STERIS plc
Form 10-Q
August 08, 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 June 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 and posted on its corporate Web site, if any, 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 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, 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 (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
The number of ordinary shares outstanding as of August 3, 2018: 84,551,550

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PART 1—FINANCIAL INFORMATION

As used in this Quarterly Report on Form 10-Q, STERIS plc and its consolidated 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)

	June 30, 2018 (Unaudited)	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$218,524	$201,534
Accounts receivable (net of allowances of $9,838 and $12,472 respectively)	481,482	528,066
Inventories, net	233,876	205,731
Prepaid expenses and other current assets	55,007	54,326
Total current assets	988,889	989,657
Property, plant, and equipment, net	984,235	1,010,524
Goodwill and intangibles, net	3,032,408	3,160,764
Other assets	46,282	39,389
Total assets	$5,051,814	$5,200,334
Liabilities and equity		
Current liabilities:		
Accounts payable	$130,738	$135,866
Accrued income taxes	7,415	379
Accrued payroll and other related liabilities	62,095	94,000
Accrued expenses and other	173,594	168,217
Total current liabilities	373,842	398,462
Long-term indebtedness	1,320,064	1,316,001
Deferred income taxes, net	154,849	159,971
Other liabilities	103,871	108,600
Total liabilities	$1,952,626	$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; 84,651 and 84,747 ordinary shares issued and outstanding, respectively	2,027,004	2,048,037
Retained earnings	1,181,517	1,146,223
Accumulated other comprehensive loss	(121,096)	11,685
Total shareholders' equity	3,087,440	3,205,960
Noncontrolling interests	11,748	11,340
Total equity	3,099,188	3,217,300
Total liabilities and equity	$5,051,814	$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 June 30,	
	2018	2017
Revenues:		
Product	$278,790	$273,605
Service	359,968	334,359
Total revenues	638,758	607,964
Cost of revenues:		
Product	146,602	143,245
Service	223,106	208,953
Total cost of revenues	369,708	352,198
Gross profit	269,050	255,766
Operating expenses:		
Selling, general, and administrative	158,406	156,336
Research and development	16,220	14,004
Restructuring expenses	—	51
Total operating expenses	174,626	170,391
Income from operations	94,424	85,375
Non-operating expenses, net:		
Interest expense	11,740	12,466
Interest income and miscellaneous expense	(367)	(1,345)
Total non-operating expenses, net	11,373	11,121
Income before income tax expense	83,051	74,254
Income tax expense	12,773	16,039
Net income	70,278	58,215
Less: Net income attributable to noncontrolling interests	287	138
Net income attributable to shareholders	$69,991	$58,077
Net income per share attributed to shareholders		
Basic	$0.83	$0.68
Diluted	$0.82	$0.68
Cash dividends declared per share ordinary outstanding	$0.31	$0.28

See notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2018	2017
Net income	$70,278	$58,215
Less: Net income attributable to noncontrolling interests	287	138
Net income attributable to shareholders	69,991	58,077
Other comprehensive (loss) income		
Unrealized loss on available for sale securities, (net of taxes of $0 and $208, respectively)	—	(587)
Amortization of pension and postretirement benefit plans costs, (net of taxes of $169 and $250, respectively)	(410)	(404)
Change in cumulative currency translation adjustment	(130,401)	94,116
Total other comprehensive (loss) income	(130,811)	93,125
Comprehensive (loss) income	$(60,820)	$151,202

See notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2018	2017
Operating activities:		
Net income	$ 70,278	$ 58,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	46,854	43,651
Deferred income taxes	225	(2,868)
Share-based compensation expense	5,237	4,809
Gain on the disposal of property, plant, equipment, and intangibles, net	(568)	(824)
Loss on sale of businesses, net	444	124
Other items	(21,081)	924
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	39,225	32,040
Inventories, net	(34,063)	(15,799)
Other current assets	(2,424)	(8,287)
Accounts payable	(1,883)	(10,244)
Accruals and other, net	(1,465)	(21,088)
Net cash provided by operating activities	100,779	80,653
Investing activities:		
Purchases of property, plant, equipment, and intangibles, net	(27,726)	(36,492)
	2,795	9

Proceeds from the sale of property, plant, equipment, and intangibles				
Payments from the sale of businesses	(196	)	—	
Purchase of investments	(4,955	)	—	
Acquisition of businesses, net of cash acquired	—		(18,399	)
Other	(4,784	)	—	
Net cash used in investing activities	(34,866	)	(54,882	)
Financing activities:				
Payments on long-term obligations	—		(7,500	)
Proceeds under credit facilities, net	18,443		13,631	
Deferred financing fees and debt issuance costs	(298	)	(44	)
Acquisition related deferred or contingent consideration	(685	)	(1,876	)
Repurchases of ordinary shares	(33,844	)	(8,451	)
Cash dividends paid to ordinary shareholders	(26,265	)	(23,858	)
Stock option and other equity transactions, net	3,435		5,844	
Net cash used in financing activities	(39,214	)	(22,254	)
Effect of exchange rate changes on cash and cash equivalents	(9,709	)	8,405	
Increase in cash and cash equivalents	16,990		11,922	
Cash and cash equivalents at beginning of period	201,534		282,918	
Cash and cash equivalents at end of period	$ 218,524		$ 294,840	

See notes to consolidated financial statements.

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STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three Months Ended June 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.

STERIS offers Customers capital equipment products, such as sterilizers and surgical tables; connectivity solutions such as operating room integration; consumable products, such as detergents, gastrointestinal 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, among other services.

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 month period ended June 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.

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

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 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 June 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 ended June 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 June 30, 2018	Total Adjustments	ASC 605 June 30, 2018
Total assets	$5,051,814	$ (5,581)	$5,046,233
Total liabilities	1,952,626	(10,240)	1,942,386
Total equity	3,099,188	4,659	3,103,847

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 June 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 three months of fiscal 2019, $12,421 of the March 31, 2018 deferred revenue balance was recorded as revenue.

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 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 June 30, 2018, the transaction price allocated to remaining performance obligations was approximately $745,000. We expect to recognize approximately 50% of the transaction price within one year and approximately 40% beyond one year. The remainder has yet to be scheduled for delivery.

Recently Issued Accounting Standards Impacting the Company

Recently Issued Accounting Standards Impacting the Company are presented in the following table:

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

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. It may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts with remaining performance obligations as of the effective date. The standard update is effective for annual periods beginning after December 15, 2017 and interim periods within those periods. Early adoption is not permitted before the original public entity effective date of December 15, 2016.	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. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	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 2016-16, "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. The standard is effective for annual periods beginning after December 15,	First Quarter Fiscal 2019	We adopted this standard effective April 1, 2018 with no material impact to our Consolidated Balance Sheets. The impact to our Consolidated Statements of Income will depend on

	2017. Early adoption is permitted.	the value of future intra-entity transfers.

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

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 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. The standard update is effective for annual periods beginning after December 15, 2017 and interim periods within	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.

		that period. Early adoption is permitted.		
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. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15,	First Quarter Fiscal 2019	We retrospectively adopted the standard in the first quarter of fiscal 2019. Pr periods have been recast for the adoption of this standard. Changes have bee reflected in the Cost of Revenues, Selling, general and administrative expens Interest income and miscellaneous expense lines of our Consolidated Statem Income. Amounts are not considered material for additional disclosure.

		2017. Early adoption is permitted.		
ASU 2017-09 "Compensation - Stock Compensation" (Topic 718)	May 2017	The standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted.	First Quarter Fiscal 2019	We adopted this standard effective April 1, 2018. The impact will depend or future occurrence of the relevant terms or conditions addressed by the standa

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

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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 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.

A detailed description of our significant and critical accounting policies, estimates, and assumptions is included in our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018. Our significant and critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2018.

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2. Business Acquisitions and Divestitures

During fiscal 2018, we completed several minor purchases which continued to expand our product offerings in the Healthcare Products, Healthcare Specialty Services and Applied Sterilization Technologies segments. The aggregate purchase price associated with these transactions was approximately $52,900, ($23,100 of which was paid during the first quarter), net of cash acquired and including potential contingent consideration of $5,400. The purchase price for the acquisitions was financed with both cash on hand and with credit facility borrowings. Purchase price allocations are finalized within a measurement period not to exceed one year from closing. Any provisional adjustments recorded were not material.

On November 20, 2017, we sold our Synergy Health Healthcare Consumable Solutions ("HCS") business to Vernacare. Annual revenues for the HCS business were approximately $40,000 and were included in the Healthcare Products segment. We recorded proceeds of approximately $8,000, net of cash divested and including a working capital adjustment. We also recognized a pre-tax loss on the sale of approximately $13,900 in Selling, general, and administrative expense in the Consolidated Statement of Income.

3. Inventories, Net

We use the last-in, first-out (“LIFO”) and first-in, first-out (“FIFO”) cost methods to value inventory. Inventory valued using the LIFO cost method is stated at the lower of cost or market. Inventory valued using the FIFO cost method is stated at the lower of cost or net realizable value. An actual valuation of inventory under the LIFO method is made only at the end of the fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and are subject to the final fiscal year-end LIFO inventory valuation. Inventory costs include material, labor, and overhead. Inventories, net consisted of the following:

	June 30, 2018	March 31, 2018
Raw materials	$86,249	$83,741
Work in process	35,648	34,904
Finished goods	149,461	124,005
LIFO reserve	(17,900)	(17,280)
Reserve for excess and obsolete inventory	(19,582)	(19,639)
Inventories, net	$233,876	$205,731

4. Property, Plant and Equipment

Information related to the major categories of our depreciable assets is as follows:

	June 30, 2018	March 31, 2018
Land and land improvements [(1)]	$54,053	$55,417
Buildings and leasehold improvements	438,869	449,316
Machinery and equipment	569,620	575,607
Information systems	148,366	145,726
Radioisotope	474,906	476,578
Construction in progress [(1)]	94,019	87,745
Total property, plant, and equipment	1,779,833	1,790,389
Less: accumulated depreciation and depletion	(795,598)	(779,865)

Property, plant, and equipment, net	$984,235	$1,010,524

(1) Land is not depreciated. Construction in progress is not depreciated until placed in service.

5. Debt

Indebtedness was as follows:

	June 30, 2018	March 31, 2018
Credit Agreement and Swing Line Facility	$348,367	$331,206
Private Placement Notes	974,949	988,190
Deferred financing costs	(3,252)	(3,395)
Total long term debt	$1,320,064	$1,316,001

Additional information regarding our indebtedness is included in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018.

6. Additional Consolidated Balance Sheet Information

Additional information related to our Consolidated Balance Sheets is as follows:

	June 30, 2018	March 31, 2018
Accrued payroll and other related liabilities:		
Compensation and related items	$27,740	$30,270
Accrued vacation/paid time off	11,268	11,011
Accrued bonuses	9,943	31,716
Accrued employee commissions	9,069	17,168
Other postretirement benefit obligations-current portion	1,907	1,906
Other employee benefit plans obligations-current portion	2,168	1,929
Total accrued payroll and other related liabilities	$62,095	$94,000
Accrued expenses and other:		
Deferred revenues	$49,062	$31,621
Service liabilities	40,790	43,077
Self-insured risk reserves-current portion	7,222	7,349
Accrued dealer commissions	14,431	16,121
Accrued warranty	6,728	6,872
Asset retirement obligation-current portion	1,762	1,798
Other	53,599	61,379
Total accrued expenses and other	$173,594	$168,217
Other liabilities:		
Self-insured risk reserves-long-term portion	$15,008	$15,008
Other postretirement benefit obligations-long-term portion	11,704	12,194
Defined benefit pension plans obligations-long-term portion	26,762	29,407
Other employee benefit plans obligations-long-term portion	3,097	3,221
Accrued long-term income taxes	18,953	18,922
Asset retirement obligation-long-term portion	9,509	9,841
Other	18,838	20,007
Total other liabilities	$103,871	$108,600

7. Income Tax Expense

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA reduces the U.S. federal corporate income tax rate from 35.0% to 21.0%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The Company is applying the guidance in Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cut and Jobs Act when accounting for the enactment-date effects of the TCJA. At June 30, 2018, the Company has not completed its accounting for the tax effects of the TCJA; however, it has made reasonable estimates of the tax effects. During the three months ended June 30, 2018, the Company has not recorded any adjustments to the provisional amounts recorded at March 31, 2018 related to the remeasurement of its deferred balances and the one-time transition tax. In all cases, the Company is continuing to make and refine its calculations as additional analysis is completed. In addition, the Company's estimates may also be affected as it gains a more thorough understanding of the TCJA and certain aspects of the TCJA are clarified by the taxing authorities.

The TCJA also subjects a U.S. shareholder to current tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries and allows a benefit for foreign-derived intangible income ("FDII"). The Company has made sufficient progress in its calculation to reasonably estimate the tax impact related to GILTI and FDII for the year ended March 31, 2019 and included it in the estimated annual effective tax rate. The impact of GILTI and FDII was not significant for the three months ended June 30, 2018. The Company will continue to refine its calculations, which may result in changes to the expected impact for fiscal year 2019.

The effective income tax rates for the three month periods ended June 30, 2018 and 2017 were 15.4% and 21.6%, respectively. The fiscal 2019 rate was favorably impacted compared to the prior year period primarily by the decrease in the U.S. federal statutory tax rate.

Income tax expense is provided on an interim basis based upon our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

We operate in numerous taxing jurisdictions and are subject to regular examinations by various United States federal, state and local, as well as non-United States jurisdictions. We are no longer subject to United States federal examinations for years before fiscal 2015 and, with limited exceptions, we are no longer subject to United States state and local, or non-United States, income tax examinations by tax authorities for years before fiscal 2011. We remain subject to tax authority audits in various jurisdictions wherever we do business. We do not expect the results of these examinations to have a material adverse effect on our consolidated financial statements.

8. Commitments and Contingencies

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

We believe we have adequately reserved for our current litigation and claims that are probable and estimable, and further believe that the ultimate outcome of these pending lawsuits and claims will not have a material adverse effect on our consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome or effect of current or future litigation, investigations, claims or other proceedings (including without limitation the matters discussed below). For certain types of claims, we presently maintain insurance coverage for personal injury and property damage and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us.

On May 31, 2012, our Albert Browne Limited subsidiary received a warning letter from the FDA regarding chemical indicators manufactured in the United Kingdom. These devices are intended for the monitoring of certain sterilization and other processes. The FDA warning letter states that the agency has concerns regarding operational business processes. We do not believe that the FDA's concerns are related to product performance, or that they result from Customer complaints. We have reviewed our processes with the agency and finalized our remediation measures, and are awaiting FDA reinspection. We do not currently believe that the impact of this event will have a material adverse effect on our financial results.

Civil, criminal, regulatory or other proceedings involving our products or services could possibly result in judgments, settlements or administrative or judicial decrees requiring us, among other actions, to pay damages or fines or effect recalls, or be subject to other governmental, Customer or other third party claims or remedies, which could materially effect our business, performance, prospects, value, financial condition, and results of operations.

For additional information regarding these matters, see the following portions of our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018: Item 1 titled “Business - Information with respect to our Business in General - Government Regulation”, and the “Risk Factors” in Item 1A titled "Product related regulations and claims".

From time to time, STERIS is also involved in legal proceedings as a plaintiff involving contract, patent protection, and other claims asserted by us. Gains, if any, from these proceedings are recognized when they are realized.

We are subject to taxation from United States federal, state and local, and non-U.S. jurisdictions. Tax positions are settled primarily through the completion of audits within each individual jurisdiction or the closing of statutes of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. We describe income taxes further in Note 7 to our consolidated financial statements titled, “Income Tax Expense” in this Quarterly Report on Form 10-Q.

9. Business Segment Information

We operate and report our financial information in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Corporate, which is presented separately, contains costs that are associated with being a publicly traded company and certain other corporate costs.
Our Healthcare Products segment offers infection prevention and procedural solutions for healthcare providers worldwide, including consumable products, equipment maintenance and installation services, and capital equipment.
Our Healthcare Specialty Services segment provides a range of specialty services for healthcare providers including hospital sterilization services, and instrument and scope repairs.

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Our Life Sciences segment offers consumable products, equipment maintenance and specialty services for pharmaceutical manufacturers and research facilities, and capital equipment.
Our Applied Sterilization Technologies segment offers a contract sterilization and laboratory services for medical device and pharmaceutical Customers and others.
We disclose a measure of segment income that is consistent with the way management operates and views the business. The accounting policies for reportable segments are the same as those for the consolidated Company. In fiscal 2019, we ceased the allocation of certain corporate costs to our segments to align with internal management measures. The prior period operating income measures have been recast for comparability.
Segment income is calculated as the segment's gross profit less direct costs and indirect costs if the resources are dedicated to a single segment. Corporate costs include corporate and administrative functions, public company costs, legacy post-retirement benefits, and certain services and facilities related to distribution and research and development that are shared by multiple segments. Adjustments include acquisition related costs, amortization of acquired intangibles, restructuring costs and other charges that management believes may or may not recur with similar materiality or impact on operating income in future periods. Management believes that by adjusting for these items they gain better insight and greater transparency into the operating performance of the segments, thus aiding them in more meaningful financial trend analysis and operational decision making.
For the three months ended June 30, 2018, revenues from a single Customer did not represent ten percent or more of any reportable segment's revenues. Additional information regarding our segments is included in our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.
Financial information for each of our segments is presented in the following table:

	Three Months Ended June 30,	
	2018	2017
Revenues:		
Healthcare Products	$292,010	$289,064
Healthcare Specialty Services	122,249	113,434
Life Sciences	84,955	80,935
Applied Sterilization Technologies	139,544	124,531
Total revenues	$638,758	$607,964
Operating income (loss):		
Healthcare Products	$61,722	$63,124
Healthcare Specialty Services	12,954	14,344
Life Sciences	29,865	26,870
Applied Sterilization Technologies	56,151	47,994
Corporate	(46,042)	(45,833)
Total operating income before adjustments	$114,650	$106,499
Less: Adjustments		
Amortization of acquired intangible assets [1]	$18,055	$16,302
Acquisition and integration related charges [2]	1,671	4,029
Tax restructuring costs	287	—
(Gain) on fair value adjustment of acquisition related contingent consideration [1]	(842)	—
Net loss on divestiture of businesses [1]	444	124

Amortization of inventory and property "step up" to fair value [1]	611	618
Restructuring charges	—	51
Total operating income	$94,424	$85,375

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(1) For more information regarding our recent acquisitions and divestitures see Note 2 titled, "Business Acquisitions and Divestitures", as well as our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.
(2) Acquisition and integration related charges include transaction costs and integration expenses associated with acquisitions..

Additional information regarding our fiscal 2019 and fiscal 2018 first quarter revenue is disclosed in the following tables:

	Three Months Ended June 30,	
	2018	2017
Healthcare Products:		
Capital equipment	$107,496	$105,565
Consumables	100,414	103,688
Service	84,100	79,811
Total Healthcare Products Revenues	$292,010	$289,064
Total Healthcare Specialty Services Revenues	$122,249	$113,434
Life Sciences:		
Capital equipment	$19,114	$18,281
Consumables	40,221	38,319
Service	25,620	24,335
Total Life Sciences Revenues	$84,955	$80,935
Applied Sterilization Technologies Service Revenues	$139,544	$124,531
Total Revenues	$638,758	$607,964

	Three Months Ended June 30,	
	2018	2017
Revenues:		
United Kingdom	$47,480	$52,722
United States	447,540	422,959
Other locations	143,738	132,283
Total Revenues	$638,758	$607,964

10. Shares and Preferred Shares
Ordinary shares
We calculate basic earnings per share based upon the weighted average number of shares outstanding. We calculate diluted earnings per share based upon the weighted average number of shares outstanding plus the dilutive effect of share equivalents calculated using the treasury stock method.

The following is a summary of shares and share equivalents outstanding used in the calculations of basic and diluted earnings per share:

	Three Months Ended June 30,	
Denominator (shares in thousands):	2018	2017
Weighted average shares outstanding—basic	84,685	85,090
Dilutive effect of share equivalents	824	630
Weighted average shares outstanding and share equivalents—diluted	85,509	85,720

Options to purchase the following number of shares were outstanding but excluded from the computation of diluted earnings per share because the combined exercise prices, unamortized fair values, and assumed tax benefits upon exercise were greater than the average market price for the shares during the periods, so including these options would be anti-dilutive:

	Three Months Ended June 30,	
(shares in thousands)	2018	2017
Number of share options	141	569

Preferred Shares

Pursuant to an engagement letter dated October 23, 2015, we issued 100,000 preferred shares, par value of £0.10 each, for an aggregate consideration of approximately $15, in satisfaction of debt owed to a service provider. The holders of the preferred shares are entitled to a fixed cumulative preferential annual dividend of 5 percent (on the amount paid periodically on the preferred shares respectively held by them). On a return of capital of the Company whether on liquidation or otherwise, the holders of the preferred shares shall be entitled to receive out of the assets of the Company available for distribution to its shareholders the sum of £0.10 per preferred share plus any accrued but unpaid dividends, but will not be entitled to any further participation in the assets of the Company. The holders of the preferred shares will have no right to attend, speak or vote, whether in person or by proxy, at any general meeting of the Company or any meeting of a class of members of the Company in respect of the preferred shares and will not be entitled to receive any notice of meetings.

11. Repurchases of Ordinary Shares

On August 9, 2016, the Company announced that its Board of Directors had authorized the purchase of up to $300 million of our ordinary shares. We may enter into share repurchase contracts until August 2, 2021 to effect these purchases. Shares may be repurchased from time to time through open market transactions, including 10b5-1 plans. The repurchase program may be suspended or discontinued at any time. During the first three months of fiscal 2019, we repurchased 259,000 of our ordinary shares for the aggregate amount of $26,159 pursuant to this authorization. During the first three months of fiscal 2019, we obtained 89,730 of our ordinary shares in the aggregate amount of $7,753 in connection with share based compensation award programs.

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12. Share-Based Compensation

We maintain a long-term incentive plan that makes available shares for grants, at the discretion of the Compensation Committee of the Board of Directors, to officers, directors, and key employees in the form of stock options, restricted shares, restricted share units, stock appreciation rights and share grants. We satisfy share award incentives through the issuance of new ordinary shares.

Stock options provide the right to purchase our shares at the market price on the date of grant, or for options granted in fiscal 2019, 110% of the market price on the date of grant, subject to the terms of the option plan and agreements. Generally, one-fourth of the stock options granted become exercisable for each full year of employment following the grant date. Stock options granted generally expire 10 years after the grant date, or in some cases earlier if the option holder is no longer employed by us. Restricted shares and restricted share units generally cliff vest after a four year period or vest in tranches of one-fourth of the number granted for each full year of employment after the grant date.

As of June 30, 2018, 4,422,269 ordinary shares remained available for grant under the long-term incentive plan.

The fair value of stock option awards was estimated at their grant date using the Black-Scholes-Merton option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics that are not present in our option grants. If the model permitted consideration of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock options could be different. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Consolidated Statements of Income. The expense is classified as cost of goods sold or selling, general and administrative expenses in a manner consistent with the employee's compensation and benefits.

The following weighted-average assumptions were used for options granted during the first three months of fiscal 2019 and 2018:

	Fiscal 2019	Fiscal 2018
Risk-free interest rate	2.62 %	2.00 %
Expected life of options	6.2 years	5.6 years
Expected dividend yield of stock	1.48 %	1.59 %
Expected volatility of stock	19.83 %	22.11 %

The risk-free interest rate is based upon the U.S. Treasury yield curve. The expected life of options is reflective of historical experience, vesting schedules and contractual terms. The expected dividend yield of stock represents our best estimate of the expected future dividend yield. The expected volatility of stock is derived by referring to our historical stock prices over a time frame similar to that of the expected life of the grant. An estimated forfeiture rate of 2.37% and 2.25% was applied in fiscal 2019 and 2018, respectively. This rate is calculated based upon historical activity and represents an estimate of the granted options not expected to vest. If actual forfeitures differ from this calculated rate, we may be required to make additional adjustments to compensation expense in future periods. The assumptions used above are reviewed at the time of each significant option grant, or at least annually.

A summary of share option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2018	2,021,662	$ 58.56		
Granted	406,472	114.22		
Exercised	(75,054)	41.34		

Forfeited	(5,365)	72.63		
Outstanding at June 30, 2018	2,347,715	$ 68.72	7.1 years	$ 88,949
Exercisable at June 30, 2018	1,404,706	$ 53.78	5.8 years	$ 71,956

We estimate that 911,463 of the non-vested stock options outstanding at June 30, 2018 will ultimately vest.

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The aggregate intrinsic value in the table above represents the total pre-tax difference between the $105.01 closing price of our ordinary shares on June 30, 2018 over the exercise prices of the stock options, multiplied by the number of options outstanding or outstanding and exercisable, as applicable. The aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on the daily changes in the fair market value of ordinary shares.

The total intrinsic value of stock options exercised during the first three months of fiscal 2019 and fiscal 2018 was $4,582 and $7,538, respectively. Net cash proceeds from the exercise of stock options were $3,435 and $5,844 for the first three months of fiscal 2019 and fiscal 2018, respectively.

The weighted average grant date fair value of stock option grants was $17.53 and $15.19 for the first three months of fiscal 2019 and fiscal 2018, respectively.

Stock appreciation rights (“SARS”) carry generally the same terms and vesting requirements as stock options except that they are settled in cash upon exercise and therefore, are classified as liabilities. The fair value of the outstanding SARS as of June 30, 2018 and 2017 was $1,089 and $1,750, respectively.

A summary of the non-vested restricted share and share unit activity is presented below:

	Number of Restricted Shares	Number of Restricted Share Units	Weighted-Average Grant Date Fair Value
Non-vested at March 31, 2018	763,201	35,431	$ 68.65
Granted	168,659	8,334	103.72
Vested	(218,981)	(9,266)	58.47
Forfeited	(13,755)	—	72.62
Non-vested at June 30, 2018	699,124	34,499	$ 80.23

Restricted shares granted are valued based on the closing stock price at the grant date. The value of restricted shares and units that vested during the first three months of fiscal 2019 was $13,346.

As of June 30, 2018, there was a total of $54,502 in unrecognized compensation cost related to non-vested share-based compensation granted under our share-based compensation plan. We expect to recognize the cost over a weighted average period of 2.48 years.

13. Financial and Other Guarantees

We generally offer a limited parts and labor warranty on capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the countries where we conduct business. We record a liability for the estimated cost of product warranties at the time product revenues are recognized. The amounts we expect to incur on behalf of our Customers for the future estimated cost of these warranties are recorded as a current liability on the accompanying Consolidated Balance Sheets. Factors that affect the amount of our warranty liability include the number and type of installed units, historical and anticipated rates of product failures, and material and service costs per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Changes in our warranty liability during the first three months of fiscal 2019 were as follows:

	Warranties
Balance, March 31, 2018	$ 6,872
Warranties issued during the period	2,755
Settlements made during the period	(2,899)
Balance, June 30, 2018	$ 6,728

14. Derivatives and Hedging

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From time to time, we enter into forward contracts to hedge potential foreign currency gains and losses that arise from transactions denominated in foreign currencies, including inter-company transactions. We may also enter into commodity swap contracts to hedge price changes in nickel that impact raw materials included in our cost of revenues. During the first quarter of fiscal 2019, we also entered into forward foreign currency contracts in order to hedge a portion of our expected non-U.S. dollar denominated earnings against our reporting currency, the U.S. dollar. These foreign currency exchange contracts will mature during fiscal 2019. We did not elect hedge accounting for these forward foreign currency contracts; however, we may seek to apply hedge accounting in future scenarios. We do not use derivative financial instruments for speculative purposes.

None of these contracts are designated as hedging instruments and do not receive hedge accounting treatment; therefore, changes in their fair value are not deferred but are recognized immediately in the Consolidated Statements of Income. At June 30, 2018, we held foreign currency forward contracts to buy 186.6 million Mexican pesos, 13.6 million Canadian dollars; and to sell 6.1 million euros. At June 30, 2018 we held commodity swap contracts to buy 456.8 thousand pounds of nickel.

Balance sheet location	Asset Derivatives		Liability Derivatives	
	Fair Value at June 30, 2018	Fair Value at March 31, 2018	Fair Value at June 30, 2018	Fair Value at March 31, 2018
Prepaid & Other	$ 785	$ 187	$ —	$ —
Accrued expenses and other	$ —	$ —	$ 226	$ —

The following table presents the impact of derivative instruments and their location within the Consolidated Statements of Income:

	Location of gain (loss) recognized in income	Amount of gain (loss) recognized in income Three Months Ended June 30,	
		2018	2017
Foreign currency forward contracts	Selling, general and administrative	$ (358)	$ (837)
Commodity swap contracts	Cost of revenues	$ 364	$ (170)

Additionally, we hold our debt in multiple currencies to fund our operations and investments in certain subsidiaries. We designate portions of foreign currency denominated intercompany loans as hedges of portions of net investments in foreign operations. Net debt designated as non-derivative net investment hedging instruments totaled $53.7 million at June 30, 2018. These hedges are designed to be fully effective and any associated gain or loss is recognized in Accumulated Other Comprehensive Income and will be reclassified to income in the same period when a gain or loss related to the net investment in the foreign operation is included in income.

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15. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. We estimate the fair value of financial assets and liabilities using available market information and generally accepted valuation methodologies. The inputs used to measure fair value are classified into three tiers. These tiers include Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring the entity to develop its own assumptions.

The following table shows the fair value of our financial assets and liabilities at June 30, 2018 and March 31, 2018:

			Fair Value Measurements					
	Carrying Value		Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs		Significant Unobservable Inputs	
			Level 1		Level 2		Level 3	
	June 30	March 31	June 30	March 31	June 30	March 31	June 30	March 31
Assets:								
Cash and cash equivalents	$218,524	$201,534	$218,524	$201,534	$ —	$ —	$ —	$ —
Forward and swap contracts [1]	785	187	—	—	785	187	—	—
Equity investments[2]	10,854	12,961	10,854	12,961	—	—	—	—
Other investments								