STERIS plc
Form 10-Q
November 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q
(Mark One)

x 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

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 1-37614
STERIS plc
(Exact name of registrant as specified in its charter)

England and Wales (State or other jurisdiction of incorporation or organization)	98-1203539 (IRS Employer Identification No.)
Rutherford House Stephensons Way Chaddesden, Derby, England (Address of principal executive offices)	DE21 6LY (Zip code)

44 1332 387100
(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 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	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
The number of ordinary shares outstanding as of November 2, 2018: 84,499,655

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PART 1—FINANCIAL INFORMATION

As used in this Quarterly Report on Form 10-Q, STERIS plc and its subsidiaries together are called “STERIS,” the “Company,” “we,” “us,” or “our,” unless otherwise noted.

ITEM 1. FINANCIAL STATEMENTS

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2018 (Unaudited)	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 209,921	$ 201,534
Accounts receivable (net of allowances of $9,781 and $12,472, respectively)	490,952	528,066
Inventories, net	230,828	205,731
Prepaid expenses and other current assets	47,819	54,326
Total current assets	979,520	989,657
Property, plant, and equipment, net	986,213	1,010,524
Goodwill and intangibles, net	3,008,866	3,160,764
Other assets	46,691	39,389
Total assets	$ 5,021,290	$ 5,200,334
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 125,549	$ 135,866
Accrued income taxes	—	379
Accrued payroll and other related liabilities	73,581	94,000
Accrued expenses and other	173,462	168,217
Total current liabilities	372,592	398,462
Long-term indebtedness	1,267,723	1,316,001
Deferred income taxes, net	154,098	159,971
Other liabilities	101,900	108,600
Total liabilities	$ 1,896,313	$ 1,983,034
Commitments and contingencies (see Note 8)		
Preferred shares, with £0.10 par value; 100 shares authorized; 100 issued and outstanding	15	15
Ordinary shares, with £0.10 par value; £17,006 shares aggregate par amount authorized; 84,495 and 84,747 ordinary shares issued and outstanding, respectively	2,012,566	2,048,037
Retained earnings	1,232,062	1,146,223
Accumulated other comprehensive income (loss)	(126,780)	11,685
Total shareholders’ equity	3,117,863	3,205,960
Noncontrolling interests	7,114	11,340
Total equity	3,124,977	3,217,300
Total liabilities and equity	$ 5,021,290	$ 5,200,334

See notes to consolidated financial statements.

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STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Product	$314,659	$286,557	$593,449	$560,162
Service	364,302	347,602	724,270	681,961
Total revenues	678,961	634,159	1,317,719	1,242,123
Cost of revenues:				
Product	172,107	152,611	318,709	295,856
Service	222,190	215,151	445,296	424,103
Total cost of revenues	394,297	367,762	764,005	719,959
Gross profit	284,664	266,397	553,714	522,164
Operating expenses:				
Selling, general, and administrative	162,312	153,879	320,718	310,216
Research and development	15,773	13,974	31,993	27,978
Restructuring expenses	—	27	—	78
Total operating expenses	178,085	167,880	352,711	338,272
Income from operations	106,579	98,517	201,003	183,892
Non-operating expenses, net:				
Interest expense	11,393	12,683	23,134	25,149
Interest (income) and miscellaneous expense, net	(73)	(1,513)	(441)	(2,858)
Total non-operating expenses, net	11,320	11,170	22,693	22,291
Income before income tax expense	95,259	87,347	178,310	161,601
Income tax expense	17,764	22,903	30,537	38,942
Net income	77,495	64,444	147,773	122,659
Less: Net income (loss) attributable to noncontrolling interests	38	(15)	325	123
Net income attributable to shareholders	$77,457	$64,459	$147,448	$122,536
Net income per share attributed to shareholders				
Basic	$0.92	$0.76	$1.74	$1.44
Diluted	$0.91	$0.75	$1.72	$1.43
Cash dividends declared per share ordinary outstanding	$0.34	$0.31	$0.65	$0.59

See notes to consolidated financial statements.

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STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Net income	$77,495	$64,444	$147,773	$122,659
Less: Net income (loss) attributable to noncontrolling interests	38	(15)	325	123
Net income attributable to shareholders	77,457	64,459	147,448	122,536
Other comprehensive income (loss)				
Unrealized gain (loss) on available for sale securities, (net of taxes of $0, $268, $0 and $483, respectively)	—	1,103	—	1,771
Amortization of pension and postretirement benefit plans costs, (net of taxes of $169, $250, $338 and $500, respectively)	(413)	(404)	(823)	(808)
Change in cumulative currency translation adjustment	(5,271)	66,819	(135,672)	159,680
Total other comprehensive income (loss)	(5,684)	67,518	(136,495)	160,643
Comprehensive income	$71,773	$131,977	$10,953	$283,179

See notes to consolidated financial statements.

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STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended September 30, 2018	2017
Operating activities:		
Net income	$ 147,773	$ 122,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	92,971	89,199
Deferred income taxes	2,242	(3,272)
Share-based compensation expense	12,938	12,029
(Gain) on the disposal of property, plant, equipment, and intangibles, net	(385)	(578)
Loss on sale of businesses, net	663	1,134
Other items	(16,329)	7,521
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	29,024	42,769
Inventories, net	(32,955)	(19,009)
Other current assets	4,689	(4,225)
Accounts payable	(7,385)	(8,615)
Accruals and other, net	(6,544)	(22,235)
Net cash provided by operating activities	226,702	217,377
Investing activities:		
Purchases of property, plant, equipment, and intangibles, net	(62,549)	(75,420)
Proceeds from the sale of property,	5,547	2,075

plant, equipment, and intangibles		
Proceeds from the sale of businesses	(196)	1,313
Purchase of investments	(4,955)	—
Acquisition of businesses, net of cash acquired	—	(29,509)
Other	(6,003)	—
Net cash used in investing activities	(68,156)	(101,541)
Financing activities:		
Payments on long-term obligations	(85,000)	(15,000)
Proceeds (payments) under credit facilities, net	52,093	(38,199)
Deferred financing fees and debt issuance costs	(298)	(44)
Acquisition related deferred or contingent consideration	(685)	(1,876)
Repurchases of ordinary shares	(55,902)	(20,652)
Cash dividends paid to ordinary shareholders	(55,005)	(50,280)
Stock option and other equity transactions, net	4,936	6,706
Net cash used in financing activities	(139,861)	(119,345)
Effect of exchange rate changes on cash and cash equivalents	(10,298)	16,219
Increase in cash and cash equivalents	8,387	12,710
Cash and cash equivalents at beginning of period	201,534	282,918
Cash and cash equivalents at end of period	$ 209,921	$ 295,628

See notes to consolidated financial statements.

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STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three and Six Months Ended September 30, 2018 and 2017
(dollars in thousands, unless noted and except per share amounts)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

STERIS plc (“Parent”) was organized in 2014 under the name Solar New HoldCo Limited as a private limited company for the purpose of effecting under the laws of England and Wales the combination (“Combination”) of STERIS Corporation, an Ohio corporation (“Old STERIS”), and Synergy Health plc, a public limited company organized under the laws of England and Wales (“Synergy”). Effective November 2, 2015 the Parent was re-registered as a public company under the name STERIS plc and the Combination closed. As a result of the Combination closing, STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name of Synergy Health Limited.

The Company is a leading provider of infection prevention and other procedural products and services. We offer our Customers a unique mix of innovative consumable products, such as detergents, gastrointestinal ("GI") endoscopy accessories, barrier product solutions, and other products and services, including: equipment installation and maintenance, microbial reduction of medical devices, instrument and scope repair solutions, laboratory testing services, on-site and off-site reprocessing, and capital equipment products, such as sterilizers and surgical tables, and connectivity solutions such as operating room (“OR”) integration.

Our fiscal year ends on March 31. References in this Quarterly Report to a particular “year” or “year-end” mean our fiscal year. The significant accounting policies applied in preparing the accompanying consolidated financial statements of the Company are summarized below:

Interim Financial Statements

We prepared the accompanying unaudited consolidated financial statements of the Company according to accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. This means that they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Our unaudited interim consolidated financial statements contain all material adjustments (including normal recurring accruals and adjustments) management believes are necessary to fairly state our financial condition, results of operations, and cash flows for the periods presented.

These interim consolidated financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018. The Consolidated Balance Sheet at March 31, 2018 was derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Principles of Consolidation

We use the consolidation method to report our investment in our subsidiaries. Therefore, the accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. We eliminate inter-company accounts and transactions when we consolidate these accounts. Investments in equity of unconsolidated affiliates, over which the Company has significant influence, but not control, over the financial and operating polices, are accounted for primarily using the equity method. These investments are immaterial to the Company's Consolidated Financial Statements.

Use of Estimates

We make certain estimates and assumptions when preparing financial statements according to U.S. GAAP that affect the reported amounts of assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the periods presented. These estimates and assumptions involve judgments with respect to many factors that are difficult to predict and are beyond our control. Actual results could be materially different from these estimates. We revise the estimates and assumptions as new information becomes available. This means that operating

results for the three and six month periods ended September 30, 2018 are not necessarily indicative of results that may be expected for future quarters or for the full fiscal year ending March 31, 2019.
Revenue Recognition and Associated Liabilities
We adopted Accounting Standards Update ("ASU") 2014-09 “Revenue from Contracts with Customers” and the subsequently issued amendments on April 1, 2018 using the modified retrospective approach to contracts that were not

(dollars in thousands, except as noted)

completed as of April 1, 2018. Under this standard, certain capital equipment contracts are comprised of a single performance obligation, resulting in the deferral of the corresponding capital equipment revenue and cost of revenues until installation is complete. Previously, these capital equipment revenues and cost of revenues were recognized based upon shipping terms. We recorded a cumulative effect adjustment in the beginning of fiscal 2019 to Retained earnings of $5,637, based on the current terms and conditions for certain open capital equipment contracts as of March 31, 2018. The impact of the adoption of this standard on our Consolidated Balance Sheets at September 30, 2018 is reflected in the table below. The adoption of this standard did not have a material impact on our Consolidated Statements of Income for the quarter-to-date and year-to-date periods ending September 30, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Balance Sheet	As Reported September 30, 2018	Total Adjustments	ASC 605 September 30, 2018
Total assets	$5,021,290	$ (6,849)	$5,014,441
Total liabilities	1,896,313	(12,958)	1,883,355
Total equity	3,124,977	6,109	3,131,086

Revenue is recognized when obligations under the terms of the contract are satisfied and control of the promised products or services have transferred to the Customer. Revenues are measured at the amount of consideration that we expect to be paid in exchange for the products or services. Product revenue is recognized when control passes to the Customer, which is generally based on contract or shipping terms. Service revenue is recognized when the Customer benefits from the service, which occurs either upon completion of the service or as it is provided to the Customer. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor, and we have no further obligations related to bringing about resale. Our standard return and restocking fee policies are applied to sales of products. Shipping and handling costs charged to Customers are included in Product revenues. The associated expenses are treated as fulfillment costs and are included in Cost of revenues. Revenues are reported net of sales and value-added taxes collected from Customers.
We have individual Customer contracts that offer discounted pricing. Dealers and distributors may be offered sales incentives in the form of rebates. We reduce revenue for discounts and estimated returns, rebates, and other similar allowances in the same period the related revenues are recorded. The reduction in revenue for these items is estimated based on historical experience and trend analysis to the extent that it is probable that a significant reversal of revenue will not occur. Estimated returns are recorded gross on the Consolidated Balance Sheets.
In transactions that contain multiple performance obligations, such as when products, maintenance services, and other services are combined, we recognize revenue as each product is delivered or service is provided to the Customer. We allocate the total arrangement consideration to each performance obligation based on its relative standalone selling price, which is the price for the product or service when it is sold separately.
Payment terms vary by the type and location of the Customer and the products or services offered. Generally, the time between when revenue is recognized and when payment is due is not significant. We do not evaluate whether the selling price contains a financing component for contracts that have a duration of less than one year.
We do not capitalize sales commissions as substantially all of our sales commission programs have an amortization period of one year or less.

Certain costs to fulfill a contract are capitalized and amortized over the term of the contract if they are recoverable, directly related to a contract and generate resources that we will use to fulfill the contract in the future. At September 30, 2018, assets related to costs to fulfill a contract were not material to our Consolidated Financial Statements.

Refer to Note 9, titled "Business Segment Information" for disaggregation of revenue.

Product Revenue

Product revenues consist of revenues generated from sales of consumables and capital equipment. These contracts are primarily based on a Customer's purchase order and may include a Distributor, Dealer or Group Purchasing Organization ("GPO") agreement. We recognize revenue for sales of product when control passes to the Customer, which generally occurs either when the products are shipped or when they are received by the Customer. Revenue related to certain capital equipment products is deferred until installation is complete as the capital equipment and installation are highly integrated and form a single performance obligation.

Service Revenue

Within our Healthcare Products and Life Sciences segments, service revenues consist of revenue generated from parts and labor associated with the maintenance, repair and installation of capital equipment. These contracts are primarily based on a Customer's purchase order and may include a Distributor, Dealer, or GPO agreement. For maintenance, repair and installation of capital equipment, revenue is recognized upon completion of the service.

We also offer preventive maintenance and separately priced extended warranty agreements to our Customers, which require us to maintain and repair our products over the duration of the contract. Generally, these contract terms are cancelable without penalty and range from one to five years. Amounts received under these Customer contracts are initially recorded as a service liability and are recognized as service revenue ratably over the contract term using a time-based input measure.

Within our Healthcare Specialty Services segment, revenues relate primarily to outsourced reprocessing services and instrument repairs. Contracts for outsourced reprocessing services are primarily based on an agreement with a Customer, ranging in length from several months to 15 years. Outsourced reprocessing services revenue is recognized ratably over the contract term using a time-based input measure, adjusted for volume and other performance metrics, to the extent that it is probable that a significant reversal of revenue will not occur. Contracts for instrument repairs are primarily based on a Customer's purchase order, and the associated revenue is recognized upon completion of the repair.

Within our Applied Sterilization Technologies segment, service revenues include contract sterilization and laboratory services. Sales contracts for contract sterilization and laboratory services are primarily based on a Customer's purchase order and associated Customer agreement and revenues are generally recognized upon completion of the service.

Contract Liabilities

Payments received from Customers are based on invoices or billing schedules as established in contracts with Customers. Deferred revenue is recorded when payment is received in advance of performance under the contract. Deferred revenue is recognized as revenue upon completion of the performance obligation, which generally occurs within one year. During the first half of fiscal 2019, we recognized revenue of $20,235 that was included in our contract liability balance at the beginning of the period.

Refer to Note 6, titled "Additional Consolidated Balance Sheet Information" for Deferred revenue balances.

Service Liabilities

Payments received in advance of performance for cancelable preventative maintenance and separately priced extended warranty contracts are recorded as service liabilities. Service liabilities are recognized as revenue as performance is rendered under the contract. Prior to the adoption of Accounting Standards Codification ("ASC") 606, these amounts were included in Deferred revenues.

Refer to Note 6, titled "Additional Consolidated Balance Sheet Information" for Service liability balances.

Remaining Performance Obligations

Remaining performance obligations reflect only the performance obligations related to agreements for which we have a firm commitment from a Customer to purchase and exclude variable consideration related to unsatisfied performance obligations. With regard to products, these remaining performance obligations include capital equipment and consumable orders which have not shipped. With regard to service, these remaining performance obligations primarily include installation, certification, and outsourced reprocessing services. As of September 30, 2018, the transaction price allocated to remaining performance obligations was approximately $790,000. We expect to recognize approximately 51% of the transaction price within one year and approximately 41% beyond one year. The remainder has yet to be scheduled for delivery.

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STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three and Six Months Ended September 30, 2018 and 2017
(dollars in thousands, except as noted)

Recently Issued Accounting Standards Impacting the Company

Recently Issued Accounting Standards impacting or that may impact the Company are presented in the following table:

Standard	Date of Issuance	Description	Date of Adoption	Effect on the financial statements or other significant matters
Standards that have recently been adopted				
ASU 2014-09, "Revenue from Contracts with Customers" and subsequently issued amendments	May 2014	The standard replaced existing revenue recognition standards and significantly expands the disclosure requirements for revenue arrangements.	First Quarter Fiscal 2019	Additional information is disclosed in Footnote 1 under the heading, "Revenue Recognition and Associated Liabilities".
ASU 2016-01, "Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Liabilities" (Subtopic 825-10)	January 2016	The standard changed how equity investments are measured and presented changes in the fair value of financial liabilities measured under the fair value option. Presentation and disclosure requirements for financial instruments were also affected. Entities are required to measure equity investments that do not result in consolidation and are not recorded under the equity method at fair value with changes in fair value recognized in net income. The standard clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged.	First Quarter Fiscal 2019	We adopted the standard on a modified retrospective basis at the beginning of fiscal 2019 and we recorded a cumulative effect adjustment to our opening retained earnings balance of $1,970 that increased retained earnings and decreased accumulated other comprehensive income.
ASU 2016-15, "Statement of Cash Flows" (Topic 230)	August 2016	This standard provides guidance on the following specific cash flow issues: Debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies,	First Quarter Fiscal 2019	We adopted this standard effective April 1, 2018. The impact will depend on the future occurrence of the relevant transactions or conditions addressed by the standard.

distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle.

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STERIS PLC AND SUBSIDIARIES
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For the Three and Six Months Ended September 30, 2018 and 2017
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ASU 2016-16, "Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740)	October 2016	The standard improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new standard requires the recognition of income tax consequences resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs.	First Quarter Fiscal 2019	We adopted this standard effective April 1, 2018 with no material impact to Consolidated Balance Sheets. The impact to our Consolidated Statements of will depend on the value of future intra-entity transfers.
ASU 2017-01 "Clarifying the Definition of a Business"	January 2017	The standard update narrows the definition of a business by providing a screen to determine when an integrated set of assets and activities is not a business. The screen specifies that an integrated set of assets and activities is not a	First Quarter Fiscal 2019	We adopted this standard effective April 1, 2018. The impact will depend on future occurrence of the relevant transactions or conditions addressed by the standard.

		business if substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single or a group of similar identifiable assets.		
ASU 2017-07 "Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension and Net Periodic Postretirement Benefit Cost" (Topic 715)	March 2017	This standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented.	First Quarter Fiscal 2019	We retrospectively adopted the standard in the first quarter of fiscal 2019. P periods have been recast for the adoption of this standard. Changes have bee reflected in the Cost of Revenues, Selling, general and administrative expen Interest income and miscellaneous expense lines of our Consolidated Statem Income. Amounts are not considered material for additional disclosure.
ASU 2017-09 "Compensation - Stock	May 2017	The standard provides guidance	First Quarter Fiscal	We adopted this standard effective April 1, 2018. The impact will depend o future occurrence of the relevant terms or conditions addressed by the stand

Compensation" (Topic 718)	about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718.	2019

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STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three and Six Months Ended September 30, 2018 and 2017
(dollars in thousands, except as noted)

Standards that have not yet been adopted

ASU 2016-02, "Leases" (Topic 842)	February 2016	The standard will require lessees to record all leases, whether finance or operating, on the balance sheet. An asset will be recorded to represent the right to use the leased asset, and a liability will be recorded to represent the lease obligation. The standard is effective for annual periods beginning after December 15, 2018 and interim periods within that period. Early adoption is permitted.	N/A	We are currently evaluating the impact that the standard will have on our consolidated financial statements. We are also evaluating our lease portfolio, software packages, process and policy change requirements. We expect to adopt this standard using the additional, optional transition method, the package of transitional practical expedients relating to the identification, classification and initial direct costs of leases, and the transitional practical expedient for the treatment of existing land easements; however, we do not expect to elect the hindsight transitional practical expedient. We anticipate that most of our operating leases will result in the recognition of additional assets and corresponding liabilities in our Consolidated Balance Sheet, however we do not expect the standard to have a material impact on our financial position. The actual impact will depend on our lease portfolio at the time of adoption. For more information regarding our total operating lease commitments refer to Note 5, "Property, Plant and Equipment" of our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018.
ASU 2016-13, "Measurement of Credit Losses on Financial Instruments"	June 2016	The standard requires a financial asset (or group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit	N/A	We are in the process of evaluating the impact that the standard will have on our consolidated financial statements.

losses. The standard is effective for annual periods beginning after December 15, 2019. Early adoption is permitted.

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STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three and Six Months Ended September 30, 2018 and 2017
(dollars in thousands, except as noted)

ASU 2017-12 "Targeted Improvements to Accounting for Hedging Activities" (Topic 815)	August 2017	The standard provides targeted improvements to accounting for hedging activities by expanding an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted in any interim period after issuance of the standard. The standard should be applied using a modified retrospective approach for cash flow and net investment hedge relationships that exist on the date of adoption, and prospectively for presentation and disclosure requirements.	N/A	We do not expect this standard to have a material impact on our consolidated financial statements.
ASU 2018-02 "Income Statement - Reporting Comprehensive Income" (Topic 220)	February 2018	The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("TCJA") and requires certain disclosures about stranded tax effects. The underlying guidance requiring that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted.	N/A	We are in the process of evaluating the impact that the standard will have on our consolidated financial statements.
ASU 2018-13 "Fair Value Measurement (Topic 820) Disclosure Framework- Changes to Disclosure Requirements for Fair Value Measurement"	August 2018	The standard modifies the disclosure requirements by adding, removing, and modifying certain required disclosures for fair value measurements for assets and liabilities disclosed within the fair value hierarchy. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted.	N/A	We do not expect this standard to have a material impact on our consolidated financial statements as it modifies disclosure requirements only.
ASU 2018-14 "Compensation-	August 2018	The standard modifies the disclosure requirements by adding, removing, and modifying certain required	N/A	

Retirement Benefits - Defined Benefit Plans- General Topic (715-20): Disclosure Framework- Changes to the Disclosure Requirements for Defined Benefit Plans"	disclosures for employers that sponsor defined benefit pension or other post-retirement benefit plans. The standard also clarifies disclosure requirements for defined benefit pension plans relating to the projected benefit obligation and accumulated benefit obligation. The standard is effective for fiscal years ending after December 15, 2019 and early adoption is permitted.