

STEIN MART INC

FORM 8-K (Current report filing)

Filed 11/15/17 for the Period Ending 11/15/17

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|-------------|---|
| Address | 1200 RIVERPLACE BLVD JACKSONVILLE, FL, 32207 |
| Telephone | 9043461500 |
| CIK | 0000884940 |
| Symbol | SMRT |
| SIC Code | 5651 - Retail-Family Clothing Stores |
| Industry | Apparel & Accessories Retailers |
| Sector | Consumer Cyclical |
| Fiscal Year | 01/31 |

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

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

November 15, 2017
(Date of Report; Date of Earliest Event Reported)

STEIN MART, INC.
(Exact Name of Registrant as Specified in its Charter)

Florida
**(State or Other Jurisdiction
of Incorporation)**

0-20052
**(Commission
File Number)**

64-0466198
**(IRS Employer
Identification No.)**

1200 Riverplace Blvd., Jacksonville, Florida 32207
(Address of Principal Executive Offices Including Zip Code)

(904) 346-1500
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On November 15, 2017, Stein Mart, Inc. (“Stein Mart”) issued a press release announcing its financial results for the third quarter ended October 28, 2017. The information in this Current Report is being furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended.

The Stein Mart press release is attached as exhibit 99.1.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

99.1 [Press Release dated November 15, 2017.](#)

SIGNATURES

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

STEIN MART, INC.
(Registrant)

Date: November 15, 2017

By: /s/ Gregory W. Kleffner
Gregory W. Kleffner
Executive Vice President and Chief Financial Officer



November 15, 2017

FOR IMMEDIATE RELEASE

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Stein Mart, Inc. Reports Third Quarter Fiscal 2017 Results

JACKSONVILLE, Fla. – Stein Mart, Inc. (NASDAQ: SMRT) today announced financial results for the third quarter ended October 28, 2017.

Third Quarter Highlights

- Comparable store sales were down 6.9 percent for the quarter and flat for October
- Diluted loss per share was \$0.31 compared to \$0.24 in 2016
- Average store inventories were 20 percent lower than last year's third quarter
- Borrowings were \$29 million lower than last year's third quarter

Net loss for the third quarter was \$14.6 million or \$0.31 per diluted share compared to net loss of \$11.0 million or \$0.24 per diluted share in 2016. For the first nine months of 2017, net loss was \$23.9 million or \$0.52 per diluted share compared to net income of \$5.3 million or \$0.11 per diluted share in the same period in 2016.

“We ended the quarter well with comparable store sales improving to flat for the month of October with slightly positive traffic. This is a reflection of the progress we have made on our sales-driving initiatives,” said Hunt Hawkins, Chief Executive Officer.

“Operating with lower inventory levels is resulting in better merchandise margins from increased regular-priced selling and lower markdowns. Now that we have moved past the disruptions of hurricanes Harvey and Irma, we expect the progress we are making with our business to be more apparent in the fourth quarter. As we continue to operate with lean inventories and reduced spending, our borrowings will be even lower by the end of the year.”

Sales

Total sales for the third quarter of 2017 decreased 4.7 percent to \$285.4 million, while comparable store sales decreased 6.9 percent. Approximately one-third of the chain was directly impacted by closures or reduced hours as a result of hurricanes Harvey and Irma during the third quarter this year. For the first nine months of 2017, total sales decreased 4.2 percent to \$933.8 million, while comparable store sales decreased 6.5 percent.

Gross Profit

Gross profit for the third quarter of 2017 was \$68.3 million or 23.9 percent of sales compared to \$72.7 million or 24.3 percent of sales in 2016. The gross profit rate was lower due to higher occupancy costs on lower sales volumes. The merchandise margin rate was higher due to reduced markdowns and better productivity.

Gross profit for the first nine months of 2017 was \$228.5 million or 24.5 percent of sales compared to \$271.0 million or 27.8 percent of sales in 2016. The lower gross profit rate for the first nine months reflects much higher

markdowns during the first half of the year and to a lesser extent higher occupancy costs on lower sales. Due to first half results, we now anticipate our fiscal 2017 gross profit rate will be lower than the fiscal 2016 rate with the fourth quarter 2017 rate significantly higher than the fourth quarter last year.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the third quarter of 2017 were \$92.2 million compared to \$89.0 million in 2016. SG&A expenses for this year's third quarter include several discrete drivers totaling \$5.5 million that impact year-over-year quarterly comparisons. These include higher new store expenses, higher advertising expense to support our new campaign, consulting and severance costs related to the company's cost reduction initiative and hurricane related expenses, net of insurance recoveries.

SG&A expenses for the first nine months of 2017 were \$263.9 million compared to \$259.3 million in 2016.

Balance Sheet

Inventories were \$311 million at the end of the third quarter of 2017 compared to \$384 million at the same time last year. Average inventories per store were down 20 percent to last year and will continue to be down substantially at the end of the year.

Borrowings under our credit facilities were \$151 million at the end of the third quarter of 2017 compared to \$180 million at the end of the third quarter last year. Unused availability at the end of the third quarter was \$95 million.

Cash Flows

Cash provided by operating activities was \$52.8 million for the first nine months of 2017 compared to \$57.2 million for the first nine months of 2016. Capital expenditures totaled \$17.2 million for the first nine months of 2017 compared to \$35.0 million for the first nine months of 2016. For the full year, capital expenditures are now expected to be \$20 million compared to \$42 million in 2016.

Store Activity

We had 293 stores at the end of the third quarter compared to 290 at the end of the third quarter last year. We opened four new stores and closed three stores during the third quarter which completed our 2017 store plans.

Filing of Form 10-Q

Reported results are preliminary and not final until the filing of our Form 10-Q for the fiscal quarter ended October 28, 2017 with the Securities and Exchange Commission (SEC), and therefore remain subject to adjustment.

Conference Call

A conference call for investment analysts to discuss the Company's third quarter 2017 results will be held at 4:30 p.m. ET on November 15, 2017. The call may be heard on the investor relations portion of the Company's website at <http://ir.steinmart.com>. A replay of the conference call will be available on the website through December 31, 2017.

Investor Presentation

Stein Mart's third quarter 2017 investor presentation has been posted to the investor relations portion of the Company's website at <http://ir.steinmart.com>.

About Stein Mart

Stein Mart, Inc. is a national specialty off-price retailer offering designer and name-brand fashion apparel, home décor, accessories and shoes at everyday discount prices. Stein Mart provides real value that customers will love every day both in stores and online. The Company currently operates 293 stores across 31 states. For more information, please visit www.steinmart.com.

Cautionary Statement Regarding Forward-Looking Statements

Except for historical information contained herein, the statements in this release may be forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company does not assume any obligation to update or revise any forward-looking statements even if experience or future changes make it clear that projected results expressed or implied will not be realized. Forward-looking statements involve known and unknown risks and uncertainties that may cause Stein Mart's actual results in future periods to differ materially from forecasted or expected results. Those risks include, without limitation: consumer sensitivity to economic conditions, competition in the retail industry, changes in fashion trends and consumer preferences, ability to implement our strategic plans to sustain profitable growth, effectiveness of advertising and marketing, capital availability and debt levels, dividend impact on stock price, ability to negotiate acceptable lease terms with current and potential landlords, ability to successfully implement strategies to exit under-performing stores, extreme and/or unseasonable weather conditions, adequate sources of merchandise at acceptable prices, dependence on certain key personnel and ability to attract and retain qualified employees, impacts of seasonality, increases in the cost of compensation and employee benefits, disruption of the Company's distribution process, dependence on imported merchandise, information technology failures, data security breaches, single supplier for shoe department, single provider for ecommerce website, acts of terrorism, ability to adapt to new regulatory compliance and disclosure obligations, material weaknesses in internal control over financial reporting and other risks and uncertainties described in the Company's filings with the SEC.

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Stein Mart, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share amounts)

| | 13 Weeks Ended October 28, 2017 | 13 Weeks Ended October 29, 2016 | 39 Weeks Ended October 28, 2017 | 39 Weeks Ended October 29, 2016 |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net sales | \$ 285,395 | \$ 299,527 | \$ 933,766 | \$ 975,000 |
| Cost of merchandise sold | 217,126 | 226,816 | 705,273 | 703,958 |
| Gross profit | 68,269 | 72,711 | 228,493 | 271,042 |
| Selling, general and administrative expenses | 92,158 | 89,034 | 263,853 | 259,348 |
| Operating (loss) income | (23,889) | (16,323) | (35,360) | 11,694 |
| Interest expense, net | 1,156 | 949 | 3,437 | 2,798 |
| (Loss) Income before income taxes | (25,045) | (17,272) | (38,797) | 8,896 |
| Income tax (benefit) expense | (10,429) | (6,262) | (14,888) | 3,588 |
| Net (loss) income | \$ (14,616) | \$ (11,010) | \$ (23,909) | \$ 5,308 |
| Net (loss) income per share: | | | | |
| Basic | \$ (0.31) | \$ (0.24) | \$ (0.52) | \$ 0.12 |
| Diluted | \$ (0.31) | \$ (0.24) | \$ (0.52) | \$ 0.11 |
| Weighted-average shares outstanding: | | | | |
| Basic | 46,447 | 45,845 | 46,292 | 45,720 |
| Diluted | 46,447 | 45,845 | 46,292 | 46,599 |

Stein Mart, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except for share and per share data)

| | <u>October 28, 2017</u> | <u>January 28, 2017</u> | <u>October 29, 2016</u> |
|--|-------------------------|-------------------------|-------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 13,230 | \$ 10,604 | \$ 13,968 |
| Inventories | 311,255 | 291,110 | 383,932 |
| Prepaid expenses and other current assets | 31,371 | 30,249 | 29,980 |
| Total current assets | 355,856 | 331,963 | 427,880 |
| Property and equipment, net | 159,006 | 165,542 | 172,771 |
| Other assets | 30,192 | 30,344 | 29,831 |
| Total assets | <u>\$ 545,054</u> | <u>\$ 527,849</u> | <u>\$ 630,482</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 179,666 | \$ 114,419 | \$ 208,161 |
| Current portion of debt | 3,333 | 10,000 | 10,000 |
| Accrued expenses and other current liabilities | 78,595 | 72,772 | 77,076 |
| Total current liabilities | 261,594 | 197,191 | 295,237 |
| Long-term debt | 147,472 | 171,792 | 169,681 |
| Deferred rent | 41,592 | 41,774 | 42,266 |
| Other liabilities | 47,219 | 46,832 | 45,401 |
| Total liabilities | <u>497,877</u> | <u>457,589</u> | <u>552,585</u> |
| COMMITMENTS AND CONTINGENCIES | | | |
| Shareholders' equity: | | | |
| Preferred stock - \$.01 par value; 1,000,000 shares authorized; no shares issued or outstanding | | | |
| Common stock - \$.01 par value; 100,000,000 shares authorized; 47,867,630, 47,018,942 and 46,919,426 shares issued and outstanding, respectively | 479 | 470 | 469 |
| Additional paid-in capital | 54,528 | 50,241 | 49,497 |
| Retained (deficit) earnings | (7,552) | 19,853 | 28,196 |
| Accumulated other comprehensive loss | (278) | (304) | (265) |
| Total shareholders' equity | 47,177 | 70,260 | 77,897 |
| Total liabilities and shareholders' equity | <u>\$ 545,054</u> | <u>\$ 527,849</u> | <u>\$ 630,482</u> |

Stein Mart, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)

| | 39 Weeks Ended October 28, 2017 (Unaudited) | 39 Weeks Ended October 29, 2016 (Unaudited) |
|--|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (23,909) | \$ 5,308 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 24,254 | 23,636 |
| Share-based compensation | 4,194 | 6,306 |
| Store closing charges | 97 | 25 |
| Impairment of property and other assets | 640 | 277 |
| Loss on disposal of property and equipment | 287 | 14 |
| Deferred income taxes | 1,900 | 520 |
| Tax expense from equity issuances | — | (187) |
| Excess tax benefits from share-based compensation | — | (31) |
| Changes in assets and liabilities: | | |
| Inventories | (20,145) | (90,324) |
| Prepaid expenses and other current assets | (1,122) | (11,581) |
| Other assets | (820) | (831) |
| Accounts payable | 65,298 | 102,469 |
| Accrued expenses and other current liabilities | 4,696 | 6,812 |
| Other liabilities | (2,566) | 14,764 |
| Net cash provided by operating activities | <u>52,804</u> | <u>57,177</u> |
| Cash flows from investing activities: | | |
| Net acquisition of property and equipment | (17,168) | (35,026) |
| Proceeds from cancelled corporate owned life insurance policies | 1,504 | 246 |
| Net cash used in investing activities | <u>(15,664)</u> | <u>(34,780)</u> |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 290,169 | 292,183 |
| Repayments of debt | (321,187) | (302,683) |
| Cash dividends paid | (3,597) | (10,378) |
| Capital lease payments | (1) | — |
| Excess tax benefits from share-based compensation | — | 31 |
| Proceeds from exercise of stock options and other | 328 | 1,715 |
| Repurchase of common stock | (226) | (1,127) |
| Net cash used in financing activities | <u>(34,514)</u> | <u>(20,259)</u> |
| Net increase in cash and cash equivalents | 2,626 | 2,138 |
| Cash and cash equivalents at beginning of year | 10,604 | 11,830 |
| Cash and cash equivalents at end of period | <u>\$ 13,230</u> | <u>\$ 13,968</u> |

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Adjusted EBITDA:

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. EBITDA is not a measure of financial performance under generally accepted accounting principles (GAAP). However, we present EBITDA in this release because we consider it to be an important supplemental measure of our performance and because it is frequently used by analysts, investors and others to evaluate the performance of companies. EBITDA is not calculated in the same manner by all companies. EBITDA should be used as a supplement to results of operations and cash flows as reported under GAAP and should not be considered to be a more meaningful measure than, or an alternative to, measures of operating performance as determined in accordance with GAAP.

The following table shows the Company's reconciliation of Net Income to EBITDA and Adjusted EBITDA which are considered Non-GAAP financial measures. Adjusted EBITDA excludes non-cash items (impairment charges), significant non-recurring unusual items (such as legal settlements) and new stores investments (pre-opening costs).

Reconciliation of Net (Loss) Income to EBITDA and Adjusted EBITDA

Unaudited (in thousands)

| | 39 Weeks Ended Oct. 28, 2017 | 39 Weeks Ended Oct. 29, 2016 |
|---|------------------------------------|------------------------------------|
| Net (loss) income | (\$ 23,909) | \$ 5,308 |
| Add back amounts for computation of EBITDA: | | |
| Interest expense, net | 3,437 | 2,798 |
| Income tax (benefit) expense | (14,888) | 3,588 |
| Depreciation and amortization | 24,254 | 23,636 |
| EBITDA | <u>(11,106)</u> | <u>35,330</u> |
| Adjustments: | | |
| Severance, including stock-related compensation impacts (1) | 205 | 1,440 |
| Hurricane related expenses, net of insurance recoveries | 855 | — |
| Expense related to legal settlements | 67 | 1,894 |
| Non-cash impairment charges | 640 | 277 |
| New store pre-opening costs | 2,163 | 3,546 |
| Total adjustments | <u>3,930</u> | <u>7,157</u> |
| Adjusted EBITDA | <u>(\$ 7,176)</u> | <u>\$ 42,487</u> |

(1) Stock compensation expense or income from forfeitures related to severance is included in this adjustment.