

BECTON DICKINSON & CO
Form 10-Q
May 03, 2018
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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 March 31, 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 001-4802

Becton, Dickinson and Company
(Exact name of registrant as specified in its charter)

New Jersey 22-0760120
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
1 Becton Drive, Franklin Lakes, New Jersey 07417-1880
(Address of principal executive offices) (Zip Code)

(201) 847-6800
(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 checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There were 267,201,840 share of Common Stock, \$1.00 par value, outstanding at March 31, 2018.

BECTON, DICKINSON AND COMPANY
 FORM 10-Q
 For the quarterly period ended March 31, 2018
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ITEM 1. FINANCIAL STATEMENTS
 BECTON, DICKINSON AND COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS

Millions of dollars

	March 31, 2018	September 30, 2017
Assets	(Unaudited)	
Current Assets:		
Cash and equivalents	\$ 1,251	\$ 14,179
Restricted cash	167	—
Short-term investments	16	21
Trade receivables, net	2,293	1,744
Inventories:		
Materials	498	313
Work in process	355	271
Finished products	1,691	1,234
	2,543	1,818
Prepaid expenses and other	1,241	871
Total Current Assets	7,512	18,633
Property, Plant and Equipment	10,460	9,389
Less allowances for depreciation and amortization	5,049	4,752
Property, Plant and Equipment, Net	5,411	4,638
Goodwill	23,491	7,563
Developed Technology, Net	12,562	2,478
Customer Relationships, Net	3,865	2,830
Other Intangibles, Net	573	585
Other Assets	1,159	1,007
Total Assets	\$ 54,573	\$ 37,734
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term debt	\$ 202	\$ 203
Payables and accrued expenses	4,224	3,139
Total Current Liabilities	4,426	3,342
Long-Term Debt	22,589	18,667
Long-Term Employee Benefit Obligations	1,172	1,168
Deferred Income Taxes and Other	5,233	1,609
Commitments and Contingencies (See Note 5)		
Shareholders' Equity		
Preferred stock	2	2
Common stock	347	347
Capital in excess of par value	16,170	9,619
Retained earnings	12,616	13,111
Deferred compensation	21	19
Common stock in treasury - at cost	(6,300)	(8,427)
Accumulated other comprehensive loss	(1,704)	(1,723)
Total Shareholders' Equity	21,152	12,948
Total Liabilities and Shareholders' Equity	\$ 54,573	\$ 37,734

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Millions of dollars, except per share data

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Revenues	\$4,222	\$2,969	\$7,302	\$5,892
Cost of products sold	2,619	1,537	4,148	3,007
Selling and administrative expense	1,057	724	1,831	1,432
Research and development expense	260	187	452	368
Acquisitions and other restructurings	104	76	458	163
Other operating income, net	—	—	—	(336)
Total Operating Costs and Expenses	4,040	2,523	6,889	4,634
Operating Income	183	446	413	1,257
Interest expense	(185)	(86)	(343)	(181)
Interest income	4	7	48	12
Other income (expense), net	4	(5)	(6)	(35)
Income Before Income Taxes	6	362	111	1,054
Income tax provision	18	18	260	148
Net (Loss) Income	(12)	344	(148)	905
Preferred stock dividends	(38)	—	(76)	—
Net (loss) income applicable to common shareholders	\$(50)	\$344	\$(224)	\$905
Basic (Loss) Earnings per Share	\$(0.19)	\$1.61	\$(0.90)	\$4.24
Diluted (Loss) Earnings per Share	\$(0.19)	\$1.58	\$(0.90)	\$4.15
Dividends per Common Share	\$0.75	\$0.73	\$1.50	\$1.46

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 Millions of dollars
 (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net (Loss) Income	\$(12)	\$344	\$(148)	\$905
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustments	128	136	92	(139)
Defined benefit pension and postretirement plans	(90)	15	(72)	29
Cash flow hedges	(2)	2	(1)	30
Other Comprehensive Income (Loss), Net of Tax	36	153	18	(80)
Comprehensive Income (Loss)	\$24	\$497	\$(130)	\$826

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions of dollars

(Unaudited)

	Six Months Ended March 31,	
	2018	2017
Operating Activities		
Net (loss) income	\$(148)	\$905
Adjustments to net (loss) income to derive net cash provided by operating activities:		
Depreciation and amortization	844	523
Share-based compensation	207	99
Deferred income taxes	(400)	(43)
Change in operating assets and liabilities	702	(474)
Pension obligation	(72)	55
Excess tax benefits from payments under share-based compensation plans	56	48
Other, net	(172)	(74)
Net Cash Provided by Operating Activities	1,017	1,040
Investing Activities		
Capital expenditures	(391)	(272)
Proceeds from sale of investments, net	7	26
Acquisitions of businesses, net of cash acquired	(15,118)	(40)
Proceeds from divestitures, net	100	165
Other, net	(138)	(34)
Net Cash Used for Investing Activities	(15,540)	(155)
Financing Activities		
Change in credit facility borrowings	380	(50)
Proceeds from long-term debt	3,622	1,054
Payments of debt	(1,833)	(2,189)
Repurchase of common stock	—	(220)
Dividends paid	(449)	(312)
Other, net	(155)	(144)
Net Cash Provided by (Used for) Financing Activities	1,565	(1,861)
Effect of exchange rate changes on cash and equivalents	29	(17)
Net decrease in cash and equivalents	(12,929)	(993)
Opening Cash and Equivalents	14,179	1,541
Closing Cash and Equivalents	\$1,251	\$548
Non-Cash Investing Activities		
Fair value of shares issued as acquisition consideration (See Note 8)	\$8,004	\$—
Fair value of equity awards issued as acquisition consideration (See Note 8)	\$613	\$—
Amounts may not add due to rounding.		
See notes to condensed consolidated financial statements		

BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of the management of the Company, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and accompanying notes required for a presentation in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2017 Annual Report on Form 10-K. Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Note 2 – Accounting Changes

New Accounting Principle Adopted

In the second quarter of its fiscal year 2018, the Company prospectively adopted an accounting standard update issued by the Financial Accounting Standards Board ("FASB") relating to the stranded income tax effects on items within Accumulated other comprehensive income (loss) resulting from the enactment of new U.S. tax legislation, which legislation is further discussed in Note 14. Additional disclosures regarding this accounting standard adoption are provided in Note 3.

New Accounting Principles Not Yet Adopted

In February 2016, the FASB issued a new lease accounting standard which requires lessees to recognize lease assets and lease liabilities on the balance sheet. The new standard also requires expanded disclosures regarding leasing arrangements. The Company is currently evaluating the impact that this new lease accounting standard will have on its consolidated financial statements upon its adoption of the standard on October 1, 2019.

In May 2014, the FASB issued a new revenue recognition standard. Under this standard, revenue will be recognized upon the transfer of goods or services to customers and the amount of revenue recognized will reflect the consideration to which a reporting entity expects to be entitled in exchange for those goods or services. The Company will adopt the standard on October 1, 2018 and currently plans to use the modified retrospective method. The Company has completed an initial assessment to identify the potential areas of impact that this new revenue recognition standard will have on its consolidated financial statements. As part of the initial assessment, the Company reviewed a representative sample of its contracts across its various businesses and geographies to identify potential differences that could result from applying the requirements of the new standard. The analysis included identifying whether there may be differences in timing of revenue recognition under the new standard as well as assessing performance obligations, variable consideration, and contract costs. The Company has not yet estimated the impact of the new standard on the timing and pattern of its revenue recognition. The Company continues to apprise its audit committee of the project status regularly.

Note 3 – Accumulated Other Comprehensive Income (Loss)

The components and changes of Accumulated other comprehensive income (loss) for the six-month period ended March 31, 2018 were as follows: