

Ascena Retail Group, Inc.  
Form 10-K  
September 24, 2018

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

FORM 10-K

(Mark One)

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

For the fiscal year ended August 4, 2018

or

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

Commission file number 0-11736

ASCENA RETAIL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

30-0641353

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

933 MacArthur Boulevard, Mahwah, New Jersey

(Address of principal executive offices)

(551) 777-6700

(Registrant's telephone number, including area code)

07430

(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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 Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$0.4 billion as of January 26, 2018, based on the last reported sales price on the Nasdaq Global Select Market on that date. As of September 20, 2018, 196,374,376 shares of voting common shares were outstanding.

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on December 14, 2018 are incorporated into Part III of this Form 10-K.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the section labeled Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and the risk factors that we have included elsewhere in this report. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our results, level of activity, performance or achievements to be materially different from any future results, level of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. We generally identify these statements by words or phrases such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “may,” “should,” “estimate,” “predict,” “project,” “potential,” “continue,” “optimistic,” or the negative of such terms or other similar expressions.

Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed below under Item 1A. Risk Factors, and other factors discussed in this Annual Report on Form 10-K and other reports we file with the Securities and Exchange Commission. We disclaim any intent or obligation to update or revise any forward-looking statements as a result of developments occurring after the period covered by this report.

## WEBSITE ACCESS TO COMPANY REPORTS

We maintain our corporate Internet website at [www.ascenaretail.com](http://www.ascenaretail.com). The information on our Internet website is not incorporated by reference into this report. We make available, free of charge through publication on our Internet website, a copy of our Annual Reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, including any amendments to those reports, as filed with or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after they have been so filed or furnished. Information relating to corporate governance at Ascena Retail Group, Inc., including our Code of Ethics for the Chief Executive Officer and Senior Financial Officers, information concerning our directors, committees of the Board of Directors, including committee charters, and SEC filings reporting transactions in Ascena Retail Group, Inc. securities by directors and executive officers, is also available at our website.

In this Annual Report on Form 10-K, references to “ascena,” “ourselves,” “we,” “us,” “our” or “Company” or other similar terms refer to Ascena Retail Group, Inc. and its subsidiaries, unless the context indicates otherwise. Fiscal year 2018 ended on August 4, 2018 and reflected a 53-week period (“Fiscal 2018”) as the Company conformed its fiscal period ends to the calendar of the National Retail Federation; fiscal year 2017 ended on July 29, 2017 and reflected a 52-week period (“Fiscal 2017”); and fiscal year 2016 ended on July 30, 2016 and reflected a 53-week period (“Fiscal 2016”). All references to “Fiscal 2019” refer to our 52-week period that will end on August 3, 2019.

## PART I

### Item 1. Business.

#### General

The Company is a leading national specialty retailer of apparel for women and tween girls. The Company's operations consist of its direct channel operations and approximately 4,600 stores in the United States, Canada and Puerto Rico. The Company had annual revenues for Fiscal 2018 of approximately \$6.6 billion.

### Change for Growth Program

In Fiscal 2017, the Company announced that it was beginning a multi-year transformation plan with the objective of supporting sustainable long-term growth and increasing shareholder value (the "Change for Growth" program). In Fiscal 2017, the Company (i) refined its operating model to increase the focus on key customer segments, (ii) developed initiatives which will optimize the flow of product through the Company's distribution channels, including its direct channel and its brick-and-mortar retail locations, (iii) consolidated certain support functions into its brand services group, including Human Resources, Real Estate, Non-Merchandise Procurement, and Asset Protection, and (iv) began a review of its store fleet with the goal of reducing the number of under-performing stores through either rent reductions or store closures, in an effort to increase the overall profitability of the remaining store portfolio and convert sales from these stores into direct channel sales or to nearby store locations. In Fiscal 2018, in addition to continuing a number of the activities started in Fiscal 2017, the Company (i) began to develop new capabilities such as markdown optimization, size pack optimization and localized inventory planning with the goal of allowing it to better compete in the shifting

retail landscape, (ii) enhanced its capability to analyze transaction data to support strategic decisions, and (iii) transitioned certain transaction processing functions within the brand services group to an independent third-party managed-service provider. In connection with the Change for Growth program, the Company realized savings of approximately \$135 million in Fiscal 2018 and expects to realize approximately \$100 to \$125 million in incremental cost savings through Fiscal 2020, bringing the total expected cost savings from these activities, when combined with the \$65 million cost savings achieved during Fiscal 2017, to approximately \$300 to \$325 million. Activities associated with the Change for Growth program are currently expected to continue through Fiscal 2019.

#### Integration of ANN INC.

In Fiscal 2016, the Company acquired 100% of the outstanding common stock of ANN INC. ("ANN"), a retailer of women's apparel, shoes and accessories sold primarily under the Ann Taylor and LOFT brands, for an aggregate purchase price of approximately \$2.1 billion (the "ANN Acquisition"). During Fiscal 2018, integration activities were substantially completed as the Company (i) completed the post-acquisition integration of ANN's distribution operations, including the closure and sale of the former ANN distribution facility in Louisville, Kentucky and (ii) realized cost reductions from sourcing merchandise through third-party buying agents. As a result of its integration activities, the Company has realized cumulative integration-related cost savings of approximately \$205 million through Fiscal 2018 and expects to realize additional synergies of approximately \$30 million subsequent to Fiscal 2018 for a total expected realized savings of approximately \$235 million.

#### Brands and Products

The Company brands, described in more detail below, are organized into four operating segments as follows: Premium Fashion, Value Fashion, Plus Fashion and Kids Fashion.

##### Premium Fashion

The Premium Fashion segment consists of the Ann Taylor and LOFT brands.

Ann Taylor includes 304 specialty retail and outlet stores and direct channel operations. Ann Taylor has been at the forefront of American fashion, leading the way with the idea that style shouldn't be work and getting dressed should be about getting ready for really big days and those just as important small moments. Ann Taylor is polished, modern feminine classics with an iconic style point of view for every aspect of her life. Its retail stores are predominantly located in mall locations, lifestyle centers and outlet centers.

LOFT includes 672 specialty retail and outlet stores, direct channel operations and certain licensed franchises in international territories. LOFT offers modern, feminine and versatile clothing for a wide range of women with one common goal: to help them look and feel confident, wherever the day takes them. From everyday essentials to attainable trends, LOFT consistently serves up head-to-toe outfits and perfect pieces that make getting dressed feel effortless. Its retail stores are predominantly located in mall locations, lifestyle centers and outlet centers.

##### Value Fashion

The Value Fashion segment consists of the maurices and dressbarn brands.

maurices includes 972 specialty retail and outlet stores and direct channel operations, offering up-to-date core and plus-size fashion apparel. maurices stores are concentrated in small markets (approximately 25,000 to 150,000 people), and cater to local market preferences through a core merchandise assortment that is refined to reflect individual store demands. Through its proprietary label, the maurices product line encompasses women's casual

clothing, career wear, dressy apparel, active wear and accessories. maurices retail stores are typically located near large discount and department stores in strip shopping centers and mall locations to capitalize on the traffic those retailers generate, while differentiating itself by offering a wider selection of style, color and current fashion, along with an elevated customer shopping experience.

dressbarn includes 730 specialty retail and outlet stores and direct channel operations, offering moderate-to-better quality career, special occasion and casual fashion for working women in a comfortable, easy-to-shop environment staffed by friendly, service oriented associates. dressbarn's individual store assortments vary depending on local demographics, seasonality and past sales patterns. dressbarn retail stores are located primarily in convenient strip shopping centers in major trading and high-density markets and in surrounding suburban areas.

## Plus Fashion

The Plus Fashion segment consists of the Lane Bryant and Catherines brands.

Lane Bryant includes 749 specialty retail and outlet stores and direct channel operations. Lane Bryant is a widely recognized brand name in plus-size fashion with stores concentrated in suburban and small towns, offering fashionable and sophisticated apparel at a moderate price point to female customers in plus-sizes 14-28 through its namesake and Cacique intimates private labels, along with select national brands. Merchandise assortment offerings include intimate apparel, wear-to-work and casual apparel as well as accessories and select footwear. Lane Bryant retail stores are located in mall locations, strip shopping centers, lifestyle centers and outlet centers.

Catherines includes 348 specialty retail stores and direct channel operations, offering a full range of plus sizes (16-34) and (0x-5x) and extended sizes (28-34) and (4x-5x). Catherines offers classic and fashionable apparel and accessories for women at moderate prices that includes casual apparel, wear-to-work apparel, intimate apparel and wide-width footwear. Catherines retail stores are concentrated in suburban and small towns and are primarily located in strip shopping centers.

## Kids Fashion

The Kids Fashion segment, which consists of the Justice brand, includes 847 specialty retail and outlet stores, direct channel operations and certain licensed franchises in international territories. The Justice brand offers fashionable apparel to girls who are ages 6 to 12 in an environment designed to match the energetic lifestyle of tween girls. Justice's merchandise mix represents the broad assortment that a girl wants in her store - a mix of apparel, accessories, footwear, intimates and lifestyle products, such as cosmetics and bedroom accessories, to meet all of her needs. Justice retail stores are located in mall locations, strip shopping centers, lifestyle centers and outlet centers.

The tables below present net sales and operating income (loss) by operating segment for the last three fiscal years:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales:	(millions)		
Premium Fashion	\$2,317.8	\$2,322.6	\$2,330.9
Value Fashion	1,820.5	1,950.2	2,094.6
Plus Fashion	1,340.0	1,353.9	1,463.6
Kids Fashion	1,100.0	1,023.1	1,106.3
Total net sales	\$6,578.3	\$6,649.8	\$6,995.4
	Fiscal 2018	Fiscal 2017	Fiscal 2016
Operating income (loss):	(millions)		
Premium Fashion <sup>(a)</sup>	\$135.2	\$140.9	\$13.3
Value Fashion	(83.2 )	12.2	92.0
Plus Fashion	27.1	15.5	36.9
Kids Fashion	39.1	(36.7 )	29.0
Unallocated acquisition and integration expenses	(5.4 )	(39.4 )	(77.4 )
Unallocated restructuring and other related charges	(78.5 )	(81.9 )	—
Unallocated impairment of goodwill	—	(596.3 )	—
Unallocated impairment of intangible assets	—	(728.1 )	—
Total operating income (loss)	\$34.3	\$(1,313.8)	\$93.8

(a.)



The results of the Premium Fashion segment for Fiscal 2016 include approximately \$126.9 million of non-cash purchase accounting expense related to the amortization of the write-up of inventory to fair market value.

Over the past five fiscal years, the Company has invested approximately \$3.4 billion in acquisitions, capital improvements, supply chain integration and technology infrastructure improvements, which were funded through cash, debt and the issuance of common stock. As a result, net sales increased to approximately \$6.6 billion in Fiscal 2018 from \$4.8 billion in Fiscal 2014.

## Omni-channel

The Company continues to invest in initiatives that support its omni-channel strategies. In recent years, the Company has completed the consolidation of all brands into its shared distribution network and the transition of all brands onto its direct channel platform. The platform allows the brands to (i) provide customers a seamless omni-channel shopping experience in-store and online, (ii) integrate their marketing efforts to increase in-store and online traffic, (iii) improve product availability and fulfillment efficiency and (iv) enhance the capability to analyze transaction data to support strategic decisions. The Company has made significant investments in its supply chain capability, and maintains highly efficient distribution and fulfillment centers in Etna, Ohio, Greencastle, Indiana, and Riverside, California. The Company's brands sell products online through social media and their direct channel sites: