

TJX COMPANIES INC /DE/
Form 10-Q
June 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 May 5, 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 1-4908

The TJX Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2207613
(I.R.S. Employer
Identification No.)

770 Cochituate Road Framingham, Massachusetts
(Address of principal executive offices)
(508) 390-1000

01701
(Zip Code)

(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, 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 (Do not check if a smaller reporting company)

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 number of shares of registrant's common stock outstanding as of May 5, 2018: 625,202,688

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.

THE TJX COMPANIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

IN THOUSANDS EXCEPT PER SHARE AMOUNTS

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Net sales	\$ 8,688,720	\$ 7,784,024
Cost of sales, including buying and occupancy costs	6,178,239	5,530,072
Selling, general and administrative expenses	1,550,775	1,411,603
Interest expense, net	4,148	9,841
Income before provision for income taxes	955,558	832,508
Provision for income taxes	239,177	296,229
Net income	\$ 716,381	\$ 536,279
Basic earnings per share:		
Net income	\$ 1.14	\$ 0.83
Weighted average common shares basic	626,612	644,425
Diluted earnings per share:		
Net income	\$ 1.13	\$ 0.82
Weighted average common shares diluted	634,436	654,799
Cash dividends declared per share	\$ 0.390	\$ 0.3125

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

IN THOUSANDS

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Net income	\$ 716,381	\$ 536,279
Additions to other comprehensive income:		
Foreign currency translation adjustments, net of related tax benefit of \$1,206 in fiscal 2019 and \$20,543 in fiscal 2018	(122,529)	(5,247)
Gain on net investment hedges, net of related tax provision of \$2,201 in fiscal 2019	6,044	
Reclassifications from other comprehensive income to net income:		
Amortization of prior service cost and deferred gains, net of related tax provisions of \$1,328 in fiscal 2019 and \$2,543 in fiscal 2018	2,608	3,868
Amortization of loss on cash flow hedge, net of related tax provisions of \$77 in fiscal 2019 and \$112 in fiscal 2018	206	171
Other comprehensive (loss), net of tax	(113,671)	(1,208)
Total comprehensive income	\$ 602,710	\$ 535,071

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

IN THOUSANDS, EXCEPT SHARE DATA

	May 5, 2018	February 3, 2018	April 29, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,681,105	\$ 2,758,477	\$ 2,669,495
Short-term investments	435,903	506,165	457,091
Accounts receivable, net	368,314	327,166	317,224
Merchandise inventories	4,369,893	4,187,243	3,736,114
Prepaid expenses and other current assets	567,060	706,676	368,576
Total current assets	8,422,275	8,485,727	7,548,500
Net property at cost	5,026,092	5,006,053	4,601,044
Non-current deferred income taxes, net	3,178	6,558	6,347
Goodwill	98,614	100,069	195,585
Other assets	456,965	459,608	412,005
TOTAL ASSETS	\$ 14,007,124	\$ 14,058,015	\$ 12,763,481
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,509,089	\$ 2,488,373	\$ 2,174,727
Accrued expenses and other current liabilities	2,220,842	2,522,961	2,021,724
Federal, state and foreign income taxes payable	246,933	114,203	408,941
Total current liabilities	4,976,864	5,125,537	4,605,392
Other long-term liabilities	1,275,843	1,320,505	1,071,526
Non-current deferred income taxes, net	260,649	233,057	304,689
Long-term debt	2,231,360	2,230,607	2,228,351
Commitments and contingencies (See Note K)			
SHAREHOLDERS' EQUITY			
Preferred stock, authorized 5,000,000 shares, par value \$1, no shares issued			
Common stock, authorized 1,200,000,000 shares, par value \$1, issued and outstanding 625,202,688; 628,009,022 and 643,276,269 respectively	625,203	628,009	643,276
Additional paid-in capital			
Accumulated other comprehensive (loss)	(555,530)	(441,859)	(695,434)
Retained earnings	5,192,735	4,962,159	4,605,681

Total shareholders equity	5,262,408	5,148,309	4,553,523
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 14,007,124	\$ 14,058,015	\$ 12,763,481

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

IN THOUSANDS

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Cash flows from operating activities:		
Net income	\$ 716,381	\$ 536,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	192,295	172,485
Loss on property disposals	1,744	1,059
Deferred income tax provision	7,335	8,250
Share-based compensation	24,029	24,051
Changes in assets and liabilities:		
(Increase) in accounts receivable	(43,787)	(58,147)
(Increase) in merchandise inventories	(225,187)	(88,558)
(Increase) in taxes recoverable	(2,482)	(1,300)
Decrease in prepaid expenses and other current assets	222,014	20,587
Increase (decrease) in accounts payable	44,037	(56,968)
(Decrease) in accrued expenses and other liabilities	(318,544)	(307,228)
Increase in income taxes payable	133,663	202,811
Other	(26,613)	(4,887)
Net cash provided by operating activities	724,885	448,434
Cash flows from investing activities:		
Property additions	(264,943)	(258,515)
Purchase of investments	(148,239)	(233,166)
Sales and maturities of investments	192,690	289,924
Net cash (used in) investing activities	(220,492)	(201,757)
Cash flows from financing activities:		
Cash payments for repurchase of common stock	(395,399)	(349,999)
Proceeds from issuance of common stock	84,561	52,033
Cash dividends paid	(197,296)	(168,566)
Cash payments of employee tax withholdings for performance based stock awards	(16,015)	(16,823)
Other	(1,858)	(759)
Net cash (used in) financing activities	(526,007)	(484,114)
Effect of exchange rate changes on cash	(55,758)	(22,917)

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Net (decrease) in cash and cash equivalents	(77,372)	(260,354)
Cash and cash equivalents at beginning of year	2,758,477	2,929,849
Cash and cash equivalents at end of period	\$ 2,681,105	\$ 2,669,495

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(UNAUDITED)

IN THOUSANDS

	Common Stock Par Value Shares \$1	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total	
Balance, February 3, 2018	628,009	\$ 628,009	\$	\$ (441,859)	\$ 4,962,159	\$ 5,148,309
Net income				716,381	716,381	
Cumulative effect of accounting change (See Note A)				58,712	58,712	
Other comprehensive income (loss), net of tax			(113,671)		(113,671)	
Cash dividends declared on common stock				(244,500)	(244,500)	
Recognition of share-based compensation			24,029		24,029	
Issuance of common stock under Stock Incentive Plan, net of shares used to pay tax withholdings	2,043	2,043	66,504			68,547
Common stock repurchased and retired	(4,849)	(4,849)	(90,533)		(300,017)	(395,399)
Balance, May 5, 2018	625,203	\$ 625,203	\$	\$ (555,530)	\$ 5,192,735	\$ 5,262,408

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements and Notes thereto have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. These Consolidated Financial Statements and Notes are unaudited and, in the opinion of management, reflect all normal recurring adjustments, accruals and deferrals among periods required to match costs properly with the related revenue or activity, considered necessary by The TJX Companies, Inc. (together with its subsidiaries, TJX) for a fair statement of its financial statements for the periods reported, all in conformity with GAAP consistently applied. The Consolidated Financial Statements and Notes thereto should be read in conjunction with the audited consolidated financial statements, including the related notes, contained in TJX s Annual Report on Form 10-K for the fiscal year ended February 3, 2018 (fiscal 2018).

These interim results are not necessarily indicative of results for the full fiscal year. TJX s business, in common with the businesses of retailers generally, is subject to seasonal influences, with higher levels of sales and income generally realized in the second half of the year.

The February 3, 2018 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Fiscal Year

TJX s fiscal year ends on the Saturday nearest to the last day of January of each year. The current fiscal year ends February 2, 2019 (fiscal 2019) and is a 52-week fiscal year. Fiscal 2018 was a 53-week fiscal year.

Use of Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. TJX considers its accounting policies relating to inventory valuation, impairment of long-lived assets, goodwill and tradenames, retirement obligations, share-based compensation, casualty insurance, reserves for uncertain tax positions and loss contingencies to be the most significant accounting policies that involve management estimates and judgments. Actual amounts could differ from those estimates, and such differences could be material.

Summary of Accounting Policies

Revenue Recognition

TJX adopted *Revenue from Contracts with Customers* (referred to as ASC 606), on February 4, 2018 (the adoption date). The core principle of the guidance is that an entity 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. TJX adopted the new guidance under the modified retrospective approach which resulted in a \$59 million cumulative adjustment to increase retained earnings. The cumulative adjustment primarily related to revenue recognized on the value of unredeemed rewards certificates issued to customers as part of the

Company's U.S. co-branded credit card loyalty program. We will now recognize the estimated unredeemed awards when they are earned, rather than when merchandise credits expire or when the likelihood of redemption becomes remote. In addition, on-line sales are now recognized at the shipping point rather than receipt by the customer.

Other changes relate to the presentation of revenue as certain expenses previously presented as a reduction of revenue are now classified as selling, general and administrative expenses (SG&A). The new standard required a change in the presentation of our sales return reserve on the balance sheet, which we previously recorded net of the value of returned merchandise, but will now be presented at gross sales value with an asset established for the value of the merchandise returned. There is no change in the timing or amount of revenue recognized from point of sale at the registers in our stores, which constitutes the majority of the Company's revenue.

Financial results for fiscal periods after the adoption date are presented under ASC 606 while results from prior periods are not adjusted and continue to be reported under the accounting standards in effect for the prior period. We applied ASC 606 only to contracts that were not completed prior to fiscal 2019. Adoption of the new guidance did not have a material impact on our financial condition or results of operations for fiscal period ended May 5, 2018 other than additional disclosure requirements.

Net Sales

Net sales consist primarily of merchandise sales, which are recorded net of a reserve for estimated returns, any discounts and sales taxes, related to the sales of merchandise both within our stores and online. Net sales also include an immaterial amount of other revenues that represent less than 1% of total revenues, primarily generated from TJX's co-branded loyalty rewards credit card program offered in the United States only. Certain customers may receive discounts which are accounted for as consideration reducing the transaction price. Merchandise sales from our stores are recognized at the point of sale when TJX provides the merchandise to the customer. The performance obligation is fulfilled at this point when the customer has obtained control by paying for and leaving with the merchandise. Merchandise sales made online are recognized when the product has been shipped, which is when legal title has passed and when TJX is entitled to payment, and the customer has obtained the ability to direct the use of and obtain substantially all of the remaining benefits from the goods. Shipping and handling activities related to online sales occur after the customer obtains control of the goods. TJX's policy is to treat shipping costs as part of our fulfillment center costs within our operating expenditures. As a result, shipping fee revenues received will be recognized when control of the goods transfer to the customer and will continue to be recorded as net sales. Shipping and handling costs incurred by TJX are included in cost of sales, including buying and occupancy costs. TJX disaggregates revenue by operating segment, see Note G Segment Information.

Deferred Gift Card Revenue

Proceeds from the sale of gift cards as well as the value of store cards issued to customers as a result of a return or exchange are deferred until the customers use the cards to acquire merchandise, as TJX does not fulfill its performance obligation until the gift card has been redeemed. While gift cards have an indefinite life, substantially all are redeemed in the first year of issuance. Based on historical experience, we estimate the amount of gift cards and store cards that will not be redeemed and, to the extent allowed by local law, these amounts are amortized into income over the redemption period.

In millions	May 5, 2018
Balance beginning of period	\$ 406.6
Deferred revenue	330.5
Effect of exchange rates changes on deferred revenue	(3.2)
Revenue recognized	(371.8)
Balance end of period	\$ 362.1

TJX recognized \$372 million in gift card revenue in the first quarter fiscal 2019. Gift cards are combined in one homogeneous pool and are not separately identifiable. As such, the revenue recognized consists of gift cards that were part of the deferred revenue balance at the beginning of the period as well as gift cards that were issued during the period.

Sales Return Reserve

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. We have elected to apply the portfolio practical expedient and will estimate the variable consideration using the expected value method when calculating the returns reserve, as the difference to applying it to the individual contract would not differ materially. Returns will continue to be estimated based on historical experience and will be required to be established and presented at the gross sales value with an asset established for the estimated value of the merchandise returned separate from the refund liability. Liabilities for r