

HAVERTY FURNITURE COMPANIES INC

Form 10-Q

August 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 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: 1-14445

HAVERTY FURNITURE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

58-0281900

(State of incorporation)

(I.R.S. Employer Identification No.)

780 Johnson Ferry Road, Suite 800

Atlanta, Georgia

30342

(Address of principal executive office) (Zip Code)

(404) 443-2900

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The numbers of shares outstanding of the registrant's two classes of \$1 par value common stock as of July 31, 2018, were: Common Stock – 19,201,878; Class A Common Stock – 1,766,131.

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HAVERTY FURNITURE COMPANIES, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

HAVERTY FURNITURE COMPANIES, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except per share data)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 74,643	\$79,491
Restricted cash and cash equivalents	8,179	8,115
Accounts receivable, net	1,918	2,408
Inventories	107,482	103,437
Prepaid expenses	12,167	11,314
Other current assets	6,266	5,922
Total current assets	210,655	210,687
Accounts receivable, long-term, net	210	254
Property and equipment, net	226,120	229,215
Deferred income taxes	12,648	12,375
Other assets	9,232	8,798
Total assets	\$ 458,865	\$461,329
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 22,055	\$20,501
Customer deposits	29,352	27,813
Accrued liabilities	36,570	37,582
Current portion of lease obligations	3,883	3,788
Total current liabilities	91,860	89,684
Lease obligations, less current portion	48,836	50,803
Other liabilities	26,391	26,700
Total liabilities	167,087	167,187
Stockholders' equity		
Capital Stock, par value \$1 per share		
Preferred Stock, Authorized – 1,000 shares; Issued: None		
Common Stock, Authorized – 50,000 shares; Issued: 2018 – 29,065; 2017 – 28,950	29,065	28,950
Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2018 – 2,289; 2017 – 2,290	2,289	2,290
Additional paid-in capital	89,650	88,978
Retained earnings	292,465	287,390
Accumulated other comprehensive loss	(2,094 )	(2,144 )
Less treasury stock at cost – Common Stock (2018 – 9,864; 2017 – 9,498) and Convertible Class A Common Stock (2018 and 2017 – 522)	(119,597 )	(111,322)
Total stockholders' equity	291,778	294,142
Total liabilities and stockholders' equity	\$ 458,865	\$461,329

See notes to these condensed consolidated financial statements.

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HAVERTY FURNITURE COMPANIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands, except per share data – Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales	\$ 198,775	\$ 196,829	\$ 398,218	\$ 397,257
Cost of goods sold	90,978	89,710	181,514	180,542
Gross profit	107,797	107,119	216,704	216,715
Credit service charges	25	42	57	87
Gross profit and other revenue	107,822	107,161	216,761	216,802
Expenses:				
Selling, general and administrative	98,753	96,837	199,756	197,212
Provision for doubtful accounts	22	61	24	163
Other expense (income), net	183	4	(811 )	(1,155 )
Total expenses	98,958	96,902	198,969	196,220
Income before interest and income taxes	8,864	10,259	17,792	20,582
Interest expense, net	454	565	925	1,148
Income before income taxes	8,410	9,694	16,867	19,434
Income tax expense	2,196	3,509	4,340	7,263
Net income	\$ 6,214	\$ 6,185	\$ 12,527	\$ 12,171
Other comprehensive income				
Adjustments related to retirement plan; net of tax expense of \$9 and \$18 in 2018 and 2017	\$ 25	\$ 11	\$ 50	\$ 27
Comprehensive income	\$ 6,239	\$ 6,196	\$ 12,577	\$ 12,198
Basic earnings per share:				
Common Stock	\$ 0.30	\$ 0.29	\$ 0.60	\$ 0.58
Class A Common Stock	\$ 0.28	\$ 0.28	\$ 0.56	\$ 0.55
Diluted earnings per share:				
Common Stock	\$ 0.29	\$ 0.29	\$ 0.58	\$ 0.56
Class A Common Stock	\$ 0.28	\$ 0.27	\$ 0.56	\$ 0.54
Cash dividends per share:				
Common Stock	\$ 0.1800	\$ 0.1200	\$ 0.360	\$ 0.240
Class A Common Stock	\$ 0.1700	\$ 0.1125	\$ 0.340	\$ 0.225

See notes to these condensed consolidated financial statements.

HAVERTY FURNITURE COMPANIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands – Unaudited)

	Six Months Ended June 30, 2018		2017	
Cash Flows from				
Operating Activities:				
Net income	\$ 12,527		\$ 12,171	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	15,061		15,201	
Share-based compensation expense	2,557		2,175	
Deferred income taxes	(335)	)	(1,790)	)
Gain on insurance recovery	(307)	)	(1,170)	)
Proceeds from insurance recovery	266		311	
Provision for doubtful accounts	24		163	
Other	18		629	
Changes in operating assets and liabilities:				
Accounts receivable	510		1,276	
Inventories	(4,044)	)	(1,802)	)
Customer deposits	1,539		3,558	
Other assets and liabilities	(484)	)	2,558	)
Accounts payable and accrued liabilities	1,525		(13,183)	)
Net cash provided by operating activities	28,857		20,097	
Cash Flows from Investing Activities:				
Capital expenditures	(14,642)	)	(10,457)	)
Proceeds from sale of property and equipment	846		79	
Proceeds from insurance for destroyed property and equipment	55		989	
Net cash used in investing activities	(13,741)	)	(9,389)	)

Cash Flows from Financing Activities:				
Payments on lease obligations	(1,872	)	(1,708	)
Taxes on vested restricted shares	(1,162	)	(1,539	)
Dividends paid	(7,585	)	(5,053	)
Common stock repurchased	(9,281	)	—	
Net cash used in financing activities	(19,900	)	(8,300	)
Increase (decrease) in cash, cash equivalents and restricted equivalents during the period				
	(4,784	)	2,408	
Cash, cash equivalents and restricted cash equivalents at beginning of period	87,606		71,515	
Cash, cash equivalents and restricted cash equivalents at end of period	\$	82,822	\$	73,923

See notes to these condensed consolidated financial statements.

HAVERTY FURNITURE COMPANIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE A – Business and Reporting Policies

Haverty Furniture Companies, Inc. ("Havertys," "the Company," "we," "our," or "us") is a retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We operate all of our stores using the Havertys brand and do not franchise our concept. We operate within a single reportable segment. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required by United States of America generally accepted accounting principles ("U.S. GAAP") for complete financial statements. The Company believes that the disclosures made are adequate to make the information not misleading. The financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe all adjustments, normal and recurring in nature, considered necessary for a fair presentation have been included. We suggest that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying footnotes included in our latest Annual Report on Form 10-K.

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from those estimates.

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. We believe that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

NOTE B - Recently Issued and Adopted Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification (ASC). The Company considers the applicability and impact of all ASU's. Newly effective ASU's not noted herein were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

**Leases.** In February 2016, the FASB issued ASU 2016-02 which amends various aspects of existing guidance for leases. ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The main difference between previous U.S. GAAP and the amended standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. As a result, we will have to recognize a liability representing our lease payments and a right-of-use asset representing our right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for Havertys beginning with the first quarter 2019 and we expect to adopt using the modified retrospective method. We are assessing the changes to processes and internal controls to meet the standard's reporting and disclosure requirements. For example, software has been purchased that will assist in recognition of additional assets and liabilities to be included on the balance sheet related to operating leases with durations greater than twelve months, with certain allowable exceptions. We continue to evaluate the expected financial impact of this standard on our consolidated financial position and results of operations.





HAVERTY FURNITURE COMPANIES, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE C – Recently Adopted Accounting Standards

ASU 2014-09

On January 1, 2018, we adopted ASU 2014-09, Revenue - Revenue from Contracts with Customers (ASC Topic 606 or "the new standard"). The new standard requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services.

We sell home furnishings and recognize revenue at delivery. Havertys does not have a loyalty program or sell gift certificates. We also do not offer coupons for redemption for future purchases, such as those that other retailers might issue for general marketing purposes or for those issued based in conjunction with prior purchases.

The product protection plan we offer is handled by a third-party and we have no performance obligation or inventory risk associated with this service. Havertys is acting as an agent for these sales and records this revenue at the time the covered products are delivered to the customer.

Estimated refunds for returns and allowances are recorded based on estimated margin using our historical return patterns. Under the new standard, we record estimated refunds for sales returns on a gross basis rather than on a net basis. The standard requires the carrying value of the return asset to be presented separately from inventory and subject to impairment testing on its own, separately from inventory on hand. At June 30, 2018, the estimated return inventory was \$0.8 million and is included in the line item "Other current assets" and the estimated refund liability was \$2.0 million and is included in the line item "Accrued liabilities" on the Condensed Consolidated Balance Sheets.

We record customer deposits when payments are received in advance of the delivery of merchandise, which totaled \$29.4 million and \$27.8 million at June 30, 2018 and December 31, 2017, respectively. Of the customer deposit liabilities at December 31, 2017, approximately \$27.5 million was recognized through net sales in the six months ended June 30, 2018.

We adopted ASU 2014-09 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. We expect the impact of the adoption of the new standard to be immaterial to our net income on an ongoing basis. The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard were as follows (in thousands):

	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Balance at January 1, 2018
<b>Balance Sheet</b>			
<b>Assets</b>			
Estimated to be returned inventory	\$ —	\$ 786	\$ 786
Deferred income taxes	12,375	(44 )	12,331
<b>Liabilities</b>			
Refund on estimated returns and allowances	—	2,072	2,072