

Ingersoll-Rand plc
Form 10-Q
October 24, 2018
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 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 001-34400

INGERSOLL-RAND PUBLIC LIMITED COMPANY
(Exact name of registrant as specified in its charter)

Ireland 98-0626632
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
170/175 Lakeview Dr.
Airside Business Park
Swords, Co. Dublin
Ireland
(Address of principal executive offices, including zip code)
+(353) (0) 18707400
(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 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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

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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 x

The number of ordinary shares outstanding of Ingersoll-Rand plc as of October 12, 2018 was 245,656,287.

Table of Contents

INGERSOLL-RAND PLC
FORM 10-Q
INDEX

<u>PART I FINANCIAL INFORMATION</u>	<u>1</u>
Item 1 - <u>Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>4</u>
Item 2 - <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
Item 3 - <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
Item 4 - <u>Controls and Procedures</u>	<u>48</u>
<u>PART II OTHER INFORMATION</u>	<u>49</u>
Item 1 - <u>Legal Proceedings</u>	<u>49</u>
Item 1A - <u>Risk Factors</u>	<u>49</u>
Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 6 - <u>Exhibits</u>	<u>50</u>
<u>SIGNATURES</u>	<u>51</u>

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INGERSOLL-RAND PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In millions, except per share amounts	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net revenues	\$4,030.9	\$3,670.5	\$11,773.1	\$10,579.5
Cost of goods sold	(2,718.3)	(2,489.9)	(8,102.6)	(7,269.1)
Selling and administrative expenses	(725.6)	(674.5)	(2,199.8)	(2,031.7)
Operating income	587.0	506.1	1,470.7	1,278.7
Interest expense	(48.5)	(53.9)	(171.7)	(162.0)
Other income/(expense), net	(8.5)	(7.6)	(16.0)	(23.8)
Earnings before income taxes	530.0	444.6	1,283.0	1,092.9
Benefit (provision) for income taxes	1.1	(76.4)	(159.9)	(243.2)
Earnings from continuing operations	531.1	368.2	1,123.1	849.7
Discontinued operations, net of tax	(11.7)	3.7	(27.0)	5.5
Net earnings	519.4	371.9	1,096.1	855.2
Less: Net earnings attributable to noncontrolling interests	(4.3)	(4.9)	(12.5)	(12.5)
Net earnings attributable to Ingersoll-Rand plc	\$515.1	\$367.0	\$1,083.6	\$842.7
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$526.8	\$363.3	\$1,110.6	\$837.2
Discontinued operations	(11.7)	3.7	(27.0)	5.5
Net earnings	\$515.1	\$367.0	\$1,083.6	\$842.7
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	\$2.14	\$1.43	\$4.48	\$3.27
Discontinued operations	(0.05)	0.02	(0.11)	0.02
Net earnings	\$2.09	\$1.45	\$4.37	\$3.29
Diluted:				
Continuing operations	\$2.11	\$1.41	\$4.43	\$3.22
Discontinued operations	(0.05)	0.02	(0.11)	0.02
Net earnings	\$2.06	\$1.43	\$4.32	\$3.24
Weighted-average shares outstanding:				
Basic	246.4	253.3	248.1	256.4
Diluted	249.5	256.7	250.9	259.7
Dividends declared per ordinary share	\$—	\$0.45	\$1.43	\$1.25
Total comprehensive income	\$504.0	\$488.5	\$952.2	\$1,267.8
Less: Total comprehensive income attributable to noncontrolling interests	4.1	4.7	9.6	11.5
Total comprehensive income attributable to Ingersoll-Rand plc	\$499.9	\$483.8	\$942.6	\$1,256.3

See accompanying notes to Condensed Consolidated Financial Statements.

Table of ContentsINGERSOLL-RAND PLC
CONDENSED CONSOLIDATED BALANCE SHEETS(Unaudited)
September 30, December 31,
2018 2017

In millions

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,022.5	\$ 1,549.4
Accounts and notes receivable, net	2,752.1	2,477.4
Inventories, net	1,821.4	1,555.4
Other current assets	486.6	536.9
Total current assets	6,082.6	6,119.1
Property, plant and equipment, net	1,673.4	1,551.3
Goodwill	5,989.0	5,935.7
Intangible assets, net	3,679.7	3,742.9
Other noncurrent assets	879.8	824.3
Total assets	\$ 18,304.5	\$ 18,173.3

LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	\$ 1,748.7	\$ 1,556.1
Accrued compensation and benefits	504.4	509.7
Accrued expenses and other current liabilities	1,720.3	1,655.2
Short-term borrowings and current maturities of long-term debt	350.6	1,107.0
Total current liabilities	4,324.0	4,828.0
Long-term debt	3,739.8	2,957.0
Postemployment and other benefit liabilities	1,207.4	1,285.3
Deferred and noncurrent income taxes	610.2	757.5
Other noncurrent liabilities	1,079.9	1,138.6
Total liabilities	10,961.3	10,966.4

Equity:

Ingersoll-Rand plc shareholders' equity:

Ordinary shares	270.1	274.0
Ordinary shares held in treasury, at cost	(1,719.4)	(1,719.4)
Capital in excess of par value	52.4	461.3
Retained earnings	9,624.8	8,903.2
Accumulated other comprehensive income (loss)	(919.8)	(778.8)
Total Ingersoll-Rand plc shareholders' equity	7,308.1	7,140.3
Noncontrolling interests	35.1	66.6
Total equity	7,343.2	7,206.9
Total liabilities and equity	\$ 18,304.5	\$ 18,173.3

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

INGERSOLL-RAND PLC
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

In millions	Nine months ended	
	September 30, 2018	2017
Cash flows from operating activities:		
Net earnings	\$1,096.1	\$855.2
Discontinued operations, net of tax	27.0	(5.5)
Adjustments for non-cash transactions:		
Asset impairment	—	8.4
Depreciation and amortization	273.0	261.9
Gain on sale of joint venture	—	(1.5)
Changes in assets and liabilities, net	(573.8)	(391.0)
Other non-cash items, net	124.1	163.3
Net cash provided by (used in) continuing operating activities	946.4	890.8
Net cash provided by (used in) discontinued operating activities	(49.0)	(17.6)
Net cash provided by (used in) operating activities	897.4	873.2
Cash flows from investing activities:		
Capital expenditures	(251.2)	(149.9)
Acquisitions and equity method investments, net of cash acquired	(281.5)	(60.3)
Other investing activities, net	12.1	3.8
Net cash provided by (used in) continuing investing activities	(520.6)	(206.4)
Cash flows from financing activities:		
Short-term borrowings (payments), net	(6.4)	(4.0)
Proceeds from long-term debt	1,147.0	—
Payments of long-term debt	(1,122.9)	(7.6)
Net proceeds (repayments) from debt	17.7	(11.6)
Debt issuance costs	(12.0)	(0.2)
Dividends paid to ordinary shareholders	(351.2)	(318.0)
Dividends paid to noncontrolling interests	(41.1)	(15.5)
Acquisition of noncontrolling interest	—	(6.8)
Repurchase of ordinary shares	(514.1)	(911.1)
Other financing activities, net	31.8	40.7
Net cash provided by (used in) continuing financing activities	(868.9)	(1,222.5)
Effect of exchange rate changes on cash and cash equivalents	(34.8)	100.0
Net increase (decrease) in cash and cash equivalents	(526.9)	(455.7)
Cash and cash equivalents - beginning of period	1,549.4	1,714.7
Cash and cash equivalents - end of period	\$1,022.5	\$1,259.0

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Ingersoll-Rand plc (Plc or Parent Company), a public limited company incorporated in Ireland in 2009, and its consolidated subsidiaries (collectively, the Company), reflect the consolidated operations of the Company and have been prepared in accordance with United States Securities and Exchange Commission (SEC) interim reporting requirements. Accordingly, the accompanying condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for full financial statements and should be read in conjunction with the consolidated financial statements included in the Ingersoll-Rand plc Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary to fairly state the condensed consolidated results for the interim periods presented. Certain reclassifications of amounts reported in prior periods have been made to conform with the current period presentation.

Note 2. Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) Accounting Standards Codification is the sole source of authoritative GAAP other than SEC issued rules and regulations that apply only to SEC registrants. The FASB issues an Accounting Standards Update (ASU) to communicate changes to the codification. The Company considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" (ASU 2016-16) which removed the prohibition in Topic 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. As a result, the income tax consequences of an intra-entity transfer of assets other than inventory will be recognized in the current period income statement rather than being deferred until the assets leave the consolidated group. The Company applied ASU 2016-16 on a modified retrospective basis through a cumulative-effect adjustment which reduced Retained earnings by \$9.1 million as of January 1, 2018.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (ASC 606), which created a comprehensive, five-step model for revenue recognition that requires a company to recognize revenue to depict the transfer of promised goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Under ASC 606, a company will be required to use more judgment and make more estimates when considering contract terms as well as relevant facts and circumstances when identifying performance obligations, estimating the amount of variable consideration in the transaction price and allocating the transaction price to each separate performance obligation. The Company adopted this standard on January 1, 2018 using the modified retrospective approach and recorded a cumulative effect adjustment to increase Retained earnings by \$2.4 million with related amounts not materially impacting Net revenues, Operating income or the Balance Sheet. Refer to Note 11, "Revenue," for a further discussion on the adoption of ASC 606.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" (ASU 2018-15), which aligns the requirements for capitalizing implementation costs in a cloud-computing arrangement service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. In addition, the guidance also clarifies the presentation requirements for reporting such costs in the financial statements. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019 with early adoption permitted. The Company is currently assessing the impact of the ASU on its financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02), which allows companies to reclassify stranded tax effects in Accumulated

other comprehensive income (loss) that have been caused by the Tax Cuts and Jobs Act of 2017 (the Act) to Retained earnings for each period in which the effect of the change in the U.S. federal corporate income tax rate is recorded. The FASB has made the reclassification optional. ASU 2018-02 is effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company is currently assessing the impact of the ASU on its financial statements and whether or not it will exercise the option to reclassify the stranded tax effects caused by the Act.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and hedging (Topic 815): Targeted improvements to accounting for hedging activities" (ASU 2017-12). This standard more closely aligns the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. This standard also addresses specific limitations in current GAAP by expanding hedge accounting for both nonfinancial and financial risk components and by refining the measurement of hedge results to better reflect an entity's hedging strategies. Additionally, by aligning the timing of recognition of hedge results with the earnings effect of the hedge