Interest (income) expense, net	1,584	483	2,785	380
Earnings before income taxes	72,582	81,101	137,931	143,678
Income taxes	20,869	28,184	41,050	51,206
Net earnings	$ 51,713	$ 52,917	$ 96,881	$ 92,472
Basic earnings per share	$ 0.63	$ 0.61	$ 1.17	$ 1.07
Diluted earnings per share	$ 0.62	$ 0.61	$ 1.16	$ 1.06
Shares used in calculation of earnings per share:				
Basic	82,342	86,429	82,867	86,696
Diluted	83,167	86,848	83,519	87,238

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 29,	July 30,	July 29,	July 30,
In thousands	2018	2017	2018	2017
Net earnings	$ 51,713	$ 52,917	$ 96,881	$ 92,472
Other comprehensive income (loss):				
Foreign currency translation adjustments	(2,993)	3,390	(4,138)	1,824
	6	(1,166)	1,129	(511)

Change in fair value of derivative financial instruments, net of tax (tax benefit) of $333, $(422), $401 and $(185)				
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax (tax benefit) of $(21), $(2), $(24) and $3		7	49	(9)
Comprehensive income	$ 48,726	$ 55,148	$ 93,921	$ 93,776

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except per share amounts	July 29, 2018	January 28, 2018	July 30, 2017
ASSETS			
Current assets			
Cash and cash equivalents	$ 174,580	$ 390,136	$ 103,109
Accounts receivable, net	106,322	90,119	78,735
Merchandise inventories, net	1,099,888	1,061,593	1,072,976
Prepaid catalog expenses		20,517	20,881
Prepaid expenses	74,811	62,204	76,611
Other current assets	21,891	11,876	12,066
Total current assets	1,477,492	1,636,445	1,364,378
Property and equipment, net	919,689	932,283	929,331
Deferred income taxes, net	60,960	67,306	130,212
Goodwill	85,673	18,838	18,773
Other long-term assets, net	64,163	130,877	37,166
Total assets	$ 2,607,977	$ 2,785,749	$ 2,479,860
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Accounts payable	$ 466,903	$ 457,144	$ 427,474
Accrued expenses	112,381	134,207	97,965
Gift card and other deferred revenue	263,546	300,607	294,694
Borrowings under revolving line of credit			115,000
Income taxes payable	35,529	56,783	35,582
Other current liabilities	69,589	59,082	49,355
Total current liabilities	947,948	1,007,823	1,020,070
Deferred rent and lease incentives	207,190	202,134	196,982
Long-term debt	299,521	299,422	
Other long-term obligations	72,330	72,804	74,284
Total liabilities	1,526,989	1,582,183	1,291,336
Commitments and contingencies See Note F			
Stockholders equity			
Preferred stock: $.01 par value; 7,500 shares authorized; none issued			
Common stock: $.01 par value; 253,125 shares authorized; 80,988, 83,726 and 85,754 shares issued and outstanding at July 29, 2018, January 28, 2018 and July 30, 2017, respectively	810	837	858
Additional paid-in capital	561,810	562,814	556,702
Retained earnings	528,368	647,422	640,368
Accumulated other comprehensive loss	(9,742)	(6,782)	(8,599)
Treasury stock, at cost: 2, 11 and 12 shares as of July 29, 2018, January 28, 2018 and July 30, 2017, respectively	(258)	(725)	(805)
Total stockholders equity	1,080,988	1,203,566	1,188,524

Total liabilities and stockholders equity	$ 2,607,977	$ 2,785,749	$ 2,479,860

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Twenty-six Weeks Ended	
	July 29,	July 30,
In thousands	2018	2017
Cash flows from operating activities:		
Net earnings	$ 96,881	$ 92,472
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	93,809	90,048
Loss on disposal/impairment of assets	4,466	845
Amortization of deferred lease incentives	(13,210)	(12,680)
Deferred income taxes	(4,415)	(8,937)
Tax benefit related to stock-based awards	9,711	14,511
Stock-based compensation expense	26,526	22,829
Other	166	102
Changes in:		
Accounts receivable	(13,567)	10,658
Merchandise inventories	(45,159)	(92,711)
Prepaid catalog expenses		(1,384)
Prepaid expenses and other assets	(29,217)	(25,739)
Accounts payable	(1,735)	(36,917)
Accrued expenses and other liabilities	(12,209)	(34,453)
Gift card and other deferred revenue	11,927	(8,553)
Deferred rent and lease incentives	18,861	12,635
Income taxes payable	(22,712)	12,409
Net cash provided by operating activities	120,123	35,135
Cash flows from investing activities:		
Purchases of property and equipment	(80,021)	(82,727)
Other	513	44
Net cash used in investing activities	(79,508)	(82,683)
Cash flows from financing activities:		
Repurchases of common stock	(174,818)	(93,361)
Payment of dividends	(70,331)	(68,197)
Tax withholdings related to stock-based awards	(12,335)	(14,117)
Borrowings under revolving line of credit		115,000
Net cash used in financing activities	(257,484)	(60,675)
Effect of exchange rates on cash and cash equivalents	1,313	(2,381)
Net decrease in cash and cash equivalents	(215,556)	(110,604)
Cash and cash equivalents at beginning of period	390,136	213,713
Cash and cash equivalents at end of period	$ 174,580	$ 103,109

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries (we, us or our). The Condensed Consolidated Balance Sheets as of July 29, 2018 and July 30, 2017, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income for the thirteen and twenty-six weeks then ended, and the Condensed Consolidated Statements of Cash Flows for the twenty-six weeks then ended, have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen and twenty-six weeks then ended. Intercompany transactions and accounts have been eliminated. The balance sheet as of January 28, 2018, presented herein, has been derived from our audited Consolidated Balance Sheet included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

The results of operations for the thirteen and twenty-six weeks ended July 29, 2018 are not necessarily indicative of the operating results of the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Reclassifications

Certain amounts reported in our Condensed Consolidated Balance Sheets as of January 28, 2018 and July 30, 2017 and our Condensed Consolidated Statement of Cash Flows for the twenty-six weeks ended July 30, 2017 have been reclassified in order to conform to the current period presentation. These reclassifications impacted prepaid catalog expenses, prepaid expenses, goodwill, other long-term assets, accounts payable, accrued expenses, gift card and other deferred revenue and other current liabilities. There was no change to total current assets, total assets, total current liabilities, or cash flows as a result of these reclassifications.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. We adopted the ASU on a modified retrospective basis in the first quarter of fiscal 2018 and applied the guidance therein to all applicable contracts that were not complete as of the date of application. As a result, we recorded an increase to opening retained earnings as of January 29, 2018 of approximately $17,862,000, net of tax, for the cumulative effect adjustments of adopting the ASU. These adjustments primarily related to the acceleration in the timing of recognizing breakage income related to our unredeemed stored-value cards, the acceleration in the timing of revenue recognition for certain merchandise shipped to our customers, and prepaid catalog advertising costs, which were capitalized and amortized over their expected period of future benefit prior to adoption, and are now expensed as incurred. Prior period balances were not retrospectively adjusted as a result of adopting the ASU. See Note L for further discussion related to the impact of the adoption of the ASU on our Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, *Leases,* which will require lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). This ASU, as amended, is effective for us beginning in the first quarter of fiscal 2019. We plan to apply the provisions of this ASU at the adoption date, instead of to the earliest comparative period presented in the financial statements, with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We are currently assessing the impact of this ASU on our Consolidated Financial Statements, but expect that it will result in a substantial increase in our long-term assets and liabilities, however, we do not expect it to materially impact our Consolidated Statement of Earnings.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (Topic 815),* which expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance also makes certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. This ASU is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. Entities should apply the guidance to existing cash flow and net investment hedge relationships using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings on the date of adoption. The guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges where the hedge documentation needs to be modified. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flows.

NOTE B. BORROWING ARRANGEMENTS

Credit Facility

We have a credit facility which provides for a $500,000,000 unsecured revolving line of credit (revolver) and a $300,000,000 unsecured term loan facility (term loan). The revolver may be used to borrow revolving loans or request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to $250,000,000, at such lenders option, to provide for a total of $750,000,000 of unsecured revolving credit. The revolver matures on January 8, 2023, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized. We may, prior to the first and second anniversaries of the closing date of the amendment of the credit facility, elect to extend the maturity date for an additional year, subject to lender approval.

During the second quarter and for year-to-date fiscal 2018, we had no borrowings under the revolver. During the second quarter and year-to-date fiscal 2017, we had borrowings of $70,000,000 and $115,000,000, respectively, under the revolver both at a weighted average interest rate of 2.24%. Additionally, as of July 29, 2018, $13,574,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers compensation and other insurance programs.