

HELEN OF TROY LTD
Form 10-Q
January 09, 2019

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 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: 001-14669

HELEN OF TROY LIMITED

(Exact name of registrant as specified in its charter)

Bermuda 74-2692550
(State or other jurisdiction of (I.R.S.
incorporation or organization) Employer
Identification
No.)

Clarendon House
2 Church Street
Hamilton, Bermuda
(Address of principal executive offices)

1 Helen of Troy Plaza 79912
El Paso, Texas
(Registrant's United States Mailing Address) (Zip Code)
(915) 225-8000

(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 (§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 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 Accelerated Non-accelerated Smaller reporting Emerging growth
filer x filer .. filer .. company .. 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.

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at January 4, 2019

Common

Shares,

\$0.10

par 25,594,840 shares

value,

per

share

Table of ContentsHELEN OF TROY LIMITED AND SUBSIDIARIES
FORM 10 Q
TABLE OF CONTENTS

| | PAGE |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | <u>2</u> |
| <u>Note 1 - Basis of Presentation and Related Information</u> | <u>6</u> |
| <u>Note 2 - New Accounting Pronouncements</u> | <u>7</u> |
| <u>Note 3 - Revenue Recognition</u> | <u>8</u> |
| <u>Note 4 - Discontinued Operations</u> | <u>9</u> |
| <u>Note 5 - Supplemental Balance Sheet Information</u> | <u>10</u> |
| <u>Note 6 - Goodwill and Intangible Assets</u> | <u>10</u> |
| <u>Note 7 - Share-Based Compensation Plans</u> | <u>12</u> |
| <u>Note 8 - Repurchase of Helen of Troy Common Stock</u> | <u>13</u> |
| <u>Note 9 - Restructuring Plan</u> | <u>14</u> |
| <u>Note 10 - Commitments and Contingencies</u> | <u>14</u> |
| <u>Note 11 - Long-Term Debt</u> | <u>15</u> |
| <u>Note 12 - Fair Value</u> | <u>16</u> |
| <u>Note 13 - Financial Instruments and Risk Management</u> | <u>17</u> |
| <u>Note 14 - Segment Information</u> | <u>19</u> |
| <u>Note 15 - Income Taxes</u> | <u>20</u> |
| <u>Note 16 - Earnings Per Share</u> | <u>21</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation</u> | <u>22</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | <u>47</u> |
| <u>Item 4. Controls and Procedures</u> | <u>48</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>48</u> |
| <u>Item 1A. Risk Factors</u> | <u>48</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>50</u> |
| <u>Item 6. Exhibits</u> | <u>51</u> |
| <u>SIGNATURES</u> | <u>52</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HELEN OF TROY LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

| (in thousands, except shares and par value) | November 30, 2018 | February 28, 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Assets, current: | | |
| Cash and cash equivalents | \$ 19,136 | \$ 20,738 |
| Receivables - principally trade, less allowances of \$1,788 and \$2,912 | 339,124 | 275,565 |
| Inventory | 300,648 | 251,511 |
| Prepaid expenses and other current assets | 14,437 | 9,545 |
| Income taxes receivable | — | 349 |
| Total assets, current | 673,345 | 557,708 |
| Property and equipment, net of accumulated depreciation of \$122,602 and \$115,202 | 130,940 | 123,503 |
| Goodwill | 602,320 | 602,320 |
| Other intangible assets, net of accumulated amortization of \$178,087 and \$167,354 | 294,565 | 302,915 |
| Deferred tax assets, net | 9,942 | 16,654 |
| Other assets, net of accumulated amortization of \$2,092 and \$2,022 | 14,257 | 20,617 |
| Total assets | \$ 1,725,369 | \$ 1,623,717 |
| Liabilities and Stockholders' Equity | | |
| Liabilities, current: | | |
| Accounts payable, principally trade | \$ 146,035 | \$ 129,341 |
| Accrued expenses and other current liabilities | 184,237 | 168,261 |
| Income taxes payable | 3,181 | — |
| Long-term debt, current maturities | 1,884 | 1,884 |
| Total liabilities, current | 335,337 | 299,486 |
| Long-term debt, excluding current maturities | 337,846 | 287,985 |
| Deferred tax liabilities, net | 5,155 | 7,096 |
| Other liabilities, noncurrent | 13,773 | 14,691 |
| Total liabilities | 692,111 | 609,258 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Cumulative preferred stock, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued | — | — |
| Common stock, \$0.10 par. Authorized 50,000,000 shares; 25,593,327 and 26,575,634 shares issued and outstanding | 2,534 | 2,658 |
| Additional paid in capital | 244,888 | 230,676 |
| Accumulated other comprehensive income | 5,207 | 631 |
| Retained earnings | 780,629 | 780,494 |
| Total stockholders' equity | 1,033,258 | 1,014,459 |
| Total liabilities and stockholders' equity | \$ 1,725,369 | \$ 1,623,717 |

See accompanying notes to condensed consolidated financial statements.

2

Table of ContentsHELEN OF TROY LIMITED AND SUBSIDIARIES
Condensed Consolidated Statements of Income (Unaudited)

| (in thousands, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | November 30, | | November 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Sales revenue, net | \$431,081 | \$420,841 | \$1,179,308 | \$1,091,281 |
| Cost of goods sold | 249,236 | 242,703 | 695,732 | 638,096 |
| Gross profit | 181,845 | 178,138 | 483,576 | 453,185 |
| Selling, general and administrative expense ("SG&A") | 120,524 | 109,633 | 325,684 | 310,390 |
| Asset impairment charges | — | — | — | 4,000 |
| Restructuring charges | 25 | 1,165 | 2,609 | 1,165 |
| Operating income | 61,296 | 67,340 | 155,283 | 137,630 |
| Nonoperating income, net | 15 | 34 | 175 | 281 |
| Interest expense | (2,971) | (3,505) | (8,413) | (10,984) |
| Income before income tax | 58,340 | 63,869 | 147,045 | 126,927 |
| Income tax expense | 4,020 | 5,245 | 10,535 | 6,423 |
| Income from continuing operations | 54,320 | 58,624 | 136,510 | 120,504 |
| Loss from discontinued operations, net of tax | (4,850) | (89,060) | (5,231) | (136,139) |
| Net income (loss) | \$49,470 | \$(30,436) | \$131,279 | \$(15,635) |
| Earnings (loss) per share - basic: | | | | |
| Continuing operations | \$2.08 | \$2.16 | \$5.19 | \$4.44 |
| Discontinued operations | (0.19) | (3.28) | (0.20) | (5.02) |
| Total earnings (loss) per share - basic | \$1.90 | \$(1.12) | \$4.99 | \$(0.58) |
| Earnings (loss) per share - diluted: | | | | |
| Continuing operations | \$2.06 | \$2.15 | \$5.15 | \$4.41 |
| Discontinued operations | (0.18) | (3.27) | (0.20) | (4.99) |
| Total earnings (loss) per share - diluted | \$1.88 | \$(1.12) | \$4.95 | \$(0.57) |
| Weighted average shares of common stock used in computing earnings per share: | | | | |
| Basic | 26,057 | 27,113 | 26,321 | 27,140 |
| Diluted | 26,366 | 27,267 | 26,520 | 27,304 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| (in thousands) | Three Months Ended November 30, | | | | | |
|---|---------------------------------|-----------------------|------------|-------------|-----------------------|-------------|
| | 2018 | | | 2017 | | |
| | Before Tax | Tax (Expense) Benefit | Net of Tax | Before Tax | Tax (Expense) Benefit | Net of Tax |
| Income from continuing operations | \$58,340 | \$ (4,020) | \$54,320 | \$63,869 | \$ (5,245) | \$58,624 |
| Loss from discontinued operations | (6,325) | 1,475 | (4,850) | (83,084) | (5,976) | (89,060) |
| Net income (loss) | 52,015 | (2,545) | 49,470 | (19,215) | (11,221) | (30,436) |
| Other comprehensive income | | | | | | |
| Cash flow hedge activity - interest rate swap | | | | | | |
| Changes in fair market value | (4) | 50 | 46 | 753 | (290) | 463 |
| Adoption of ASU No. 2018-02 | — | — | — | — | — | — |
| Subtotal | (4) | 50 | 46 | 753 | (290) | 463 |
| Cash flow hedge activity - foreign currency contracts | | | | | | |
| Changes in fair market value | (563) | 96 | (467) | 2,928 | (725) | 2,203 |
| Settlements reclassified to income | 1,178 | (197) | 981 | (1,328) | 271 | (1,057) |
| Adoption of ASU No. 2018-02 | — | — | — | — | — | — |
| Subtotal | 615 | (101) | 514 | 1,600 | (454) | 1,146 |
| Total other comprehensive income (loss) | 611 | (51) | 560 | 2,353 | (744) | 1,609 |
| Comprehensive income (loss) | \$52,626 | \$ (2,596) | \$50,030 | \$ (16,862) | \$ (11,965) | \$ (28,827) |

| (in thousands) | Nine Months Ended November 30, | | | | | |
|---|--------------------------------|-----------------------|------------|------------|-----------------------|------------|
| | 2018 | | | 2017 | | |
| | Before Tax | Tax (Expense) Benefit | Net of Tax | Before Tax | Tax (Expense) Benefit | Net of Tax |
| Income from continuing operations | \$147,045 | \$ (10,535) | \$136,510 | \$126,927 | \$ (6,423) | \$120,504 |
| Loss from discontinued operations | (6,809) | 1,578 | (5,231) | (136,729) | 590 | (136,139) |
| Net income (loss) | 140,236 | (8,957) | 131,279 | (9,802) | (5,833) | (15,635) |
| Other comprehensive income | | | | | | |
| Cash flow hedge activity - interest rate swap | | | | | | |
| Changes in fair market value | 72 | 29 | 101 | 753 | (290) | 463 |
| Adoption of ASU No. 2018-02 | — | 150 | 150 | — | — | — |
| Subtotal | 72 | 179 | 251 | 753 | (290) | 463 |
| Cash flow hedge activity - foreign currency contracts | | | | | | |
| Changes in fair market value | 3,962 | (504) | 3,458 | (1,275) | 75 | (1,200) |
| Settlements reclassified to income | 1,101 | (236) | 865 | (2,208) | 434 | (1,774) |
| Adoption of ASU No. 2018-02 | — | 2 | 2 | — | — | — |
| Subtotal | 5,063 | (738) | 4,325 | (3,483) | 509 | (2,974) |
| Total other comprehensive income (loss) | 5,135 | (559) | 4,576 | (2,730) | 219 | (2,511) |

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Nine Months Ended November 30, | |
|--|-----------------------------------|------------|
| (in thousands) | 2018 | 2017 |
| Cash provided by operating activities: | | |
| Net income (loss) | \$ 131,279 | \$(15,635) |
| Less: Loss from discontinued operations | (5,231) | (136,139) |
| Income from continuing operations | 136,510 | 120,504 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,490 | 25,139 |
| Amortization of financing costs | 761 | 632 |
| Provision for doubtful receivables | 725 | 2,045 |
| Non-cash share-based compensation | 17,029 | 10,619 |
| Non-cash intangible asset impairment charges | — | 4,000 |
| Gain on the sale or disposal of property and equipment | (536) | (10) |
| Deferred income taxes and tax credits | 4,060 | (54,355) |
| Changes in operating capital, net of effects of acquisition of businesses: | | |
| Receivables | (64,284) | (77,017) |
| Inventories | (49,137) | 2,795 |
| Prepaid expenses and other current assets | (1,149) | (3,356) |
| Other assets and liabilities, net | 5,554 | (1,184) |
| Accounts payable | 16,694 | (1,961) |
| Accrued expenses and other current liabilities | 17,809 | 21,425 |
| Accrued income taxes | 2,969 | 53,637 |
| Net cash provided by operating activities - continuing operations | 109,495 | 102,913 |
| Net cash provided (used) by operating activities - discontinued operations | (5,231) | 4,716 |
| Net cash provided by operating activities | 104,264 | 107,629 |
| Cash used by investing activities: | | |
| Capital and intangible asset expenditures | (22,166) | (10,375) |
| Proceeds from the sale of property and equipment | 1,125 | 13 |
| Net cash used by investing activities - continuing operations | (21,041) | (10,362) |
| Net cash used by investing activities - discontinued operations | — | (9,479) |
| Net cash used by investing activities | (21,041) | (19,841) |
| Cash used by financing activities: | | |
| Proceeds from line of credit | 462,350 | 389,500 |
| Repayment of line of credit | (411,350) | (444,200) |
| Repayment of long-term debt | (1,900) | (5,700) |
| Proceeds from share issuances under share-based compensation plans | 7,802 | 6,670 |
| Payment of tax obligations resulting from cashless share award settlements | (4,660) | (6,830) |
| Payments for repurchases of common stock | (137,067) | (29,158) |
| Net cash used by financing activities - continuing operations | (84,825) | (89,718) |
| Net cash used by financing activities - discontinued operations | — | — |
| Net cash used by financing activities | (84,825) | (89,718) |

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

| | | |
|--|----------|----------|
| Net decrease in cash and cash equivalents | (1,602) | (1,930) |
| Cash and cash equivalents, beginning balance | 20,738 | 23,087 |
| Cash and cash equivalents, ending balance | 19,136 | 21,157 |
| Less: Cash and cash equivalents of discontinued operations, ending balance | — | 1,232 |
| Cash and cash equivalents of continuing operations, ending balance | \$19,136 | \$19,925 |

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
November 30, 2018

Note 1 - Basis of Presentation and Related Information

The accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our consolidated financial position as of November 30, 2018 and February 28, 2018, and the results of our consolidated operations for the interim periods presented. We follow the same accounting policies when preparing quarterly financial data as we use for preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K for the fiscal year ended February 28, 2018, and our other reports on file with the Securities and Exchange Commission ("SEC").

When used in these notes, unless otherwise indicated or the context suggests otherwise, references to "the Company", "our Company", "Helen of Troy", "we", "us", or "our" refer to Helen of Troy Limited and its subsidiaries. We refer to our common shares, par value \$0.10 per share, as "common stock." References to the "FASB" refer to the Financial Accounting Standards Board. References to "GAAP" refer to United States ("U.S.") generally accepted accounting principles. References to "ASU" refer to the codification of GAAP in the Accounting Standards Updates issued by the FASB. References to "ASC" refer to the codification of GAAP in the Accounting Standards Codification issued by the FASB.

We incorporated as Helen of Troy Corporation in Texas in 1968 and were reorganized as Helen of Troy Limited in Bermuda in 1994. We are a global designer, developer, importer, marketer, and distributor of an expanding portfolio of brand-name consumer products. We have three segments: Housewares, Health & Home, and Beauty. Our Housewares segment provides a broad range of innovative consumer products for the home. Product offerings include food preparation tools and storage containers; cleaning, bath and garden tools and accessories; infant and toddler care products; and insulated beverage and food containers. The Health & Home segment focuses on health care devices such as thermometers, humidifiers, blood pressure monitors, and heating pads; water filtration systems; and small home appliances such as portable heaters, fans, air purifiers, and insect control devices. Our Beauty segment products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid-, solid- and powder-based personal care and grooming products.

On December 20, 2017, we completed the divestiture of the Nutritional Supplements segment through the sale of Healthy Directions LLC and its subsidiaries to Direct Digital, LLC. The results of the Nutritional Supplements operations have been reported as discontinued operations for all periods presented in the consolidated financial statements. For more information, see Note 4 to these condensed consolidated financial statements. All other notes present results from continuing operations.

Our business is seasonal due to different calendar events, holidays and seasonal weather patterns. Historically, our highest sales volume and operating income occur in our third fiscal quarter ending November 30th. We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

Our condensed consolidated financial statements are prepared in U.S. Dollars. All intercompany accounts and transactions are eliminated in consolidation.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying

notes. Actual results may differ materially from those estimates.

6

Table of Contents

We have reclassified, combined or separately disclosed certain amounts in the prior years' condensed consolidated financial statements and accompanying footnotes to conform with the current period's presentation, including discontinued operations (see Note 4) and the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (see Notes 2 and 3).

Note 2 – New Accounting Pronouncements

Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new guidance requires the recognition of lease liabilities, representing future minimum lease payments, on a discounted basis, and corresponding right-of-use assets on a balance sheet for most leases, along with requirements for enhanced disclosures to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leasing arrangements. In July 2018, the FASB issued ASU 2018-10 and 2018-11 which permit application of the new guidance at the beginning of the year of adoption, recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, in addition to the method of applying the new guidance retrospectively to each prior reporting period presented. The ASU is effective for us on March 1, 2019. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities (Topic 815), which amends and simplifies hedge accounting with the intent of better aligning financial reporting for hedging relationships with an entity's risk management activities. The ASU is effective for us on March 1, 2019. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for us on March 1, 2020, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosures, modifies certain disclosures and adds additional disclosures. The ASU is effective for us on March 1, 2020, and interim periods within those fiscal years. Early adoption is permitted. Certain disclosures in ASU 2018-13 would need to be applied on a retrospective basis and others on a prospective basis. We are currently evaluating the impact this guidance may have on our consolidated financial statements.

Adopted

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. Adoption of this guidance in the first quarter of fiscal 2019 did not have a material impact on our consolidated financial statements

Table of Contents

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting (Topic 718). This update amends the scope of modification accounting surrounding share-based payment arrangements as issued in ASU 2016-09 by providing guidance on the various types of changes which would trigger modification accounting for share-based payment awards. Adoption of this guidance in the first quarter of fiscal 2019 did not have a material impact on our consolidated financial statements.

In January 2017, the FASB, issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This guidance provides for a single-step quantitative test to identify and measure impairment, requiring an entity to recognize an impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. Adoption of this guidance in the first quarter of fiscal 2018 did not have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other Than Inventory (Topic 740). ASU 2016-16 amends accounting guidance for intra-entity transfers of assets other than inventory to require the recognition of taxes when the transfer occurs. The amendment was effective for us on March 1, 2018. A modified retrospective approach is required for transition to the new guidance, with a cumulative-effect adjustment consisting of the net impact from (1) the write-off of any unamortized expense previously deferred and (2) recognition of any previously unrecognized deferred tax assets, net of any valuation allowance. The new guidance does not include any specific new disclosure requirements. Adoption of this guidance in the first quarter of fiscal 2019 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a framework for revenue recognition that replaces most existing GAAP revenue recognition guidance. We adopted the guidance in the first quarter of fiscal 2019. See Note 3 for a further discussion regarding the impact of adoption of this guidance on our consolidated financial statements.

Note 3 – Revenue Recognition

We adopted the provisions of ASU 2014-9 in the first quarter of fiscal 2019, and we elected to adopt the standard using the retrospective method. The core principle of the guidance is that a company 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.

Our revenue is primarily generated from the sale of non-customized consumer products to customers. Revenue is recognized when control of, and title to, the product sold transfers to the customer. Therefore, the timing and amount of revenue recognized was not materially impacted by the new guidance. We have thus concluded that the adoption of the guidance did not have a material impact on our consolidated financial statements. The provisions of the new guidance did however impact the classification of certain consideration paid to our customers. We therefore, have reclassified an immaterial amount of such payments from SG&A to a reduction of net sales revenue for all periods presented. Also, in accordance with the guidance, we reclassified an immaterial amount of estimated sales returns from a reduction of receivables to accrued expenses and other current liabilities for all periods presented. We elected to adopt the guidance using the full retrospective method.

We measure revenue as the amount of consideration for which we expect to be entitled, in exchange for transferring goods. Certain customers may receive cash incentives such as customer discounts (including volume or trade discounts), advertising discounts and other customer-related programs which are accounted for as variable consideration. In some cases, we apply judgment, such as contractual

Table of Contents

rates and historical payment trends, when estimating variable consideration. In accordance with the guidance, most variable consideration is classified as a reduction to net sales.

Sales taxes and other similar taxes are excluded from revenue. We elected to account for shipping and handling activities as a fulfillment cost as permitted by the guidance. We do not have unsatisfied performance obligations since our performance obligations are satisfied at a single point in time.

The effect of the adoption of ASU 2014-9 on the condensed consolidated financial statements from continuing operations is as follows:

| (in thousands) | Before Reclassification February 28, 2018 | Reclassification | After Reclassification February 28, 2018 |
|--|--|------------------|---|
| Balance Sheet | | | |
| Receivables | \$ 273,168 | \$ 2,397 | \$ 275,565 |
| Accrued expenses and other current liabilities | \$ 165,864 | \$ 2,397 | \$ 168,261 |

| (in thousands) | Before Reclassification Three Months Ended November 30, 2017 | Reclassification | After Reclassification Three Months Ended November 30, 2017 |
|---------------------|---|------------------|--|
| Statement of Income | | | |
| Sales revenue, net | \$ 423,709 | \$ (2,868) | \$ 420,841 |
| SG&A | \$ 112,501 | \$ (2,868) | \$ 109,633 |

| (in thousands) | Before Reclassification Nine Months Ended November 30, 2017 | Reclassification | After Reclassification Nine Months Ended November 30, 2017 |
|---------------------|--|------------------|---|
| Statement of Income | | | |
| Sales revenue, net | \$ 1,098,900 | \$ (7,619) | \$ 1,091,281 |
| SG&A | \$ 318,009 | \$ (7,619) | \$ 310,390 |

Note 4 – Discontinued Operations

In December 2017, we completed the divestiture of the Nutritional Supplements segment through the sale of Healthy Directions LLC and its subsidiaries ("Healthy Directions") to Direct Digital, LLC. The purchase price from the sale was comprised of \$46.0 million in cash, which was paid at closing, and a supplemental payment with a target value of \$25.0 million, payable on or before August 1, 2019. The final amount of the supplemental payment has been adjusted based on a settlement with respect to the calculation of the performance of Healthy Directions through February 28, 2018. During the third quarter of fiscal 2019, we reduced the estimated value of the supplemental payment to \$10.8 million and recorded a corresponding pre-tax charge of \$5.8 million (\$4.4 million after tax) to discontinued operations. Also, during the third quarter of fiscal 2019, we recorded an additional charge of \$0.5 million (before and after tax) to discontinued operations, resulting from the resolution of certain contingencies. In conjunction with the sale of the business, we have agreed to provide certain transition services for up to an eighteen-month period following the closing of the transaction.

There were no balance sheet amounts related to discontinued operations for either period presented. The results of operations associated with discontinued operations are presented in the following table:

9

Table of Contents

| (in thousands) | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|--|---------------------------------------|------------|-----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Sales revenue, net | \$— | \$29,337 | \$— | \$92,213 |
| Cost of goods sold | — | 8,568 | — | 26,860 |
| Gross profit | — | 20,769 | — | 65,353 |
| Selling, general and administrative expense ("SG&A") | — | 21,394 | — | 69,324 |
| Asset impairment charges (1) | — | 82,227 | — | 132,297 |
| Restructuring charges | — | 118 | — | 118 |
| Operating loss | — | (82,970) | — | (136,386) |
| Gain (loss) on sale before income tax (2) | (6,325) | — | (6,809) | — |
| Interest expense | — | (114) | — | (343) |
| Loss before income tax | (6,325) | (83,084) | (6,809) | (136,729) |
| Income tax benefit (expense) | 1,475 | (5,976) | 1,578 | 590 |
| Loss from discontinued operations | \$(4,850) | \$(89,060) | \$(5,231) | \$(136,139) |

(1) Included pre-tax non-cash asset impairment charges consisting of \$70.6 million to goodwill and \$11.6 million to indefinite-lived brand assets for the three months ended November 30, 2017. Included pre-tax non-cash asset impairment charges consisting of \$96.6 million to goodwill and \$35.7 million to indefinite-lived brand assets for the nine months ended November 30, 2017.

(2) Includes adjustments recorded during fiscal 2019 to the initial estimated gain on sale before income tax recorded in the fourth quarter of fiscal 2018.

Note 5 – Supplemental Balance Sheet Information

PROPERTY AND EQUIPMENT

| (in thousands) | Estimated Useful Lives (Years) | November 30, 2018 | February 28, 2018 |
|---|--------------------------------------|----------------------|----------------------|
| Land | - | \$12,644 | \$12,800 |
| Building and improvements | 3 - 40 | 104,227 | 106,870 |
| Computer, software, furniture and other equipment | 3 - 15 | 81,038 | 79,657 |
| Tools, molds and other production equipment | 1 - 10 | 36,471 | 33,466 |
| Construction in progress | - | 19,162 | 5,912 |
| Property and equipment, gross | | 253,542 | 238,705 |
| Less accumulated depreciation | | (122,602) | (115,202) |
| Property and equipment, net | | \$130,940 | \$123,503 |

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| (in thousands) | November 30, 2018 | February 28, 2018 |
|--|----------------------|----------------------|
| Accrued compensation, benefits and payroll taxes | \$32,196 | \$37,666 |

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

| | | |
|--|------------|------------|
| Accrued sales discounts and allowances | 34,134 | 28,311 |
| Accrued sales returns | 27,391 | 24,842 |
| Accrued advertising | 31,449 | 25,324 |
| Accrued legal fees and settlements | 2,162 | 17,243 |
| Other | 56,905 | 34,875 |
| Total accrued expenses and other current liabilities | \$ 184,237 | \$ 168,261 |

Note 6 – Goodwill and Intangible Assets

We perform annual impairment tests each fiscal year during the fourth quarter and interim impairment tests, if and when necessary.

Table of Contents

During the first quarter of fiscal 2018, we performed interim impairment testing for a certain brand in our Beauty segment due to a revised financial projection. As a result of our testing, we recorded a pre-tax non-cash asset impairment charge of \$4.0 million (\$3.6 million after tax). The following table summarizes the carrying amounts and accumulated amortization for all intangible assets by segment as of the end of the periods presented:

| (in thousands) | November 30, 2018 | | | | February 28, 2018 | | | |
|----------------------------|-----------------------|---------------------------------|--------------------------|----------------|-----------------------|---------------------------------|--------------------------|----------------|
| | Gross Carrying Amount | Cumulative Goodwill Impairments | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Cumulative Goodwill Impairments | Accumulated Amortization | Net Book Value |
| Housewares: | | | | | | | | |
| Goodwill | \$282,056 | \$— | \$— | \$282,056 | \$282,056 | \$— | \$— | \$282,056 |
| Trademarks - indefinite | 134,200 | — | — | 134,200 | 134,200 | — | — | 134,200 |
| Other intangibles - finite | 41,284 | — | (18,915) | 22,369 | 40,828 | — | (17,530) | 23,298 |
| Subtotal | 457,540 | — | (18,915) | 438,625 | 457,084 | — | (17,530) | 439,554 |
| Health & Home: | | | | | | | | |
| Goodwill | 284,913 | — | — | 284,913 | 284,913 | — | — | 284,913 |
| Trademarks - indefinite | 54,000 | — | — | 54,000 | 54,000 | — | — | 54,000 |
| Licenses - finite | 17,050 | — | (15,315) | 1,735 | 15,300 | — | (15,300) | — |
| Licenses - indefinite | 7,400 | — | — | 7,400 | 7,400 | — | — | 7,400 |
| Other intangibles - finite | 117,763 | — | (85,243) | 32,520 | 117,586 | — | (77,128) | 40,458 |
| Subtotal | 481,126 | — | (100,558) | 380,568 | 479,199 | — | (92,428) | 386,771 |
| Beauty: | | | | | | | | |
| Goodwill | 81,841 | (46,490) | — | 35,351 | 81,841 | (46,490) | — | 35,351 |
| Trademarks - indefinite | 30,407 | — | — | 30,407 | 30,407 | — | — | 30,407 |
| Trademarks - finite | 150 | — | (101) | 49 | 150 | — | (97) | 53 |
| Licenses - indefinite | 10,300 | — | — | 10,300 | 10,300 | — | — | 10,300 |
| Licenses - finite | 13,696 | — | (12,403) | 1,293 | 13,696 | — | (12,166) | 1,530 |
| Other intangibles - finite | 46,402 | — | (46,110) | 292 | 46,402 | — | (45,133) | 1,269 |
| Subtotal | 182,796 | (46,490) | (58,614) | 77,692 | 182,796 | (46,490) | (57,396) | 78,910 |
| Total | \$1,121,462 | \$(46,490) | \$(178,087) | \$896,885 | \$1,119,079 | \$(46,490) | \$(167,354) | \$905,235 |

The following table summarizes the amortization expense attributable to intangible assets recorded in SG&A in the condensed consolidated statements of income for the periods shown below, as well as our estimated amortization expense for fiscal 2019 through 2024:

| Aggregate Amortization Expense | |
|---|---------|
| For the three months ended (in thousands) | |
| November 30, 2018 | \$3,300 |
| November 30, 2017 | 4,660 |

| Aggregate Amortization Expense | |
|--|--|
| For the nine months ended (in thousands) | |
| | |

| | |
|-------------------|-----------|
| November 30, 2018 | \$ 10,822 |
| November 30, 2017 | 14,198 |

Estimated Amortization Expense (in thousands)

| | |
|-------------|-----------|
| Fiscal 2019 | \$ 14,110 |
| Fiscal 2020 | 13,127 |
| Fiscal 2021 | 10,459 |
| Fiscal 2022 | 4,047 |
| Fiscal 2023 | 3,975 |
| Fiscal 2024 | 3,664 |

Table of Contents

Note 7 – Share-Based Compensation Plans

We have equity awards outstanding under several share-based compensation plans. During the three- and nine-months ended November 30, 2018, we had the following share-based compensation activity:

We issued 1,160 and 3,897 shares to non-employee Board members with a total grant date fair value of \$0.1 and \$0.3 million, respectively, and share prices of \$120.70 and \$100.08, respectively.

We granted time-vested restricted stock units ("RSUs") that may be settled for 77,834 and 149,632 shares of common stock, respectively. The RSU grants have a weighted average grant price of \$125.44 and \$106.67 per share, respectively, for a total award fair value at date of grant of \$9.8 million and \$16.0 million, respectively.

There were no performance-based restricted stock units ("PSUs") granted during the three months ended November 30, 2018. For the nine-months ended November 30, 2018, we granted PSUs that may be settled for 76,064 shares of common stock with a weighted average grant price of \$86.24 per share and a total award fair value at date of grant of \$6.6 million.

RSUs for 875 and 37,942 shares vested and settled, respectively, with a total fair value at settlement of \$0.1 and \$3.4 million and a weighted average grant price of \$126.99 and \$89.55 per share, respectively.

PSUs for 2,213 and 102,617 shares vested and settled, respectively, with a total grant date fair value of \$0.3 and \$9.4 million, and a weighted average grant price of \$126.94 and \$91.88 per share, respectively.

Employees exercised stock options to purchase 9,584 and 120,768 shares of common stock, respectively.

The Helen of Troy Limited 2008 Employee Stock Purchase Plan ("2008 ESPP") became effective on September 1, 2008, and expired by its terms on September 1, 2018. On August 22, 2018, our shareholders approved the 2018 Employee Stock Purchase Plan (the "2018 ESPP"). The aggregate number of shares of common stock that may be purchased under the 2018 ESPP will not exceed 750,000 shares. Under the terms of the plan, employees may authorize the withholding of up to 15% of their wages or salaries to purchase our shares of common stock, not to exceed \$25,000 of the fair market value of such shares for any calendar year. The purchase price for shares acquired under the 2018 ESPP is equal to the lower of 85% of the share's fair market value on either the first day of each option period or the last day of each period. The plan will expire by its terms on September 1, 2028. Shares of common stock purchased under the 2018 ESPP vest immediately at the time of purchase. Accordingly, the fair value award associated with their discounted purchase price is expensed at the time of purchase. For the three months ended November 30, 2018, employees purchased 14,222 shares under the 2018 ESPP.

The Helen of Troy Limited 2008 Stock Incentive Plan ("2008 Stock Incentive Plan") and the 2008 Non-Employee Directors Stock Incentive Plan ("2008 Directors' Plan") became effective on August 19, 2008, and expired by their terms on August 19, 2018. On August 22, 2018, our shareholders approved the 2018 Stock Incentive Plan (the "2018 Plan"). The 2018 Plan permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The aggregate number of shares for issuance under the 2018 Plan will not exceed 2,000,000 shares. As of November 30, 2018, there were 1,922,806 shares remaining for issuance under the 2018 Plan.

Table of Contents

We recorded the following share-based compensation expense in SG&A for the periods shown below:

| | Three Months Ended November 30, | |
|--|---------------------------------------|---------|
| (in thousands, except per share data) | 2018 | 2017 |
| Stock options | \$ 128 | \$ 327 |
| Directors stock compensation | 200 | 175 |
| Performance based and other stock awards | 5,419 | 3,939 |
| Employee stock purchase plan | 329 | — |
| Share-based compensation expense | 6,076 | 4,441 |
| Less income tax benefits | (398) | (781) |
| Share-based compensation expense, net of income tax benefits | \$5,678 | \$3,660 |

Impact of share-based compensation on earnings per share from continuing operations:

| | | |
|---------|--------|--------|
| Basic | \$0.22 | \$0.13 |
| Diluted | \$0.22 | \$0.13 |

| | Nine Months Ended November 30, | |
|--|--------------------------------------|----------|
| (in thousands, except per share data) | 2018 | 2017 |
| Stock options | \$655 | \$1,289 |
| Directors stock compensation | 550 | 575 |
| Performance based and other stock awards | 15,337 | 8,664 |
| Employee stock purchase plan | 651 | 263 |
| Share-based compensation expense | 17,193 | 10,791 |
| Less income tax benefits | (1,009) | (1,862) |
| Share-based compensation expense, net of income tax benefits | \$16,184 | \$8,929 |

Impact of share-based compensation on earnings per share from continuing operations:

| | | |
|---------|--------|--------|
| Basic | \$0.61 | \$0.33 |
| Diluted | \$0.61 | \$0.33 |

Note 8 – Repurchase of Helen of Troy Common Stock

On May 10, 2017, our Board of Directors authorized the repurchase of up to \$400 million of our outstanding common stock. The authorization is effective for a period of three years and replaced our existing repurchase authorization, of which approximately \$82 million remained. These repurchases may include open market purchases, privately negotiated transactions, block trades, accelerated stock repurchase transactions, or any combination of such methods. The number of shares purchased and the timing of the purchases will depend on a number of factors, including share price, trading volume and general market conditions, working capital requirements, general business conditions, financial conditions, any applicable contractual limitations, and other factors, including alternative investment opportunities. As of November 30, 2018, our repurchase authorization allowed for the purchase of \$185.6 million of common stock.

Our current equity-based compensation plans include provisions that allow for the “net exercise” of share-settled awards by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of

the shares due from the equity holder can be paid for by having the equity holder tender back to the Company a number of shares at fair value equal to the amounts due. Net exercises are treated as purchases and retirements of shares.

Table of Contents

The following table summarizes our share repurchase activity for the periods shown:

| (in thousands, except share and per share data) | Three Months | | Nine Months | |
|---|-------------------------|----------|-------------------------|----------|
| | Ended November 30, 2018 | 2017 | Ended November 30, 2018 | 2017 |
| Common stock repurchased on the open market: | | | | |
| Number of shares | 813,696 | 311,100 | 1,220,721 | 1,100 |
| Aggregate value of shares | \$100,000 | \$29,158 | \$137,067 | \$29,158 |
| Average price per share | \$122.90 | \$93.72 | \$112.28 | \$93.72 |

Common stock received in connection with share-based compensation:

| | | | | |
|---------------------------|----------|---------|---------|---------|
| Number of shares | 1,398 | 299 | 58,470 | 72,864 |
| Aggregate value of shares | \$175 | \$27 | \$5,348 | \$7,000 |
| Average price per share | \$125.03 | \$91.94 | \$91.47 | \$96.07 |

Note 9 – Restructuring Plan

In October 2017, we announced that we had approved a restructuring plan (referred to as “Project Refuel”) intended to enhance the performance of primarily the Beauty and former Nutritional Supplements segments. Project Refuel includes a reduction-in-force and the elimination of certain contracts and operating expenses. During the first quarter of fiscal 2019, we expanded Project Refuel to include the realignment and streamlining of our supply chain structure. We are targeting total annualized profit improvements of approximately \$8.0 to \$10.0 million over the duration of the plan. We estimate the plan will be completed by the first quarter of fiscal 2020, and expect to incur total restructuring charges in the range of approximately \$5.0 to \$5.5 million during the period of the plan. Restructuring provisions are determined based on estimates prepared at the time the restructuring actions are approved by management and are revised periodically.

Restructuring charges for the three months ended November 30, 2018 were not meaningful. We incurred \$2.6 million of pre-tax restructuring charges during the nine months ended November 30, 2018, related primarily to employee severance and termination benefits. These charges were primarily related to our Beauty segment and shared service supply chain initiatives. Our program to date has incurred \$4.5 million of pre-tax restructuring costs related to employee severance and termination benefits and contract termination costs.

During the three and nine months ended November 30, 2018, we made cash restructuring payments of \$0.9 and \$2.5 million, respectively. We had a remaining liability of \$0.8 million as of November 30, 2018.

During the three and nine months ended November 30, 2017, we incurred \$1.2 million of pre-tax restructuring costs related to employee severance and termination benefits for our Beauty segment.

Note 10 – Commitments and Contingencies

Thermometer Patent Litigation – In January 2016, a jury ruled against us in a case that involved claims by Exergen Corporation. The case involved the alleged patent infringement related to two forehead thermometer models sold by our subsidiary, Kaz USA, Inc., in the United States. As a result of the jury verdict, we recorded a charge in fiscal 2016 including legal fees and other related expenses, of \$17.8 million (before and after tax). In June 2016, certain post-trial motions were concluded with Exergen Corporation being awarded an additional \$1.5 million of pre-judgment compensation. We accrued this additional amount in May 2016. In July 2016, we appealed the

judgment to the United States Court of Appeals for the Federal Circuit. In March 2018, the Federal Circuit issued a decision, which reversed the district court's verdict of infringement of one of the two patents at issue and remanded the damage award for a determination by the district court of the impact the reversal of infringement has on the damage award. Following the remand, we entered into a settlement agreement, filed a Stipulation of Dismissal with Prejudice and made a settlement payment of \$15.0 million on May 31, 2018.

Table of Contents

Other Matters – We are involved in various other legal claims and proceedings in the normal course of operations. We believe the outcome of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. Notes 5, 11, 12 and 13 to these condensed consolidated financial statements provide additional information regarding certain of our significant commitments and contingencies.

Note 11 – Long-Term Debt

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provided for an unsecured total revolving commitment of \$1.0 billion as of November 30, 2018. The commitment under the Credit Agreement terminates on December 7, 2021. Borrowings accrue interest under one of two alternative methods as described in the Credit Agreement. With each borrowing against our credit line, we can elect the interest rate method based on our funding needs at the time. We also incur loan commitment fees and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of November 30, 2018, the outstanding revolving loan principal balance was \$320.4 million (excluding prepaid financing fees) and the face amount of outstanding letters of credit was \$9.0 million. For the three and nine months ended November 30, 2018, borrowings under the Credit Agreement incurred interest charges at rates ranging from 3.1% to 5.3% and 2.8% to 5.3%, respectively. For the three and nine months ended November 30, 2017, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.5% to 4.5% and 2.3% to 4.8%, respectively. As of November 30, 2018, the amount available for borrowings under the Credit Agreement was \$670.6 million. Covenants in our debt agreements limit the amount of total indebtedness we can incur. As of November 30, 2018, these covenants effectively limited our ability to incur more than \$526.5 million of additional debt from all sources, including our Credit Agreement, or \$670.6 million in the event a qualified acquisition is consummated. The following table summarizes our long-term debt as of the end of the periods shown:

LONG-TERM DEBT

| (in thousands) | Original Date Borrowed | Interest Rates | Matures | November 30, 2018 | February 28, 2018 |
|---|------------------------|----------------|---------|-------------------|-------------------|
| Mississippi Business Finance Corporation Loan (the "MBFC Loan") (1) | 03/13 | Floating | 03/23 | \$22,331 | \$24,219 |
| Credit Agreement (2) | 01/15 | Floating | 12/21 | 317,399 | 265,650 |
| Total long-term debt | | | | 339,730 | 289,869 |
| Less current maturities of long-term debt | | | | (1,884) | (1,884) |
| Long-term debt, excluding current maturities | | | | \$337,846 | \$287,985 |

(1) The MBFC Loan is unsecured with an original balance of \$37.6 million and incurs floating interest based on applicable LIBOR plus a margin of up to 2.0%, or a Base Rate plus a margin of up to 1.0%, as determined by the interest rate elected and the Leverage Ratio. The loan is subject to holder’s call on or after March 1, 2018. The loan can be prepaid without penalty. The remaining principal balance is payable as follows: \$1.9 million annually on March 1, 2019 through 2022; and \$14.8 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023.

(2) Floating interest rates are hedged with an interest rate swap to effectively fix interest rates on \$100 million of the outstanding principal balance under the Credit Agreement. Notes 12 and 13 to these condensed consolidated financial statements provide additional information regarding the interest rate swap.

At November 30, 2018 and February 28, 2018, our long-term debt has floating interest rates, and its book value approximates its fair value.

All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. Our debt agreements require the maintenance of certain financial covenants, including

15

Table of Contents

maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms is defined in the various agreements). Our debt agreements also contain other customary covenants. We were in compliance with the terms of these agreements as of November 30, 2018.

Note 12 – Fair Value

We classify our various assets and liabilities recorded or reported at fair value under a hierarchy prescribed by GAAP that prioritizes inputs to fair value measurement techniques into three broad levels:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;

Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, Level including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical 2: assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

Assets and liabilities subject to classification are classified upon acquisition. When circumstances dictate the transfer of an asset or liability to a different level, our policy is to recognize the transfer at the beginning of the reporting period in which the event resulting in the transfer occurred.

The following tables present the fair value of our financial assets and liabilities measured on a recurring basis as of the end of the periods shown:

| | Fair Values at November 30, 2018 (Level 2) (1) |
|----------------------------|---|
| (in thousands) | |
| Assets: | |
| Money market accounts | \$ 646 |
| Interest rate swap | 2,553 |
| Foreign currency contracts | 4,057 |
| Total assets | \$ 7,256 |

| | Fair Values at February 28, 2018 (Level 2) (1) |
|----------------------------|---|
| (in thousands) | |
| Assets: | |
| Money market accounts | \$ 1,107 |
| Interest rate swap | 2,481 |
| Foreign currency contracts | 642 |
| Total assets | \$ 4,230 |
| Liabilities: | |
| Floating rate debt | \$ 339,730 |
| Foreign currency contracts | 64 |
| Total liabilities | \$ 339,794 |

Liabilities:

| | |
|----------------------------|------------|
| Floating rate debt | \$ 289,869 |
| Foreign currency contracts | 2,606 |
| Total liabilities | \$ 292,475 |

Table of Contents

Our financial assets and liabilities are classified as Level 2 because their valuation is dependent on observable (1) inputs and other quoted prices for similar assets or liabilities, or model-derived valuations whose significant value drivers are observable.

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of the short maturity of these items.

We use derivatives for hedging purposes and our derivatives are primarily interest rate swaps, foreign currency contracts and cross-currency debt swaps. See Notes 11 and 13 to these condensed consolidated financial statements for more information on our hedging activities.

We classify our floating rate debt as a Level 2 item because the estimation of the fair market value requires the use of a discount rate based upon current market rates of interest for obligations with comparable remaining terms. Such comparable rates are considered significant other observable market inputs. The book value of the floating rate debt approximates its fair value as of the reporting date.

Our other non-financial assets include goodwill and other intangible assets, which we classify as Level 3 items. These assets are measured at fair value on a non-recurring basis as part of our impairment testing. Note 6 to these condensed consolidated financial statements contains additional information related to intangible asset impairments.

Note 13 – Financial Instruments and Risk Management

Foreign Currency Risk - Our functional currency is the U.S. Dollar. By operating internationally, we are subject to foreign currency risk from transactions denominated in currencies other than the U.S. Dollar (“foreign currencies”). Such transactions include sales, certain inventory purchases and operating expenses. As a result of such transactions, portions of our cash, trade accounts receivable and trade accounts payable are denominated in foreign currencies. During the three and nine months ended November 30, 2018 and 2017, approximately 13% of our net sales revenue was in foreign currencies, respectively. These sales were primarily denominated in Euros, Canadian Dollars, British Pounds, and Mexican Pesos.

In our condensed consolidated statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets, and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses are recognized in SG&A. During the three and nine months ended November 30, 2018, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps of \$0.3 million and \$(0.8) million, respectively, in SG&A, and \$0.0 million and \$0.5 million, respectively, in income tax expense. For the three and nine months ended November 30, 2017, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of \$(2.2) million and \$(1.5) million, respectively, in SG&A and \$(0.1) million and \$(0.7) million, respectively, in income tax expense.

We hedge against certain foreign currency exchange rate risk by using a series of forward contracts designated as cash flow hedges and mark-to-market derivatives to manage the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes.

Interest Rate Risk - Interest on our outstanding debt as of November 30, 2018 is based on floating interest rates. If short-term interest rates increase, we will incur higher interest expense on any future outstanding balances of floating rate debt. Floating interest rates are hedged with an interest rate swap

Table of Contents

to effectively fix interest rates on \$100.0 million of the outstanding principal balance under the Credit Agreement, which totaled \$320.4 million (excluding prepaid finance fees) as of November 30, 2018.

The following table summarizes the fair values of our derivative instruments as of the end of the periods shown:
(in thousands) November 30, 2018

| Derivatives designated as hedging instruments | Hedge Type | Final Settlement Date | Notional Amount | Prepaid Expenses and Other Current Assets | Other Assets | Accrued Expenses and Other Current Liabilities | Other Liabilities, Non-current |
|--|------------|-----------------------|-----------------|---|--------------|--|--------------------------------|
| Foreign currency contracts - sell Euro | Cash flow | 11/2019 | €20,500 | \$ 1,759 | \$— | \$ — | \$ — |
| Foreign currency contracts - sell Canadian Dollars | Cash flow | 01/2020 | \$16,000 | 477 | 26 | — | — |
| Foreign currency contracts - sell Pounds | Cash flow | 02/2020 | £18,500 | 1,490 | 81 | — | — |
| Foreign currency contracts - sell Mexican Pesos | Cash flow | 09/2019 | \$40,000 | 39 | — | — | — |
| Interest rate swap | Cash flow | 12/2021 | \$100,000 | 901 | 1,652 | — | — |
| Subtotal | | | | 4,666 | 1,759 | — | — |
| Derivatives not designated under hedge accounting | | | | | | | |
| Foreign currency contracts - cross-currency debt swap - Euro | (1) | 04/2020 | \$5,280 | — | 185 | — | — |
| Foreign currency contracts - cross-currency debt swaps - Pound | (1) | 04/2020 | \$6,395 | — | — | — | 64 |
| Subtotal | | | | — | 185 | — | 64 |
| Total fair value | | | | \$ 4,666 | \$ 1,944 | \$ — | \$ 64 |

(in thousands)

February 28, 2018

| Derivatives designated as hedging instruments | Hedge Type | Final Settlement Date | Notional Amount | Prepaid Expenses and Other Current Assets | Other Assets | Accrued Expenses and Other Current Liabilities | Other Liabilities, Non-current |
|--|------------|-----------------------|-----------------|---|--------------|--|--------------------------------|
| Foreign currency contracts - sell Euro | Cash flow | 07/2019 | €38,000 | \$ — | \$102 | \$ 1,320 | \$ — |
| Foreign currency contracts - sell Canadian Dollars | Cash flow | 06/2019 | \$27,750 | 378 | 101 | — | — |
| Foreign currency contracts - sell Pounds | Cash flow | 04/2019 | £19,500 | — | 56 | 513 | — |
| Foreign currency contracts - sell Mexican Pesos | Cash flow | 05/2018 | \$20,000 | 5 | — | — | — |
| Interest rate swap | Cash flow | 12/2021 | \$100,000 | 539 | 1,942 | — | — |

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

| | | | | | | | |
|--|-----|---------|---------|--------|---------|----------|--------|
| Subtotal | | | | 922 | 2,201 | 1,833 | — |
| Derivatives not designated under hedge accounting | | | | | | | |
| Foreign currency contracts - cross-currency debt swap - Euro | (1) | 04/2020 | \$5,280 | — | — | — | 208 |
| Foreign currency contracts - cross-currency debt swaps - Pound | (1) | 04/2020 | \$6,395 | — | — | — | 565 |
| Subtotal | | | | — | — | — | 773 |
| Total fair value | | | | \$ 922 | \$2,201 | \$ 1,833 | \$ 773 |

(1) These are foreign currency contracts for which we have not elected hedge accounting. We refer to them as “cross-currency debt swaps”. They, in effect, adjust the currency denomination of a portion of our outstanding debt to the Euro and British Pound, as applicable, for the notional amounts reported, creating an economic hedge against currency movements.

The following table summarizes the pre-tax effect of derivative instruments for the periods shown:

| (in thousands) | Three Months Ended November 30, | | Gain (Loss) Reclassified from | | Gain (Loss) Recognized | | | |
|--|---------------------------------|----------|---|---|------------------------|------------------|--------|----------|
| | 2018 | 2017 | Gain (Loss) Recognized in OCI (effective portion) | Accumulated Other Comprehensive Income (Loss) into Income | As Income | As Income | | |
| | | | Location | 2018 | 2017 | Location | 2018 | 2017 |
| Currency contracts - cash flow hedges | \$ (563) | \$ 2,928 | SG&A | \$ (1,178) | \$ 1,328 | | \$ — | \$ — |
| Interest rate swaps - cash flow hedges | (4) | 753 | Interest expense | — | — | Interest expense | 136 | (48) |
| Cross-currency debt swaps - principal | — | — | | — | — | SG&A | 228 | (419) |
| Cross-currency debt swaps - interest | — | — | | — | — | Interest Expense | 73 | 74 |
| Total | \$ (567) | \$ 3,681 | | \$ (1,178) | \$ 1,328 | | \$ 437 | \$ (393) |

Table of Contents

| (in thousands) | Nine Months Ended November 30, | | Gain (Loss) Reclassified from | | Gain (Loss) Recognized | | | |
|--|---|-----------|--|-----------|------------------------|------------------|---------|-----------|
| | Gain (Loss) Recognized in OCI (effective portion) | | Accumulated Other Comprehensive Income (Loss) into | | As Income | | | |
| | 2018 | 2017 | Location | 2018 | 2017 | Location | 2018 | 2017 |
| Currency contracts - cash flow hedges | \$3,962 | \$(1,275) | SG&A | \$(1,101) | \$2,208 | | \$— | \$— |
| Interest rate swaps - cash flow hedges | 72 | 753 | Interest expense | — | — | Interest expense | 347 | (48) |
| Cross-currency debt swaps - principal | — | — | | — | — | SG&A | 894 | (1,183) |
| Cross-currency debt swaps - interest | — | — | | — | — | Interest Expense | 147 | 74 |
| Total | \$4,034 | \$(522) | | \$(1,101) | \$2,208 | | \$1,388 | \$(1,157) |

We expect pre-tax net gains of \$4.7 million associated with foreign currency contracts and interest rate swaps currently reported in accumulated other comprehensive income, to be reclassified into income over the next twelve months. The amount ultimately realized, however, will differ as exchange rates vary and the underlying contracts settle.

Counterparty Credit Risk - Financial instruments, including foreign currency contracts and cross currency debt swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk by only dealing with counterparties who are substantial international financial institutions with significant experience using such derivative instruments. Although our theoretical credit risk is the replacement cost at the then-estimated fair value of these instruments, we believe that the risk of incurring credit losses is remote.

Note 14 – Segment Information

The following tables present segment information included in continuing operations for the periods shown:

| (in thousands) | Three Months Ended November 30, 2018 | | | |
|---|--------------------------------------|---------------|-----------|-----------|
| | Housewares | Health & Home | Beauty | Total |
| Sales revenue, net | \$142,937 | \$187,863 | \$100,281 | \$431,081 |
| Restructuring charges | (20) | — | 45 | 25 |
| Operating income | 29,839 | 19,213 | 12,244 | 61,296 |
| Capital and intangible asset expenditures | 5,534 | 3,128 | 443 | 9,105 |
| Depreciation and amortization | 1,408 | 4,326 | 1,461 | 7,195 |
| (in thousands) | Three Months Ended November 30, 2017 | | | |
| | Housewares | Health & Home | Beauty | Total |
| Sales revenue, net | \$128,261 | \$189,240 | \$103,340 | \$420,841 |
| Restructuring charges | — | — | 1,165 | 1,165 |
| Operating income | 29,809 | 27,584 | 9,947 | 67,340 |
| Capital and intangible asset expenditures | 1,705 | 500 | 565 | 2,770 |
| Depreciation and amortization | 1,444 | 4,232 | 2,707 | 8,383 |

Table of Contents

| | Nine Months Ended November 30, 2018 | | | |
|---|-------------------------------------|---------------|-----------|-------------|
| (in thousands) | Housewares | Health & Home | Beauty | Total |
| Sales revenue, net | \$397,738 | \$527,077 | \$254,493 | \$1,179,308 |
| Restructuring charges | 740 | 358 | 1,511 | 2,609 |
| Operating income | 80,351 | 52,501 | 22,431 | 155,283 |
| Capital and intangible asset expenditures | 12,830 | 7,783 | 1,553 | 22,166 |
| Depreciation and amortization | 4,414 | 12,703 | 5,373 | 22,490 |
| | Nine Months Ended November 30, 2017 | | | |
| (in thousands) | Housewares | Health & Home | Beauty | Total |
| Sales revenue, net | \$342,050 | \$483,592 | \$265,639 | \$1,091,281 |
| Restructuring charges | — | — | 1,165 | 1,165 |
| Asset impairment charges | — | — | 4,000 | 4,000 |
| Operating income | 71,085 | 49,243 | 17,302 | 137,630 |
| Capital and intangible asset expenditures | 6,463 | 2,746 | 1,166 | 10,375 |
| Depreciation and amortization | 4,290 | 12,553 | 8,296 | 25,139 |

We compute segment operating income based on net sales revenue, less cost of goods sold, SG&A, restructuring charges, and any asset impairment charges associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment, plus shared service and corporate overhead expenses that are allocable to the segment. We have reallocated corporate overhead that was previously allocated to our former Nutritional Supplements segment. We do not allocate nonoperating income and expense, including interest or income taxes, to operating segments.

Note 15 – Income Taxes

Due to our organization in Bermuda and the ownership structure of our foreign subsidiaries, many of which are not owned directly or indirectly by a U.S. parent company, an immaterial amount of our foreign income is subject to U.S. taxation on a permanent basis under current law. Additionally, our intellectual property is largely owned by our foreign subsidiaries, resulting in proportionally higher earnings in jurisdictions with lower statutory tax rates, which decreases our overall effective tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. Among other changes, the Tax Act lowered the U.S. corporate income tax rate from 35% to 21% and established a modified territorial system requiring mandatory deemed repatriation tax on undistributed earnings of certain foreign subsidiaries. The Tax Act also has an impact on certain executive compensation that is no longer deductible.

For interim periods, our income tax expense and resulting effective tax rate are based upon an estimated annual effective tax rate adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. We considered the provisions of the Tax Act in calculating the estimated annual effective tax rate.

We continue to apply the guidance in Staff Accounting Bulletin No. 118 ("SAB 118") and as of November 30, 2018, we have not completed the accounting for all the tax effects enacted under Tax Act. We made reasonable estimates of those effects during fiscal 2018 and fiscal 2019 year-to-date. We will continue to refine our estimates as additional guidance and information becomes available.

Table of Contents

For the three months ended November 30, 2018, income tax expense as a percentage of income before income tax was 6.9% compared to 8.2% for the same period last year. The year-over-year decline in the effective tax rate is primarily due to shifts in the mix of taxable income in our various tax jurisdictions.

For the nine months ended November 30, 2018, income tax expense as a percentage of income before income tax was 7.2%, which included \$0.7 million of tax benefits from share-based compensation settlements and a tax benefit of \$0.8 million from the lapse of the statute of limitations related to an uncertain tax position. Income tax expense as a percentage of income before income tax was 5.1% for the same period last year, which included \$2.6 million tax benefits from share-based compensation settlements and a tax benefit of \$2.8 million related to the resolution of uncertain tax positions.

During fiscal 2017, we received an assessment from a state tax authority which adjusted taxable income applicable to the particular state resulting from interpretations of certain state income tax provisions applicable to our legal structure. We believe we have accurately reported our taxable income and are vigorously protesting the assessment through administrative processes with the state. We believe it is unlikely that the outcome of these matters will have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Note 16 – Earnings per Share

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during the period. We compute diluted earnings per share using the weighted average number of shares of common stock outstanding plus the effect of dilutive securities. Dilutive securities at any given point in time may consist of outstanding options to purchase common stock and issued and contingently issuable unvested RSUs and PSUs. See Note 7 to these condensed consolidated financial statements for more information regarding RSUs, PSUs and other performance based stock awards. Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive.

The following table presents our weighted average basic and diluted shares for the periods shown:

| | Three Months | | Nine Months | |
|---|--------------|--------|--------------|--------|
| | Ended | | Ended | |
| | November 30, | | November 30, | |
| (in thousands) | 2018 | 2017 | 2018 | 2017 |
| Weighted average shares outstanding, basic | 26,057 | 27,113 | 26,321 | 27,140 |
| Incremental shares from share-based compensation arrangements | 309 | 154 | 199 | 164 |
| Weighted average shares outstanding, diluted | 26,366 | 27,267 | 26,520 | 27,304 |
| Antidilutive securities | 137 | 354 | 281 | 344 |

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis ("MD&A") contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially due to a number of factors, including those discussed in Part I, Item 3. "Quantitative and Qualitative Disclosures about Market Risk" and "Information Regarding Forward-Looking Statements" in this report and "Risk Factors" in the Company's most recent annual report on Form 10-K for the fiscal year ended February 28, 2018 ("Form 10-K") and its other filings with the Securities and Exchange Commission (the "SEC"). This discussion should be read in conjunction with our condensed consolidated financial statements included under Part I, Item 1. of this report. When used in the MD&A, unless otherwise indicated or the context suggests otherwise, references to "the Company", "our Company", "Helen of Troy", "we", "us", or "our" refer to Helen of Troy Limited and its subsidiaries. Throughout MD&A, we refer to our Leadership Brands, which are brands that have number-one and number-two positions in their respective categories and consist of the OXO, Honeywell, Braun, PUR, Hydro Flask, Vicks, and Hot Tools brands.

Throughout MD&A, we refer to certain measures used by management to evaluate financial performance. We also may refer to a number of financial measures that are not defined under GAAP, but have corresponding GAAP-based measures. Where non-GAAP measures appear, we provide tables reconciling these to their corresponding GAAP-based measures and refer to a discussion of their use. We believe these measures provide investors with important information that is useful in understanding our business results and trends.

OVERVIEW

We incorporated as Helen of Troy Corporation in Texas in 1968 and were reorganized as Helen of Troy Limited in Bermuda in 1994. We are a leading global consumer products company offering creative products and solutions for our customers through a diversified portfolio of well-recognized and widely-trusted brands. We have built leading market positions through new product innovation, product quality and competitive pricing. We currently operate in three segments consisting of Housewares, Health & Home, and Beauty. In fiscal 2015, we launched a transformational strategy to improve the performance of our business segments and strengthen our shared service capabilities. We believe we continue to make progress on achieving our strategic objectives.

In October 2017, we announced that we had approved a restructuring plan (referred to as "Project Refuel") intended to enhance the performance of primarily the Beauty and former Nutritional Supplements segments. Project Refuel includes a reduction-in-force and the elimination of certain contracts and operating expenses. During the first quarter of fiscal 2019, we expanded Project Refuel to include the realignment and streamlining of our supply chain structure. For additional information regarding Project Refuel, see Note 9 to the accompanying condensed consolidated financial statements.

In December 2017, we completed the divestiture of the Nutritional Supplements segment through the sale of Healthy Directions LLC and its subsidiaries ("Healthy Directions") to Direct Digital, LLC. The purchase price from the sale is comprised of \$46.0 million in cash, which was paid at closing, and a supplemental payment with a target value of \$25.0 million, payable on or before August 1, 2019. The final amount of the supplemental payment has been adjusted based on a settlement with respect to the calculation of the performance of Healthy Directions through February 28, 2018. During the third quarter of fiscal 2019, we reduced the estimated value of the supplemental payment to \$10.8 million and recorded a corresponding pre-tax charge of \$5.8 million (\$4.4 million after tax) to discontinued operations. Also, during the third quarter of fiscal 2019, we recorded an additional charge of \$0.5 million (before and after tax) to discontinued operations, resulting from the resolution of certain contingencies. Following the sale, we no longer consolidate our former Nutritional Supplements segment's operating results. Unless otherwise indicated, all results presented are from continuing operations.

Table of Contents

Significant Trends Impacting the Business

Potential Impact of Tariffs

We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States. This concentration exposes us to risks associated with doing business globally, including changes in tariffs. The Office of the United States Trade Representative ("USTR") identified certain Chinese imported goods for additional tariffs to address China's trade policies and practices. The tariffs, could have a material adverse effect on our business and results of operations. This potential impact could be mitigated by a variety of factors. The USTR may also reduce the list of impacted tariff lines before the tariffs are implemented and later may grant specific product exclusions. We are unable to give any assurance as to the scope, duration, or impact of the tariffs, how successful our mitigation efforts will be, or the extent to which mitigation will be necessary.

The tariff increases that have been implemented by the USTR began to impact our cost of goods sold in the third quarter of fiscal 2019. While we have implemented pricing actions in the various product categories impacted by the tariffs, the bulk of these actions did not become meaningfully effective during the third quarter. Our pricing actions will largely become effective during the fourth quarter of fiscal 2019 and the first quarter of 2020. This is due to the negotiation and notice periods involved in taking pricing actions with our retail customers. Although our pricing actions are intended to offset the full gross profit impact of tariff increases, there are no assurances that the pricing action will not reduce retail consumption or customer orders in the short-term. Additionally, we have not resolved pricing with one key retailer in two product categories. We expect some disruption to customer orders and retail consumption from pricing actions in the short-term, including the fourth quarter of fiscal 2019. However, we believe these pricing actions are the right choices for the long-term health of the business.

Foreign Currency Exchange Rate Fluctuations

Due to the nature of our operations, we have exposure to the impact of fluctuations in exchange rates from transactions that are denominated in a currency other than our reporting currency (the U.S. Dollar). The most significant currencies affecting our operating results are the Euro, Canadian Dollar, British Pound, and Mexican Peso.

For the three months ended November 30, 2018, changes in foreign currency exchange rates had an unfavorable impact on consolidated U.S. Dollar reported net sales revenue of approximately \$1.8 million, or 0.4%, compared to a favorable impact of \$2.8 million, or 0.6%, for the same period last year. For the nine months ended November 30, 2018, net foreign currency exchange rate fluctuations favorably impacted our consolidated U.S. dollar reported net sales revenue by approximately \$1.4 million, or 0.1%, compared to a favorable impact of \$1.1 million, or 0.1%, in the same period last year.

Consumer Spending and Changes in Shopping Preferences

Our business depends upon discretionary consumer demand for most of our products and primarily operates within mature and highly developed consumer markets. The principal driver of our operating performance is the strength of the U.S. retail economy. Approximately 80% of our net sales were from U.S. shipments for the three months ended November 30, 2018, compared to approximately 79% for the same period last year. For the nine months ended November 30, 2018 and 2017, U.S. shipments were approximately 78% of our net sales.

Additionally, the shift in consumer shopping preferences to online or multichannel shopping experiences has changed the concentration of our sales. For the three and nine months ended November 30, 2018, our net sales to retail customers fulfilling end-consumer online orders and online sales directly to consumers comprised approximately 18% and 17%, respectively, of our total consolidated net sales revenue, and grew approximately 6% and 16%, respectively,

over the same period last year.

23

Table of Contents

For the three and nine months ended November 30, 2017, our net sales to retail customers fulfilling end-consumer online orders and online sales directly to consumers comprised approximately 18% and 15%, respectively, of our total consolidated net sales revenue, and grew approximately 30% and 31%, respectively, over the same periods last year.

With the continued growth in online sales across the retail landscape, many brick and mortar retailers are aggressively looking for ways to improve their customer delivery capabilities to be able to meet customer expectations. As a result, it will become increasingly important for us to leverage our distribution capabilities in order to meet the changing demands of our customers, as well as to increase our online capabilities to support our direct-to-consumer sales channels and online channel sales by our retail customers.

Variability of the Cough/Cold/Flu Season

Sales in several of our Health & Home segment categories are highly correlated to the severity of winter weather and cough/cold/flu incidence. In the U.S., the cough/cold/flu season historically runs from November through March, with peak activity normally in January to March. For the 2017-2018 season, fall and winter weather was unseasonably cold and cough/cold/flu incidence was significantly higher than the 2016-2017 season, which was a below average season.

Third Quarter Fiscal 2019 Financial Results

Consolidated net sales revenue increased 2.4%, or \$10.2 million, to \$431.1 million for the three months ended November 30, 2018, compared to \$420.8 million for the same period last year. Net sales from our Leadership Brands were \$343.4 million for the three months ended November 30, 2018, compared to \$327.3 million for the same period last year, representing growth of 4.9%.

Consolidated operating income was \$61.3 million for the three months ended November 30, 2018, compared to \$67.3 million for the same period last year. Consolidated operating income for the three months ended November 30, 2017 included pre-tax restructuring charges of \$1.2 million.

Consolidated adjusted operating income decreased 8.9%, or \$6.9 million, to \$70.6 million for the three months ended November 30, 2018, compared to \$77.6 million for the same period last year. Consolidated adjusted operating margin decreased 2.0 percentage points to 16.4% of consolidated net sales revenue for the three months ended November 30, 2018, compared to 18.4% for the same period last year.

Income from continuing operations was \$54.3 million for the three months ended November 30, 2018, compared to \$58.6 million for the same period last year. Diluted earnings per share ("EPS") from continuing operations was \$2.06 for the three months ended November 30, 2018, compared to \$2.15 for the same period last year.

Adjusted income from continuing operations decreased 7.1% to \$63.2 million for the three months ended November 30, 2018, compared to \$68.1 million for the same period last year. Adjusted diluted EPS from continuing operations decreased 4.0% to \$2.40 for the three months ended November 30, 2018, compared to \$2.50 for the same period last year.

Loss from discontinued operations was \$4.9 million, or \$0.18 per diluted share, for the three months ended November 30, 2018, compared to a loss of \$89.1 million, or \$3.27 per diluted share, for the same period last year.

Table of Contents

Net income was \$49.5 million for the three months ended November 30, 2018, compared to a net loss of \$30.4 million for the same period last year. Diluted EPS was \$1.88 for the three months ended November 30, 2018 compared to a loss of \$1.12 per diluted share for the same period last year.

Year-To-Date Fiscal 2019 Financial Results

Consolidated net sales revenue increased 8.1%, or \$88.0 million, to \$1,179.3 million for the nine months ended November 30, 2018, compared to \$1,091.3 million for the same period last year. Net sales from our Leadership Brands were \$943.2 million for the nine months ended November 30, 2018, compared to \$837.0 million for the same period last year.

Consolidated operating income was \$155.3 million for the nine months ended November 30, 2018, compared to \$137.6 million for the same period last year. Consolidated operating income for the nine months ended November 30, 2018 included pre-tax restructuring charges of \$2.6 million related to Project Refuel. Consolidated operating income for the nine months ended November 30, 2017 included pre-tax non-cash impairment charges of \$4.0 million, a pre-tax charge of \$3.6 million related to the bankruptcy of Toys "R" Us ("TRU"), and pre-tax restructuring charges of \$1.2 million.

Consolidated adjusted operating income increased 8.5%, or \$14.5 million, to \$185.7 million for the nine months ended November 30, 2018, compared to \$171.2 million for the same period last year. Consolidated adjusted operating margin increased 0.1 percentage points to 15.8% of consolidated net sales revenue for the nine months ended November 30, 2018, compared to 15.7% for the same period last year.

Income from continuing operations was \$136.5 million for the nine months ended November 30, 2018, compared to \$120.5 million for the same period last year. Diluted EPS from continuing operations was \$5.15 for the nine months ended November 30, 2018, compared to \$4.41 for the same period last year.

Adjusted income from continuing operations increased 9.2% to \$165.5 million for the nine months ended November 30, 2018, compared to \$151.6 million for the same period last year. Adjusted diluted EPS from continuing operations increased 12.4% to \$6.24 for the nine months ended November 30, 2018, compared to \$5.55 for the same period last year.

Loss from discontinued operations, net of tax, was \$5.2 million for the nine months ended November 30, 2018, compared to a loss of \$136.1 million for the same period last year. Loss from discontinued operations was \$0.20 per diluted share for the nine months ended November 30, 2018 compared to a loss of \$4.99 per diluted share for the same period last year.

Net income was \$131.3 million for the nine months ended November 30, 2018 compared to a net loss of \$15.6 million for the same period last year. Diluted EPS was \$4.95 for the nine months ended November 30, 2018 compared to a loss of \$0.57 per diluted share for the same period last year.

Adjusted operating income, adjusted operating margin, adjusted income from continuing operations, adjusted diluted EPS from continuing operations and Leadership Brands net sales, as discussed above and on the pages that follow, are non GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further and reconciled to their applicable GAAP based measures contained in this MD&A on pages 27, 30, 31, 33, 34, 37, 38, 39, 40 and 42.

Table of Contents

RESULTS OF OPERATIONS

The following tables provide selected operating data, in U.S. Dollars, as a percentage of net sales revenue, and as a year-over-year percentage change:

| (in thousands) | Three Months Ended November 30, | | | | % of Sales Revenue, net | |
|---|------------------------------------|-------------|-----------|-------------|----------------------------|----------|
| | 2018 | 2017 | \$ Change | % Change | 2018 | 2017 |
| Sales revenue by segment, net | | | | | | |
| Housewares | \$142,937 | \$128,261 | \$14,676 | 11.4 % | 33.2 % | 30.5 % |
| Health & Home | 187,863 | 189,240 | (1,377) | (0.7)% | 43.6 % | 45.0 % |
| Beauty | 100,281 | 103,340 | (3,059) | (3.0)% | 23.3 % | 24.6 % |
| Total sales revenue, net | 431,081 | 420,841 | 10,240 | 2.4 % | 100.0 % | 100.0 % |
| Cost of goods sold | 249,236 | 242,703 | 6,533 | 2.7 % | 57.8 % | 57.7 % |
| Gross profit | 181,845 | 178,138 | 3,707 | 2.1 % | 42.2 % | 42.3 % |
| Selling, general and administrative expense ("SGA") | 120,524 | 109,633 | 10,891 | 9.9 % | 28.0 % | 26.1 % |
| Asset impairment charges | — | — | — | — % | — % | — % |
| Restructuring charges | 25 | 1,165 | (1,140) | (97.9)% | — % | 0.3 % |
| Operating income | 61,296 | 67,340 | (6,044) | (9.0)% | 14.2 % | 16.0 % |
| Nonoperating income, net | 15 | 34 | (19) | (55.9)% | — % | — % |
| Interest expense | (2,971) | (3,505) | 534 | (15.2)% | (0.7)% | (0.8)% |
| Income before income tax | 58,340 | 63,869 | (5,529) | (8.7)% | 13.5 % | 15.2 % |
| Income tax expense | 4,020 | 5,245 | (1,225) | (23.4)% | 0.9 % | 1.2 % |
| Income from continuing operations | 54,320 | 58,624 | (4,304) | (7.3)% | 12.6 % | 13.9 % |
| Loss from discontinued operations (1) | (4,850) | (89,060) | 84,210 | * | (1.1)% | (21.2)% |
| Net income (loss) | \$49,470 | \$(30,436) | \$79,906 | * | 11.5 % | (7.2)% |

| (in thousands) | Nine Months Ended November 30, | | | | % of Sales Revenue, net | |
|---------------------------------------|-----------------------------------|------------|-----------|-------------|----------------------------|----------|
| | 2018 | 2017 | \$ Change | % Change | 2018 | 2017 |
| Sales revenue by segment, net | | | | | | |
| Housewares | \$397,738 | \$342,050 | \$55,688 | 16.3 % | 33.7 % | 31.3 % |
| Health & Home | 527,077 | 483,592 | 43,485 | 9.0 % | 44.7 % | 44.3 % |
| Beauty | 254,493 | 265,639 | (11,146) | (4.2)% | 21.6 % | 24.3 % |
| Total sales revenue, net | 1,179,308 | 1,091,281 | 88,027 | 8.1 % | 100.0 % | 100.0 % |
| Cost of goods sold | 695,732 | 638,096 | 57,636 | 9.0 % | 59.0 % | 58.5 % |
| Gross profit | 483,576 | 453,185 | 30,391 | 6.7 % | 41.0 % | 41.5 % |
| SGA | 325,684 | 310,390 | 15,294 | 4.9 % | 27.6 % | 28.4 % |
| Asset impairment charges | — | 4,000 | (4,000) | (100.0)% | — % | 0.4 % |
| Restructuring charges | 2,609 | 1,165 | 1,444 | 123.9 % | 0.2 % | 0.1 % |
| Operating income | 155,283 | 137,630 | 17,653 | 12.8 % | 13.2 % | 12.6 % |
| Nonoperating income, net | 175 | 281 | (106) | (37.7)% | — % | — % |
| Interest expense | (8,413) | (10,984) | 2,571 | (23.4)% | (0.7)% | (1.0)% |
| Income before income tax | 147,045 | 126,927 | 20,118 | 15.9 % | 12.5 % | 11.6 % |
| Income tax expense | 10,535 | 6,423 | 4,112 | 64.0 % | 0.9 % | 0.6 % |
| Income from continuing operations | 136,510 | 120,504 | 16,006 | 13.3 % | 11.6 % | 11.0 % |
| Loss from discontinued operations (1) | (5,231) | (136,139) | 130,908 | * | (0.4)% | (12.5)% |

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Net income (loss) \$131,279 \$(15,635) \$146,914 * 11.1 % (1.4)%

During fiscal 2018, we divested our Nutritional Supplements segment, which is reported as discontinued operations (1) for all periods presented. For more information see Note 4 to the accompanying condensed consolidated financial statements.

* Calculation is not meaningful.

Table of Contents

Comparison of Third Quarter Fiscal 2019 to Third Quarter Fiscal 2018

Consolidated and Segment Net Sales

The following table summarizes the impact that core business, foreign exchange and acquisitions, as applicable, had on our net sales revenue by segment:

| (in thousands) | Three Months Ended November 30, | | | | |
|--------------------------------|---------------------------------|---------------|-----------|-----------|----|
| | Housewares | Health & Home | Beauty | Total | |
| Fiscal 2018 sales revenue, net | \$128,261 | \$189,240 | \$103,340 | \$420,841 | |
| Core business growth (decline) | 14,828 | (313) | (2,458) | 12,057 | |
| Impact of foreign currency | (152) | (1,064) | (601) | (1,817) | |
| Change in sales revenue, net | 14,676 | (1,377) | (3,059) | 10,240 | |
| Fiscal 2019 sales revenue, net | \$142,937 | \$187,863 | \$100,281 | \$431,081 | |
| Total net sales revenue growth | 11.4 | % (0.7)% | (3.0)% | 2.4 | % |
| Core business growth (decline) | 11.6 | % (0.2)% | (2.4)% | 2.9 | % |
| Impact of foreign currency | (0.1 |)% (0.6 |)% (0.6 |)% (0.4 |)% |

In the above table, core business refers to our net sales revenue associated with product lines or brands after the first twelve months from the date the product line or brand is acquired, excluding the impact that foreign currency had on reported net sales. Net sales revenue from internally developed brands or product lines is considered core business activity.

Leadership Brand and Other Net Sales

The following table summarizes our leadership brand and other net sales:

| (in thousands) | Three Months Ended November 30, | | | |
|-------------------------------------|---------------------------------|-----------|-----------|----------|
| | 2018 | 2017 | \$ Change | % Change |
| Leadership Brand sales revenue, net | \$343,364 | \$327,288 | \$16,076 | 4.9 % |
| All other sales revenue, net | 87,717 | 93,553 | (5,836) | (6.2)% |
| Total sales revenue, net | \$431,081 | \$420,841 | \$10,240 | 2.4 % |

Consolidated Net Sales Revenue

Consolidated net sales revenue increased \$10.2 million, or 2.4%, to \$431.1 million for the three months ended November 30, 2018, compared to \$420.8 million for the same period last year. The increase was primarily driven by a core business increase of \$12.1 million, or 2.9%, reflecting an increase in brick and mortar sales in our Housewares segment and growth in consolidated online sales. These factors were partially offset by the discontinuation of certain brands and products in our Beauty segment and a decline in the personal care category within the segment, a deceleration of growth in China ecommerce, and the unfavorable impact from foreign currency fluctuations of approximately \$1.8 million, or 0.4%. Net sales from our Leadership Brands were \$343.4 million for the three months ended November 30, 2018, compared to \$327.3 million for the same period last year, representing growth of 4.9%.

Segment Net Sales Revenue

Housewares

Net sales revenue in the Housewares segment increased \$14.7 million, or 11.4%, to \$142.9 million for the three months ended November 30, 2018, compared to \$128.3 million for the same period last year. Growth was primarily driven by a core business increase of \$14.8 million, or 11.6%, due to point of sale growth and incremental distribution with existing domestic customers, an increase in overall online sales and new product introductions. These factors were partially offset by lower club channel sales and a

Table of Contents

reduction in inventory by a key online retailer. The impact of net foreign currency fluctuations was not meaningful.

Health & Home

Net sales revenue in the Health & Home segment decreased \$1.4 million, or 0.7%, to \$187.9 million for the three months ended November 30, 2018, compared to \$189.2 million for the same period last year. The decline was primarily driven by the unfavorable impact of net foreign currency fluctuations of \$1.1 million, or 0.6%, and a core business decline of \$0.3 million, or 0.2%. The core business decline primarily reflects the unfavorable comparative impact from international distribution gains in the prior year period, compounded by a deceleration of growth in China ecommerce and a corresponding buildup of inventory in the channel. These factors were partially offset by incremental distribution and shelf space gains with existing domestic customers and strong seasonal category growth.

Beauty

Net sales revenue in the Beauty segment decreased \$3.1 million, or 3.0%, to \$100.3 million for the three months ended November 30, 2018, compared to \$103.3 million for the same period last year. The decline was primarily driven by a decrease in core business sales of \$2.5 million, or 2.4%, reflecting a decrease in brick and mortar sales, a decline in the personal care category and the discontinuation of certain brands and products. These factors more than offset growth in the online channel, an increase in international sales, and new product introductions in the retail appliance category. Segment net sales were unfavorably impacted by net foreign currency fluctuations of approximately \$0.6 million, or 0.6%.

Consolidated Gross Profit Margin

Consolidated gross profit margin for the three months ended November 30, 2018 decreased 0.1 percentage point to 42.2%, compared to 42.3% for the same period last year. The decrease in consolidated gross profit margin is primarily due to less favorable product mix and the impact of tariff increases, partially offset by the favorable margin impact from growth in our Leadership Brands.

Consolidated SG&A

Our consolidated SG&A ratio increased 1.9 percentage points to 28.0% for the three months ended November 30, 2018, compared to 26.1% for the same period last year. The increase in the consolidated SG&A ratio is primarily due to higher advertising expense, increased freight costs, increased share-based compensation expense and higher product claim expense.

These factors were partially offset by:

- the favorable comparative impact of foreign currency exchange and forward contract settlements;
- the favorable comparative impact of restructuring charges in the same period last year; and
- lower amortization expense.

Asset Impairment Charges

We perform annual impairment tests each fiscal year during the fourth quarter and interim impairment tests, if and when necessary. We did not record any asset impairment charges in continuing operations during the three months ended November 30, 2018 or 2017.

Table of Contents

Restructuring Charges

During the three months ended November 30, 2018, we incurred an insignificant amount of pre-tax restructuring charges compared to \$1.2 million for the same period last year. The charges related primarily to employee severance and termination benefits in our Beauty segment.

29

Table of Contents

Operating income, operating margin, adjusted operating income (non-GAAP), and adjusted operating margin (non-GAAP) by segment

In order to provide a better understanding of the comparative impact of certain items on operating income, the tables that follow report the comparative before tax impact of non-cash asset impairment charges, the TRU bankruptcy charge, restructuring charges, amortization of intangible assets, and non cash share based compensation, as applicable, on operating income and operating margin for each segment and in total for the periods covered below. Adjusted operating income and adjusted operating margin may be considered non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further in this MD&A on page 42.

| (In thousands) | Three Months Ended November 30, 2018 | | | | | | | |
|--------------------------------------|--------------------------------------|--------|---------------|--------|----------|--------|----------|--------|
| | Housewares | | Health & Home | | Beauty | | Total | |
| Operating income, as reported (GAAP) | \$29,839 | 20.9 % | \$19,213 | 10.2 % | \$12,244 | 12.2 % | \$61,296 | 14.2 % |
| Asset impairment charges | — | — % | — | — % | — | — % | — | — % |
| Restructuring charges | (20) | — % | — | — % | 45 | — % | 25 | — % |
| Subtotal | 29,819 | 20.9 % | 19,213 | 10.2 % | 12,289 | 12.3 % | 61,321 | 14.2 % |
| Amortization of intangible assets | 489 | 0.3 % | 2,721 | 1.4 % | 90 | 0.1 % | 3,300 | 0.8 % |
| Non-cash share-based compensation | 2,293 | 1.6 % | 2,548 | 1.4 % | 1,175 | 1.2 % | 6,016 | 1.4 % |
| Adjusted operating income (non-GAAP) | \$32,601 | 22.8 % | \$24,482 | 13.0 % | \$13,554 | 13.5 % | \$70,637 | 16.4 % |
| (In thousands) | Three Months Ended November 30, 2017 | | | | | | | |
| | Housewares | | Health & Home | | Beauty | | Total | |
| Operating income, as reported (GAAP) | \$29,809 | 23.2 % | \$27,584 | 14.6 % | \$9,947 | 9.6 % | \$67,340 | 16.0 % |
| Asset impairment charges | — | — % | — | — % | — | — % | — | — % |
| Restructuring charges | — | — % | — | — % | 1,165 | 1.1 % | 1,165 | 0.3 % |
| Subtotal | 29,809 | 23.2 % | 27,584 | 14.6 % | 11,112 | 10.8 % | 68,505 | 16.3 % |
| Amortization of intangible assets | 489 | 0.4 % | 2,797 | 1.5 % | 1,374 | 1.3 % | 4,660 | 1.1 % |
| Non-cash share-based compensation | 1,439 | 1.1 % | 1,711 | 0.9 % | 1,239 | 1.2 % | 4,389 | 1.0 % |
| Adjusted operating income (non-GAAP) | \$31,737 | 24.7 % | \$32,092 | 17.0 % | \$13,725 | 13.3 % | \$77,554 | 18.4 % |

Consolidated

Consolidated operating income was \$61.3 million, or 14.2% of net sales, compared to \$67.3 million, or 16.0% of net sales, for the same period last year. The decrease was driven by the following factors:

- higher advertising expense;
- the impact of tariff increases;
- higher freight expense; and
- increased share-based compensation expense.

These factors were partially offset by:

- the favorable comparative impact of foreign currency exchange and forward contract settlements;
- the net favorable comparative impact of pre-tax restructuring charges of \$1.1 million;
- lower amortization expense; and
- the favorable margin impact from Leadership Brand growth.

Consolidated adjusted operating income decreased 8.9% to \$70.6 million, or 16.4% of net sales, compared to \$77.6 million, or 18.4% of net sales, in the same period last year.

Table of Contents

Housewares

The Housewares segment's operating income was \$29.8 million, or 20.9% of segment net sales, compared to \$29.8 million, or 23.2% of segment net sales, for the same period last year. The 2.3 percentage point decrease in segment operating margin is primarily due to:

- higher advertising expense;
- higher annual incentive compensation expense related to current year performance;
- higher freight expense; and
- higher rent expense related to new office space.

These factors were partially offset by:

- the margin impact of more favorable product and channel mix; and
- the favorable impact of increased operating leverage from net sales growth.

Segment adjusted operating income increased 2.7% to \$32.6 million, or 22.8% of segment net sales, compared to \$31.7 million, or 24.7% of segment net sales, in the same period last year.

Health & Home

The Health & Home segment's operating income was \$19.2 million, or 10.2% of segment net sales, compared to \$27.6 million, or 14.6% of segment net sales in the same period last year. The 4.4 percentage point decrease in segment operating margin is primarily due to:

- higher advertising expense;
- increased promotional spending and trade support with retail customers;
- the impact of tariff increases;
- the margin impact of a less favorable product and channel mix; and
- higher personnel expense.

These factors were partially offset by the favorable comparative impact of foreign currency exchange and forward contract settlements.

Segment adjusted operating income decreased 23.7% to \$24.5 million, or 13.0% of segment net sales, compared to \$32.1 million, or 17.0% of segment net sales, in the same period last year.

Beauty

The Beauty segment's operating income was \$12.2 million, or 12.2% of segment net sales, compared to \$9.9 million, or 9.6% of segment net sales, in the same period last year. The 2.6 percentage point increase in segment operating margin is primarily due to:

- the net favorable comparative impact of pre-tax restructuring charges of \$1.1 million;
- lower amortization expense; and
- personnel cost savings from Project Refuel.

These factors were partially offset by:

- higher advertising expense; and
- higher freight expense.

Segment adjusted operating income decreased 1.2% to \$13.6 million, or 13.5% of segment net sales, compared to \$13.7 million, or 13.3% of segment net sales, in the same period last year.

Table of Contents

Interest Expense

Interest expense was \$3.0 million for the three months ended November 30, 2018, compared to \$3.5 million in the same period last year. The decrease in interest expense was primarily due to lower average levels of debt, partially offset by higher average interest rates compared to the same period last year.

Income Tax Expense

The year-over-year comparison of our effective tax rate is impacted by the mix of taxable income in our various tax jurisdictions. Due to our organization in Bermuda and the ownership structure of our foreign subsidiaries, many of which are not owned directly or indirectly by a U.S. parent company, an immaterial amount of our foreign income is subject to U.S. taxation on a permanent basis under current law. Additionally, our intellectual property is largely owned by our foreign subsidiaries, resulting in proportionally higher earnings in jurisdictions with lower statutory tax rates, which decreases our overall effective tax rate. Our effective tax rate is also impacted by the Tax Cuts and Jobs Act (“the Tax Act”) enacted into law on December 22, 2017. See Note 15 of the accompanying condensed consolidated financial statements for a further discussion of the Tax Act.

For the three months ended November 30, 2018, income tax expense as a percentage of income before income tax was 6.9% compared to 8.2% for the same period last year. The year-over-year decline in the effective tax rate is primarily due to shifts in the mix of taxable income in our various tax jurisdictions.

During fiscal 2017, we received an assessment from a state tax authority which adjusted taxable income applicable to the particular state resulting from interpretations of certain state income tax provisions applicable to our legal structure. We believe we have accurately reported our taxable income and are vigorously protesting the assessment through administrative processes with the state. We believe it is unlikely that the outcome of these matters will have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Table of Contents

Income from continuing operations, diluted EPS from continuing operations, adjusted income from continuing operations (non-GAAP), and adjusted diluted EPS from continuing operations (non-GAAP)

In order to provide a better understanding of the impact of certain items on our income and EPS from continuing operations, the analysis that follows reports the comparative after tax impact of non cash asset impairment charges, the TRU bankruptcy charge, restructuring charges, amortization of intangible assets, and non cash share based compensation, as applicable, on income from continuing operations, and diluted EPS from continuing operations for the periods covered below. Adjusted income from continuing operations and adjusted diluted EPS from continuing operations may be considered non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100.

| (in thousands, except per share data) | Three Months Ended November 30, 2018 | | | | | |
|---------------------------------------|--------------------------------------|---------|------------|-------------|--------|------------|
| | Income From Continuing Operations | | | Diluted EPS | | |
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| As reported (GAAP) | \$58,340 | \$4,020 | \$54,320 | \$2.21 | \$0.15 | \$2.06 |
| Restructuring charges | 25 | 2 | 23 | — | — | — |
| Subtotal | 58,365 | 4,022 | 54,343 | 2.21 | 0.15 | 2.06 |
| Amortization of intangible assets | 3,300 | 46 | 3,254 | 0.13 | — | 0.12 |
| Non-cash share-based compensation | 6,016 | 415 | 5,601 | 0.23 | 0.02 | 0.21 |
| Adjusted (non-GAAP) | \$67,681 | \$4,483 | \$63,198 | \$2.57 | \$0.17 | \$2.40 |

Weighted average shares of common stock used in computing diluted EPS 26,366

| (in thousands, except per share data) | Three Months Ended November 30, 2017 | | | | | |
|---------------------------------------|--------------------------------------|---------|------------|-------------|--------|------------|
| | Income From Continuing Operations | | | Diluted EPS | | |
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| As reported (GAAP) | \$63,869 | \$5,245 | \$58,624 | \$2.34 | \$0.19 | \$2.15 |
| Asset impairment charges | — | — | — | — | — | — |
| Restructuring charges | 1,165 | 68 | 1,097 | 0.04 | — | 0.04 |
| Subtotal | 65,034 | 5,313 | 59,721 | 2.39 | 0.19 | 2.19 |
| Amortization of intangible assets | 4,660 | 211 | 4,449 | 0.17 | 0.01 | 0.16 |
| Non-cash share-based compensation | 4,389 | 498 | 3,891 | 0.16 | 0.02 | 0.14 |
| Adjusted (non-GAAP) | \$74,083 | \$6,022 | \$68,061 | \$2.72 | \$0.22 | \$2.50 |

Weighted average shares of common stock used in computing diluted EPS 27,267

Our income from continuing operations was \$54.3 million for the three months ended November 30, 2018 compared to \$58.6 million for the same period last year. Our diluted EPS from continuing operations was \$2.06 for the three months ended November 30, 2018 compared to \$2.15 for the same period last year.

Adjusted income from continuing operations decreased \$4.9 million, or 7.1%, to \$63.2 million for the three months ended November 30, 2018 compared to \$68.1 million the same period last year. Adjusted diluted EPS from continuing operations decreased 4.0% to \$2.40 for the three months ended November 30, 2018 compared to \$2.50 for the same period last year. Adjusted diluted EPS decreased primarily due to lower operating income from our Health & Home segment compared to the same period last year. This was partially offset by higher adjusted operating income

from our Housewares segment and the impact of lower weighted average diluted shares outstanding.

33

Table of Contents

Comparison of First Nine Months of Fiscal 2019 to First Nine Months of Fiscal 2018

Consolidated and Segment Net Sales

The following table summarizes the impact that core business, foreign exchange and acquisitions, as applicable, had on our net sales revenue by segment:

| (in thousands) | Nine Months Ended November 30, | | | | |
|--------------------------------|--------------------------------|---------------|-----------|-------------|---|
| | Housewares | Health & Home | Beauty | Total | |
| Fiscal 2018 sales revenue, net | \$342,050 | \$483,592 | \$265,639 | \$1,091,281 | |
| Core business growth (decline) | 55,414 | 41,658 | (10,432) | 86,640 | |
| Impact of foreign currency | 274 | 1,827 | (714) | 1,387 | |
| Change in sales revenue, net | 55,688 | 43,485 | (11,146) | 88,027 | |
| Fiscal 2019 sales revenue, net | \$397,738 | \$527,077 | \$254,493 | \$1,179,308 | |
| Total net sales revenue growth | 16.3 | % 9.0 | % (4.2) | % 8.1 | % |
| Core business growth (decline) | 16.2 | % 8.6 | % (3.9) | % 7.9 | % |
| Impact of foreign currency | 0.1 | % 0.4 | % (0.3) | % 0.1 | % |

In the above table, core business refers to our net sales revenue associated with product lines or brands after the first twelve months from the date the product line or brand is acquired, excluding the impact that foreign currency had on reported net sales. Net sales revenue from internally developed brands or product lines is considered core business activity.

Leadership Brand and Other Net Sales

The following table summarizes our leadership brand and other net sales:

| (in thousands) | Nine Months Ended November 30, | | | |
|-------------------------------------|--------------------------------|-------------|-----------|----------|
| | 2018 | 2017 | \$ Change | % Change |
| Leadership Brand sales revenue, net | \$943,168 | \$836,993 | \$106,175 | 12.7 % |
| All other sales revenue, net | 236,140 | 254,288 | (18,148) | (7.1)% |
| Total sales revenue, net | \$1,179,308 | \$1,091,281 | \$88,027 | 8.1 % |

Consolidated Net Sales Revenue

Consolidated net sales revenue increased \$88.0 million, or 8.1%, to \$1,179.3 million for the nine months ended November 30, 2018, compared to \$1,091.3 million for the same period last year. The growth was primarily driven by:

a core business increase of \$86.6 million, or 7.9%, primarily due to point of sale growth in the brick and mortar channel in our Housewares and Health & Home segments, incremental distribution, increased international sales, growth in online sales, and new product introductions; and
the favorable impact from net foreign currency fluctuations of approximately \$1.4 million, or 0.1%.

These factors were partially offset by a decline in the personal care category and the discontinuation of certain brands and products in our Beauty segment. Net sales from our Leadership Brands were \$943.2 million for the nine months ended November 30, 2018, compared to \$837.0 million for the same period last year, representing growth of 12.7%.

Table of Contents

Segment Net Sales Revenue

Housewares

Net sales revenue in the Housewares segment increased \$55.7 million, or 16.3%, to \$397.7 million for the nine months ended November 30, 2018, compared to \$342.1 million for same period last year. Growth was primarily driven by a core business increase of \$55.4 million, or 16.2%, due to point of sale growth with existing domestic customers, higher sales in the club channel, new product introductions and an increase in online sales. These factors were partially offset by lower closeout sales. Segment net sales benefited from the favorable impact of net foreign currency fluctuations of approximately \$0.3 million, or 0.1%.

Health & Home

Net sales revenue in the Health & Home segment increased \$43.5 million, or 9.0%, to \$527.1 million for the nine months ended November 30, 2018, compared to \$483.6 million for the same period last year. The growth was primarily driven by a core business increase of \$41.7 million, or 8.6%, due to higher sales of seasonal products, online growth, growth in international sales, and incremental distribution and shelf space gains with existing customers. Segment net sales benefited from the favorable impact of net foreign currency fluctuations of approximately \$1.8 million, or 0.4%. These factors were partially offset by the unfavorable comparative impact from the retail fill-in of a new product introduction in the same period last year and declines in the Lawn and Garden category.

Beauty

Net sales revenue in the Beauty segment decreased \$11.1 million, or 4.2%, to \$254.5 million for the nine months ended November 30, 2018, compared to \$265.6 million for the same period last year. The change was primarily driven by a core business decline of \$10.4 million, or 3.9%, reflecting a decline in brick and mortar sales, a decrease in the personal care category and the discontinuation of certain brands and products. These factors more than offset growth in the online channel, an increase in international sales, and new product introductions in the retail appliance category. Segment net sales were unfavorably impacted by net foreign currency fluctuations of approximately \$0.7 million, or 0.3%.

Consolidated Gross Profit Margin

Consolidated gross profit margin for the nine months ended November 30, 2018 was 41.0%, compared to 41.5% for the same period last year. The decrease in consolidated gross profit margin is primarily due to less favorable channel and product mix, the impact of tariff increases and a higher mix of shipments made on a direct import basis, partially offset by the favorable margin impact from growth in our Leadership Brands and the favorable impact from foreign currency.

Consolidated SG&A

Our consolidated SG&A ratio decreased 0.8% percentage points to 27.6% for the nine months ended November 30, 2018, compared to 28.4% for the same period last year. The decrease in the consolidated SG&A ratio was primarily due to:

- lower amortization expense;
- the favorable comparative impact of a \$3.6 million charge related to the bankruptcy of TRU in the same period last year;
- the favorable impact of a higher mix of shipments made on a direct import basis; and
- the impact that higher overall net sales had on operating leverage.

These factors were partially offset by higher advertising expense, higher share-based compensation expense related to long-term incentive plans and higher freight expense.

35

Table of Contents

Asset Impairment Charges

We perform annual impairment tests each fiscal year during the fourth quarter and interim impairment tests, if and when necessary. There were no asset impairment charges recorded in continuing operations during the nine months ended November 30, 2018, compared to a pre-tax non-cash asset impairment charge of \$4.0 million recorded during the nine months ended November 30, 2017 in our Beauty segment.

Restructuring Charges

During the nine months ended November 30, 2018, we incurred \$2.6 million of pre-tax restructuring charges compared to \$1.2 million of pre-tax restructuring charges during the same period last year in connection with Project Refuel. These charges related primarily to employee severance and termination benefits in our Beauty segment during both periods, and for our shared service supply chain operations during fiscal 2019.

Table of Contents

Operating income, operating margin, adjusted operating income (non-GAAP), and adjusted operating margin (non-GAAP) by segment

In order to provide a better understanding of the comparative impact of certain items on operating income, the tables that follow report the comparative before tax impact of non cash asset impairment charges, the TRU bankruptcy, restructuring charges, amortization of intangible assets, and non cash share based compensation, as applicable, on operating income and operating margin for each segment and in total for the periods covered below. Adjusted operating income and adjusted operating margin may be considered non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further in this MD&A on page 42.

| | Nine Months Ended November 30, 2018 | | | | | | | |
|--------------------------------------|-------------------------------------|-------|---------------|-------|----------|-------|-----------|-------|
| (In thousands) | Housewares | | Health & Home | | Beauty | | Total | |
| Operating income, as reported (GAAP) | \$80,351 | 20.2% | \$52,501 | 10.0% | \$22,431 | 8.8% | \$155,283 | 13.2% |
| Restructuring charges | 740 | 0.2% | 358 | 0.1% | 1,511 | 0.6% | 2,609 | 0.2% |
| Subtotal | 81,091 | 20.4% | 52,859 | 10.0% | 23,942 | 9.4% | 157,892 | 13.4% |
| Amortization of intangible assets | 1,474 | 0.4% | 8,129 | 1.5% | 1,219 | 0.5% | 10,822 | 0.9% |
| Non-cash share-based compensation | 6,273 | 1.6% | 7,030 | 1.3% | 3,726 | 1.5% | 17,029 | 1.4% |
| Adjusted operating income (non-GAAP) | \$88,838 | 22.3% | \$68,018 | 12.9% | \$28,887 | 11.4% | \$185,743 | 15.8% |
| | Nine Months Ended November 30, 2017 | | | | | | | |
| (In thousands) | Housewares | | Health & Home | | Beauty | | Total | |
| Operating income, as reported (GAAP) | \$71,085 | 20.8% | \$49,243 | 10.2% | \$17,302 | 6.5% | \$137,630 | 12.6% |
| Asset impairment charges | — | —% | — | —% | 4,000 | 1.5% | 4,000 | 0.4% |
| TRU bankruptcy charge | 956 | 0.3% | 2,640 | 0.5% | — | —% | 3,596 | 0.3% |
| Restructuring charges | — | —% | — | —% | 1,165 | 0.4% | 1,165 | 0.1% |
| Subtotal | 72,041 | 21.1% | 51,883 | 10.7% | 22,467 | 8.5% | 146,391 | 13.4% |
| Amortization of intangible assets | 1,618 | 0.5% | 8,373 | 1.7% | 4,207 | 1.6% | 14,198 | 1.3% |
| Non-cash share-based compensation | 3,380 | 1.0% | 3,971 | 0.8% | 3,268 | 1.2% | 10,619 | 1.0% |
| Adjusted operating income (non-GAAP) | \$77,039 | 22.5% | \$64,227 | 13.3% | \$29,942 | 11.3% | \$171,208 | 15.7% |

Consolidated

Consolidated operating income was \$155.3 million, or 13.2% of net sales, compared to \$137.6 million, or 12.6% of net sales, for the same period last year. The nine months ended November 30, 2018 includes pre-tax restructuring charges of \$2.6 million related to Project Refuel, compared to \$1.2 million for the same period last year. Consolidated operating income for the nine months ended November 30, 2017 also included a \$3.6 million charge related to the TRU bankruptcy and a pre-tax non-cash asset impairment charge of \$4.0 million. The effect of these items favorably impacted the year-over-year comparison of operating margin by 0.6 percentage points. The remaining operating margin comparison is flat year-over-year primarily reflecting:

- higher mix of Leadership Brand sales at a higher operating margin;
- lower amortization expense; and
- the favorable impact of increased operating leverage from net sales growth.

These factors were partially offset by a less favorable channel and product mix, higher advertising expense, the impact of tariff increases and higher freight expense.

Consolidated adjusted operating income increased 8.5% to \$185.7 million, or 15.8% of net sales, compared to \$171.2 million, or 15.7% of net sales, for the same period last year.

Table of Contents

Housewares

The Housewares segment's operating income was \$80.4 million, or 20.2% of segment net sales, for the nine months ended November 30, 2018, compared to \$71.1 million, or 20.8% of segment net sales, in the same period last year. The 0.6 percentage point decrease in segment operating margin is primarily due to:

- higher advertising expense;
- higher freight expense;
- higher annual incentive compensation related to current year performance;
- higher rent expense related to new office space; and
- the impact of restructuring charges of \$0.7 million.

These factors were partially offset by:

- the favorable comparative impact of a \$1.0 million charge related to the bankruptcy of TRU in the same period last year; and
- the favorable impact of increased operating leverage from net sales growth.

Segment adjusted operating income increased 15.3% to \$88.8 million, or 22.3% of segment net sales, compared to \$77.0 million, or 22.5% of segment net sales, in the same period last year.

Health & Home

The Health & Home segment's operating income was \$52.5 million, or 10.0% of segment net sales, compared to \$49.2 million, or 10.2% of segment net sales, in the same period last year. The 0.2 percentage point decrease in segment operating margin is primarily due to:

- the margin impact of a less favorable product mix;
- the impact of tariff increases;
- increased promotional spending and trade support with retail customers;
- higher advertising expense; and
- the impact of restructuring charges of \$0.4 million.

These factors were partially offset by:

- the favorable comparative impact of a \$2.6 million charge related to the bankruptcy of TRU in the same period last year; and
- the favorable impact of foreign currency exchange and forward contract settlements.

Segment adjusted operating income increased 5.9% to \$68.0 million, or 12.9% of segment net sales, compared to \$64.2 million, or 13.3% of segment net sales, in the same period last year.

Beauty

The Beauty segment's operating income was \$22.4 million, or 8.8% of segment net sales, compared to operating income of \$17.3 million, or 6.5% of segment net sales, in the same period last year. The nine months ended November 30, 2018 included pre-tax restructuring charges of \$1.5 million, compared to \$1.2 million for the same period last year. Consolidated operating income for the nine months ended November 30, 2017 also included a \$4.0 million pre-tax non-cash asset impairment charge. The effect of these items favorably impacted the year-over-year comparison of operating margin by 1.3 percentage points. The remaining improvement in segment operating margin is

primarily due to:

cost savings from Project Refuel; and

38

Table of Contents

• lower amortization expense.

These factors were partially offset by:

- the margin impact of less favorable product sales mix;
- higher freight expense;
- higher share-based compensation expense related to long-term incentive plans; and
- the unfavorable impact of decreased operating leverage from the decline in net sales.

Segment adjusted operating income decreased 3.5% to \$28.9 million, or 11.4% of segment net sales, compared to \$29.9 million, or 11.3% of segment net sales, in the same period last year.

Interest Expense

Interest expense was \$8.4 million for the nine months ended November 30, 2018 compared to \$11.0 million in the same period last year. The decrease in interest expense is due to lower average levels of debt held during the nine months ended November 30, 2018, partially offset by higher average interest rates.

Income Tax Expense

The year-over-year comparison of our effective tax rate is impacted by the mix of taxable income in our various tax jurisdictions. Due to our organization in Bermuda and the ownership structure of our foreign subsidiaries, many of which are not owned directly or indirectly by a U.S. parent company, an immaterial amount of our foreign income is subject to U.S. taxation on a permanent basis under current law. Additionally, our intellectual property is largely owned by our foreign subsidiaries, resulting in proportionally higher earnings in jurisdictions with lower statutory tax rates, which decreases our overall effective tax rate. Our effective tax rate is also impacted by the Tax Act enacted into law on December 22, 2017. Please see Note 15 of the accompanying condensed consolidated financial statements for a further discussion of the Tax Act.

For the nine months ended November 30, 2018, income tax expense as a percentage of income before income tax was 7.2%, which includes \$0.7 million of tax benefits from share-based compensation settlements and a tax benefit of \$0.8 million from the lapse of the statute of limitations related to an uncertain tax position. Income tax expense as a percentage of income before income tax was 5.1% for the same period last year, which included \$2.6 million of tax benefits from share-based compensation settlements and a tax benefit of \$2.8 million related to the resolution of uncertain tax positions.

During fiscal 2017 we received an assessment from a state tax authority which adjusted taxable income applicable to the particular state resulting from interpretations of certain state income tax provisions applicable to our legal structure. We believe we have accurately reported our taxable income and are vigorously protesting the assessment through administrative processes with the state. We believe it is unlikely that the outcome of these matters will have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Table of Contents

Income from continuing operations, diluted EPS from continuing operations, adjusted income from continuing operations (non-GAAP), and adjusted diluted EPS from continuing operations (non-GAAP)

In order to provide a better understanding of the impact of certain items on our income and EPS from continuing operations, the analysis that follows reports the comparative after tax impact of non cash asset impairment charges, the TRU bankruptcy charge, restructuring charges, amortization of intangible assets, and non cash share based compensation, as applicable, on income from continuing operations, and diluted EPS from continuing operations for the periods covered below. Adjusted income from continuing operations and adjusted diluted EPS from continuing operations may be considered non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100.

| (in thousands, except per share data) | Nine Months Ended November 30, 2018 | | | | | |
|---------------------------------------|-------------------------------------|----------|------------|-------------|--------|------------|
| | Income From Continuing Operations | | | Diluted EPS | | |
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| As reported (GAAP) | \$147,045 | \$10,535 | \$136,510 | \$5.54 | \$0.40 | \$5.15 |
| Restructuring charges | 2,609 | 185 | 2,424 | 0.10 | 0.01 | 0.09 |
| Subtotal | 149,654 | 10,720 | 138,934 | 5.64 | 0.40 | 5.24 |
| Amortization of intangible assets | 10,822 | 236 | 10,586 | 0.41 | 0.01 | 0.40 |
| Non-cash share-based compensation | 17,029 | 1,021 | 16,008 | 0.64 | 0.04 | 0.60 |
| Adjusted (non-GAAP) | \$177,505 | \$11,977 | \$165,528 | \$6.69 | \$0.45 | \$6.24 |

Weighted average shares of common stock used in computing diluted EPS 26,520

| (in thousands, except per share data) | Nine Months Ended November 30, 2017 | | | | | |
|---------------------------------------|-------------------------------------|---------|------------|-------------|--------|------------|
| | Income From Continuing Operations | | | Diluted EPS | | |
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| As reported (GAAP) | \$126,927 | \$6,423 | \$120,504 | \$4.65 | \$0.24 | \$4.41 |
| Asset impairment charges | 4,000 | 418 | 3,582 | 0.15 | 0.02 | 0.13 |
| TRU bankruptcy charge | 3,596 | 204 | 3,392 | 0.13 | 0.01 | 0.12 |
| Restructuring charges | 1,165 | 68 | 1,097 | 0.04 | — | 0.04 |
| Subtotal | 135,688 | 7,113 | 128,575 | 4.97 | 0.26 | 4.71 |
| Amortization of intangible assets | 14,198 | 658 | 13,540 | 0.52 | 0.02 | 0.50 |
| Non-cash share-based compensation | 10,619 | 1,178 | 9,441 | 0.39 | 0.04 | 0.35 |
| Adjusted (non-GAAP) | \$160,505 | \$8,949 | \$151,556 | \$5.88 | \$0.33 | \$5.55 |

Weighted average shares of common stock used in computing diluted EPS 27,304

Our income from continuing operations was \$136.5 million for the nine months ended November 30, 2018 compared to \$120.5 million for the same period last year. Our diluted EPS from continuing operations was \$5.15 for the nine months ended November 30, 2018 compared to \$4.41 for the same period last year.

Adjusted income from continuing operations increased \$14.0 million, or 9.2%, to \$165.5 million for the nine months ended November 30, 2018 compared to \$151.6 million the same period last year. Adjusted diluted EPS from

continuing operations increased 12.4% to \$6.24 for the nine months ended November 30, 2018 compared to \$5.55 for the same period last year. Adjusted diluted EPS increased primarily due to the impact of higher adjusted operating income in our Health & Home and Housewares segments,

Table of Contents

lower interest expense and lower weighted average diluted shares outstanding compared to the same period last year.

41

Table of Contents

Explanation of Non-GAAP Financial Measures

The tables contained in this MD&A, under the headings “Operating income, operating margin, adjusted operating income (non-GAAP) and adjusted operating margin (non-GAAP) by segment” and “Income from continuing operations, diluted EPS from continuing operations, adjusted income from continuing operations (non-GAAP), and adjusted diluted EPS from continuing operations (non-GAAP),” respectively, report operating income, operating margin, income from continuing operations and diluted earnings per share from continuing operations without the impact of non-cash asset impairment charges, restructuring charges, the TRU bankruptcy charge, amortization of intangible assets, and non-cash share-based compensation for the periods presented, as applicable. In addition, we report our Leadership Brand net sales revenue, which are sales from brands that have number-one and number-two positions in their respective categories and consist of the OXO, Honeywell, Braun, PUR, Hydro Flask, Vicks and Hot Tools brands. These measures may be considered non-GAAP financial information as set forth in SEC Regulation G, Rule 100. The preceding tables reconcile these measures to their corresponding GAAP-based measures presented in our condensed consolidated statements of income. We believe that adjusted operating income, adjusted operating margin, adjusted income from continuing operations, adjusted diluted EPS from continuing operations and Leadership Brand net sales provide useful information to management and investors regarding financial and business trends relating to our financial condition and results of operations. We believe that these non-GAAP financial measures, in combination with our financial results calculated in accordance with GAAP, provide investors with additional perspective regarding the impact of such charges on net income and earnings per share. We also believe that these non-GAAP measures facilitate a more direct comparison of our performance to our competitors. We further believe that including the excluded charges would not accurately reflect the underlying performance of our continuing operations for the period in which the charges are incurred, even though such charges may be incurred and reflected in our GAAP financial results in the near future. The material limitation associated with the use of the non-GAAP financial measures is that the non-GAAP measures do not reflect the full economic impact of our activities. Our adjusted operating income, adjusted operating margin, adjusted income from continuing operations, adjusted diluted EPS from continuing operations and Leadership Brand net sales are not prepared in accordance with GAAP, are not an alternative to GAAP financial information and may be calculated differently than non-GAAP financial information disclosed by other companies. Accordingly, undue reliance should not be placed on non-GAAP information.

Financial Condition, Liquidity and Capital Resources

Selected measures of our liquidity and capital resources are shown for the periods below :

| | Nine Months Ended | | | |
|---|-------------------|---|-----------|---|
| | November 30, | | | |
| | 2018 | | 2017 | |
| Accounts Receivable Turnover (Days) (1) | 69.4 | | 65.4 | |
| Inventory Turnover (Times) (1) | 3.4 | | 2.8 | |
| Working Capital (in thousands) | \$338,008 | | \$263,537 | |
| Current Ratio | 2.0:1 | | 1.7:1 | |
| Ending Debt to Ending Equity Ratio | 32.9 | % | 43.3 | % |
| Return on Average Equity (1) | 14.1 | % | 15.3 | % |

(1) Accounts receivable turnover, inventory turnover and return on average equity computations use 12 month trailing net sales revenue, cost of goods sold or net income components as required by the particular measure. The current and four prior quarters' ending balances of accounts receivable, inventory and equity are used for the purposes of computing the average balance component as required by the particular measure.

We rely principally on cash flow from operations and borrowings under our credit facility to finance our operations, acquisitions, and capital expenditures. We believe our cash flows from operations and

42

Table of Contents

availability under our credit facility are sufficient to meet our working capital and capital expenditure needs.

Operating Activities

Operating activities from continuing operations provided net cash of \$109.5 million for the nine months ended November 30, 2018 compared to \$102.9 million for the same period last year. The increase was primarily driven by an increase in income from continuing operations, higher share-based compensation and an increase in cash from accounts payable. These factors were partially offset by an increase in cash used for inventory and a dispute settlement payment of \$15.0 million.

Accounts receivable increased \$63.6 million to \$339.1 million as of November 30, 2018, compared to \$275.6 million at the end of fiscal 2018. Accounts receivable turnover was 69.4 and 65.4 days at November 30, 2018 and 2017, respectively.

Inventory increased \$49.1 million to \$300.6 million as of November 30, 2018, compared to \$251.5 million at the end of fiscal 2018. Inventory turnover was 3.4 times at November 30, 2018, compared to 2.8 times at the same time last year.

Investing Activities

Investing activities from continuing operations used \$21.0 million of cash for the nine months ended November 30, 2018, compared to \$10.4 million for the same period last year. During the nine months ended November 30, 2018, we invested in capital expenditures of \$22.2 million primarily for leasehold improvements, computers, furniture and other equipment and for tools, molds and other production equipment. The year-over-year increase in capital spending relates primarily to the office relocation of the Housewares segment.

Financing Activities

Financing activities from continuing operations used \$84.8 million of cash during the nine months ended November 30, 2018, compared to \$89.7 million for the same period last year. Highlights of those activities follow:

- we had draws of \$462.4 million against our credit agreement;
- we repaid \$411.4 million drawn against our credit agreement;
- we repaid \$1.9 million of our long-term debt;
- we received \$7.8 million of cash from employees exercising stock options and participating in our employee stock purchase plan;
- we paid \$4.7 million in tax obligations resulting from cashless share award settlements; and
- we repurchased \$137.1 million of our common stock in the open market.

Table of Contents

Credit and Other Debt Agreements

Credit Agreement

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provides for an unsecured total revolving commitment of \$1.0 billion as of November 30, 2018. The commitment under the Credit Agreement terminates on December 7, 2021. Borrowings accrue interest under one of two alternative methods as described in the Credit Agreement. With each borrowing against our credit line, we can elect the interest rate method based on our funding needs at the time. We also incur loan commitment and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of November 30, 2018, the outstanding revolving loan principal balance was \$320.4 million (excluding prepaid financing fees) and the balance of outstanding letters of credit was \$9.0 million. As of November 30, 2018, the amount available for borrowings under the Credit Agreement was \$670.6 million. Covenants in our debt agreements limit the amount of total indebtedness we can incur. As of November 30, 2018, these covenants effectively limited our ability to incur more than \$526.5 million of additional debt from all sources, including our Credit Agreement, or \$670.6 million in the event a qualified acquisition is consummated.

Other Debt Agreements

We also have an aggregate principal balance of \$22.4 million (excluding prepaid financing fees) under a loan agreement with the Mississippi Business Finance Corporation (the “MBFC Loan”) as of November 30, 2018. The borrowings were used to fund construction of our Olive Branch, Mississippi distribution facility. The remaining loan balance is payable as follows: \$1.9 million annually on March 1, 2019 through 2022; and \$14.8 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023.

All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and several subsidiaries. Our debt agreements require the maintenance of certain key financial covenants, defined in the table below. Our debt agreements also contain other customary covenants, including, among other things, covenants restricting or limiting us, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) repurchasing shares of our common stock and paying dividends. Our debt agreements also contain customary events of default, including failure to pay principal or interest when due, among others. Our debt agreements are cross-defaulted to each other. Upon an event of default under our debt agreements, the holders or lenders may, among other things, accelerate the maturity of any amounts outstanding under our debt agreements. The commitments of the lenders to make loans to us under the Credit Agreement are several and not joint. Accordingly, if any lender fails to make loans to us, our available liquidity could be reduced by an amount up to the aggregate amount of such lender’s commitments under the Credit Agreement.

The table below provides the formulas currently in effect for certain key financial covenants as defined under our debt agreements:

| Applicable Financial Covenant | Credit Agreement and MBFC Loan |
|-------------------------------|--|
| Interest Coverage Ratio | EBIT (1) + Interest Expense (1) Minimum Required: 3.00 to 1.00 |
| Maximum Leverage Ratio | Total Current and Long Term Debt (2) + EBITDA (1) + Pro Forma Effect of Acquisitions Maximum Currently Allowed: 3.50 to 1.00 (3) |

Table of Contents

Key Definitions:

EBIT: Earnings Before Non-Cash Charges, Interest Expense and Taxes

EBITDA: EBIT + Depreciation and Amortization Expense + Share-based Compensation

Pro Forma Effect of Acquisitions: For any acquisition, pre-acquisition EBITDA of the acquired business is included so that the

EBITDA of the acquired business included in the computation equals its twelve month trailing total.

Notes:

(1) Computed using totals for the latest reported four consecutive fiscal quarters.

(2) Computed using the ending balances as of the latest reported fiscal quarter.

(3) In the event a qualified acquisition is consummated, the maximum leverage ratio is 4.25 to 1.00.

Table of Contents

Off-Balance Sheet Arrangements

We have no existing activities involving special purpose entities or off-balance sheet financing.

Current and Future Capital Needs

We expect our capital needs to stem primarily from the need to purchase sufficient levels of inventory and to carry normal levels of accounts receivable on our balance sheet. In addition, we continue to evaluate acquisition opportunities on a regular basis. We may finance acquisition activity with available cash, the issuance of shares of common stock, additional debt, or other sources of financing, depending upon the size and nature of any such transaction and the status of the capital markets at the time of such acquisition. We may also elect to repurchase additional shares of common stock up to the balance of our current authorization through May 2020, subject to limitations contained in our debt agreements and based upon our assessment of a number of factors, including share price, trading volume and general market conditions, working capital requirements, general business conditions, financial conditions, any applicable contractual limitations, and other factors, including alternative investment opportunities. As of November 30, 2018, the amount of cash and cash equivalents held by our foreign subsidiaries was \$14.4 million, of which, an immaterial amount was held in foreign countries where the funds may not be readily convertible into other currencies.

New Accounting Guidance

For information on recently adopted and issued accounting pronouncements, see Note 2 to the accompanying condensed consolidated financial statements.

Information Regarding Forward-Looking Statements

Certain written and oral statements in this Form 10-Q may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. This includes statements made in this report, in other filings with the Securities and Exchange Commission (the "SEC"), in press releases, and in certain other oral and written presentations. Generally, the words "anticipates", "believes", "expects", "plans", "may", "will", "should", "seeks", "estimates", "project", "predict", "potential", "continue", "intends", and other similar words identify forward-looking statements. All statements that address operating results, events or developments that may occur in the future, including statements related to sales, earnings per share results, and statements expressing general expectations about future operating results, are forward-looking statements and are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and assumptions, but there can be no assurance that we will realize our expectations or that our assumptions will prove correct. Forward-looking statements are subject to risks that could cause them to differ materially from actual results. Accordingly, we caution readers not to place undue reliance on forward-looking statements. We believe that these risks include but are not limited to the risks described in this report and that are otherwise described from time to time in our SEC reports as filed. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise.

Such risks are not limited to, but may include:

- our ability to deliver products to our customers in a timely manner and according to their fulfillment standards;
 - the costs of complying with the business demands and requirements of large sophisticated customers;
- our relationships with key customers and licensors;

Table of Contents

- our dependence on the strength of retail economies and vulnerabilities to any prolonged economic downturn;
- our dependence on sales to several large customers and the risks associated with any loss or substantial decline in sales to top customers;
- expectations regarding Project Refuel and any other proposed restructurings;
- expectations regarding recent and future acquisitions or divestitures, including our ability to realize anticipated cost savings, synergies and other benefits along with our ability to effectively integrate acquired businesses or separate divested businesses;
- circumstances which may contribute to future impairment of goodwill, intangible or other long-lived assets;
- the retention and recruitment of key personnel;
- foreign currency exchange rate fluctuations;
- disruptions in U.S., U.K., Eurozone, and other international credit markets;
- risks associated with weather conditions, the duration and severity of the cold and flu season and other related factors;
- our dependence on foreign sources of supply and foreign manufacturing, and associated operational risks including, but not limited to, long lead times, consistent local labor availability and capacity, and timely availability of sufficient shipping carrier capacity;
- the impact of changing costs of raw materials, labor and energy on cost of goods sold and certain operating expenses;
- the geographic concentration and peak season capacity of certain U.S. distribution facilities increases our exposure to significant shipping disruptions and added shipping and storage costs;
- our projections of product demand, sales and net income are highly subjective in nature and future sales and net income could vary in a material amount from such projections;
- the risks associated with the use of trademarks licensed from and to third parties;
- our ability to develop and introduce a continuing stream of new products to meet changing consumer preferences;
- trade barriers, exchange controls, expropriations, and other risks associated with U.S. and foreign operations;
- the risks associated with significant tariffs or other restrictions on imports from China or any retaliatory trade measures taken by China;
- the risks to our liquidity as a result of changes to capital market conditions and other constraints or events that impose constraints on our cash resources and ability to operate our business;
- the costs, complexity and challenges of upgrading and managing our global information systems;
- the risks associated with information security breaches;
- the risks associated with product recalls, product liability, other claims, and related litigation against us;
- the risks associated with accounting for tax positions, tax audits and related disputes with taxing authorities;
- the risks of potential changes in laws in the U.S. or abroad, including tax laws, regulations or treaties, employment and health insurance laws and regulations, laws relating to environmental policy, personal data, financial regulation, transportation policy and infrastructure policy along with the costs and complexities of compliance with such laws; and
- our ability to continue to avoid classification as a controlled foreign corporation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the information provided in the section entitled “Quantitative and Qualitative Disclosures about Market Risk” in our Form 10-K. Additional information regarding risk management activities can be found in Note 13 to the accompanying condensed consolidated financial statements.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), maintains disclosure controls and procedures as defined in Rules 13a-15(e) under the Exchange Act that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, including our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended November 30, 2018. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of November 30, 2018, the end of the period covered by this quarterly report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with the evaluation described above, we identified no change in our internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act that occurred during our fiscal quarter ended November 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 31, 2018, we settled a patent infringement dispute related to two forehead thermometer models sold by our subsidiary, Kaz USA, Inc., in the United States and made a settlement payment of \$15.0 million, which was accrued in prior periods along with related legal fees and other costs. See Note 10 to the accompanying condensed consolidated financial statements for further discussion.

We are involved in various legal claims and proceedings in the normal course of operations. We believe the outcome of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

The ownership of our common stock involves a number of risks and uncertainties. When evaluating the Company and our business before making an investment decision regarding our securities, potential investors should carefully consider the risk factors and uncertainties described in Part 1, Item 1A. “Risk Factors” of our annual report on Form 10-K for the fiscal year ended February 28, 2018. Since the filing of our annual report on Form 10-K, there have been no material changes in our risk factors from those disclosed therein, except for the following:

Table of Contents

If significant tariffs or other restrictions are placed on imports from China or any retaliatory trade measures are taken by China, our business and results of operations could be materially and adversely affected.

We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States. This concentration exposes us to risks associated with doing business globally, including changes in tariffs. The Office of the United States Trade Representative identified certain Chinese imported goods for additional tariffs to address China's trade policies and practices. These tariffs could have a material adverse effect on our business and results of operations. Additionally, the Trump Administration continues to signal that it may alter trade agreements and terms between China and the United States, including limiting trade with China, impose additional tariffs on imports from China and potentially impose other restrictions on exports from China to the United States. Consequently, it is possible further and or higher tariffs will be imposed on products imported from foreign countries, including China, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs. This may cause us to raise prices or make changes to our operations, any of which could have a material adverse effect on our business and results of operations.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes our share repurchase activity for the periods shown:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands) (2) |
|-----------------------------------|---|------------------------------|--|---|
| September 1 to September 30, 2018 | 708 | \$ 123.76 | 708 | \$ 285,694 |
| October 1 to October 31, 2018 | 705,716 | 122.22 | 705,716 | 199,442 |
| November 1 to November 30, 2018 | 108,670 | 127.31 | 108,670 | 185,606 |
| Total | 815,094 | \$ 122.90 | 815,094 | |

(1) The number of shares above includes shares of common stock acquired from employees who tendered shares to: i) satisfy the tax withholding on equity awards as part of our long-term incentive plans or ii) satisfy the exercise price on stock option exercises. For the three months ended November 30, 2018, 1,398 shares were acquired at a weighted average per share price of \$125.03.

(2) Reflects the remaining dollar value of shares that may yet be purchased under our Stock Repurchase Plan through the end of November 30, 2018 as authorized by the Company's Board of Directors in May 2017. For additional information, see Note 8 to the accompanying condensed consolidated financial statements.

n

50

Table of Contents

ITEM EXHIBITS
6.

(a) Exhibits

- 10.1 Amended and Restated Employment Agreement among Helen of Troy Nevada Corporation, Helen of Troy Limited, a Bermuda company, Helen of Troy Limited, a Barbados company, and Julien Mininberg, effective March 1, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2018).
- 10.2* Fourth Supplemental Trust Indenture, dated effective as of September 28, 2018, by and between Mississippi Business Finance Corporation and U.S. Bank National Association (successor to Deutsche Bank National Trust Company), as trustee.
- 10.3* Fifth Amendment to Guaranty Agreement, dated effective as of September 28, 2018, made by Helen of Troy Limited and certain of its subsidiaries in favor of Bank of America, N.A.
- 31.1* Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32** Joint certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS
* XBRL Instance Document
- 101.SCH
* XBRL Taxonomy Extension Schema
- 101.CAL
* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF
* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB
* XBRL Taxonomy Extension Label Linkbase
- 101.PRE
* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HELEN OF TROY LIMITED
(Registrant)

Date: January 9, 2019 /s/ Julien R. Mininberg
Julien R. Mininberg
Chief Executive Officer,
Director and Principal Executive Officer

Date: January 9, 2019 /s/ Brian L. Grass
Brian L. Grass
Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer