

GNC HOLDINGS, INC.

Form 10-K

February 11, 2016

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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 December 31, 2015

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: 001-35113

GNC Holdings, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(state or other jurisdiction of
Incorporation or organization)

300 Sixth Avenue

Pittsburgh, Pennsylvania

(Address of principal executive offices)

Registrant's telephone number, including area code: (412) 288-4600

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

Title of each class	Name of each exchange on which registered
Class A common stock, par value \$0.001 per share	New York Stock Exchange

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 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 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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting
company)

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 all common stock (based upon the closing price of the New York Stock Exchange) of the registrant held by non-affiliates of the registrant as of June 30, 2015 was approximately \$3.77 billion.

As of February 4, 2016, the number of outstanding shares of Class A common stock, par value \$0.001 per share (the "common stock"), of GNC Holdings, Inc. was 74,241,609 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the Company's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year, is incorporated by reference in Part III of this Form 10-K.

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Annual Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Discussions containing such forward-looking statements may be found in Items 1, 2, 3, 7 and 7A hereof, as well as within this report generally. Forward-looking statements can often be identified by the use of terminology such as "subject to," "believe," "anticipate," "plan," "expect," "intend," "estimate," "project," "may," "will," "should," "would," "could," "can," the negatives thereof, variations thereon and similar expressions, or by discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including those set forth under "Risk Factors"), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- significant and growing competition in our industry;
- unfavorable publicity or consumer perception of our industry or products, as well as general changes in consumer behaviors and trends;
- increases in the cost of borrowings and limitations on availability of additional debt or equity capital;
- our debt levels and restrictions in our debt agreements;
- incurrence of material product liability and product recall costs;
- loss or retirement of key members of management;
- costs of compliance or any failure on our part to comply with new and existing governmental regulations governing our products, including, but not limited to, proposed dietary supplement legislation and regulations;
- changes in our tax obligations;
- costs of litigation or investigations involving our company and any failure to successfully defend lawsuits and other claims against us;
- failure of our franchisees to conduct their operations profitably and limitations on our ability to terminate or replace under-performing franchisees;
- economic, political and other risks associated with our international operations, including fluctuations in foreign exchange rates relative to the U.S. dollar;
- failure to keep pace with the demands of our customers for new products and services;
- limitations of or disruptions in our manufacturing system or losses of manufacturing certifications;
- limitations of or disruptions in our distribution network;
- lack of long-term experience with human consumption of ingredients in some of our products;
- increases in the frequency and severity of insurance claims, particularly claims for which we are self-insured;
- failure to adequately protect or enforce our intellectual property rights against competitors;
- changes in raw material costs and pricing of our products;
- failure to successfully execute our growth strategy, including any delays in our planned future growth, any inability to expand our franchise operations or attract new franchisees, any inability to expand our company-owned retail operations, any inability to grow our international footprint, or any inability to expand our e-commerce business;
- any failure by our current marketing initiatives to timely produce the results that we anticipate;

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- changes in applicable laws relating to our franchise operations;
- damage or interruption to our information systems;
- risks and costs associated with data loss, credit card fraud and identity theft;
- impact of current economic conditions on our business;
- unusually adverse weather conditions;
- natural disasters, pandemic outbreaks, boycotts, and geo-political events; and
- failure to maintain effective internal controls.

Consequently, forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

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PART I

Item 1. BUSINESS.

GNC Holdings, Inc. ("Holdings") is headquartered in Pittsburgh, Pennsylvania and our common stock trades on the New York Stock Exchange (the "NYSE") under the symbol "GNC." Our foundation is built on 80 years of superior product quality and innovation. Based on our worldwide network of more than 9,000 locations and our online channels, we believe that we are the leading global specialty retailer of health, wellness and performance products, including vitamins, minerals and herbal supplement products ("VMHS"), sports nutrition products and diet products. Our diversified, multi-channel business model derives revenue from product sales through company-owned retail stores, domestic and international franchise activities, third-party contract manufacturing, e-commerce and corporate partnerships. We believe that the strength of our GNC brand, which is distinctively associated with health and wellness, combined with our stores and online channels, gives us broad access to consumers and uniquely positions us to benefit from the favorable trends driving growth in the nutritional supplements industry and the broader health and wellness sector. Our broad and deep product mix, which is focused on premium, value-added nutritional products, is sold under our GNC proprietary brands, including Mega Men®, Ultra Mega®, Total Lean™, Pro Performance® and Pro Performance® AMP, Beyond Raw®, GNC Puredge®, GNC GenetixHD®, Herbal Plus®, and other nationally recognized third-party brands.

Our network of domestic retail locations is approximately nine times larger than the next largest United States specialty retailer of nutritional supplements and provides a leading platform for our vendors to distribute their products to their target consumers. Our close relationships with our vendor partners have enabled us to negotiate first-to-market opportunities. In addition, our in-house product development capabilities enable us to offer our customers high-quality proprietary merchandise that can only be purchased through our locations or through GNC.com. Because the nutritional supplement consumer often requires knowledgeable customer service, we also differentiate ourselves from mass and drug retailers with our well-trained sales associates who are aided by in-store technology. We believe that our expansive retail network, differentiated merchandise offering and quality, and engaged customer service result in a unique shopping experience that is distinct from that of our competitors. Our principal executive office is located at 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222, and our telephone number is (412) 288-4600. We maintain and make available on GNC.com, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practical after we electronically file or furnish them to the United States Securities and Exchange Commission (the "SEC"). In addition to GNC.com, our electronic SEC filings can be accessed from the SEC's internet site at www.sec.gov and are filed in the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 (1-800-732-0330) for further information on the public reference room.

In this Annual Report, unless the context requires otherwise, references to "we," "us," "our," "Company" or "GNC" refer collectively to Holdings and its subsidiaries.

Corporate History

Our business was founded in 1935 by David Shakarian who opened our first health food store in Pittsburgh, Pennsylvania. Since that time, the number of stores has continued to grow, and we began producing our own vitamin and mineral supplements as well as foods, beverages and cosmetics. Holdings is a holding company and all of its operations are conducted through its operating subsidiaries.

Our 2016 Strategy

We plan to execute several strategies in the future to promote growth in revenue and operating income and enhance shareholder value including:

Executing our refranchising strategy. We are increasing the proportion of our domestic stores that are franchise locations, targeting a balanced portfolio of domestic company-owned and franchise locations over the next three to four years, beginning in 2016. We expect to rebalance our portfolio both by increasing the proportion of new stores that are franchise locations and by transitioning company-owned stores to franchise locations. As part of this effort, we remain focused on creating and nurturing franchise partnerships that support our brand image. We believe that this strategy can result in significant value creation for our stockholders.

Creating an industry-wide coalition. We remain focused, together with other industry leaders and industry trade associations, on initiatives begun in 2015 to build an industry-led coalition aimed at raising the bar for quality and compliance throughout the dietary supplement industry. Coalition initiatives include: developing standardized raw material “good manufacturing practices” (“GMPs”), including “farm to factory” traceability standards; creating a product-registry database accessible to industry participants, consumers and the FDA; establishing minimum

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certification standards for manufacturing facilities, including an annual facility inspection process and product quality seals; and providing media support for a coordinated industry including positive messaging with accurate product information to help change the narrative around our industry. We believe that over time, these initiatives will prove beneficial for the industry, for the FDA and other regulators, and lead to substantial improvement in regulatory and consumer trust and confidence in our industry.

Implementing a revised pricing strategy. In early 2016, we launched an intensive effort to develop and implement an improved pricing strategy to be applied to all channels. Our intent is to appropriately identify and price our known value items ("KVIs"), create a clear definition of role and intent by product category, further improve the clarity of our price message and more closely align the customer's perception of our pricing with the quality and value of our products. We expect the results of this initiative to be evident beginning in late 2016 and beyond.

Enhancing our customer loyalty program. Following extensive consumer research during 2015, we currently are in the process of reviewing various enhancements to our loyalty program, which currently includes approximately 6.5 million Gold Card customers. We believe that further developing and encouraging active customer participation in a robust customer loyalty program is an important step toward our goals for attracting new customers and building meaningful, long-term connections with our customers. We expect the results of this initiative to be evident beginning in 2017 and beyond.

Growing our international footprint. We expect to continue capitalizing on international revenue growth opportunities through the addition of franchise stores in existing markets, expansion into new high growth markets and the growth of product distribution in both existing and new markets.

Competitive Strengths

We believe that we are well-positioned to capitalize on favorable industry trends as a result of the following competitive strengths:

Highly valued and well-recognized brand. We believe our broad portfolio of proprietary products, which are available in our locations or on GNC.com, advances GNC's brand presence and our general reputation as a leading retailer of health and wellness products. We continue to modernize the GNC brand in an effort to further advance its positioning.

Attractive, Loyal customer base. Our large customer base includes approximately 6.5 million active Gold Card members in the United States and Canada who accounted for 79% of company-owned retail sales in 2015 and spend approximately two times more than other GNC customers. Recent surveys, commissioned by us, reflect a high satisfaction rate among our shoppers with respect to selection, product innovation, quality and overall experience.

Commanding market position. Based on our broad global footprint of more than 9,000 locations in the United States and approximately 50 international countries (including distribution centers where retail sales are made), and on our e-commerce channels, we believe that we are the leading global specialty retailer of health and wellness products within a fragmented industry.

Unique product offerings and robust innovation capabilities. Product innovation is critical to our growth, brand image superiority and competitive advantage. We have internal product development teams located in our corporate headquarters in Pittsburgh, Pennsylvania and our manufacturing facility in Greenville, South Carolina, which collaborate on the development and formulation of proprietary nutritional supplements with a focus on high growth categories. We seek to maintain the pace of GNC's proprietary product innovation to stay ahead of our competitors and provide consumers with unique reasons to shop at our stores. Our in-house product development teams and vertically integrated infrastructure enable us to quickly take a concept for a new product from the idea stage, to product development, to testing and trials and ultimately to the shelf to be sold to our customers.

Diversified business model. Our omni-channel approach is unlike many other specialty retailers as we derive revenues across a number of distribution channels in multiple geographies, including retail sales from company-owned retail stores (including 157 stores on United States military bases), retail sales from our websites, GNC.com and LuckyVitamin.com, as well as from Drugstore.com, royalties, wholesale sales and fees from both domestic and international franchisees, revenue from third-party contract manufacturing and wholesale customers including Rite Aid (through our store-within-a-store locations), PetSmart and Sam's Club. Our business is further diversified by our broad merchandise assortment, providing our customers with access to the GNC-branded customer

experience wherever they desire. Our retail stores generally offer over 2,000 SKUs across multiple product categories. Vertically integrated operations that underpin our business strategy. To support our company-owned and franchise store bases, we have developed sophisticated manufacturing, warehousing and distribution facilities, including a

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manufacturing facility in Greenville, South Carolina and distribution facilities in: Leetsdale, Pennsylvania; Whitestown, Indiana; Anderson, South Carolina; and Phoenix, Arizona. Our vertically integrated business model allows us to control the production and timing of new product introductions, control costs, maintain high standards of product quality, monitor delivery times, manage inventory levels and enhance profitability.

Differentiated service model that fosters an exceptional customer experience. We believe we distinguish ourselves from mass and drug retailers with our well-trained sales associates, who offer educated service and trusted advice. We invest considerable capital and human resources in providing comprehensive associate training. We believe that our expansive retail network, differentiated merchandise offering and high-quality customer service result in a unique shopping experience.

Highly experienced management team. We continue to grow our highly experienced and talented management team. We believe that our management team has the expert knowledge, drive and experience across the retail industry necessary to successfully execute on our key initiatives, effectively address the challenges that we face and continue to grow our business in an increasingly competitive environment.

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Business Overview

The following charts illustrate the percentage of our net revenue generated by our three segments and the percentage of our net United States retail nutritional supplements revenue generated by our product categories for the year ended December 31, 2015:

* Includes domestic retail and GNC.com; excludes LuckyVitamin.com

Segments

We generate revenues from our three segments, which are Retail, Franchise and Manufacturing/Wholesale. The following chart outlines our segments, after intercompany eliminations. For a description of operating income by segment, our total assets by segment, total revenues by geographic area, and total assets by geographic area, see Note 16, "Segments," to our audited consolidated financial statements included in this Annual Report.

	Year ended December 31,								
	2015		2014		2013				
	(\$ in millions)								
Retail	\$1,945.2	73.7	%	\$1,939.2	74.2	%	\$1,926.8	73.4	%
Franchise	458.3	17.4	%	432.8	16.6	%	436.9	16.6	%
Manufacturing/Wholesale (Third Party)	235.7	8.9	%	241.2	9.2	%	263.1	10.0	%
Total revenue	\$2,639.2	100.0	%	\$2,613.2	100.0	%	\$2,626.8	100.0	%

Although we believe that none of our segment operations are seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter. We believe that the factors that influence this variability of quarterly results include general economic and weather conditions that affect consumer spending, changing customer demands, the introduction of new merchandise or promotions, and actions of competitors.

Retail

Our Retail segment generates revenues primarily from sales of products to customers at our company-owned stores in the United States, Canada, Puerto Rico and Ireland and through our websites, GNC.com and LuckyVitamin.com. Beginning in October 2013 and through December 31, 2015, our Retail segment also included the results of an additional website, DiscountSupplements.co.uk. Effective December 31, 2015, we sold substantially all of the assets of our Discount Supplements subsidiary.

Locations

As of December 31, 2015, we operated 3,594 company-owned stores across all 50 states and the District of Columbia in the United States and in Canada, Puerto Rico and Ireland. Most of our company-owned stores in the United States are between 1,000 and 2,000 square feet and are located primarily in shopping malls and strip shopping centers. Traditional shopping mall and strip shopping center locations generate a large percentage of our total retail sales. With the exception of our downtown stores, virtually all of our company-owned stores follow one of two consistent formats, including one for mall locations and one for strip shopping center locations.

We periodically redesign our store graphics to better identify with our GNC customers and provide product information to allow those customers to make educated decisions regarding product purchases and usage. Our product labeling is consistent within our product lines, and our stores are designed to present a unified approach to packaging with emphasis on added information for the customer.

Websites

GNC.com and LuckyVitamin.com continue to represent a significant part of our business. The ability to purchase our products through the internet also offers a convenient method for repeat customers to evaluate and purchase new and existing products. This additional sales channel has enabled us to market and sell our products in regions where we have limited or no retail operations. We may offer products on our GNC.com website that are not available at our

retail locations, enabling us to broaden the assortment of products available to our customers, and our LuckyVitamin.com platform provides a wide range of nationally branded nutritional supplements with a diverse selection of wellness oriented products. Internet purchases are fulfilled and shipped directly from our distribution centers to our consumers using a third-party courier service.

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Franchise

Our Franchise segment is comprised of our domestic and international franchise operations, and generates revenues primarily through product sales to franchisees, royalties on franchise retail sales and franchise fees.

As of December 31, 2015, there were 3,169 franchise stores, including 1,084 stores operating in the U.S. and 2,085 international franchise stores operating in approximately 50 international countries (including distribution centers where retail sales are made). Our franchise stores in the United States are typically between 1,000 and 2,000 square feet, and approximately 90% are located in strip shopping centers. The international franchise stores are typically smaller and, depending upon the country and cultural preferences, are located in mall, strip shopping center, street or store-within-a-store locations. In addition, some international franchisees sell on the internet and distribute to other retail outlets in their respective countries. Typically, our international stores have a store format and signage similar to our United States franchise stores. We believe that our franchise program enhances our brand awareness and market presence and will enable us to continue to expand our store base internationally with limited capital expenditures. We believe we have good relationships with our franchisees, as evidenced by our domestic franchisee renewal rate of approximately 96% between 2010 and 2015. Currently we have 529 franchisees operating stores in the United States. We do not rely heavily on any single franchise operator in the United States, where our largest franchisee owns and/or operates 21 store locations.

All of our franchise stores in the United States offer both our proprietary products and third-party products, with a product selection similar to that of our company-owned stores. Our international franchise stores offer a more limited product selection than our franchise stores in the United States, primarily due to regulatory constraints.

Franchises in the United States

Revenues from our franchisees in the United States accounted for approximately 63% of our total franchise revenues for the year ended December 31, 2015. New franchisees in the United States are required to pay an initial fee of \$40,000 for a franchise license. Existing GNC franchise operators may purchase an additional franchise license for a \$30,000 fee. Once a store begins operations, franchisees are required to pay us a continuing royalty of 6% of sales and contribute 3% of sales to a national advertising fund. Our standard franchise agreements for the United States are effective for an initial ten-year period with unlimited five-year renewal options. At the end of the initial term and each of the renewal periods, the renewal fee is generally 33% of the franchisee fee that is then in effect. The franchisee renewal option is generally at our election. Franchisees must meet certain conditions to exercise the franchisee renewal option. Our franchisees in the United States receive limited geographical exclusivity and are required to utilize the standard GNC store format.

Generally, we negotiate lease terms to secure locations at cost-effective rates, which we typically sublease to our franchisees at cost. Franchisees must meet certain minimum standards and duties prescribed by our franchise operations manual, and we conduct periodic field visit reports to ensure our minimum standards are maintained. If a franchisee does not meet specified performance and appearance criteria, we are permitted to terminate the franchise agreement. In these situations, we may take possession of the location, inventory and equipment, and operate the store as a company-owned store or relicense the location.

International Franchises

Revenues from our international franchisees accounted for approximately 37% of our total franchise revenues for the year ended December 31, 2015. In 2015, new international franchisees were required to pay an initial fee of approximately \$25,000 for a franchise license for each full size store and continuing royalty fees that vary depending on the country. Our international franchise program has enabled us to expand into international markets with limited investment. We expanded our international presence from 1,307 international franchise locations at the end of 2009 to 2,085 international locations (including distribution centers where retail sales are made) as of December 31, 2015.