ENERGIZER HOLDINGS INC
Form 10-Q
January 30, 2015

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2014
Or
o 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: 001-15401

ENERGIZER HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Missouri	43-1863181
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
533 Maryville University Drive St. Louis, Missouri	63141
(Address of principal executive offices)	(Zip Code)

(314) 985-2000
(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 o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

(Do not check if smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares of Energizer Holdings, Inc. common stock, $.01 par value, outstanding as of the close of business on December 31, 2014: 62,139,639.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

ENERGIZER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Condensed)
(In millions, except per share data - Unaudited)

	Quarter Ended December 31,	
	2014	2013
Net sales	$1,038.4	$1,113.9
Cost of products sold	549.2	602.1
Gross profit	489.2	511.8
Selling, general and administrative expense	218.3	203.5
Advertising and sales promotion expense	85.1	81.0
Research and development expense	22.0	21.9
Spin restructuring	2.8	—
2013 restructuring	(0.5)	24.4
Interest expense	28.7	31.2
Other financing items, net	(3.4)	(2.0)
Earnings before income taxes	136.2	151.8
Income tax provision	31.1	43.9
Net earnings	$105.1	$107.9
Basic net earnings per share	$1.70	$1.73
Diluted net earnings per share	$1.69	$1.71
Statement of Comprehensive Income:		
Net earnings	$105.1	$107.9
Other comprehensive income/(loss), net of tax		
Foreign currency translation adjustments	(62.3)	0.2
Pension/postretirement activity, net of tax of $2.0 and $1.5, respectively	4.3	2.8
Deferred gain on hedging activity, net of tax of $1.9 and $0.9, respectively.	4.6	1.4
Total comprehensive income	$51.7	$112.3

See accompanying Notes to (Unaudited) Condensed Financial Statements

ENERGIZER HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Condensed)
(In millions - Unaudited)

Assets	December 31, 2014	September 30, 2014
Current assets		
Cash and cash equivalents	$1,131.6	$1,129.0
Trade receivables, less allowance for doubtful accounts of $13.8 and $13.4, respectively	456.0	495.0
Inventories	643.1	616.9
Other current assets	537.0	488.7
Total current assets	2,767.7	2,729.6
Property, plant and equipment, net	742.4	751.7
Goodwill	1,478.4	1,487.4
Other intangible assets, net	1,837.2	1,847.3
Other assets	107.1	112.7
Total assets	$6,932.8	$6,928.7
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	$220.0	$230.0
Notes payable	484.2	289.5
Accounts payable	342.1	397.1
Other current liabilities	574.9	657.1
Total current liabilities	1,621.2	1,573.7
Long-term debt	1,699.0	1,768.9
Deferred income tax liabilities	487.1	471.1
Other liabilities	586.0	592.7
Total liabilities	4,393.3	4,406.4
Shareholders' equity		
Common stock	0.7	0.7
Additional paid-in capital	1,626.6	1,641.3
Retained earnings	1,447.0	1,373.0
Treasury stock	(210.3)	(221.6)
Accumulated other comprehensive loss	(324.5)	(271.1)
Total shareholders' equity	2,539.5	2,522.3
Total liabilities and shareholders' equity	$6,932.8	$6,928.7

See accompanying Notes to (Unaudited) Condensed Financial Statements

ENERGIZER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Condensed)
(In millions - Unaudited)

	Three Months Ended December 31, 2014	2013
Cash Flow from Operating Activities		
Net earnings	$105.1	$107.9
Non-cash restructuring costs related to asset impairment/ accelerated depreciation	1.4	4.4
Depreciation and amortization	33.2	33.4
Non-cash items included in income, net	8.9	47.3
Other, net	3.7	7.1
Changes in current assets and liabilities used in operations	(184.3)	(149.0)
Net cash (used by)/from operating activities	(32.0)	51.1
Cash Flow from Investing Activities		
Capital expenditures	(15.3)	(20.3)
Acquisitions, net of cash acquired	(11.1)	(185.3)
Proceeds from sale of assets	1.8	3.5
Net cash used by investing activities	(24.6)	(202.1)
Cash Flow from Financing Activities		
Cash payments on debt with original maturities greater than 90 days	(80.0)	—
Net increase in debt with original maturities of 90 days or less	188.2	58.3
Cash dividends paid	(31.1)	(31.3)
Proceeds from issuance of common stock, net	1.4	2.0
Excess tax benefits from share-based payments	8.4	4.0
Net cash from financing activities	86.9	33.0
Effect of exchange rate changes on cash	(27.7)	1.2
Net increase/(decrease) in cash and cash equivalents	2.6	(116.8)
Cash and cash equivalents, beginning of period	1,129.0	998.3
Cash and cash equivalents, end of period	$1,131.6	$881.5

See accompanying Notes to (Unaudited) Condensed Financial Statements

ENERGIZER HOLDINGS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
December 31, 2014
(In millions, except per share data – Unaudited)

The accompanying unaudited financial statements have been prepared in accordance with Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior year financial statements to conform to the current presentation. The Company has evaluated subsequent events and has determined no disclosure is necessary beyond those events disclosed herein. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the financial statements and notes thereto for Energizer Holdings, Inc. (the Company) for the year ended September 30, 2014 included in the Annual Report on Form 10-K dated November 18, 2014.

Note 1 – Segment note
Operations for the Company are managed via two segments - Personal Care (Wet Shave, Skin Care, Feminine Care and Infant Care) and Household Products (Battery and Portable Lighting products). Segment performance is evaluated based on segment operating profit, exclusive of general corporate expenses, share-based compensation costs, costs associated with restructuring initiatives (including spin restructuring and the 2013 restructuring detailed below), acquisition, integration or business realignment activities, and amortization of intangible assets. Financial items, such as interest income and expense, are managed on a global basis at the corporate level. The exclusion from segment results of charges such as other acquisition transaction and integration costs, and substantially all restructuring and realignment costs, reflects management's view on how it evaluates segment performance.

The Company's operating model includes a combination of stand-alone and combined business functions between the Personal Care and Household Products businesses, varying by country and region of the world. Shared functions include product warehousing and distribution, various transaction processing functions, and in some countries, a combined sales force and management. The Company applies a fully allocated cost basis, in which shared business functions are allocated between the segments. Such allocations are estimates, and also do not represent the costs of such services if performed on a stand-alone basis.

For the quarter ended December 31, 2014, the Company recorded pre-tax income of $0.5 related to its 2013 restructuring, which was driven by the gain on the sale of our Asia battery packaging facility of $11.0 offset by $10.5 of pre-tax restructuring related charges incurred in the current quarter as compared to pre-tax expense of $24.4 in the prior year quarter. The 2013 restructuring charges, net were reported on a separate line in the Consolidated Statements of Earnings and Comprehensive Income (Condensed). In addition, pre-tax costs of $0.2 for the quarter ended December 31, 2014 and $2.3 for the quarter ended December 31, 2013, associated with certain information technology enablement activities related to the Company's restructuring initiatives were included in Selling, general and administrative (SG&A) on the Consolidated Statements of Earnings and Comprehensive Income (Condensed). See Note 4 to the Condensed Financial Statements.

As announced on April 30, 2014, the Company is pursuing a plan to separate the Household Products and Personal Care divisions into two independent, publicly traded companies. As a result, the Company is incurring incremental costs to evaluate, plan and execute the transaction. For the quarter ended December 31, 2014, $40.8 of pre-tax charges were recorded in SG&A on the Consolidated Statements of Earnings and Comprehensive Income (Condensed). Additionally, the Company recorded $2.8 in pre-tax spin restructuring charges related to the proposed spin-off transaction for the quarter ended December 31, 2014. The spin restructuring charges were reported on a separate line in the Consolidated Statements of Earnings and Comprehensive Income (Condensed). See Note 2 to the Condensed Financial Statements.

In connection with the feminine care acquisition, the Company recorded pre-tax acquisition/integration costs of $4.9 for the quarter ended December 31, 2013. These amounts are not reflected in the Personal Care segment, but rather are presented as a separate line item below segment profit, as it is a non-recurring item directly associated with the feminine care acquisition. Such presentation reflects management’s view on how segment results are evaluated.

For the quarter ended December 31, 2013, the Company recorded a pre-tax inventory valuation adjustment of approximately $8.0 related to the feminine care acquisition representing the increased fair value of the inventory based on the estimated selling price of the finished goods acquired at the close date less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity. Approximately $6.4 of this amount was recorded within Cost of products sold based upon the write-up and subsequent sale of inventory acquired in the feminine care acquisition for the quarter ended December 31, 2013. The remaining amount of the inventory valuation adjustment was recorded to Cost of products sold during the second fiscal quarter of 2014, upon the subsequent sale of the remaining inventory. These amounts are not reflected in the Personal Care segment, but rather presented as a separate line item below segment profit, as it is a non-recurring item directly associated with the feminine care acquisition. Such presentation reflects management's view on how segment results are evaluated.

Segment sales and profitability for the quarter ended December 31, 2014 and 2013, respectively, are presented below.

	For the quarter ended December 31,	
	2014	2013
Net Sales		
Personal Care	$537.1	$550.2
Household Products	501.3	563.7
Total net sales	$1,038.4	$1,113.9

	For the quarter ended December 31,	
	2014	2013
Segment Profit		
Personal Care	$116.2	$130.3
Household Products	121.2	133.4
Total segment profit	237.4	263.7
General corporate and other expenses	(28.5)	(40.2)
2013 restructuring, net (1)	0.3	(26.7)
Spin restructuring	(2.8)	—
Spin costs	(40.8)	—
Feminine care acquisition/integration costs	—	(4.9)
Acquisition inventory valuation	—	(6.4)
Amortization of intangibles	(4.1)	(4.5)
Interest and other financing items	(25.3)	(29.2)
Total earnings before income taxes	$136.2	$151.8

(1) Includes pre-tax costs of $0.2 for the quarter ended December 31, 2014 and $2.3 for the quarter ended December 31, 2013, associated with certain information technology and related activities, which are included in SG&A on the Consolidated Statements of Earnings and Comprehensive Income (Condensed).

Supplemental product information is presented below for revenues from external customers:

	For the quarter ended December 31,	
Net Sales	2014	2013
Wet Shave	$342.5	$365.2
Alkaline batteries	327.9	365.6
Other batteries and lighting products	173.4	198.1
Feminine Care	95.8	80.9
Skin Care	54.3	56.2
Infant Care	30.9	35.3
Other personal care products	13.6	12.6
Total net sales	$1,038.4	$1,113.9

Total assets by segment are presented below:

	December 31, 2014	September 30, 2014
Personal Care	$1,274.6	$1,241.6
Household Products	848.5	882.1
Total segment assets	2,123.1	2,123.7
Corporate	1,494.1	1,470.3
Goodwill and other intangible assets, net	3,315.6	3,334.7
Total assets	$6,932.8	$6,928.7

Note 2 - Proposed Spin-off Transaction

As announced on April 30, 2014, the Company is pursuing a plan to separate the Company’s Household Products and Personal Care segments into two independent, publicly traded companies. The separation is planned as a tax-free spin-off to the Company’s shareholders and is expected to be completed by July 1, 2015. The proposed separation is subject to further due diligence as appropriate and customary conditions, including receipt of regulatory approvals, an opinion of counsel regarding the tax-free nature of the separation, the effectiveness of a Form 10 filing with the Securities and Exchange Commission, and final approval by the Company's Board of Directors.

The Company is incurring incremental costs to evaluate, plan and execute the transaction. In addition, the Company plans to execute certain restructuring initiatives in order to prepare both businesses to operate as stand-alone entities. The restructuring initiatives include efforts to:

- Adapt the global go-to-market footprint to adjust to the future strategies and scale of each stand-alone business;
- Centralize certain back-office functions to increase efficiencies;
- Outsource certain non-core transactional activities; and
- Reduce headcount to optimize the cost structures of each stand-alone business

The spin restructuring initiative savings are targeted to offset incremental costs expected to be incurred to develop the stand-alone organizations.

The Company estimates total spin-off and spin restructuring related costs through the close of the spin-off will be approximately $350 to $425.

- $200 to $225 related to the transaction evaluation, planning and execution
- $150 to $200 related to spin restructuring initiatives.

These estimates are based on currently known facts and may change materially as future operating decisions are made. These estimates do not include costs related to potential debt breakage, potential tax related charges or

potential capital expenditures which may be incurred related to the proposed transaction. These additional costs could be significant. In connection with the spin, we are assessing our strategy with respect to our international cash balances as well as the repayment of scheduled debt maturities and may change our approach in the future.
For the quarter ended December 31, 2014 and on a project-to-date basis, the Company incurred $40.8 and $85.5, respectively, in pre-tax spin costs that were recorded in SG&A on the Consolidated Statement of Earnings and Comprehensive Income (Condensed). In addition, $2.8 was incurred in the current quarter and on a project-to-date basis for spin restructuring related charges that were recorded on a separate line item on the Consolidated Statement of Earnings and Comprehensive Income (Condensed), all of which related to severance costs. As of December 31, 2014, no severance costs have been paid and the related liability is included in Other current liabilities on the Consolidated Balance Sheet (Condensed).

The Company did not include the spin restructuring costs in the results of its reportable segments. The estimated pre-tax impact of allocating such charges to segment results would have been $1.4 to our Personal Care segment, $1.1 to our Household Products segment and $0.3 to Corporate.

Note 3 - Acquisitions

Feminine Care Acquisition

In October 2013, the Company completed the acquisition of the Stayfree pad, Carefree liner and o.b. tampon feminine care brands in the U.S., Canada and the Caribbean from Johnson & Johnson for an aggregate cash purchase price of $187.1, inclusive of a $1.8 working capital adjustment, which was finalized and settled in April 2014. The Company financed the feminine care acquisition with approximately $135 of available foreign cash and $50 obtained from borrowings under the Company's available committed bank facilities. Liabilities assumed as a result of the feminine care acquisition were limited primarily to certain employee benefit obligations. The Company combined these acquired brands within its existing feminine care business in the Personal Care segment. Combining these complementary businesses with our existing feminine care products provides the Company with brands in each of the key feminine hygiene categories. There were no contingent payments, options or commitments associated with the feminine care acquisition.

As of March 31, 2014, the purchase price allocation for the feminine care acquisition was complete. We determined the fair values of assets acquired and liabilities assumed for purposes of allocating the purchase price, in accordance with accounting guidance for business combinations. The Company estimated a fair value adjustment for inventory based on the estimated selling price of the finished goods acquired at the closing date less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity. The fair value adjustment for the acquired equipment was established using both a cost and market approach. The fair values of the identifiable intangible assets were estimated using various valuation methods including discounted cash flows using both an income and cost approach.

The allocation of the purchase price was as follows:

Inventories	$44.4	
Goodwill	28.0	
Intangible assets	39.3	
Other assets	5.1	
Property, plant and equipment,net	95.1	
Other liabilities	(4.5	)
Pension/Other post-retirement benefits	(20.3	)
Net assets acquired	$187.1	

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The purchased amortizable identifiable intangible assets are as follows:

	Total	Estimated Life
Customer relationships	$6.1	20 years
Technology and patents	3.0	7 years
Total	$9.1	

Remaining intangible assets acquired are indefinite-lived intangible assets related to the acquired tradenames and will be fully allocated to the Personal Care segment.

Goodwill will be deductible for tax purposes and amortized over 14 to 15 years, depending on the statutory jurisdiction.

Proforma revenue and operating results for the feminine care acquisition are not included as they are not considered material to the Consolidated Financial Statements.

Household Products Acquisition

On December 12, 2014, the Company completed an acquisition related to the Household Products business for approximately $11, primarily related to the purchase of fixed assets. The estimated value for assets acquired and liabilities assumed will be adjusted when the final purchase price allocations are complete. Any changes to the preliminary estimates will be allocated to residual goodwill and reflected from the acquisition date. The Company has developed a preliminary estimate of the fair values for purposes of allocating the purchase price, but this is subject to change as we complete our valuation activities. The purchase price allocation is not complete due to the timing of the acquisition and is expected to be finalized no later than June 30, 2015. The Company expects this transaction will result in little to no goodwill.

Note 4 – 2013 Restructuring
In November 2012, the Company's Board of Directors authorized an enterprise-wide restructuring plan and delegated authority