Vista Outdoor Inc.
Form 10-Q
November 08, 2018

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

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

For the quarterly period ended September 30, 2018

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 1-36597
Vista Outdoor Inc.
(Exact name of Registrant as specified in its charter)

Delaware	47-1016855
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Vista Way Anoka, MN	55303
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (801) 447-3000

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 ý No o
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o
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 ý	Accelerated Filer o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of October 29, 2018, there were 57,578,275 shares of the registrant's voting common stock outstanding.

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PART I— FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
VISTA OUTDOOR INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

(Amounts in thousands except share data)	September 30, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$46,246	$22,870
Net receivables	423,720	421,763
Net inventories	431,800	382,278
Income tax receivable	5,426	3,379
Assets held for sale	—	200,440
Other current assets	21,665	27,962
Total current assets	928,857	1,058,692
Net property, plant, and equipment	264,662	277,207
Goodwill	653,964	657,536
Net intangible assets	554,623	592,279
Deferred charges and other non-current assets	17,015	29,122
Total assets	$2,419,121	$2,614,836
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$—	$32,000
Accounts payable	159,560	114,549
Accrued compensation	35,606	36,346
Federal excise tax	23,748	22,701
Liabilities held for sale	—	42,177
Other current liabilities	126,141	97,447
Total current liabilities	345,055	345,220
Long-term debt	741,586	883,399
Deferred income tax liabilities	53,782	66,196
Accrued pension and postemployment benefits	36,554	38,196
Other long-term liabilities	62,945	64,335
Total liabilities	1,239,922	1,397,346
Commitments and contingencies (Notes 12 and 15)		
Common stock — $.01 par value:		
Authorized — 500,000,000 shares		
Issued and outstanding — 57,551,275 shares as of September 30, 2018 and 57,431,299 shares as of March 31, 2018	576	574
Additional paid-in capital	1,759,481	1,746,182
Accumulated deficit	(241,692)	(156,526)
Accumulated other comprehensive loss	(74,278)	(104,296)
Common stock in treasury, at cost — 6,413,164 shares held as of September 30, 2018 and 6,533,140 shares held as of March 31, 2018	(264,888)	(268,444)
Total stockholders' equity	1,179,199	1,217,490
Total liabilities and stockholders' equity	$2,419,121	$2,614,836

See Notes to the Condensed Consolidated Financial Statements.

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VISTA OUTDOOR INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

(Amounts in thousands except per share data)	Quarter ended September 30, 2018	Quarter ended October 1, 2017	Six months ended September 30, 2018	Six months ended October 1, 2017
Sales, net	$546,585	$587,283	$1,075,421	$1,156,032
Cost of sales	437,828	448,306	853,326	870,497
Gross profit	108,757	138,977	222,095	285,535
Operating expenses:				
Research and development	7,210	7,447	14,178	15,238
Selling, general, and administrative	97,282	106,386	198,336	205,812
Goodwill and intangibles impairment	23,411	152,320	23,411	152,320
Impairment of held-for-sale assets (Note 6)	—	—	44,921	—
Income (loss) before other expense, interest, and income taxes	(19,146)	(127,176)	(58,751)	(87,835)
Other income (expense), net (Note 6)	(4,925)	—	(4,925)	—
Interest expense, net	(16,865)	(12,569)	(30,337)	(24,962)
Income (loss) before income taxes	(40,936)	(139,745)	(94,013)	(112,797)
Income tax provision (benefit)	(8,118)	(25,040)	(8,847)	(14,744)
Net income (loss)	$(32,818)	$(114,705)	$(85,166)	$(98,053)
Earnings (loss) per common share:				
Basic	$(0.57)	$(2.01)	$(1.48)	$(1.72)
Diluted	$(0.57)	$(2.01)	$(1.48)	$(1.72)
Weighted-average number of common shares outstanding:				
Basic	57,528	57,099	57,492	57,041
Diluted	57,528	57,099	57,492	57,041
Net income (loss) (from above)	$(32,818)	$(114,705)	$(85,166)	$(98,053)
Other comprehensive income (loss), net of tax:				
Pension and other postretirement benefit liabilities:				
Reclassification of prior service credits for pension and postretirement benefit plans recorded to net income, net of tax benefit of $19 and $29 for the quarter ended, respectively; and, $38 and $192 for the six months ended, respectively.	(60)	(49)	(120)	(323)
Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax expense of $(172) and $(293) for the quarter ended, respectively; and, $(343) and $(959) for the six months ended, respectively.	543	493	1,086	1,615
Valuation adjustment for pension and postretirement benefit plans, net of tax expense of $0 and $(2,158) for the quarter ended, respectively; and, $0 and $(4) for the six months ended, respectively.	—	3,633	—	5
Change in derivatives, net of tax expense of $210 and $0 for the quarter ended, respectively; and, $147 and $(14) for the six months ended, respectively.	(664)	—	(464)	23
Change in cumulative translation adjustment.	36,662	7,101	29,516	15,672
Total other comprehensive income (loss)	36,481	11,178	30,018	16,992
Comprehensive income (loss)	$3,663	$(103,527)	$(55,148)	$(81,061)

See Notes to the Condensed Consolidated Financial Statements.

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VISTA OUTDOOR INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(Amounts in thousands)	Six months ended September 30, 2018	October 1, 2017
Operating Activities:		
Net income (loss)	$(85,166)	$(98,053)
Adjustments to net income (loss) to arrive at cash provided by operating activities:		
Depreciation	27,371	27,503
Amortization of intangible assets	13,620	18,253
Impairment of held-for-sale assets (Note 6)	44,921	—
Goodwill and intangibles impairment	23,411	152,320
Amortization of deferred financing costs	5,033	1,494
Deferred income taxes	(12,770)	(29,425)
Loss on disposal of property, plant, and equipment	1,602	83
Loss on disposition	4,925	—
Stock-based compensation	3,880	7,325
Changes in assets and liabilities:		
Net receivables	8,272	(49,967)
Net inventories	(56,511)	52,337
Accounts payable	47,659	11,950
Accrued compensation	262	2,712
Accrued income taxes	245	12,028
Federal excise tax	1,105	(4,335)
Pension and other postretirement benefits	(370)	(3,840)
Other assets and liabilities	30,853	11,737
Cash provided by operating activities	58,342	112,122
Investing Activities:		
Capital expenditures	(19,232)	(31,189)
Proceeds from sale of Eyewear business	151,595	—
Proceeds from the disposition of property, plant, and equipment	335	58
Cash provided by (used for) investing activities	132,698	(31,131)
Financing Activities:		
Borrowings on line of credit	70,000	210,000
Payments made on line of credit	(70,000)	(270,000)
Settlement from former parent	13,047	—
Payments made on long-term debt	(176,000)	(16,000)
Payments made for debt issuance costs	(2,845)	(1,805)
Shares withheld for payroll taxes	(846)	(2,958)
Proceeds from employee stock compensation plans	—	4,237
Cash used for financing activities	(166,644)	(76,526)
Effect of foreign exchange rate fluctuations on cash	(1,020)	1,458
Increase in cash and cash equivalents	23,376	5,923
Cash and cash equivalents at beginning of period	22,870	45,075
Cash and cash equivalents at end of period	$46,246	$50,998

Supplemental Cash Flow Disclosures:
Non-cash investing activity:

Capital expenditures included in accounts payable	$4,456	$2,386

See Notes to the Condensed Consolidated Financial Statements.

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VISTA OUTDOOR INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)

(Amounts in thousands except share data)	Common Stock $.01 Par Value Shares	Amount	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity
Balance, March 31, 2017	57,014,319	$ 571	$ 1,752,903	$ (108,033)	$ (112,992)	$ (287,384)	$ 1,245,065
Comprehensive income (loss)	—	—	—	(98,053)	16,992	—	(81,061)
Exercise of stock options	265,160	—	(6,734)	—	—	10,971	4,237
Restricted stock grants net of forfeitures	(63,687)	—	251	—	—	(1,633)	(1,382)
Share-based compensation	—	—	7,325	—	—	—	7,325
Restricted stock vested and shares withheld	48,450	—	(2,200)	—	—	1,319	(881)
Employee stock purchase plan	11,109	—	(220)	—	—	459	239
Other	2,626	2	(133)	—	—	132	1
Balance, October 1, 2017	57,277,977	$ 573	$ 1,751,192	$ (206,086)	$ (96,000)	$ (276,136)	$ 1,173,543
Balance, March 31, 2018	57,431,299	$ 574	$ 1,746,182	$ (156,526)	$ (104,296)	$ (268,444)	$ 1,217,490
Comprehensive income (loss)	—	—	—	(85,166)	30,018	—	(55,148)
Share-based compensation	—	—	3,982	—	—	(102)	3,880
Restricted stock vested and shares withheld	47,958	—	(2,209)	—	—	1,927	(282)
Employee stock purchase plan	13,083	—	(334)	—	—	540	206
Settlement from former parent	—	—	13,047	—	—	—	13,047
Other	58,935	2	(1,187)	—	—	1,191	6
Balance, September 30, 2018	57,551,275	$ 576	$ 1,759,481	$ (241,692)	$ (74,278)	$ (264,888)	$ 1,179,199

See Notes to the Condensed Consolidated Financial Statements.

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VISTA OUTDOOR INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Quarter and six months ended September 30, 2018
(Amounts in thousands except share and per share data unless otherwise indicated)

1. Significant Accounting Policies

Nature of Operations—Vista Outdoor Inc. (together with our subsidiaries, "Vista Outdoor", "we", "our", and "us") is a leading global designer, manufacturer and marketer of consumer products in the growing outdoor sports and recreation markets. We operate in two segments, Outdoor Products and Shooting Sports. Vista Outdoor has manufacturing operations and facilities in 18 locations in the United States, Canada, Mexico, and Puerto Rico along with international customer service, sales, and sourcing operations in Asia, Australia, Canada, and Europe. Vista Outdoor was incorporated in Delaware in 2014.

This Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and notes included in our annual report on Form 10-K for the fiscal year ended March 31, 2018 (“fiscal 2018”).

Basis of Presentation—Our unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain disclosures and other financial information that normally are required by accounting principles generally accepted in the United States can be condensed or omitted. Our accounting policies are described in the notes to the consolidated financial statements in our Annual Report on Form 10-K for fiscal 2018. Management is responsible for the condensed consolidated financial statements included in this report, which are unaudited but, in the opinion of management, include all adjustments necessary for a fair presentation of our financial position as of September 30, 2018 and March 31, 2018, our results of operations for the three and six months ended September 30, 2018 and October 1, 2017, and our cash flows for the six months ended September 30, 2018 and October 1, 2017.

New Accounting Pronouncements—Effective April 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes existing revenue recognition requirements. We adopted this standard effective April 1, 2018 using the modified retrospective transition method. The adoption of this standard did not have a material impact on our consolidated financial statements. See Note 4, Revenue Recognition, for our enhanced disclosures about revenue in accordance with the new standard.

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases. The new guidance was issued to increase transparency and comparability among companies by requiring most leases to be included on the balance sheet and by expanding disclosure requirements. Based on the current effective dates, the new guidance would first apply in the first quarter of our fiscal 2020. Although we expect adoption of the standard to materially increase the assets and liabilities recorded on our balance sheet, we are still evaluating the overall impact on our financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 amends existing guidance to better align an entity’s risk management activities and financial reporting for hedging relationships. ASU 2017-12 also expands and refines hedge accounting for both nonfinancial 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 standard allows for early adoption. As of September 30, 2018, we elected to early adopt this standard, which did not have a material impact on our consolidated financial statements.

Other than the standards noted above and in our fiscal 2018 financial statements, there are no other new accounting pronouncements that are expected to have a significant impact on our condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
(Amounts in thousands except share and per share data unless otherwise indicated)

2. Fair Value of Financial Instruments

The current authoritative guidance on fair value prescribes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and requires disclosures about the use of fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The valuation techniques required by the current authoritative literature are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3—Significant inputs to the valuation model are unobservable.

The following section describes the valuation methodologies we used to measure our financial instruments at fair value.

Long-term debt—The fair value of our outstanding variable-rate long-term debt is calculated based on current market rates for debt of the same risk and maturities. The fair value of the fixed-rate long-term debt is based on market quotes for the outstanding notes. We consider these to be Level 2 instruments.

Interest rate swaps—We periodically enter into floating-to-fixed interest rate swap agreements in order to hedge our forecasted interest payments on our outstanding variable-rate debt. The fair value of those swaps is determined using a pricing model based on observable inputs for similar instruments and other market assumptions. We consider these to be Level 2 instruments. See Note 12, Long-term Debt, for additional information.

Commodity Price Hedging Instruments—We periodically enter into commodity forward contracts to hedge our exposure to price fluctuations on certain commodities we use for raw material components in our manufacturing process. When actual commodity prices exceed the fixed price provided by these contracts, we receive this difference from the counterparty, and when actual commodity prices are below the contractually provided fixed price, we pay this difference to the counterparty. See Note 3, Derivative Financial Instruments, for additional information.

Contingent consideration—The acquisition-related contingent consideration liability represents the estimated fair value of additional future earn-outs payable for acquisitions of businesses that included earn-out clauses. The valuation of the contingent consideration is evaluated on an ongoing basis and is based on management estimates and entity-specific assumptions which are considered Level 3 inputs. On September 1, 2016, we completed the acquisition of privately owned Logan Outdoor Products, LLC and Peak Trades, LLC ("Camp Chef"), a leading provider of outdoor cooking solutions. Under the terms of the transaction, approximately $10,000 of the purchase price is payable over a three-year period from the closing date if certain incremental growth milestones are met and key members of Camp Chef management continue their employment with us through the respective milestone dates. The approximately $10,000 is being expensed over the three-year measurement period and is to be paid in three equal installments as each milestone is achieved. The growth milestones for the second year have been met and, therefore, we will pay $3,371 during the quarter ended December 30, 2018.

The following table presents our financial assets and liabilities that are not measured at fair value on a recurring basis. The carrying values and estimated fair values were as follows:

	September 30, 2018		March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Fixed-rate debt	$350,000	$345,300	$350,000	$328,248
Variable-rate debt	400,000	400,000	576,000	576,000

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(Amounts in thousands except share and per share data unless otherwise indicated)

3. Derivative Financial Instruments

We are exposed to market risks arising from adverse changes in:

- commodity prices affecting the cost of raw materials,
- interest rates, and
- foreign exchange risks.

In the normal course of business, these risks are managed through a variety of strategies, including the use of derivative instruments. See Note 12, Long-term Debt, for additional information on our interest rate swaps.

We entered into various commodity forward contracts during the quarter ended September 30, 2018. These contracts are used to hedge our exposure to price fluctuations on lead we purchase for raw material components in our ammunition manufacturing process and are designated and qualify as effective cash flow hedges. The effectiveness of cash flow hedges is assessed at inception and quarterly thereafter. Hedge accounting would cease if it became probable that the originally-forecasted hedged transaction will not occur. The related change in fair value of the ineffective portion of the derivative instrument would be reclassified from accumulated other comprehensive income (loss) and recognized in earnings.

The fair value of the lead forward contracts is recorded within other assets or liabilities, as appropriate, and the effective portion is reflected in accumulated other comprehensive loss ("AOCL") in our financial statements. The gains or losses on the lead forward contracts are recorded in inventory as the commodities are purchased and in cost of sales when the related inventory is sold. As of September 30, 2018, we had outstanding lead forward contracts on 17 million pounds of lead.

There were no derivative gains or losses in the unaudited condensed consolidated statements of comprehensive income related to lead forward contracts during the quarter ended September 30, 2018. The liability related to the lead forward contracts is immaterial and is recorded as part of other current liabilities.

4. Revenue Recognition

The following tables disaggregate our net sales by major category:

	Quarter ended September 30, 2018			Quarter ended October 1, 2017		
	Outdoor Products	Shooting Sports	Total	Outdoor Products	Shooting Sports	Total
Ammunition	$—	$224,481	$224,481	$—	$253,847	$253,847
Firearms	—	49,638	49,638	—	41,808	41,808
Hunting and Shooting Accessories	114,486	—	114,486	117,033	—	117,033
Action Sports	84,728	—	84,728	81,130	—	81,130
Outdoor Recreation	53,916	—	53,916	54,097	—	54,097
Eyewear	19,336	—	19,336	39,368	—	39,368
Total	$272,466	$274,119	$546,585	$291,628	$295,655	$587,283
Geographic Region						
United States	$190,687	$237,228	$427,915	$203,662	$249,052	$452,714
Rest of the World	81,779	36,891	118,670	87,966	46,603	134,569
Total	$272,466	$274,119	$546,585	$291,628	$295,655	$587,283

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
(Amounts in thousands except share and per share data unless otherwise indicated)

	Six months ended September 30, 2018			Six months ended October 1, 2017		
	Outdoor Products	Shooting Sports	Total	Outdoor Products	Shooting Sports	Total
Ammunition	$—	$441,603	$441,603	$—	$494,773	$494,773
Firearms	—	90,573	90,573	—	79,648	79,648
Hunting and Shooting Accessories	217,888	—	217,888	232,876	—	232,876
Action Sports	156,436	—	156,436	157,607	—	157,607
Outdoor Recreation	117,064	—	117,064	118,755	—	118,755
Eyewear	51,857	—	51,857	72,373	—	72,373
Total	$543,245	$532,176	$1,075,421	$581,611	$574,421	$1,156,032
Geographic Region						
United States	$387,445	$469,122	$856,567	$410,314	$498,788	$909,102
Rest of the World	155,800	63,054				