EDGEWELL PERSONAL CARE Co
Form 10-Q
February 08, 2018

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
or
o 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: 001-15401

EDGEWELL PERSONAL CARE COMPANY
(Exact name of registrant as specified in its charter)

Missouri	43-1863181
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
1350 Timberlake Manor Parkway	
Chesterfield, Missouri	63017
(Address of principal executive offices)	(Zip Code)

(314) 594-1900
(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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Emerging growth company o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common shares, $0.01 par value - 53,997,612 shares as of January 31, 2018.

EDGEWELL PERSONAL CARE COMPANY
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

EDGEWELL PERSONAL CARE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(unaudited, in millions, except per share data)

	Three Months Ended December 31,	
	2017	2016
Net sales	$468.3	$485.0
Cost of products sold	268.0	257.0
Gross profit	200.3	228.0
Selling, general and administrative expense	97.2	93.8
Advertising and sales promotion expense	49.0	50.6
Research and development expense	16.1	16.3
Gain on sale of Playtex gloves	(15.9)	—
Restructuring charges	—	6.9
Interest expense associated with debt	17.8	17.4
Other expense (income), net	3.0	(1.9)
Earnings before income taxes	33.1	44.9
Income tax provision	26.4	11.4
Net earnings	$6.7	$33.5
Earnings per share:		
Basic net earnings per share	$0.12	$0.58
Diluted net earnings per share	$0.12	$0.58
Statements of Comprehensive Income:		
Net earnings	$6.7	$33.5
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	9.5	(38.7)
Pension and postretirement activity, net of tax of $0.3 and $1.9	0.4	3.9
Deferred gain on hedging activity, net of tax of $0.1 and $4.1	0.2	7.9
Total other comprehensive income (loss), net of tax	10.1	(26.9)
Total comprehensive income	$16.8	$6.6

See accompanying Notes to Condensed Consolidated Financial Statements.

EDGEWELL PERSONAL CARE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in millions, except share data)

	December 31, 2017	September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 529.9	$ 502.9
Trade receivables, less allowance for doubtful accounts of $5.4 and $4.3	183.1	224.1
Inventories	349.3	333.5
Other current assets	118.3	125.7
Total current assets	1,180.6	1,186.2
Property, plant and equipment, net	441.9	453.4
Goodwill	1,447.8	1,445.9
Other intangible assets, net	1,068.6	1,071.7
Other assets	33.6	31.6
Total assets	$ 4,172.5	$ 4,188.8
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	$ —	$ —
Notes payable	21.1	19.4
Accounts payable	198.8	223.6
Other current liabilities	225.5	281.4
Total current liabilities	445.4	524.4
Long-term debt	1,678.7	1,525.4
Deferred income tax liabilities	143.9	181.8
Other liabilities	248.7	215.5
Total liabilities	2,516.7	2,447.1
Shareholders' equity		
Preferred shares, $0.01 par value, 10,000,000 authorized; none issued or outstanding	—	—
Common shares, $0.01 par value, 300,000,000 authorized; 65,251,989 issued; 54,151,058 and 56,017,537 outstanding	0.7	0.7
Additional paid-in capital	1,620.7	1,623.4
Retained earnings	969.2	952.9
Common shares in treasury at cost, 11,100,931 and 9,234,452	(813.5)	(703.9)
Accumulated other comprehensive loss	(121.3)	(131.4)
Total shareholders' equity	1,655.8	1,741.7
Total liabilities and shareholders' equity	$ 4,172.5	$ 4,188.8

See accompanying Notes to Condensed Consolidated Financial Statements.

EDGEWELL PERSONAL CARE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in millions)

	Three Months Ended December 31,	
	2017	2016
Cash Flow from Operating Activities		
Net earnings	$6.7	$33.5
Non-cash restructuring costs	—	1.7
Depreciation and amortization	24.8	23.4
Share-based compensation expense	4.8	5.7
(Gain) / loss on sale of assets	(13.9)	1.8
Deferred income taxes	(28.9)	(0.7)
Other, net	(4.8)	(5.7)
Changes in operating assets and liabilities	(9.7)	(111.6)
Net cash used by operating activities	(21.0)	(51.9)
Cash Flow from Investing Activities		
Capital expenditures	(11.6)	(13.7)
Acquisitions, net of cash acquired	—	(34.0)
Playtex gloves sale	19.0	—
Proceeds from sale of assets	2.1	—
Net cash from (used by) investing activities	9.5	(47.7)
Cash Flow from Financing Activities		
Cash proceeds from debt with original maturities greater than 90 days	253.0	146.0
Cash payments on debt with original maturities greater than 90 days	(100.0)	(287.0)
Net decrease in debt with original maturities of 90 days or less	(1.3)	(0.4)
Common shares purchased	(115.2)	(58.0)
Employee shares withheld for taxes	(2.0)	(7.1)
Net cash from (used by) financing activities	34.5	(206.5)
Effect of exchange rate changes on cash	4.0	(14.3)
Net increase (decrease) in cash and cash equivalents	27.0	(320.4)
Cash and cash equivalents, beginning of period	502.9	738.9
Cash and cash equivalents, end of period	$529.9	$418.5

See accompanying Notes to Condensed Consolidated Financial Statements.

EDGEWELL PERSONAL CARE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, in millions, except per share data)

Note 1 - Background and Basis of Presentation

Background

Edgewell Personal Care Company, and its subsidiaries (collectively, "Edgewell" or the "Company"), is one of the world's largest manufacturers and marketers of personal care products in the wet shave, sun and skin care, feminine care and infant care categories. Edgewell has a portfolio of over 25 brands and a global footprint in more than 50 countries.

The Company conducts its business in the following four segments:

- Wet Shave consists of products sold under the Schick®, Wilkinson Sword®, Edge®, Skintimate®, Shave Guard and Personna® brands, as well as non-branded products. The Company's wet shave products include razor handles and refillable blades, disposable shave products and shaving gels and creams.
- Sun and Skin Care consists of Banana Boat® and Hawaiian Tropic® sun care products, Bulldog® men's skin care products, Wet Ones® wipes and Playtex® household gloves until the sale of the gloves business in October 2017. Refer to Note 2 for additional details on the sale of the Playtex household gloves business.
- Feminine Care includes tampons, pads and liners sold under the Playtex Gentle Glide® and Sport®, Stayfree®, Carefree® and o.b.® brands, as well as personal cleansing wipes under the Playtex® brand.
- All Other includes infant care products, such as bottles, cups and pacifiers, under the Playtex®, OrthoPro® and Binky® brand names, as well as the Diaper Genie® and Litter Genie® disposal systems.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its controlled subsidiaries and have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"), under the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ materially from those estimates. All intercompany balances and transactions have been eliminated in consolidation and, in the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included in the interim results reported. The fiscal year-end balance sheet data was derived from audited consolidated financial statements, but do not include all of the annual disclosures required by GAAP; accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements included in its Annual Report on Form 10-K filed with the SEC on November 20, 2017.

Recently Adopted Accounting Pronouncements. In August 2014, the Financial Accounting Standards Board ("FASB") issued a new Accounting Standards Update ("ASU"), which requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The Company adopted this guidance as of October 1, 2017 and noted the adoption did not have an impact on the financial statements or the related disclosures.

In July 2015, the FASB issued a new ASU, which aligns the measurement of inventory under GAAP more closely with International Financial Reporting Standards. Under the new guidance, an entity that measures inventory using FIFO or average cost should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted this guidance on a prospective basis as of October 1, 2017 and noted the adoption did not have a material impact on the financial statements or the related disclosures.

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In March 2016, the FASB issued an ASU which simplifies several aspects of the accounting for share-based payment transactions, including requiring excess tax benefits and tax deficiencies to be recognized as income tax benefits or expenses in the consolidated statement of earnings. The standard requires cash flows from excess tax benefits and deficiencies, previously classified as a financing activity, to be classified as an operating activity in the consolidated statement of cash flows. The Company adopted these provisions of the guidance prospectively in the first quarter of fiscal 2018. As a result, the Company recognized excess tax deficiencies of $0.6 through income taxes during the first quarter of fiscal 2018 rather than additional paid-in capital. The excess tax deficiencies were recorded as an operating activity in the Condensed Consolidated Statement of Cash Flows during the first quarter of 2018. Also, as part of the adoption, a $9.7 adjustment was recorded to increase retained earnings and deferred tax assets to recognize the cumulative amount of previously unrecognized excess tax benefits as of October 1, 2017. Additionally, the ASU requires the presentation of employee taxes paid when an employer withholds shares for tax withholding purposes to be presented as a financing activity in the statement of cash flows as opposed to as an operating activity. This aspect of the new guidance was required to be adopted retrospectively. As such, $7.1 of cash outflows for tax withholding payments were reclassified from an operating activity to a financing activity in the Condensed Consolidated Statement of Cash Flows for the first quarter of fiscal 2017. Finally, under the ASU, the Company elected to record forfeitures as they occur. This election did not have a material impact on the financial statements.
Recently Issued Accounting Pronouncements. In May 2014, the FASB issued an ASU, which provides a single comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. During 2016, the FASB issued three ASUs, clarifying the revenue recognition implementation guidance on various topics included within the original ASU. The new guidance will be effective for the Company beginning October 1, 2018, with the option of using either a full retrospective or modified retrospective method. The Company is still evaluating the method of adoption.
During fiscal 2017, the Company established a cross-functional implementation team, including representatives from all of its businesses globally, to analyze the current processes in place for the recognition of revenue and identify potential differences that would result from application of the new guidance. This initial assessment includes analysis of significant types of arrangements, processes and systems, and reviews of representative contracts. Additionally, the Company has begun reviewing the enhanced disclosure requirements under the new standard. Revenues are primarily generated from the sale of finished products to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. While the assessment is not complete, the timing of revenue recognition is not expected to be materially impacted by the new standard. The Company is still assessing the impact of the standard on its consolidated financial statements and on related disclosures.
No other new accounting pronouncement issued or effective during the fiscal year which was not previously disclosed in our Annual Report on Form 10-K had or is expected to have a material impact on our consolidated financial statements or related disclosures.

Note 2 - Divestiture

On October 3, 2017, the Company entered into an agreement to sell its Playtex® gloves business to a household products company (the “Acquirer”) for $19.0 to allow the Company to better focus and utilize its resources on its other product lines. The agreement also provided the Acquirer with indefinite and exclusive worldwide rights to the Playtex trademark for gloves. The sale was completed on October 26, 2017. Total assets sold were approximately $3.1 resulting in a pre-tax gain on sale of $15.9.

Note 3 - Restructuring Charges
Restructuring
In November 2012, the Company's Board of Directors (the "Board") authorized an enterprise-wide restructuring plan (the "Restructuring"). The Restructuring originally included several initiatives focused on reducing costs in general and administrative functions, as well as reducing manufacturing and operating costs associated with the Company's

discontinued operations. In January 2014, the Board authorized an expansion of scope of the previously announced Restructuring, which included rationalization and streamlining of the Edgewell operating facilities and other cost saving initiatives. Restructuring charges have primarily related to plant closure, accelerated depreciation charges, severance and related benefit costs. Restructuring costs under this plan totaled $170.1. Due to an increase in Wet Shave footprint costs and a delay in the transition of manufacturing in the Company's Feminine Care segment from Montreal to Dover, Delaware, some anticipated savings are not expected to be realized until fiscal 2019. The Company does not expect costs in fiscal 2018 or in future periods to be material.

Expenses incurred under the Restructuring plan are reflected below, including the estimated impact of allocating such charges to segment results. Restructuring charges were only allocated to the Company's Wet Shave and Feminine Care segments for the three months ended December 31, 2016. The Company does not include restructuring costs in the results of its reportable segments.

	Three Months Ended December 31, 2016		
	Wet Shave	Feminine Care	Total
Restructuring			
Severance and related benefit costs	$0.4	$ 1.5	$ 1.9
Asset impairment and accelerated depreciation	—	1.7	1.7
Consulting, program management and other exit costs	1.7	1.6	3.3
Total Restructuring	$2.1	$ 4.8	$ 6.9

In addition, pre-tax costs of $0.3 for the three months ended December 31, 2016, associated with obsolescence charges related to the exit of certain non-core product lines as part of the restructuring were included in Cost of products sold.

During the first quarter of fiscal 2018, the Company made severance and related benefit payments of $0.7. The remaining restructuring accrual was $1.7 for severance and related benefit costs as of December 31, 2017.

The following table summarizes the Restructuring activities and related accrual (excluding certain obsolescence charges related to the restructuring) for fiscal 2017:

				Utilized		
	October 1, 2016	Charge to Income	Other [(1)]	Cash	Non-Cash	September 30, 2017
Restructuring						
Severance and termination related costs	$ 16.7	$ 6.5	$(0.3)	$(20.5)	$ —	$ 2.4
Asset impairment and accelerated depreciation	—	6.9	—	—	(6.9)	—
Other related costs	—	16.2	—	(16.2)	—	—
Total Restructuring	$ 16.7	$ 29.6	$(0.3)	$(36.7)	$ (6.9)	$ 2.4

(1) Includes the impact of currency translation.

Note 4 - Income Taxes

For the three months ended December 31, 2017, the Company had income tax expense of $26.4 on Earnings before income taxes of $33.1. The effective tax rate for the three months ended December 31, 2017 was 79.8%. The difference between the federal statutory rate and the effective rate is primarily due to a $16.2 net transitional charge resulting from the enactment of The Tax Cuts and Jobs Act ("the Tax Act"), as discussed below. The rate was also affected by unfavorable tax adjustments, including the impact of the new share-based payment guidance and changes to prior year provision estimates, which increased the effective rate by 5%.

For the three months ended December 31, 2016, the Company had income tax expense of $11.4 on Earnings before income taxes of $44.9. The effective tax rate for the three months ended December 31, 2016 was 25.4%. The difference between the federal statutory rate and the effective rate was due to a higher mix of earnings in lower tax rate jurisdictions and was favorably impacted by Spin costs and Restructuring charges in higher tax rate jurisdictions. In addition, the effective tax rate was impacted by favorable tax adjustments, which reduced the effective rate by approximately 4%.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted the Tax Act. This new comprehensive tax legislation reduces the U.S. federal corporate tax rate from 35% to 21% but also limits and/or eliminates certain deductions while creating new taxes on certain foreign sourced earnings. Since the Company has a September 30 fiscal year end, the lower U.S. corporate income tax rate will be phased in, resulting in a blended U.S. statutory federal rate of approximately 24.5% for the fiscal year ending September 30, 2018 and 21% for subsequent fiscal years. The reduction in the U.S. corporate tax rate requires the Company to remeasure its U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which can be 24.5% or 21%. The Tax Act also imposed a one-time transition tax on historical earnings of certain foreign subsidiaries that were not previously taxed by the U.S.

Due to the Company’s fiscal year end, certain tax provisions of the new Tax Act will impact the Company in fiscal 2018 while others will be effective in subsequent years. For the quarter ended December 31, 2017 (period of enactment), the estimated impact of the one-time transition tax on foreign earnings was $97.2, offset by the estimated benefit of remeasurement of U.S. deferred tax assets and liabilities of $81. The net impact of these transitional provisions resulted in a net charge of $16.2 for the quarter, which was included as a component of income tax expense. The Company has tax loss carryforwards and tax credits, a portion of which are expected be used to partially offset amounts payable over 8 years related to the one-time transition tax on foreign earnings.

The tax law changes included in the Tax Act are broad and complex. The estimates of the transition impact of the Tax Act, as discussed above, are provisional. The final impact may differ from those estimates, possibly materially, due to, among other things, changes in interpretation of the Tax Act, legislative action to address questions that arise because of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or updates or changes to estimates the Company used to calculate the transition impacts, including impacts from changes to earnings estimates, foreign income tax estimates and foreign exchange rates. The Securities and Exchange Committee ("SEC") has issued rules under SAB 118 that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts.

The Company generally repatriates a portion of current year earnings from select non-US subsidiaries only if the economic cost of the repatriation is not considered material. As a result of the Tax Act, the Company expects to repatriate a significant amount of cash from foreign subsidiaries. The Company is currently evaluating the amount and expected uses of repatriated cash. The Company does not expect the incremental cost of repatriating cash to be material.

Note 5 - Earnings per Share

Basic earnings per share is based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share is based on the number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of share options and restricted share equivalent ("RSE") awards.

Following is the reconciliation between the number of weighted-average shares used in the basic and diluted earnings per share calculation:

	Three Months Ended December 31,	
	2017	2016
Basic weighted-average shares outstanding	55.4	57.7
Effect of dilutive securities:		
RSE awards	0.2	0.4
Total dilutive securities	0.2	0.4
Diluted weighted-average shares outstanding	55.6	58.1

For the three months ended December 31, 2017 and 2016, the calculation of diluted weighted-average shares outstanding excludes 0.6 of share options because the effect of including these awards was anti-dilutive. For the three months ended December 31, 2017 and 2016, the number of RSE awards considered anti-dilutive was immaterial.

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Note 6 - Goodwill and Intangible Assets

The following table sets forth goodwill by segment:

	Wet Shave	Sun and Skin Care	Feminine Care	All Other	Total
Balance at October 1, 2017	$971.2	$195.6	$209.5	$69.6	$1,445.9
Cumulative translation adjustment	2.1	0.1	(0.3)	—	1.9
Balance at December 31, 2017	$973.3	$195.7	$209.2	$69.6	$1,447.8

Total amortizable intangible assets were as follows:

	December 31, 2017			September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names and brands	$189.3	$ 18.3	$171.0	$188.6	$ 16.0	$172.6
Technology and patents	78.0	75.3	2.7	77.9	74.4	3.5
Customer related and other	151.6	91.2	60.4	151.5	89.8	61.7
Total amortizable intangible assets	$418.9	$ 184.8	$234.1	$418.0	$ 180.2	$237.8

Amortization expense was $4.4 and $4.0 for the three months ended December 31, 2017 and 2016, respectively. Estimated amortization expense for amortizable intangible assets for the remainder of fiscal 2018 and for fiscal 2019, 2020, 2021, 2022 and 2023 is $11.7, $14.8, $14.2, $13.6, $13.5 and $13.5, respectively, and $152.8 thereafter.

The Company had indefinite-lived intangible assets of $834.5 ($185.1 in Wet Shave, $475.7 in Sun and Skin Care, $29.9 in Feminine Care and $143.8 in All Other) at December 31, 2017, an increase of $0.6 from September 30, 2017, related to changes in foreign currency translation rates.

Goodwill and intangible assets deemed to have an indefinite life are not amortized, but reviewed annually during the fourth fiscal quarter for impairment of value or when indicators of a potential impairment are present. The Company continuously monitors events which could trigger an interim impairment analysis, such as changing business conditions and environmental factors. The Company's stock price has declined since September 30, 2017. A prolonged decrease in the Company's stock price could be an indication of a triggering event. An interim impairment analysis may indicate that carrying amounts of goodwill and other intangible assets require adjustment or that remaining useful lives should be revised. Refer to the sensitivity analysis in Note 8 to the Company's audited annual consolidated financial statements included in its Annual Report on Form 10-K filed with the SEC on November 20, 2017.

During fiscal 2017, the Company recorded impairment charges of $312.0 and $7.0 on its Playtex and Edge brand names, respectively. The impairment of Playtex and Edge in fiscal 2017 was the result of intense competition in the Feminine Care and Wet Shave segments which resulted in decreased market share. Based on the impairment taken and continued competitive pressure on the Playtex and Edge brands, the intangible assets associated with the brand names were converted to definite-lived assets as of July 1, 2017 and assigned a useful life of 20 years. The conversion of the Playtex and Edge brand names to definite-lived intangible assets increased amortization expense by $1.8 for the three months ended December 31, 2017.

Note 7 - Supplemental Balance Sheet Information

	December 31, 2017	September 30, 2017
Inventories		
Raw materials and supplies	$ 52.2	$ 50.6
Work in process	61.3	60.9
Finished products	235.8	222.0
Total inventories	$ 349.3	$ 333.5
Other Current Assets		
Miscellaneous receivables	$ 13.7	$ 16.9
Prepaid expenses	64.8	55.6
Value added tax collectible from customers	20.3	25.2
Income taxes receivable	16.7	24.7
Other	2.8	3.3
Total other current assets	$ 118.3	$ 125.7
Property, Plant and Equipment		
Land	$ 19.5	$ 19.3
Buildings	142.5	139.1
Machinery and equipment	956.3	947.4
Capitalized software costs	45.3	42.3
Construction in progress	41.8	49.7
Total gross property, plant and equipment	1,205.4	1,197.8
Accumulated depreciation and amortization	(763.5)	(744.4)
Total property, plant and equipment, net	$ 441.9	$ 453.4
Other Current Liabilities		
Accrued advertising, sales promotion and allowances	$ 41.4	$ 32.2
Accrued trade allowances	21.2	24.6
Accrued salaries, vacations and incentive compensation	27.1	40.6
Income taxes payable	10.6	18.3
Returns reserve	27.3	53.3
Restructuring reserve	1.7	3.0
Value added tax payable	5.1	5.8
Deferred compensation	15.3	13.8
Other	75.8	89.8
Total other current liabilities	$ 225.5	$ 281.4
Other Liabilities		
Pensions and other retirement benefits	$ 106.6	$ 109.4
Deferred compensation	42.1	47.3
Long-term income taxes payable	41.4	—
Other non-current liabilities	58.6	58.8
Total other liabilities	$ 248.7	$ 215.5

Note 8 - Accounts Receivable Facility

On September 15, 2017, the Company entered into a $150 uncommitted master accounts receivable purchase agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the purchaser. Transfers under this agreement are accounted for as sales of receivables, resulting in the receivables being de-recognized from the consolidated balance sheet. As of December 31, 2017, the discount rate used to determine the purchase price for the subject receivables is based upon LIBOR plus a margin applicable to the specified obligor.

Account receivables sold under this agreement for the quarter ended December 31, 2017 were $210.1. The trade receivables sold that remained outstanding under this agreement as of December 31, 2017 and September 30, 2017 were $74.6 and $81.7, respectively. The dilution reserve, which represents the Company's retained interest in sold receivables, was $7.5 and $8.2 as of December 31, 2017 and September 30, 2017, respectively, and was recognized on the Consolidated Balance Sheets as a receivable. The difference between the carrying amount of the trade receivables sold and the sum of the cash received was recorded as a loss on sale of receivables in Other expense (income), net in the Consolidated Statement of Earnings. For the three months ended December 31, 2017, the loss on sale of trade receivables was $0.4.

Note 9 - Debt

The detail of long-term debt was as follows:

	December 31, 2017	September 30, 2017
Senior notes, fixed interest rate of 4.7%, due 2021, net [1]	$ 598.4	$ 598.3
Senior notes, fixed interest rate of 4.7%, due 2022, net [1] [2]	497.6	497.4
U.S. revolving credit facility due 2020	398.0	245.0
Term loan, due 2019, net [1]	184.7	184.7
Total long-term debt, including current maturities	1,678.7	1,525.4
Less current portion	—	—
Total long-term debt	$ 1,678.7	$ 1,525.4

(1) At December 31, 2017, the balance for the senior notes due 2021, the senior notes due 2022 and the term loan are reflected net of debt issuance costs of $1.6, $1.8 and $0.3, respectively. At September 30, 2017, the balance for the senior notes due 2021, the senior notes due 2022 and the term loan are reflected net of debt issuance costs of $1.7, $1.9 and $0.3, respectively.

(2) At December 31, 2017 and September 30, 2017, the balance for the senior notes due 2022 was reflected net of discount of $0.6 and $0.7, respectively.

The Company had outstanding, variable-rate international borrowings, recorded in Notes payable, of $21.1 and $19.4 as of December 31, 2017 and September 30, 2017, respectively.

Note 10 - Retirement Plans

The Company has several defined benefit pension plans covering employees in the U.S. and certain employees in other countries, which are included in the information presented below. The plans provide retirement benefits based on years of service and earnings. The Company also sponsors or participates in a number of other non-U.S. pension and postretirement arrangements, including various retirement and termination benefit plans, some of which are required by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and, therefore, are not included in the information presented below.

The Company's net periodic pension and postretirement benefit (credit) cost for these plans was as follows:

	Three Months Ended December 31,	
	2017	2016
Service cost	$1.5	$1.8
Interest cost	4.3	3.8
Expected return on plan assets	(7.9)	(7.9)
Recognized net actuarial loss	1.1	1.5
Settlement loss recognized	—	0.3
Net periodic (benefit) cost	$(1.0)	$(0.5)

Note 11 - Shareholders' Equity

In January 2018, the Board approved an authorization to repurchase up to 10.0 shares of the Company's common stock, replacing the previous stock repurchase authorization from May 2015, when the Board approved an authorization to repurchase up to 10.0 shares of the Company's common stock. During the three months ended December 31, 2017, the Company repurchased 1.9 shares of its common stock for $115.2, all of which were purchased under the previous authorization from May 2015. The full 10.0 shares authorized by the Board in January 2018 are available for future share repurchases. Any future share repurchases would be made in the open market, privately negotiated transactions or otherwise, in such amounts and at such times as the Company deems appropriate based upon prevailing market conditions, business needs and other factors.

During the three months ended December 31, 2017, the Company paid $0.1 cash dividends related to the vesting of RSE awards, which had been declared and accrued during prior fiscal years. The Company has not declared any dividends since the third quarter of fiscal 2015, and does not currently intend to declare dividends in the foreseeable future.

Note 12 - Accumulated Other Comprehensive (Loss) Income

The following table presents the changes in accumulated other comprehensive (loss) income ("AOCI"), net of tax, by component:

	Foreign Currency Translation Adjustments	Pension and Post-retirement Activity	Hedging Activity	Total
Balance at October 1, 2017	$ (29.0)	$ (101.3)	$ (1.1)	$(131.4)
OCI before reclassifications [1]	9.5	(0.3)	(0.3)	8.9
Reclassifications to earnings	—	0.7	0.5	1.2
Balance at December 31, 2017	$ (19.5)	$ (100.9)	$ (0.9)	$(121.3)

	Foreign Currency Translation Adjustments	Pension and Post-retirement Activity	Hedging Activity	Total

Balance at October 1, 2016	$ (68.1)	$ (126.3)	$ (2.8)	$(197.2)
OCI before reclassifications [1]	(38.7)	2.7	7.7	(28.3)
Reclassifications to earnings	—	1.2	0.2	1.4
Balance at December 31, 2016	$ (106.8)	$ (122.4)	$ 5.1	$(224.1)

(1) OCI is defined as other comprehensive income (loss).

The following table presents the reclassifications out of AOCI:

Details of AOCI Components	For the Three Months Ended December 31, 2017	2016	Affected Line Item in the Condensed Consolidated Statements of Earnings
Loss / (gain) on cash flow hedges			
Foreign exchange contracts	$0.7	$0.3	Other (income) expense, net
	0.7	0.3	Total before tax
	(0.2)	(0.1)	Tax expense
	0.5	0.2	Net of tax
Amortization of defined benefit pension and postretirement items			
Actuarial losses	1.1	1.5	(1)
Settlement loss recognized	—	0.3	(1)
	1.1	1.8	Total before tax
	(0.4)	(0.6)	Tax expense
	0.7	1.2	Net of tax
Total reclassifications for the period	$1.2	$1.4	Net of tax

(1) These AOCI components are included in the computation of net periodic (benefit) cost. See Note 10 of Notes to Condensed Consolidated Financial Statements.

Note 13 - Financial Instruments and Risk Management

At times, the Company enters into contractual arrangements (derivatives) to reduce its exposure to foreign currency. The Company has master netting agreements with all of its counterparties that allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default. The Company manages counterparty risk through the utilization of investment grade commercial banks, diversification of counterparties and its counterparty netting arrangements. The section below outlines the types of derivatives that existed at December 31, 2017 and September 30, 2017, as well as the Company's objectives and strategies for holding derivative instruments.

Foreign Currency Risk

A significant share of the Company's sales are tied to currencies other than the U.S. dollar, the Company's reporting currency. As such, a weakening of currencies relative to the U.S. dollar can have a negative impact to reported earnings. Conversely, strengthening of currencies relative to the U.S. dollar can improve reported results. The primary currencies to which the Company is exposed include the Euro, the Japanese Yen, the British Pound, the Canadian Dollar, the Czech Koruna and the Australian Dollar.

Additionally, the Company's foreign subsidiaries enter into internal and external transactions that create non-functional currency balance sheet positions at the foreign subsidiary level. These exposures are generally the result of intercompany purchases, intercompany loans and, to a lesser extent, external purchases, and are revalued in the foreign subsidiary's local currency at the end of each period. Changes in the value of the non-functional currency balance sheet positions in relation to the foreign subsidiary's local currency results in an exchange gain or loss recorded in Other expense (income), net. The primary currency to which the Company's foreign subsidiaries are exposed is the U.S. dollar.

Cash Flow Hedges

At December 31, 2017, the Company maintained a cash flow hedging program related to foreign currency risk. These derivative instruments have a high correlation to the underlying exposure being hedged and have been deemed highly effective for accounting purposes in offsetting the associated risk.

The Company entered into a series of forward currency contracts to hedge cash flow uncertainty associated with currency fluctuations. These transactions are accounted for as cash flow hedges. The Company had unrealized pre-tax losses of $1.3 and $1.6 at December 31, 2017 and September 30, 2017, respectively, on these forward currency contracts accounted for as cash flow hedges, which are included in AOCI. Assuming foreign exchange rates versus the U.S. dollar remain at December 31, 2017 levels over the next twelve months, the majority of the pre-tax loss included in AOCI at December 31, 2017 is expected to be included in Other (income) expense, net. Contract maturities for these hedges extend into fiscal 2019. There were 63 open foreign currency contracts at December 31, 2017 with a total notional value of $129.8.

Derivatives not Designated as Hedges

The Company entered into foreign currency derivative contracts which are not designated as cash flow hedges for accounting purposes to hedge balance sheet exposures. Any gains or losses on these contracts are expected to be offset by exchange gains or losses on the underlying exposures, thus they are not subject to significant market risk. The change in estimated fair value of the foreign currency contracts for the three months ended December 31, 2017 resulted in a loss of $0.2, compared to a gain of $3.5 for the three months ended December 31, 2016, and was recorded in Other expense (income), net in the Condensed Consolidated Statements of Earnings. There were six open foreign currency derivative contracts, which were not designated as cash flow hedges at December 31, 2017, with a total notional value of $71.0.

The following table provides estimated fair values of derivative instruments:

	Fair Value of Asset (Liability) [1]	
	December 31, 2017	September 30, 2017
Derivatives designated as cash flow hedging relationships:		
Foreign currency contracts	$(1.3)	$ (1.6)
Derivatives not designated as cash flow hedging relationships:		
Foreign currency contracts	$(0.7)	$ 0.4

(1) All derivative assets are presented in Other current assets or Other assets. All derivative liabilities are presented in Other current liabilities or Other liabilities.

The following table provides the amounts of gains and losses on derivative instruments:

	Three Months Ended December 31,	
	2017	2016
Derivatives designated as cash flow hedging relationships:		
Foreign currency contracts		
(Loss) gain recognized in OCI [1]	$(0.4)	$11.7
Loss (gain) reclassified from AOCI into income (effective portion) [1] [2]	0.7	0.3
Derivatives not designated as cash flow hedging relationships:		
Foreign currency contracts		
Loss (gain) recognized in income [2]	$0.2	$(3.5)

(1) Each of these derivative instruments had a high correlation to the underlying exposure being hedged for the periods indicated and had been deemed highly effective in offsetting associated risk.
(2) Loss (gain) was recorded in Other (income) expense, net.

The following table provides financial assets and liabilities for balance sheet offsetting:

	At December 31, 2017		At September 30, 2017	
	Assets (1)	Liabilities (2)	Assets (1)	Liabilities (2)
Foreign currency contracts				
Gross amounts of recognized assets (liabilities)	$1.3	$ (3.3)	$2.5	$ (3.7)
Gross amounts offset in the balance sheet	(0.1)	0.1	(0.1)	0.1
Net amounts of assets (liabilities) presented in the balance sheet	$1.2	$ (3.2)	$2.4	$ (3.6)

(1) All derivative assets are presented in Other current assets or Other assets.
(2) All derivative liabilities are presented in Other current liabilities or Other liabilities.

Fair Value Hierarchy

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified in one of the following three categories:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

Under the fair value accounting guidance hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth the Company's financial assets and liabilities, which are carried at fair value and measured on a recurring basis during the period, all of which are classified as level 2 within the fair value hierarchy:

	December 31, 2017	September 30, 2017
Liabilities at estimated fair value:		
Deferred compensation	$ (57.4)	$ (60.9)
Derivatives - foreign currency contracts	(2.0)	(1.2)
Net liabilities at estimated fair value	$ (59.4)	$ (62.1)

At December 31, 2017, the estimated fair value of foreign currency contracts is the amount that the Company would receive or pay to terminate the contracts, considering first the quoted market prices of comparable agreements or, in the absence of quoted market prices, factors such as interest rates, currency exchange rates and remaining maturities. The estimated fair value of the deferred compensation liability is determined based upon the quoted market prices of the investment options that are offered under the plan.
At December 31, 2017 and September 30, 2017, the Company had no level 1 or level 3 financial assets or liabilities, other than pension plan assets.
At December 31, 2017 and September 30, 2017, the fair market value of fixed rate long-term debt was $1,123.0 and $1,143.8, respectively, compared to its carrying value of $1,096.0 and $1,095.7, respectively. The estimated fair value of the long-term debt was estimated using yields obtained from independent pricing sources for similar types of borrowing arrangements. The estimated fair value of variable-rate debt, excluding revolving credit facilities, which consists of bank debt, was $185.0 compared to its carrying value of $184.7 at December 31, 2017 and September 30, 2017. The estimated fair value was equal to the face value of the debt. The estimated fair value of long-term debt, excluding revolving credit facilities, have been determined based on level 2 inputs.
Due to the nature of cash and cash equivalents and short-term borrowings, including notes payable, carrying amounts on the balance sheets approximate fair value. Additionally, the carrying amounts of the Company's revolving credit facilities, which are classified as long-term debt on the balance sheet, approximate fair value due to the revolving

nature of the balances. The estimated fair value of cash and cash equivalents, short-term borrowings and the revolving credit agreements have been determined based on level 2 inputs.

Note 14 - Commitments and Contingencies

The Company and its affiliates are subject to a number of legal proceedings in various jurisdictions arising out of its operations during the ordinary course of business. Many of these legal matters are in preliminary stages and involve complex issues of law and fact, and may proceed for protracted periods of time. The amount of liability, if any, from these proceedings cannot be determined with certainty. The Company reviews its legal proceedings and claims, regulatory reviews and inspections and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for those contingencies when the incurrence of a loss is probable and can be reasonably estimated, and discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for its financial statements to not be misleading. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, if the amount cannot be reasonably estimated. Based upon present information, the Company believes that its liability, if any, arising from such pending legal proceedings, asserted legal claims and known potential legal claims, which are likely to be asserted, is not reasonably likely to be material to the Company's financial position, results of operations or cash flows, taking into account established accruals for estimated liabilities.

Note 15 - Segment Data

The Company conducts its business in the following four segments:

- Wet Shave consists of products sold under the Schick®, Wilkinson Sword®, Edge®, Skintimate®, Shave Guard and Personna® brands, as well as non-branded products. The Company's wet shave products include razor handles and refillable blades, disposable shave products and shaving gels and creams.
- Sun and Skin Care consists of Banana Boat® and Hawaiian Tropic® sun care products, Bulldog® men's skin care products, Wet Ones® wipes and Playtex® household gloves until the sale of the gloves business in October 2017. Refer to Note 2 for additional details on the sale of the Playtex household gloves business.
- Feminine Care includes tampons, pads and liners sold under the Playtex Gentle Glide® and Sport®, Stayfree®, Carefree® and o.b.® brands, as well as personal cleansing wipes under the Playtex® brand.
- All Other includes infant care products, such as bottles, cups and pacifiers, under the Playtex®, OrthoPro® and Binky® brand names, as well as the Diaper Genie® and Litter Genie® disposal systems.

Segment performance is evaluated based on segment profit, exclusive of general corporate expenses, share-based compensation costs, costs associated with restructuring initiatives, the gain on the sale of the Playtex gloves business and the amortization of intangible assets. Financial items, such as interest income and expense, are managed on a global basis at the corporate level. The exclusion of such charges from segment results reflects management's view on how it evaluates segment performance.

The Company's operating model includes some shared business functions across the segments, including product warehousing and distribution, transaction processing functions and in most cases a combined sales force and management teams. The Company applies a fully allocated cost basis, in which shared business functions are allocated between the segments. Such allocations are estimates, and do not represent the costs of such services if performed on a stand-alone basis.

Segment net sales and profitability are presented below:

	Three Months Ended December 31,	
	2017	2016
Net Sales		
Wet Shave	$294.1	$306.2
Sun and Skin Care	59.1	57.6
Feminine Care	82.6	89.1
All Other	32.5	32.1
Total net sales	$468.3	$485.0
Segment Profit		
Wet Shave	$54.7	$72.0
Sun and Skin Care	(6.1)	0.8
Feminine Care	5.0	8.3
All Other	7.2	6.9
Total segment profit	60.8	88.0
General corporate and other expenses	(18.4)	(16.4)
Gain on sale of Playtex gloves	15.9	—
Restructuring and related costs [1]	—	(7.2)
Amortization of intangibles	(4.4)	(4.0)
Interest and other expense, net	(20.8)	(15.5)
Total earnings before income taxes	$33.1	$44.9

(1) Includes pre-tax Cost of products sold of $0.3 for the three months ended December 31, 2016, associated with obsolescence charges related to the exit of certain non-core product lines as a part of restructuring.

Supplemental product information is presented below for net sales:

	Three Months Ended December 31,	
	2017	2016
Razors and blades	$261.5	$271.3
Tampons, pads and liners	82.6	89.1
Sun care products	38.3	37.7
Shaving gels and creams	32.6	34.9
Infant care and other	32.5	32.1
Skin care products	20.8	19.9
Total net sales	$468.3	$485.0

Note 16 - Guarantor and Non-Guarantor Financial Information

The Company's senior notes issued in May 2011 and May 2012 (collectively, the "Notes") are fully and unconditionally guaranteed on a joint and several basis by the Company's existing and future direct and indirect domestic subsidiaries that are guarantors of any of the Company's credit agreements or other indebtedness for borrowed money (the "Guarantors"). The Guarantors are 100% owned either directly or indirectly by the Company and jointly and severally guarantee the Company's obligations under the Notes and substantially all of the Company's other outstanding indebtedness. The Company's subsidiaries organized outside of the U.S. and certain domestic subsidiaries which are not guarantors of any of the Company's other indebtedness (collectively, the "Non-Guarantors"), do not guarantee the Notes. The subsidiary guarantee with respect to the Notes is subject to release upon sale of all of the capital stock of the Subsidiary Guarantor; if the guarantee under the Company's credit agreements and other indebtedness for borrowed money is released or discharged (other than due to payment under such guarantee); or when the requirements for legal defeasance are satisfied or the obligations are discharged in accordance with the indenture.

Set forth below are the condensed consolidating financial statements presenting the results of operations, financial position and cash flows of the Parent Company, Edgewell Personal Care Company, the Guarantors on a combined basis, the Non-Guarantors on a combined basis and eliminations necessary to arrive at the information for the Company, as reported on a consolidated basis. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions between or among the Parent Company, the Guarantors and the Non-Guarantors.

EDGEWELL PERSONAL CARE COMPANY
CONDENSED CONSOLIDATING STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
Three Months Ended December 31, 2017

	Parent Company	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$ —	$ 312.1	$ 227.5	$ (71.3)	$468.3
Cost of products sold	—	194.8	144.5	(71.3)	268.0
Gross profit	—	117.3	83.0	—	200.3
Selling, general and administrative expense	—	61.9	35.3	—	97.2
Advertising and sales promotion expense	—	26.5	22.5	—	49.0
Research and development expense	—	16.1	—	—	16.1
Gain on sale of Playtex gloves	—	(15.9)	—	—	(15.9)
Interest expense associated with debt	13.4	4.2	0.2	—	17.8
Other expense, net	—	0.4	2.6	—	3.0
Intercompany service fees	—	(6.9)	6.9	—	—
Equity in earnings of subsidiaries	(16.5)	(12.8)	—	29.3	—
Earnings before income taxes	3.1	43.8	15.5	(29.3)	33.1
Income tax (benefit) provision	(3.6)	27.3	2.7	—	26.4
Net earnings	$ 6.7	$ 16.5	$ 12.8	$ (29.3)	$6.7
Statements of Comprehensive Income:					
Net earnings	$ 6.7	$ 16.5	$ 12.8	$ (29.3)	$6.7
Other comprehensive income, net of tax	10.1	10.1	9.6	(19.7)	10.1
Total comprehensive income	$ 16.8	$ 26.6	$ 22.4	$ (49.0)	$16.8

EDGEWELL PERSONAL CARE COMPANY
CONDENSED CONSOLIDATING STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
Three Months Ended December 31, 2016

	Parent Company	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$ —	$ 342.9	$ 232.3	$ (90.2)	$485.0
Cost of products sold	—	204.5	142.7	(90.2)	257.0
Gross profit	—	138.4	89.6	—	228.0
Selling, general and administrative expense	—	58.7	35.1	—	93.8
Advertising and sales promotion expense	—	30.2	20.4	—	50.6
Research and development expense	—	16.0	0.3	—	16.3
Restructuring charges	—	2.7	4.2	—	6.9
Interest expense associated with debt	13.4	3.3	0.7	—	17.4
Other expense (income), net	—	0.4	(2.3)	—	(1.9)
Intercompany service fees	—	(4.4)	4.4	—	—
Equity in earnings of subsidiaries	(41.9)	(21.1)	—	63.0	—
Earnings before income taxes	28.5	52.6	26.8	(63.0)	44.9
Income tax (benefit) provision	(5.0)	10.9	5.5	—	11.4
Net earnings	$ 33.5	$ 41.7	$ 21.3	$ (63.0)	$33.5
Statements of Comprehensive Income:					
Net earnings	33.5	41.7	21.3	(63.0)	33.5
Other comprehensive (loss), net of tax	(26.9)	(3.2)	(27.8)	31.0	(26.9)
Total comprehensive income (loss)	$ 6.6	$ 38.5	$ (6.5)	$ (32.0)	$6.6

EDGEWELL PERSONAL CARE COMPANY
CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2017

	Parent Company	Guarantors	Non-Guarantors	Eliminations	Total
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 0.6	$ 529.3	$ —	$ 529.9
Trade receivables, net	—	43.0	140.1	—	183.1
Inventories	—	210.5	138.8	—	349.3
Other current assets	—	43.0	75.3	—	118.3
Total current assets	—	297.1	883.5	—	1,180.6
Investment in subsidiaries	3,657.7	1,385.7	—	(5,043.4)	—
Intercompany receivables, net [1]	—	849.5	51.2	(900.7)	—
Property, plant and equipment, net	—	326.5	115.4	—	441.9
Goodwill	—	1,061.9	385.9	—	1,447.8
Other intangible assets, net	—	896.4	172.2	—	1,068.6
Other assets	1.4	0.1	32.1	—	33.6
Total assets	$ 3,659.1	$ 4,817.2	$ 1,640.3	$ (5,944.1)	$ 4,172.5
Liabilities and Shareholders' Equity					
Current liabilities	$ 6.4	$ 234.2	$ 204.8		