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Form 10-Q

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ens:TwoThousandAndElevenCreditFacilityMember 2018-04-01 2018-09-30 0001289308

ens:TwoThousandAndElevenCreditFacilityMember 2017-04-01 2017-10-01 0001289308 2017-10-01 0001289308

ens:TwoThousandAndSeventeenCreditFacilityMember 2017-04-01 2017-10-01 0001289308 2017-03-31 0001289308

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us-gaap:FairValueInputsLevel2Member 2018-03-31 0001289308

ens:SeniorUnsecuredFivePointZeroPercentageConvertibleNotesDueTwoThousandAndTwentyEightMember

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us-gaap:CostOfSalesMember 2017-07-03 2017-10-01 0001289308 us-gaap:ForwardContractsMember

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2018-03-31 0001289308 us-gaap:NondesignatedMember 2018-03-31 0001289308 us-gaap:NondesignatedMember

2018-09-30 0001289308 us-gaap:AccruedLiabilitiesMember us-gaap:ForwardContractsMember

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2018-04-01 2018-09-30 0001289308  
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2017-07-03 2017-10-01 0001289308  
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember  
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-07-03 2017-10-01  
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2018-04-01 2018-09-30 0001289308 ens:NonredeemableNoncontrollingInterestMember 2018-03-31 0001289308  
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2017-10-01 0001289308 ens:NonCashChargesMember srt:AsiaMember 2018-07-02 2018-09-30 0001289308  
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2018-04-01 2018-09-30 0001289308 ens:NonCashChargesMember srt:AsiaMember 2017-07-03 2017-10-01  
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2018-09-30 0001289308 ens:AlphaGroupMember us-gaap:ScenarioForecastMember  
us-gaap:SubsequentEventMember 2018-12-28 2018-12-28 0001289308 us-gaap:SubsequentEventMember  
2018-11-07 2018-11-07 0001289308 srt:MinimumMember us-gaap:SubsequentEventMember 2018-10-29  
2018-10-29 0001289308 srt:MaximumMember us-gaap:SubsequentEventMember 2018-10-29 2018-10-29  
iso4217:USD xbrli:shares xbrli:shares xbrli:pure ens:segment iso4217:USD ens:Employee utreg:lb

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2018**

**..TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-32253

# EnerSys

(Exact name of registrant as specified in its charter)

Delaware 23-3058564  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2366 Bernville Road

Reading, Pennsylvania 19605

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 610-208-1991

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Common Stock outstanding at November 2, 2018: 42,148,391 shares

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**PART I – FINANCIAL INFORMATION**

Item 1. Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)  
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Table of Contents**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ENERSYS****Consolidated Condensed Balance Sheets (Unaudited)****(In Thousands, Except Share and Per Share Data)**

|                                                                                                                                                                                                                                         | <b>September<br/>30, 2018</b> | <b>March 31,<br/>2018</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------|
| <b>Assets</b>                                                                                                                                                                                                                           |                               |                           |
| Current assets:                                                                                                                                                                                                                         |                               |                           |
| Cash and cash equivalents                                                                                                                                                                                                               | \$545,183                     | \$522,118                 |
| Accounts receivable, net of allowance for doubtful accounts: September 30, 2018 - \$9,913; March 31, 2018 - \$12,643                                                                                                                    | 519,542                       | 546,325                   |
| Inventories, net                                                                                                                                                                                                                        | 396,404                       | 414,234                   |
| Prepaid and other current assets                                                                                                                                                                                                        | 81,823                        | 56,910                    |
| Total current assets                                                                                                                                                                                                                    | 1,542,952                     | 1,539,587                 |
| Property, plant, and equipment, net                                                                                                                                                                                                     | 398,173                       | 390,260                   |
| Goodwill                                                                                                                                                                                                                                | 339,441                       | 352,805                   |
| Other intangible assets, net                                                                                                                                                                                                            | 141,229                       | 147,141                   |
| Deferred taxes                                                                                                                                                                                                                          | 43,184                        | 44,402                    |
| Other assets                                                                                                                                                                                                                            | 13,602                        | 12,730                    |
| Total assets                                                                                                                                                                                                                            | \$2,478,581                   | \$2,486,925               |
| <b>Liabilities and Equity</b>                                                                                                                                                                                                           |                               |                           |
| Current liabilities:                                                                                                                                                                                                                    |                               |                           |
| Short-term debt                                                                                                                                                                                                                         | \$14,071                      | \$18,341                  |
| Accounts payable                                                                                                                                                                                                                        | 249,934                       | 258,982                   |
| Accrued expenses                                                                                                                                                                                                                        | 189,834                       | 214,207                   |
| Total current liabilities                                                                                                                                                                                                               | 453,839                       | 491,530                   |
| Long-term debt, net of unamortized debt issuance costs                                                                                                                                                                                  | 599,662                       | 579,535                   |
| Deferred taxes                                                                                                                                                                                                                          | 34,427                        | 33,607                    |
| Other liabilities                                                                                                                                                                                                                       | 187,851                       | 181,142                   |
| Total liabilities                                                                                                                                                                                                                       | 1,275,779                     | 1,285,814                 |
| Commitments and contingencies                                                                                                                                                                                                           |                               |                           |
| Equity:                                                                                                                                                                                                                                 |                               |                           |
| Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at September 30, 2018 and at March 31, 2018                                                                                             | —                             | —                         |
| Common Stock, \$0.01 par value per share, 135,000,000 shares authorized; 54,828,496 shares issued and 42,148,391 shares outstanding at September 30, 2018; 54,595,105 shares issued and 41,915,000 shares outstanding at March 31, 2018 | 548                           | 546                       |
| Additional paid-in capital                                                                                                                                                                                                              | 491,472                       | 477,288                   |
| Treasury stock, at cost, 12,680,105 shares held as of September 30, 2018 and as of March 31, 2018                                                                                                                                       | (560,991 )                    | (560,991 )                |
| Retained earnings                                                                                                                                                                                                                       | 1,398,758                     | 1,320,549                 |
| Accumulated other comprehensive loss                                                                                                                                                                                                    | (131,882 )                    | (41,717 )                 |
| Total EnerSys stockholders' equity                                                                                                                                                                                                      | 1,197,905                     | 1,195,675                 |
| Nonredeemable noncontrolling interests                                                                                                                                                                                                  | 4,897                         | 5,436                     |
| Total equity                                                                                                                                                                                                                            | 1,202,802                     | 1,201,111                 |
| Total liabilities and equity                                                                                                                                                                                                            | \$2,478,581                   | \$2,486,925               |
| See accompanying notes.                                                                                                                                                                                                                 |                               |                           |

**Table of Contents****ENERSYS****Consolidated Condensed Statements of Income (Unaudited)****(In Thousands, Except Share and Per Share Data)**

|                                                                     | <b>Quarter ended</b>          |                            |
|---------------------------------------------------------------------|-------------------------------|----------------------------|
|                                                                     | <b>September<br/>30, 2018</b> | <b>October 1,<br/>2017</b> |
| Net sales                                                           | \$ 660,462                    | \$ 617,289                 |
| Cost of goods sold                                                  | 499,582                       | 457,041                    |
| Gross profit                                                        | 160,880                       | 160,248                    |
| Operating expenses                                                  | 96,402                        | 94,108                     |
| Restructuring charges                                               | 1,121                         | 1,776                      |
| Operating earnings                                                  | 63,357                        | 64,364                     |
| Interest expense                                                    | 6,413                         | 6,509                      |
| Other (income) expense, net                                         | (1,325 )                      | 2,756                      |
| Earnings before income taxes                                        | 58,269                        | 55,099                     |
| Income tax expense                                                  | 10,822                        | 11,948                     |
| Net earnings                                                        | 47,447                        | 43,151                     |
| Net earnings (losses) attributable to noncontrolling interests      | 23                            | (71 )                      |
| Net earnings attributable to EnerSys stockholders                   | \$ 47,424                     | \$ 43,222                  |
| Net earnings per common share attributable to EnerSys stockholders: |                               |                            |
| Basic                                                               | \$ 1.13                       | \$ 1.01                    |
| Diluted                                                             | \$ 1.11                       | \$ 1.00                    |
| Dividends per common share                                          | \$ 0.175                      | \$ 0.175                   |
| Weighted-average number of common shares outstanding:               |                               |                            |
| Basic                                                               | 42,133,484                    | 42,938,131                 |
| Diluted                                                             | 42,773,706                    | 43,327,361                 |
| See accompanying notes.                                             |                               |                            |

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**Consolidated Condensed Statements of Income (Unaudited)**

**(In Thousands, Except Share and Per Share Data)**

|                                                                     | <b>Six months ended</b>       |                            |
|---------------------------------------------------------------------|-------------------------------|----------------------------|
|                                                                     | <b>September<br/>30, 2018</b> | <b>October 1,<br/>2017</b> |
| Net sales                                                           | \$ 1,331,392                  | \$ 1,239,914               |
| Cost of goods sold                                                  | 1,004,652                     | 916,208                    |
| Inventory adjustment relating to exit activities                    | 526                           | —                          |
| Gross profit                                                        | 326,214                       | 323,706                    |
| Operating expenses                                                  | 195,818                       | 186,761                    |
| Restructuring charges                                               | 2,860                         | 2,609                      |
| Operating earnings                                                  | 127,536                       | 134,336                    |
| Interest expense                                                    | 12,929                        | 12,243                     |
| Other (income) expense, net                                         | (997)                         | ) 6,028                    |
| Earnings before income taxes                                        | 115,604                       | 116,065                    |
| Income tax expense                                                  | 22,137                        | 24,592                     |
| Net earnings                                                        | 93,467                        | 91,473                     |
| Net earnings attributable to noncontrolling interests               | 183                           | 50                         |
| Net earnings attributable to EnerSys stockholders                   | \$ 93,284                     | \$ 91,423                  |
| Net earnings per common share attributable to EnerSys stockholders: |                               |                            |
| Basic                                                               | \$ 2.22                       | \$ 2.12                    |
| Diluted                                                             | \$ 2.19                       | \$ 2.09                    |
| Dividends per common share                                          | \$ 0.35                       | \$ 0.35                    |
| Weighted-average number of common shares outstanding:               |                               |                            |
| Basic                                                               | 42,073,015                    | 43,194,107                 |
| Diluted                                                             | 42,673,844                    | 43,745,218                 |
| See accompanying notes.                                             |                               |                            |

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**Consolidated Condensed Statements of Comprehensive Income (Unaudited)**

**(In Thousands)**

|                                                                      | <b>Quarter ended</b>      |                        | <b>Six months ended</b>   |                        |
|----------------------------------------------------------------------|---------------------------|------------------------|---------------------------|------------------------|
|                                                                      | <b>September 30, 2018</b> | <b>October 1, 2017</b> | <b>September 30, 2018</b> | <b>October 1, 2017</b> |
| Net earnings                                                         | \$47,447                  | \$43,151               | \$93,467                  | \$91,473               |
| Other comprehensive (loss) income:                                   |                           |                        |                           |                        |
| Net unrealized (loss) gain on derivative instruments, net of tax     | (6,179 )                  | 3,669                  | (5,174 )                  | 616                    |
| Pension funded status adjustment, net of tax                         | 300                       | 338                    | 600                       | 665                    |
| Foreign currency translation adjustment                              | (14,150 )                 | 28,131                 | (86,313 )                 | 72,848                 |
| Total other comprehensive (loss) gain, net of tax                    | (20,029 )                 | 32,138                 | (90,887 )                 | 74,129                 |
| Total comprehensive income                                           | 27,418                    | 75,289                 | 2,580                     | 165,602                |
| Comprehensive (loss) income attributable to noncontrolling interests | (200 )                    | (6 )                   | (539 )                    | 81                     |
| Comprehensive income attributable to EnerSys stockholders            | \$27,618                  | \$75,295               | \$3,119                   | \$165,521              |
| See accompanying notes.                                              |                           |                        |                           |                        |

**Table of Contents****ENERSYS****Consolidated Condensed Statements of Cash Flows (Unaudited)****(In Thousands)**

|                                                                                     | <b>Six months ended</b>       |                            |
|-------------------------------------------------------------------------------------|-------------------------------|----------------------------|
|                                                                                     | <b>September<br/>30, 2018</b> | <b>October 1,<br/>2017</b> |
| <b>Cash flows from operating activities</b>                                         |                               |                            |
| Net earnings                                                                        | \$93,467                      | \$91,473                   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                               |                            |
| Depreciation and amortization                                                       | 27,302                        | 26,624                     |
| Write-off of assets relating to exit activities                                     | 1,073                         | 210                        |
| Derivatives not designated in hedging relationships:                                |                               |                            |
| Net losses (gains)                                                                  | 622                           | (12 )                      |
| Cash settlements                                                                    | (760 )                        | (287 )                     |
| Provision for doubtful accounts                                                     | 132                           | 764                        |
| Deferred income taxes                                                               | 827                           | (445 )                     |
| Non-cash interest expense                                                           | 627                           | 975                        |
| Stock-based compensation                                                            | 9,129                         | 9,523                      |
| Gain on disposal of property, plant, and equipment                                  | (77 )                         | (8 )                       |
| Changes in assets and liabilities, net of effects of acquisitions:                  |                               |                            |
| Accounts receivable                                                                 | (1,556 )                      | 2,412                      |
| Inventories                                                                         | (21,691 )                     | (51,089 )                  |
| Prepaid and other current assets                                                    | (4,238 )                      | (5,385 )                   |
| Other assets                                                                        | (1,369 )                      | (770 )                     |
| Accounts payable                                                                    | 864                           | 1,912                      |
| Accrued expenses                                                                    | (20,624 )                     | (32,366 )                  |
| Other liabilities                                                                   | 304                           | 1,926                      |
| Net cash provided by operating activities                                           | 84,032                        | 45,457                     |
| <b>Cash flows from investing activities</b>                                         |                               |                            |
| Capital expenditures                                                                | (35,500 )                     | (26,639 )                  |
| Purchase of businesses                                                              | —                             | (2,964 )                   |
| Proceeds from disposal of property, plant, and equipment                            | 189                           | 242                        |
| Net cash used in investing activities                                               | (35,311 )                     | (29,361 )                  |
| <b>Cash flows from financing activities</b>                                         |                               |                            |
| Net repayments on short-term debt                                                   | (2,854 )                      | (5,375 )                   |
| Proceeds from 2017 Revolver borrowings                                              | 84,500                        | 343,450                    |
| Proceeds from 2011 Revolver borrowings                                              | —                             | 147,050                    |
| Repayments of 2017 Revolver borrowings                                              | (65,000 )                     | (58,250 )                  |
| Repayments of 2011 Revolver borrowings                                              | —                             | (312,050 )                 |
| Proceeds from 2017 Term Loan                                                        | —                             | 150,000                    |
| Repayments of 2011 Term Loan                                                        | —                             | (127,500 )                 |
| Debt issuance costs                                                                 | —                             | (2,677 )                   |
| Option proceeds                                                                     | 8,264                         | 651                        |
| Payment of taxes related to net share settlement of equity awards                   | (3,384 )                      | (7,407 )                   |
| Purchase of treasury stock                                                          | —                             | (121,191 )                 |
| Dividends paid to stockholders                                                      | (14,747 )                     | (14,967 )                  |
| Other                                                                               | 30                            | —                          |
| Net cash provided by (used in) financing activities                                 | 6,809                         | (8,266 )                   |

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|                                                              |           |           |
|--------------------------------------------------------------|-----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | (32,465 ) | 31,954    |
| Net increase in cash and cash equivalents                    | 23,065    | 39,784    |
| Cash and cash equivalents at beginning of period             | 522,118   | 500,329   |
| Cash and cash equivalents at end of period                   | \$545,183 | \$540,113 |
| See accompanying notes.                                      |           |           |

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**ENERSYS**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**  
**(In Thousands, Except Share and Per Share Data)**

**1. Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included, unless otherwise disclosed. Operating results for the three months and six months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019.

The Consolidated Condensed Balance Sheet at March 31, 2018 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2018 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 30, 2018 (the "2018 Annual Report").

EnerSys (the "Company") reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four quarters in fiscal 2019 end on July 1, 2018, September 30, 2018, December 30, 2018, and March 31, 2019, respectively. The four quarters in fiscal 2018 ended on July 2, 2017, October 1, 2017, December 31, 2017, and March 31, 2018, respectively.

The consolidated condensed financial statements include the accounts of the Company and its wholly-owned subsidiaries and any partially owned subsidiaries that the Company has the ability to control. All intercompany transactions and balances have been eliminated in consolidation.

*Recently Adopted Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" providing guidance on revenue from contracts with customers that supersedes most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

The Company adopted the ASU on April 1, 2018 using the modified retrospective transition method. Under the modified retrospective transition method, the cumulative effect of applying Topic 606 to all contracts where all revenue has not been completely recognized under previously existing accounting principles that are not completed as of the date of adoption is recorded as an adjustment to the opening balance of retained earnings (if applicable) while the comparative periods are not restated and continue to be reported under the accounting standards in effect for those periods. There was no cumulative effect of adopting the standard at the date of initial application in retained earnings. Concurrent with the adoption of the ASU, the Company has updated its revenue recognition policy as follows:

The Company determines revenue recognition by applying the following steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations; and
5. recognize revenue as the performance obligations are satisfied.

The Company recognizes revenue when (or as) performance obligations are satisfied by transferring control of the performance obligation to a customer. Control of a performance obligation may transfer to the customer either at a point in time or over time depending on an evaluation of the specific facts and circumstances for each contract, including the terms and conditions of the contract as agreed with the customer, as well as the nature of the products or services to be provided.

The Company's primary performance obligation to its customers is the delivery of finished goods and products, pursuant to purchase orders. Control of the products sold typically transfers to its customers at the point in time when the goods are shipped as this is also when title generally passes to its customers under the terms and conditions of our customer arrangements.

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Each customer purchase order sets forth the transaction price for the products and services purchased under that arrangement. Some customer arrangements include variable consideration, such as volume rebates, some of which depend upon our customers meeting specified performance criteria, such as a purchasing level over a period of time. The Company uses judgment to estimate the most likely amount of variable consideration at each reporting date. When estimating variable consideration the Company also applies judgment when considering the probability of whether a reversal of revenue could occur and only recognize revenue subject to this constraint.



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Service revenues related to the work performed for the Company's customers by its maintenance technicians generally represent a separate and distinct performance obligation. Control for these services passes to the customer as the services are performed. Service revenues for the second quarter and six months of fiscal 2019 amounted to \$37,105 and \$69,200, respectively.

A small portion of the Company's customer arrangements oblige the Company to create customized products for its customers that require the bundling of both products and services into a single performance obligation because the individual products and services that are required to fulfill the customer requirements do not meet the definitions for a distinct performance obligation. These customized products generally have no alternative use to the Company and the terms and conditions of these arrangements give the Company the enforceable right to payment for performance completed to date, including a reasonable profit margin. For these arrangements, control transfers over time and the Company measures progress towards completion by selecting the input or output method that best depicts the transfer of control of the underlying goods and services to the customer for each respective arrangement. Methods used by the Company to measure progress toward completion include labor hours, costs incurred and units of production. Revenues recognized over time for the second quarter and six months of fiscal 2019 amounted to \$16,491 and \$34,895, respectively.

On September 30, 2018, the aggregate transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was approximately \$75,420, of which, the Company estimates that approximately \$33,076 will be recognized as revenue in fiscal 2019, \$33,944 in fiscal 2020, \$4,655 in fiscal 2021, \$3,723 in fiscal 2022 and \$22 in fiscal 2023.

The Company's typical payment terms are 30 days and sales arrangements do not contain any significant financing component for its customers.

Any payments that are received from a customer in advance, prior to the satisfaction of a related performance obligation and billings in excess of revenue recognized, are deferred and treated as a contract liability. Advance payments and billings in excess of revenue recognized are classified as current or non-current based on the timing of when recognition of revenue is expected. As of September 30, 2018, the current and non-current portion of contract liabilities were \$9,518 and \$7,009, respectively. As of March 31, 2018, the current and non-current portion of contract liabilities were \$9,387 and \$7,094, respectively. Amounts representing work completed and not billed to customers represent contract assets and were \$22,805 and \$24,810 as of September 30, 2018 and March 31, 2018, respectively. Revenues recognized during the second quarter and six months of fiscal 2019, that were included in the contract liability at the beginning of the current quarter and six months, amounted to \$661 and \$2,597, respectively.

The Company uses historic customer product return data as a basis of estimation for customer returns and records the reduction of sales at the time revenue is recognized. At September 30, 2018, the right of return asset related to the value of inventory anticipated to be returned from customers was \$2,647 and refund liability representing amounts estimated to be refunded to customers was \$5,013.

Freight charges billed to customers are included in sales and the related shipping costs are included in cost of sales in the Consolidated Condensed Statements of Income. If shipping activities are performed after a customer obtains control of a product, the Company applies a policy election to account for shipping as an activity to fulfill the promise to transfer the product to the customer.

The Company applies a policy election to exclude transaction taxes collected from customers from sales when the tax is both imposed on and concurrent with a specific revenue-producing transaction.

The Company generally provides customers with a product warranty that provides assurance that the products meet standard specifications and are free of defects. The Company maintains a reserve for claims incurred under standard product warranty programs. Performance obligations related to service warranties are not material to the consolidated financial statements.

The Company pays sales commissions to its sales representatives which may be considered as incremental costs to obtain a contract. However, since the recoverability period is less than one year, the Company has utilized the practical expedient to record these costs of obtaining a contract as an expense as they are incurred.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)", which requires an entity to report the service cost component of pension and other postretirement benefit costs in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted and requires the retrospective method to be applied to all periods presented. The Company adopted this guidance effective April 1, 2018. The service cost component of pension expense continues to be recognized in cost of goods sold whereas other components of pension expense have been reclassified to "Other (income) expense, net" in the Condensed Consolidated Statements of Income. The Company reclassified \$374 and \$735, from "Cost of goods sold" relating to the second quarter and six months of 2018, respectively, to "Other

(income) expense, net” in the Condensed Consolidated Statements of Income.

**Table of Contents***Accounting Pronouncements Issued But Not Adopted as of September 30, 2018*

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This update is effective for annual periods beginning after December 15, 2018, using a modified retrospective approach, with early adoption permitted. In order to evaluate the impact of ASU No. 2016-02, the Company has formed a project team and initiated the process of assessing critical components of this new guidance and the potential impact that the guidance will have on its financial position, results of operations and cash flows. This evaluation process includes a review of the Company's leasing contracts and an assessment of the completeness of the Company's lease population. The Company is also assessing the need for potential changes to its business processes, systems and controls to support the adoption of the new standard. Based upon the assessment to date, the Company believes that a key change upon adoption of the lease standard will be the recognition of leased assets and liabilities on its balance sheet but has not yet determined the impact on its results of operations or statement of cash flows.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815)”: Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. 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 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim period or fiscal year before the effective date. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220)”. The new standard will allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (“Tax Act”). The amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statements users. However, because the amendment only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including the interim periods within those years. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

**2. Inventories**

Inventories, net consist of:

|                 | <b>September 30,<br/>2018</b> | <b>March 31,<br/>2018</b> |
|-----------------|-------------------------------|---------------------------|
| Raw materials   | \$ 100,318                    | \$92,216                  |
| Work-in-process | 113,554                       | 136,068                   |
| Finished goods  | 182,532                       | 185,950                   |
| Total           | \$ 396,404                    | \$414,234                 |

**3. Fair Value of Financial Instruments*****Recurring Fair Value Measurements***

The following tables represent the financial assets and (liabilities) measured at fair value on a recurring basis as of September 30, 2018 and March 31, 2018, and the basis for that measurement:

|                        | <b>Total Fair<br/>Value<br/>Measurement<br/>September 30,<br/>2018</b> | <b>Quoted Price in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
| Lead forward contracts | \$ (4,032 )                                                            | \$ —                                                                                 | \$ (4,032 )                                                          | \$ —                                                         |

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|                                    |             |    |               |      |
|------------------------------------|-------------|----|---------------|------|
| Foreign currency forward contracts | (121 )      | —  | (121 )        | —    |
| Total derivatives                  | \$ (4,153 ) | \$ | — \$ (4,153 ) | \$ — |

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|                                    | <b>Total Fair Value Measurement March 31, 2018</b> | <b>Quoted Price in Active Markets for Identical Assets (Level 1)</b> | <b>Significant Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> |
|------------------------------------|----------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------|
| Lead forward contracts             | \$ (3,877 )                                        | \$ —                                                                 | \$ (3,877 )                                          | \$ —                                             |
| Foreign currency forward contracts | 22                                                 | —                                                                    | 22                                                   | —                                                |
| Total derivatives                  | \$ (3,855 )                                        | \$ —                                                                 | \$ (3,855 )                                          | \$ —                                             |

The fair values of lead forward contracts are calculated using observable prices for lead as quoted on the London Metal Exchange (“LME”) and, therefore, were classified as Level 2 within the fair value hierarchy, as described in Note 1, Summary of Significant Accounting Policies to the Company's consolidated financial statements included in its 2018 Annual Report.

The fair values for foreign currency forward contracts are based upon current quoted market prices and are classified as Level 2 based on the nature of the underlying market in which these derivatives are traded.

**Financial Instruments**

The fair values of the Company's cash and cash equivalents approximate carrying value due to their short maturities.

The fair value of the Company's short-term debt and borrowings under the 2017 Credit Facility (as defined in Note 9), approximate their respective carrying value, as they are variable rate debt and the terms are comparable to market terms as of the balance sheet dates and are classified as Level 2.

The Company's 5.00% Senior Notes due 2023 (the “Notes”), with an original face value of \$300,000, were issued in April 2015. The fair value of the Notes represent the trading values based upon quoted market prices and are classified as Level 2. The Notes were trading at approximately 100% and 102% of face value on September 30, 2018 and March 31, 2018, respectively.

The carrying amounts and estimated fair values of the Company's derivatives and Notes at September 30, 2018 and March 31, 2018 were as follows:

|                               | <b>September 30, 2018</b> |                   | <b>March 31, 2018</b>  |                   |
|-------------------------------|---------------------------|-------------------|------------------------|-------------------|
|                               | <b>Carrying Amount</b>    | <b>Fair Value</b> | <b>Carrying Amount</b> | <b>Fair Value</b> |
| <b>Financial assets:</b>      |                           |                   |                        |                   |
| Derivatives <sup>(1)</sup>    | \$ —                      | \$ —              | \$ 22                  | \$ 22             |
| <b>Financial liabilities:</b> |                           |                   |                        |                   |
| Notes <sup>(2)</sup>          | \$ 300,000                | \$ 300,000        | \$ 300,000             | \$ 304,500        |
| Derivatives <sup>(1)</sup>    | 4,153                     | 4,153             | 3,877                  | 3,877             |

<sup>(1)</sup> Represents lead and foreign currency forward contracts (see Note 4 for asset and liability positions of the lead and foreign currency forward contracts at September 30, 2018 and March 31, 2018).

<sup>(2)</sup> The fair value amount of the Notes at September 30, 2018 and March 31, 2018 represent the trading value of the instruments.

**4. Derivative Financial Instruments**

The Company utilizes derivative instruments to reduce its exposure to fluctuations in commodity prices and foreign exchange rates under established procedures and controls. The Company does not enter into derivative contracts for speculative purposes. The Company's agreements are with creditworthy financial institutions and the Company anticipates performance by counterparties to these contracts and therefore no material loss is expected.

**Derivatives in Cash Flow Hedging Relationships****Lead Forward Contracts**

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The Company enters into lead forward contracts to fix the price for a portion of its lead purchases. Management considers the lead forward contracts to be effective against changes in the cash flows of the underlying lead purchases. The vast majority of such contracts are for a period not extending beyond one year. At September 30, 2018 and March 31, 2018, the Company has hedged the price to purchase approximately 68.9 million pounds and 62.9 million pounds of lead, respectively, for a total purchase price of \$67,543 and \$72,207, respectively.

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### Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts and options to hedge a portion of the Company's foreign currency exposures for lead, as well as other foreign currency exposures so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. The vast majority of such contracts are for a period not extending beyond one year. As of September 30, 2018 and March 31, 2018, the notional amount of these contracts was \$54,742 and \$54,164, respectively.

In the coming twelve months, the Company anticipates that \$11,114 of pretax loss relating to lead and foreign currency forward contracts will be reclassified from accumulated other comprehensive income ("AOCI") as part of cost of goods sold. This amount represents the current net unrealized impact of hedging lead and foreign exchange rates, which will change as market rates change in the future, and will ultimately be realized in the Consolidated Condensed Statements of Income as an offset to the corresponding actual changes in lead costs to be realized in connection with the variable lead cost and foreign exchange rates being hedged.

### Derivatives not Designated in Hedging Relationships

#### Foreign Currency Forward Contracts

The Company also enters into foreign currency forward contracts to economically hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables and payables. These are not designated as hedging instruments and changes in fair value of these instruments are recorded directly in the Consolidated Condensed Statements of Income. As of September 30, 2018 and March 31, 2018, the notional amount of these contracts was \$31,128 and \$28,486, respectively.

Presented below in tabular form is information on the location and amounts of derivative fair values in the Consolidated Condensed Balance Sheets and derivative gains and losses in the Consolidated Condensed Statements of Income:

### Fair Value of Derivative Instruments

September 30, 2018 and March 31, 2018

|                                    | Derivatives and Hedging Activities Designated as Cash Flow Hedges |                | Derivatives and Hedging Activities Not Designated as Hedging Instruments |                |
|------------------------------------|-------------------------------------------------------------------|----------------|--------------------------------------------------------------------------|----------------|
|                                    | September 30, 2018                                                | March 31, 2018 | September 30, 2018                                                       | March 31, 2018 |
| Prepaid and other current assets   |                                                                   |                |                                                                          |                |
| Foreign currency forward contracts | \$ —                                                              | \$ 209         | \$ —                                                                     | \$ —           |
| Total assets                       | \$ —                                                              | \$ 209         | \$ —                                                                     | \$ —           |
| Accrued expenses                   |                                                                   |                |                                                                          |                |
| Lead forward contracts             | \$ 4,032                                                          | \$ 3,877       | \$ —                                                                     | \$ —           |
| Foreign currency forward contracts | 71                                                                | —              | 50                                                                       | 187            |
| Total liabilities                  | \$ 4,103                                                          | \$ 3,877       | \$ 50                                                                    | \$ 187         |

### The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income

For the quarter ended September 30, 2018

| Derivatives Designated as Cash Flow Hedges        | Pretax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Pretax Gain (Loss) Recognized in Income on Derivatives | Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion) |
|---------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------------------------|
| Lead forward contracts                            | \$ (11,524 )                                                             | Cost of goods sold                                                             |                                                        | \$ (3,742 )                                                               |
| Foreign currency forward contracts                | 138                                                                      | Cost of goods sold                                                             |                                                        | 434                                                                       |
| Total                                             | \$ (11,386 )                                                             |                                                                                |                                                        | \$ (3,308 )                                                               |
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivatives              |                                                                                | Pretax Gain (Loss)                                     |                                                                           |
| Foreign currency forward contracts                | Other (income) expense, net                                              |                                                                                | \$ 96                                                  |                                                                           |

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Total

\$ 96

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**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income**  
**For the quarter ended October 1, 2017**

| <b>Derivatives Designated as Cash Flow Hedges</b>        | <b>Pretax Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)</b> | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss) Recognized in Income on Derivatives</b> | <b>Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> |
|----------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------|
| Lead forward contracts                                   | \$ 3,896                                                                        | Cost of goods sold                                                                    |                                                               | \$ (1,892 )                                                                      |
| Foreign currency forward contracts                       | (1,029 )                                                                        | Cost of goods sold                                                                    |                                                               | (1,067 )                                                                         |
| Total                                                    | \$ 2,867                                                                        |                                                                                       |                                                               | \$ (2,959 )                                                                      |
| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Gain (Loss) Recognized in Income on Derivatives</b>              | <b>Pretax Gain (Loss)</b>                                                             |                                                               |                                                                                  |
| Foreign currency forward contracts                       | Other (income) expense, net                                                     | \$ (36 )                                                                              |                                                               |                                                                                  |
| Total                                                    |                                                                                 | \$ (36 )                                                                              |                                                               |                                                                                  |

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income**  
**For the six months ended September 30, 2018**

| <b>Derivatives Designated as Cash Flow Hedges</b>        | <b>Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)</b> | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss) Recognized in Income on Derivative</b> | <b>Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> |
|----------------------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------|
| Lead forward contracts                                   | \$ (11,009 )                                                                   | Cost of goods sold                                                                    |                                                              | \$ (2,719 )                                                                      |
| Foreign currency forward contracts                       | 720                                                                            | Cost of goods sold                                                                    |                                                              | (803 )                                                                           |
| Total                                                    | \$ (10,289 )                                                                   |                                                                                       |                                                              | \$ (3,522 )                                                                      |
| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Gain (Loss) Recognized in Income on Derivative</b>              | <b>Pretax Gain (Loss)</b>                                                             |                                                              |                                                                                  |
| Foreign currency forward contracts                       | Other (income) expense, net                                                    | \$ (622 )                                                                             |                                                              |                                                                                  |
| Total                                                    |                                                                                | \$ (622 )                                                                             |                                                              |                                                                                  |

**The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income**  
**For the six months ended October 1, 2017**

| <b>Derivatives Designated as Cash Flow Hedges</b>        | <b>Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)</b> | <b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> | <b>Pretax Gain (Loss) Recognized in Income on Derivative</b> | <b>Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b> |
|----------------------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------|
| Lead forward contracts                                   | \$ 3,082                                                                       | Cost of goods sold                                                                    |                                                              | \$ (89 )                                                                         |
| Foreign currency forward contracts                       | (3,088 )                                                                       | Cost of goods sold                                                                    |                                                              | (903 )                                                                           |
| Total                                                    | \$ (6 )                                                                        |                                                                                       |                                                              | \$ (992 )                                                                        |
| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Gain (Loss) Recognized in Income on Derivative</b>              | <b>Pretax Gain (Loss)</b>                                                             |                                                              |                                                                                  |
| Foreign currency forward contracts                       | Other (income) expense, net                                                    | \$ 12                                                                                 |                                                              |                                                                                  |
| Total                                                    |                                                                                | \$ 12                                                                                 |                                                              |                                                                                  |



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**5. Income Taxes**

The Company's income tax provision consists of federal, state and foreign income taxes. The tax provision for the second quarter of fiscal 2019 and 2018 was based on the estimated effective tax rates applicable for the full years ending March 31, 2019 and March 31, 2018, respectively, after giving effect to items specifically related to the interim periods. The Company's effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions in which the Company operates, change in tax laws and the amount of the Company's consolidated income before taxes.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. Among the significant changes resulting from the law, the Tax Act reduced the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, and required companies to pay a one-time transition tax on unrepatriated cumulative non-U.S. earnings of foreign subsidiaries and created new taxes on certain foreign sourced earnings. The U.S. federal statutory tax rate for fiscal 2019 is 21.0%.

As of September 30, 2018, the Company has not completed its accounting for the tax effects of enactment of the Tax Act; however, it has made a reasonable estimate of the effects on its existing deferred tax balances and the one-time transition tax. The Company did not obtain additional information during the quarter affecting the provisional amounts initially recorded for the year ended March 31, 2018. In accordance with Staff Accounting Bulletin 118, these amounts are considered provisional and may be affected by future guidance, if and when issued. The Company's estimate of its transition tax liability may change when the Company finalizes both the calculation of post-1986 foreign earnings and profits previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets.

Beginning in fiscal 2019, the global intangible low-taxed income ("GILTI"), foreign derived intangible income ("FDII"), and base-erosion and anti-abuse ("BEAT") provisions became effective. The GILTI provisions require the Company to include in its US income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. Due to the complexities of the GILTI tax rules, the Company is continuing to evaluate the application of ASC 740. Under US GAAP, the Company is allowed to make an accounting policy choice of either (1) treating the taxes due on future US inclusions in taxable income as a current-period expense when incurred ("period cost method") or (2) factoring amounts into a Company's measurement of its deferred taxes ("deferred method"). As of the second quarter of fiscal 2019, the Company has not elected an accounting policy treatment for which method the Company will utilize for GILTI. Based on existing legislative guidance and interpretation, the Company has estimated the impact on the tax provision of the GILTI inclusion, offset by the related foreign tax credit, and expects the annual effective tax rate to be increased by approximately 2.8%.

FDII allows a new deduction for U.S. corporations up to 37.5% of foreign derived intangible income. This is an export incentive that reduces the tax on foreign derived sales and service income in excess of a base amount to 13.125%. Based upon the existing legislative guidance and interpretation, the Company has estimated the impact on the annual effective tax rate to be decreased by approximately 0.5%.

The BEAT provisions eliminate the deductions of certain base-erosion payments to related foreign corporations and impose a minimum tax if greater than regular tax. The Company does not expect to be subject to BEAT in fiscal 2019.

The consolidated effective income tax rates for the second quarter of fiscal 2019 and 2018 were 18.6% and 21.7%, respectively, and for the six months of fiscal 2019 and 2018 were 19.1% and 21.2%, respectively. The rate decrease in the second quarter and six months of fiscal 2019 compared to the comparable prior year periods of fiscal 2018 is primarily due to changes in the mix of earnings among tax jurisdictions and items related to the Tax Act. The Tax Act items accounted for a net decrease of 2.2% comprising a 4.5% decrease for the rate change, a 0.5% decrease for the FDII deduction and a 2.8% increase for GILTI inclusion.

Foreign income as a percentage of worldwide income is estimated to be 68% for fiscal 2019 compared to 63% for fiscal 2018. The foreign effective income tax rates for the six months of fiscal 2019 and 2018 were 11.1% and 11.2%, respectively. The rate decrease compared to the prior year period is primarily due to changes in the mix of earnings among tax jurisdictions. Income from the Company's Swiss subsidiary comprised a substantial portion of the Company's overall foreign mix of income and is taxed at an effective income tax rate of approximately 6%.

Table of Contents**6. Warranty**

The Company provides for estimated product warranty expenses when the related products are sold, with related liabilities included within accrued expenses and other liabilities. As warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, claims costs may ultimately differ from amounts provided. An analysis of changes in the liability for product warranties is as follows:

|                                         | Quarter ended      |                 | Six months ended   |                 |
|-----------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                         | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| Balance at beginning of period          | \$49,689           | \$46,677        | \$50,602           | \$46,116        |
| Current period provisions               | 6,181              | 3,717           | 11,017             | 6,808           |
| Costs incurred                          | (7,920 )           | (3,841 )        | (12,301 )          | (7,037 )        |
| Foreign currency translation adjustment | (217 )             | 560             | (1,585 )           | 1,226           |
| Balance at end of period                | \$47,733           | \$47,113        | \$47,733           | \$47,113        |

**7. Commitments, Contingencies and Litigation***Litigation and Other Legal Matters*

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. These actions and proceedings are generally based on alleged violations of environmental, anticompetition, employment, contract and other laws. In some of these actions and proceedings, claims for substantial monetary damages are asserted against the Company and its subsidiaries. In the ordinary course of business, the Company and its subsidiaries are also subject to regulatory and governmental examinations, information gathering requests, inquiries, investigations, and threatened legal actions and proceedings. In connection with formal and informal inquiries by federal, state, local and foreign agencies, the Company and its subsidiaries receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of their activities.

*European Competition Investigations*

Certain of the Company's European subsidiaries had received subpoenas and requests for documents and, in some cases, interviews from, and have had on-site inspections conducted by, the competition authorities of Belgium, Germany and the Netherlands relating to conduct and anticompetitive practices of certain industrial battery participants.

The Company settled the Belgian regulatory proceeding in February 2016 by acknowledging certain anticompetitive practices and conduct and agreeing to pay a fine of \$1,962, which was paid in March 2016. During the first quarter of fiscal 2019, the Company paid \$1,272 towards certain aspects of this matter, which are under appeal. As of September 30, 2018 and March 31, 2018, the Company had a reserve balance of \$928 and \$2,326, respectively.

In June 2017, the Company settled a portion of its previously disclosed proceeding involving the German competition authority relating to conduct involving the Company's motive power battery business and agreed to pay a fine of \$14,811, which was paid in July 2017. As of September 30, 2018 and March 31, 2018, the Company had a reserve balance of \$0 relating to this matter. Also in June 2017, the German competition authority issued a fining decision related to the Company's reserve power battery business, which constitutes the remaining portion of the previously disclosed German proceeding. The Company is appealing this decision, including payment of the proposed fine of \$11,415, and believes that the reserve power matter does not, based on current facts and circumstances known to management, require an accrual. The Company is not required to escrow any portion of this fine during the appeal process.

In July 2017, the Company settled the Dutch regulatory proceeding and agreed to pay a fine of \$11,229, which was paid in August 2017. As of September 30, 2018 and March 31, 2018, the Company had a reserve balance of \$0 relating to the Dutch regulatory proceeding.

As of September 30, 2018 and March 31, 2018, the Company had a total reserve balance of \$928 and \$2,326, respectively, in connection with these investigations and other related legal matters, included in accrued expenses on the Consolidated Condensed Balance Sheets. The foregoing estimate of losses is based upon currently available information for these proceedings. However, the precise scope, timing and time period at issue, as well as the final outcome of the investigations or customer claims, remain uncertain. Accordingly, the Company's estimate may change

from time to time, and actual losses could vary.

*Environmental Issues*

As a result of its operations, the Company is subject to various federal, state, and local, as well as international environmental laws and regulations and is exposed to the costs and risks of registering, handling, processing, storing, transporting, and disposing of hazardous

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substances, especially lead and acid. The Company's operations are also subject to federal, state, local and international occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace.

The Company is responsible for certain cleanup obligations at the former Yuasa battery facility in Sumter, South Carolina, that predates its ownership of this facility. This manufacturing facility was closed in 2001 and the Company established a reserve for this facility, which was \$1,082 and \$1,109, as of September 30, 2018 and March 31, 2018, respectively. Based on current information, the Company's management believes this reserve is adequate to satisfy the Company's environmental liabilities at this facility. This facility is separate from the Company's current metal fabrication facility in Sumter.

### *Lead and Foreign Currency Forward Contracts*

To stabilize its lead costs and reduce volatility from currency movements, the Company enters into contracts with financial institutions. The vast majority of such contracts are for a period not extending beyond one year. Please refer to Note 4 - Derivative Financial Instruments for more details.

## **8. Restructuring Plans**

During fiscal 2017, the Company announced restructuring programs to improve efficiencies primarily related to its motive power production in EMEA. The Company estimates that the total charges for these actions will amount to approximately \$4,700, primarily from cash charges for employee severance-related payments and other charges. The Company estimates that these actions will result in the reduction of approximately 45 employees upon completion. During fiscal 2017, the Company recorded restructuring charges of \$3,104 and an additional \$1,610 during fiscal 2018. The Company incurred \$749 in costs against the accrual in fiscal 2017 and an additional \$2,403 during fiscal 2018. During the six months of fiscal 2019, the Company incurred \$1,021 against the accrual. As of September 30, 2018, the reserve balance associated with these actions is \$675. The Company does not expect to be committed to additional restructuring charges related to this action, which is expected to be completed in fiscal 2019.

During fiscal 2018, the Company announced restructuring programs to improve efficiencies primarily related to supply chain and general operations in EMEA. The Company estimates that the total charges for these actions will amount to approximately \$7,700, primarily from cash charges for employee severance-related payments and other charges. The Company estimates that these actions will result in the reduction of approximately 75 employees upon completion. During fiscal 2018, the Company recorded non-cash restructuring charges of \$69 and cash charges of \$2,260 and incurred \$1,350 in costs against the accrual. During the six months of fiscal 2019, the Company recorded restructuring charges of \$2,176 and incurred \$879 in costs against the accrual. As of September 30, 2018, the reserve balance associated with these actions is \$2,159. The Company expects to be committed to an additional \$3,100 in restructuring charges related to this action, which it expects to complete in fiscal 2020.

During fiscal 2018, the Company announced a restructuring program to improve efficiencies of its general operations in the Americas. This program was completed during the second quarter of fiscal 2019. The total charges for these actions were \$960, from cash charges for employee severance-related payments to approximately 60 salaried employees. During fiscal 2018, the Company recorded restructuring charges of \$960 and incurred \$755 in costs against the accrual. During the six months of fiscal 2019, the Company incurred \$207 in costs against the accrual.

During fiscal 2019, the Company announced a restructuring program to improve efficiencies of its reserve power operations in EMEA. The Company estimates that the total charges for these actions will amount to approximately \$200, from charges primarily for employee severance-related payments to two employees. During the six months of fiscal 2019, the Company recorded restructuring charges of \$23 and incurred \$22 in costs against the accrual. As of September 30, 2018, the reserve balance associated with this action is \$1. The Company expects to complete this action in fiscal 2019.

### *Other Exit Charges*

During the first quarter of fiscal 2019, in an effort to improve profitability, the Company converted its India operations from mainly reserve power production to motive power production. As a result of the Company's exit from reserve power, during the six months of fiscal 2019, the Company recorded a non-cash write off of reserve power inventories of \$526, which was reported in cost of goods sold and a \$547 non-cash write-off related to reserve power fixed assets in restructuring charges. In addition, during the six months of fiscal 2019, the Company also recorded a cash charge of \$114 in restructuring charges.

A roll-forward of the restructuring reserve is as follows:

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|                                  | <b>Employee<br/>Severance</b> | <b>Other</b> | <b>Total</b> |
|----------------------------------|-------------------------------|--------------|--------------|
| Balance as of March 31, 2018     | \$ 2,893                      | \$ 16        | \$ 2,909     |
| Accrued                          | 2,174                         | 139          | 2,313        |
| Costs incurred                   | (2,091 )                      | (152)        | (2,243 )     |
| Foreign currency impact          | (143 )                        | (1 )         | (144 )       |
| Balance as of September 30, 2018 | \$ 2,833                      | \$ 2         | \$ 2,835     |

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### 9. Debt

The following summarizes the Company's long-term debt as of September 30, 2018 and March 31, 2018:

|                                                   | September 30, 2018 |                | March 31, 2018 |                |
|---------------------------------------------------|--------------------|----------------|----------------|----------------|
|                                                   | Unamortized        |                | Unamortized    |                |
|                                                   | Principal          | Issuance Costs | Principal      | Issuance Costs |
| 5.00% Senior Notes, due 2023                      | \$ 300,000         | \$ 2,809       | \$ 300,000     | \$ 3,122       |
| 2017 Credit Facility, due 2022                    | 305,000            | 2,529          | 285,500        | 2,843          |
|                                                   | \$ 605,000         | \$ 5,338       | \$ 585,500     | \$ 5,965       |
| Less: Unamortized issuance costs                  | 5,338              |                | 5,965          |                |
| Long-term debt, net of unamortized issuance costs | \$ 599,662         |                | \$ 579,535     |                |

#### 5.00% Senior Notes

The Notes bear interest at a rate of 5.00% per annum and have an original face value of \$300,000. Interest is payable semiannually in arrears on April 30 and October 30 of each year and commenced on October 30, 2015. The Notes will mature on April 30, 2023, unless earlier redeemed or repurchased in full. The Notes are unsecured and unsubordinated obligations of the Company. The Notes are fully and unconditionally guaranteed (the "Guarantees"), jointly and severally, by certain of its subsidiaries that are guarantors (the "Guarantors") under the 2017 Credit Facility. The Guarantees are unsecured and unsubordinated obligations of the Guarantors.

#### 2017 Credit Facility

On August 4, 2017, the Company entered into a credit facility ("2017 Credit Facility"). The 2017 Credit Facility matures on September 30, 2022 and comprises a \$600,000 senior secured revolving credit facility ("2017 Revolver") and \$150,000 senior secured term loan ("2017 Term Loan"). The Company's previous credit facility ("2011 Credit Facility") comprised \$500,000 senior secured revolving credit facility ("2011 Revolver") and a \$150,000 senior secured incremental term loan (the "2011 Term Loan") with a maturity date of September 30, 2018. On August 4, 2017, the outstanding balance on the 2011 Revolver and the 2011 Term Loan of \$240,000 and \$123,750, respectively, was repaid utilizing borrowings from the 2017 Credit Facility.

As of September 30, 2018, the Company had \$155,000 outstanding on the 2017 Revolver and \$150,000 under the 2017 Term Loan.

The quarterly installments payable on the 2017 Term Loan are \$1,875 beginning December 31, 2018, \$2,813 beginning December 31, 2019 and \$3,750 beginning December 31, 2020 with a final payment of \$105,000 on September 30, 2022. The 2017 Credit Facility may be increased by an aggregate amount of \$325,000 in revolving commitments and / or one or more new tranches of term loans, under certain conditions. Both the 2017 Revolver and the 2017 Term Loan bear interest, at the Company's option, at a rate per annum equal to either (i) the London Interbank Offered Rate ("LIBOR") plus between 0.25% and 2.00% (currently 1.25% and based on the Company's consolidated net leverage ratio) or (ii) the Base Rate (which equals, for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Effective Rate plus 0.50%, (b) Bank of America "Prime Rate" and (c) the Eurocurrency Base Rate plus 1%; provided that, if the Base Rate shall be less than zero, such rate shall be deemed zero). Obligations under the 2017 Credit Facility are secured by substantially all of the Company's existing and future acquired assets, including substantially all of the capital stock of the Company's United States subsidiaries that are guarantors under the 2017 Credit Facility and 65% of the capital stock of certain of the Company's foreign subsidiaries that are owned by the Company's United States subsidiaries.

The current portion of the 2017 Term Loan of \$7,500 is classified as long-term debt as the Company expects to refinance the future quarterly payments with revolver borrowings under its 2017 Credit Facility.

#### Short-Term Debt

As of September 30, 2018 and March 31, 2018, the Company had \$14,071 and \$18,341, respectively, of short-term borrowings. The weighted average interest rate on these borrowings was approximately 4% and 7% at September 30, 2018 and March 31, 2018, respectively.

#### Letters of Credit



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As of September 30, 2018 and March 31, 2018, the Company had standby letters of credit of \$3,422 and \$3,074, respectively.

### ***Debt Issuance Costs***

Amortization expense, relating to debt issuance costs, included in interest expense was \$314 and \$327, respectively, for the quarters ended September 30, 2018 and October 1, 2017 and \$627 and \$674 for the six months ended September 30, 2018 and October 1, 2017. Debt issuance costs, net of accumulated amortization, totaled \$5,338 and \$5,965, respectively, at September 30, 2018 and March 31, 2018.

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### Available Lines of Credit

As of September 30, 2018 and March 31, 2018, the Company had available and undrawn, under all its lines of credit, \$531,132 and \$613,234, respectively, including \$87,857 and \$150,459, respectively, of uncommitted lines of credit as of September 30, 2018 and March 31, 2018.

### 10. Retirement Plans

The following tables present the components of the Company's net periodic benefit cost related to its defined benefit pension plans:

|                                | United States Plans |                 | International Plans |                 |
|--------------------------------|---------------------|-----------------|---------------------|-----------------|
|                                | Quarter ended       |                 | Quarter ended       |                 |
|                                | September 30, 2018  | October 1, 2017 | September 30, 2018  | October 1, 2017 |
| Service cost                   | \$ —                | \$ —            | \$ 252              | \$ 256          |
| Interest cost                  | 157                 | 167             | 457                 | 444             |
| Expected return on plan assets | (135 )              | (120 )          | (535 )              | (557 )          |
| Amortization and deferral      | 36                  | 80              | 304                 | 360             |
| Net periodic benefit cost      | \$ 58               | \$ 127          | \$ 478              | \$ 503          |

|                                | United States Plans |                 | International Plans |                 |
|--------------------------------|---------------------|-----------------|---------------------|-----------------|
|                                | Six months ended    |                 | Six months ended    |                 |
|                                | September 30, 2018  | October 1, 2017 | September 30, 2018  | October 1, 2017 |
| Service cost                   | \$ —                | \$ —            | \$ 507              | \$ 499          |
| Interest cost                  | 316                 | 334             | 927                 | 876             |
| Expected return on plan assets | (257 )              | (240 )          | (1,087 )            | (1,105 )        |
| Amortization and deferral      | 92                  | 159             | 616                 | 711             |
| Net periodic benefit cost      | \$ 151              | \$ 253          | \$ 963              | \$ 981          |

### 11. Stock-Based Compensation

As of September 30, 2018, the Company maintains the 2017 Equity Incentive Plan ("2017 EIP"). The 2017 EIP reserved 4,173,554 shares of common stock for the grant of various classes of nonqualified stock options, restricted stock units, market condition-based and performance condition-based share units and other forms of equity-based compensation.

The Company recognized stock-based compensation expense associated with its equity incentive plans of \$4,788 for the second quarter of fiscal 2019 and \$4,293 for the second quarter of fiscal 2018. Stock-based compensation expense was \$9,129 for the six months of fiscal 2019 and \$9,523 for the six months of fiscal 2018. The Company recognizes compensation expense using the straight-line method over the vesting period of the awards.

During the six months of fiscal 2019, the Company granted to non-employee directors 32,567 restricted stock units, pursuant to the 2017 EIP.

During the six months of fiscal 2019, the Company granted to management and other key employees 192,700 non-qualified stock options that vest ratably over three years from the date of grant, 45,883 performance condition-based share units and 36,646 market condition-based share units that cliff vest three years from the date of grant, and 180,132 restricted stock units that vest ratably over four years from the date of grant.

Common stock activity during the six months of fiscal 2019 included the vesting of 147,977 restricted stock units and 3,507 market condition-based share units and the exercise of 130,638 stock options.

As of September 30, 2018, there were 607,652 non-qualified stock options, 700,513 restricted stock units, 353,623 market condition-based share units and 45,975 performance condition-based share units outstanding.



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### 12. Stockholders' Equity and Noncontrolling Interests

#### Common Stock

The following demonstrates the change in the number of shares of common stock outstanding during the six months ended September 30, 2018:

|                                                                                                                    |            |
|--------------------------------------------------------------------------------------------------------------------|------------|
| Shares outstanding as of March 31, 2018                                                                            | 41,915,000 |
| Shares issued towards equity-based compensation plans, net of equity awards surrendered for option price and taxes | 233,391    |
| Shares outstanding as of September 30, 2018                                                                        | 42,148,391 |

#### Treasury Stock

At September 30, 2018 and March 31, 2018, the Company held 12,680,105 shares as treasury stock.

#### Accumulated Other Comprehensive Income ("AOCI")

The components of AOCI, net of tax, as of September 30, 2018 and March 31, 2018, are as follows:

|                                                      | March 31,<br>2018 | Before<br>Reclassifications | Amounts<br>Reclassified<br>from AOCI | September<br>30, 2018 |
|------------------------------------------------------|-------------------|-----------------------------|--------------------------------------|-----------------------|
| Pension funded status adjustment                     | \$(22,503 )       | \$ —                        | \$ 600                               | \$(21,903 )           |
| Net unrealized gain (loss) on derivative instruments | (3,425 )          | (7,869 )                    | 2,695                                | (8,599 )              |
| Foreign currency translation adjustment              | (15,789 )         | (85,591 )                   | —                                    | (101,380 )            |
| Accumulated other comprehensive (loss) income        | \$(41,717 )       | \$ (93,460 )                | \$ 3,295                             | \$(131,882 )          |

The following table presents reclassifications from AOCI during the second quarter ended September 30, 2018:

| Components of AOCI                                     | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement                                 |
|--------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------|
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |                                      |                                                                                        |
| Net loss on cash flow hedging derivative instruments   | \$ 3,308                             | Cost of goods sold                                                                     |
| Tax benefit                                            | (777 )                               |                                                                                        |
| Net loss on derivative instruments, net of tax         | \$ 2,531                             |                                                                                        |
| <b>Defined benefit pension costs:</b>                  |                                      |                                                                                        |
| Prior service costs and deferrals                      | \$ 340                               | Net periodic benefit cost, included in other (income) expense, net - See Note 1 and 10 |
| Tax benefit                                            | (40 )                                |                                                                                        |
| Net periodic benefit cost, net of tax                  | \$ 300                               |                                                                                        |

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The following table presents reclassifications from AOCI during the second quarter ended October 1, 2017:

| Components of AOCI                                     | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement                                 |
|--------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------|
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |                                      |                                                                                        |
| Net loss on cash flow hedging derivative instruments   | \$ 2,959                             | Cost of goods sold                                                                     |
| Tax benefit                                            | (1,095 )                             |                                                                                        |
| Net loss on derivative instruments, net of tax         | \$ 1,864                             |                                                                                        |
| <b>Defined benefit pension costs:</b>                  |                                      |                                                                                        |
| Prior service costs and deferrals                      | \$ 440                               | Net periodic benefit cost, included in other (income) expense, net - See Note 1 and 10 |
| Tax benefit                                            | (102 )                               |                                                                                        |
| Net periodic benefit cost, net of tax                  | \$ 338                               |                                                                                        |

The following table presents reclassifications from AOCI during the six months ended September 30, 2018:

| Components of AOCI                                        | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement                                 |
|-----------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------|
| <b>Derivatives in Cash Flow Hedging Relationships:</b>    |                                      |                                                                                        |
| Net unrealized loss on derivative instruments             | \$ 3,522                             | Cost of goods sold                                                                     |
| Tax benefit                                               | (827 )                               |                                                                                        |
| Net unrealized loss on derivative instruments, net of tax | \$ 2,695                             |                                                                                        |
| <b>Defined benefit pension costs:</b>                     |                                      |                                                                                        |
| Prior service costs and deferrals                         | \$ 708                               | Net periodic benefit cost, included in other (income) expense, net - See Note 1 and 10 |
| Tax benefit                                               | (108 )                               |                                                                                        |
| Net periodic benefit cost, net of tax                     | \$ 600                               |                                                                                        |

The following table presents reclassifications from AOCI during the six months quarter ended October 1, 2017:

| Components of AOCI                                     | Amounts<br>Reclassified<br>from AOCI | Location of (Gain) Loss Recognized on Income Statement                                 |
|--------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------|
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |                                      |                                                                                        |
| Net loss on cash flow hedging derivative instruments   | \$ 992                               | Cost of goods sold                                                                     |
| Tax benefit                                            | (367 )                               |                                                                                        |
| Net loss on derivative instruments, net of tax         | \$ 625                               |                                                                                        |
| <b>Defined benefit pension costs:</b>                  |                                      |                                                                                        |
| Prior service costs and deferrals                      | \$ 870                               | Net periodic benefit cost, included in other (income) expense, net - See Note 1 and 10 |
| Tax benefit                                            | (205 )                               |                                                                                        |
| Net periodic benefit cost, net of tax                  | \$ 665                               |                                                                                        |



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The following demonstrates the change in equity attributable to EnerSys stockholders and nonredeemable noncontrolling interests during the six months ended September 30, 2018:

|                                                           | Equity<br>Attributable<br>to EnerSys<br>Stockholders | Nonredeemable<br>Noncontrolling<br>Interests | Total Equity |
|-----------------------------------------------------------|------------------------------------------------------|----------------------------------------------|--------------|
| Balance as of March 31, 2018                              | \$ 1,195,675                                         | \$ 5,436                                     | \$ 1,201,111 |
| Total comprehensive income:                               |                                                      |                                              |              |
| Net earnings                                              | 93,284                                               | 183                                          | 93,467       |
| Net unrealized loss on derivative instruments, net of tax | (5,174)                                              | —                                            | (5,174)      |
| Pension funded status adjustment, net of tax              | 600                                                  | —                                            | 600          |
| Foreign currency translation adjustment                   | (85,591)                                             | (722)                                        | (86,313)     |
| Total other comprehensive loss, net of tax                | (90,165)                                             | (722)                                        | (90,887)     |
| Total comprehensive income (loss)                         | 3,119                                                | (539)                                        | 2,580        |
| Other changes in equity:                                  |                                                      |                                              |              |
| Cash dividends - common stock (\$0.35 per share)          | (14,747)                                             | —                                            | (14,747)     |
| Other, including activity related to equity awards        | 13,858                                               | —                                            | 13,858       |
| Balance as of September 30, 2018                          | \$ 1,197,905                                         | \$ 4,897                                     | \$ 1,202,802 |

## 13. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted weighted-average number of common shares outstanding and the calculations of net earnings per common share attributable to EnerSys stockholders.

|                                                                                          | Quarter ended      |                 | Six months ended   |                 |
|------------------------------------------------------------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                                                                          | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| Net earnings attributable to EnerSys stockholders                                        | \$47,424           | \$ 43,222       | \$93,284           | \$ 91,423       |
| Weighted-average number of common shares outstanding:                                    |                    |                 |                    |                 |
| Basic                                                                                    | 42,133,484         | 42,938,131      | 42,073,014         | 43,194,107      |
| Dilutive effect of:                                                                      |                    |                 |                    |                 |
| Common shares from exercise and lapse of equity awards, net of shares assumed reacquired | 640,222            | 389,230         | 600,829            | 551,111         |
| Diluted weighted-average number of common shares outstanding                             | 42,773,706         | 43,327,361      | 42,673,843         | 43,745,218      |
| Basic earnings per common share attributable to EnerSys stockholders                     | \$ 1.13            | \$ 1.01         | \$ 2.22            | \$ 2.12         |
| Diluted earnings per common share attributable to EnerSys stockholders                   | \$ 1.11            | \$ 1.00         | \$ 2.19            | \$ 2.09         |
| Anti-dilutive equity awards not included in diluted weighted-average common shares       | 409,425            | 283,674         | 286,755            | 257,243         |

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### 14. Business Segments

The Company has three reportable business segments based on geographic regions, defined as follows:

**Americas**, which includes North and South America, with segment headquarters in Reading, Pennsylvania, USA;

**EMEA**, which includes Europe, the Middle East and Africa, with segment headquarters in Zug, Switzerland; and

**Asia**, which includes Asia, Australia and Oceania, with segment headquarters in Singapore.

Summarized financial information related to the Company's reportable segments for the second quarter and six months ended September 30, 2018 and October 1, 2017 is shown below:

|                                                         | Quarter ended      |                 | Six months ended   |                 |
|---------------------------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                                         | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| <b>Net sales by segment to unaffiliated customers</b>   |                    |                 |                    |                 |
| Americas                                                | \$388,574          | \$341,504       | \$781,148          | \$696,107       |
| EMEA                                                    | 203,997            | 197,856         | 414,491            | 396,933         |
| Asia                                                    | 67,891             | 77,929          | 135,753            | 146,874         |
| Total net sales                                         | \$660,462          | \$617,289       | \$1,331,392        | \$1,239,914     |
| <b>Net sales by product line</b>                        |                    |                 |                    |                 |
| Reserve power                                           | \$313,338          | \$292,238       | \$637,356          | \$597,415       |
| Motive power                                            | 347,124            | 325,051         | 694,036            | 642,499         |
| Total net sales                                         | \$660,462          | \$617,289       | \$1,331,392        | \$1,239,914     |
| <b>Intersegment sales</b>                               |                    |                 |                    |                 |
| Americas                                                | \$7,888            | \$8,979         | \$13,746           | \$16,216        |
| EMEA                                                    | 35,039             | 38,563          | 67,126             | 67,380          |
| Asia                                                    | 8,055              | 5,178           | 15,669             | 10,311          |
| Total intersegment sales <sup>(1)</sup>                 | \$50,982           | \$52,720        | \$96,541           | \$93,907        |
| <b>Operating earnings by segment</b>                    |                    |                 |                    |                 |
| Americas                                                | \$48,306           | \$44,156        | \$96,042           | \$97,943        |
| EMEA                                                    | 13,829             | 17,802          | 31,032             | 31,576          |
| Asia                                                    | 2,343              | 4,182           | 3,848              | 7,426           |
| Restructuring charges - Americas                        | —                  | (285)           | —                  | (285)           |
| Restructuring charges - EMEA                            | (1,007)            | (1,491)         | (2,199)            | (2,324)         |
| Inventory adjustment relating to exit activities - Asia | —                  | —               | (526)              | —               |
| Restructuring charges - Asia                            | (114)              | —               | (661)              | —               |
| Total operating earnings <sup>(2)</sup>                 | \$63,357           | \$64,364        | \$127,536          | \$134,336       |

(1) Intersegment sales are presented on a cost-plus basis, which takes into consideration the effect of transfer prices between legal entities.

(2) The Company does not allocate interest expense or other (income) expense to the reportable segments.

### 15. Subsequent Events

On October 29, 2018, the Company entered into an agreement to acquire all issued and outstanding shares and certain assets of select entities belonging to the Alpha Group ("Alpha"). Based in Bellingham, Washington, Alpha is a global industry leader in the comprehensive commercial-grade energy solutions for broadband, telecom, renewable, industrial and traffic customers around the world. Of the total purchase consideration of \$750 million, \$650 million will be payable in cash, with the remaining \$100 million being payable in either cash or the Company's shares. The cash consideration will be funded using cash, existing credit facilities and new debt while any consideration payable in shares will be issued from the Company's treasury stock. The transaction is estimated to close in the next thirty (30) to sixty (60) days, subject to the satisfaction of customary closing conditions.

On November 7, 2018, the Board of Directors approved a quarterly cash dividend of \$0.175 per share of common stock to be paid on December 28, 2018, to stockholders of record as of December 14, 2018.





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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in EnerSys' filings with the Securities and Exchange Commission and its reports to stockholders. Generally, the inclusion of the words "anticipate," "believe," "expect," "future," "intend," "estimate," "will," "plans," or the negative of such terms and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management's then-current beliefs and assumptions regarding future events and operating performance and on information currently available to management, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company's 2018 Annual Report on Form 10-K (the "2018 Annual Report") and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Our actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including the following factors:

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we cannot control our fixed and variable costs;
- the raw materials in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of certain hazardous substances in our products;
- risks involved in our operations such as disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and local currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- general economic conditions in the markets in which we operate;
- competitiveness of the battery markets and other energy solutions for industrial applications throughout the world;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- litigation and regulatory proceedings to which we might be subject;
- our expectations concerning indemnification obligations;
- changes in our market share in the geographic business segments where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies, strategic gains and cost savings may be significantly harder to achieve, if at all, or may take longer to achieve;
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities;
- adverse changes in our short and long-term debt levels under our credit facilities;
- our exposure to fluctuations in interest rates on our variable-rate debt;

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our ability to attract and retain qualified management and personnel;  
our ability to maintain good relations with labor unions;  
credit risk associated with our customers, including risk of insolvency and bankruptcy;  
our ability to successfully recover in the event of a disaster affecting our infrastructure;  
terrorist acts or acts of war, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability; and

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the operation, capacity and security of our information systems and infrastructure.

This list of factors that may affect future performance is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered “non-GAAP financial measures” under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. EnerSys’ management uses the non-GAAP measures “primary working capital” and “primary working capital percentage” in its evaluation of business segment cash flow and financial position performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for cash flow determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company’s results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company’s ongoing operating results.

## **Overview**

EnerSys (the “Company,” “we,” or “us”) is the world’s largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute products such as battery chargers, power equipment, battery accessories, and outdoor cabinet enclosures. Additionally, we provide related aftermarket and customer-support services for our products. We market our products globally to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force.

We operate and manage our business in three geographic regions of the world—Americas, EMEA and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside the United States, and approximately 50% of our net sales were generated outside the United States. The Company has three reportable business segments based on geographic regions, defined as follows:

**Americas**, which includes North and South America, with our segment headquarters in Reading, Pennsylvania, USA;

**EMEA**, which includes Europe, the Middle East and Africa, with our segment headquarters in Zug, Switzerland; and

**Asia**, which includes Asia, Australia and Oceania, with our segment headquarters in Singapore.

We have two primary product lines: reserve power and motive power products. Net sales classifications by product line are as follows:

**Reserve power products** are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or “UPS” applications for computer and computer-controlled systems, and other specialty power applications, including medical and security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities, large-scale energy storage, energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships and tactical vehicles. Reserve power products also include thermally managed cabinets and enclosures for electronic equipment and batteries.

**Motive power products** are used to provide power for electric industrial forklifts used in manufacturing, warehousing and other material handling applications as well as mining equipment, diesel locomotive starting and other rail equipment.

## ***Economic Climate***

Recent indicators continue to suggest a mixed trend in economic activity among the different geographical regions. North America and EMEA are experiencing moderate economic growth, with the economic growth in the United States accelerating. Our Asia region continues to grow faster than any other region in which we do business.

## ***Volatility of Commodities and Foreign Currencies***

Our most significant commodity and foreign currency exposures are related to lead and the Euro, respectively. Historically, volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. As the global economic climate changes, we anticipate that our commodity costs and foreign currency exposures may continue to fluctuate as they have in the past several years. Over the past year, on a consolidated basis, we have experienced rising commodity costs.

## ***Customer Pricing***

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Approximately 30% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead. During the second quarter and six months of fiscal 2019,

where permitted, we increased our selling prices in response to increased commodity costs including other raw materials and freight.

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### Liquidity and Capital Resources

We believe that our financial position is strong, and we have substantial liquidity with \$545 million of available cash and cash equivalents and available and undrawn credit lines of approximately \$531 million at September 30, 2018 to cover short-term liquidity requirements and anticipated growth in the foreseeable future.

In fiscal 2018, we entered into a new credit facility (“2017 Credit Facility”) that comprises a \$600 million senior secured revolving credit facility (“2017 Revolver”) and a \$150 million senior secured term loan (“2017 Term Loan”) with a maturity date of September 30, 2022, which provides us with sufficient liquidity to fund acquisitions and stock repurchase programs.

A substantial majority of the Company’s cash and investments are held by foreign subsidiaries. The majority of that cash and investments is expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The Company believes that it has sufficient sources of domestic and foreign liquidity.

We believe that our strong capital structure and liquidity affords us access to capital for future capital expenditures, acquisition and stock repurchase opportunities and continued dividend payments.

### Results of Operations

#### Net Sales

##### Segment sales

|                 | Quarter ended<br>September 30, 2018    |                                     |  | Quarter ended<br>October 1, 2017    |                                     |  | Increase (Decrease) |         |
|-----------------|----------------------------------------|-------------------------------------|--|-------------------------------------|-------------------------------------|--|---------------------|---------|
|                 | In<br>Millions                         | Percentage<br>of Total<br>Net Sales |  | In<br>Millions                      | Percentage<br>of Total<br>Net Sales |  | In<br>Millions      | %       |
| Americas        | \$ 388.6                               | 58.8 %                              |  | \$ 341.5                            | 55.3 %                              |  | \$ 47.1             | 13.8 %  |
| EMEA            | 204.0                                  | 30.9                                |  | 197.9                               | 32.1                                |  | 6.1                 | 3.1     |
| Asia            | 67.9                                   | 10.3                                |  | 77.9                                | 12.6                                |  | (10.0 )             | (12.9 ) |
| Total net sales | \$ 660.5                               | 100.0 %                             |  | \$ 617.3                            | 100.0 %                             |  | \$ 43.2             | 7.0 %   |
|                 | Six months ended<br>September 30, 2018 |                                     |  | Six months ended<br>October 1, 2017 |                                     |  | Increase (Decrease) |         |
|                 | In<br>Millions                         | Percentage<br>of Total<br>Net Sales |  | In<br>Millions                      | Percentage<br>of Total<br>Net Sales |  | In<br>Millions      | %       |
| Americas        | \$ 781.1                               | 58.7 %                              |  | \$ 696.1                            | 56.1 %                              |  | \$ 85.0             | 12.2 %  |
| EMEA            | 414.5                                  | 31.1                                |  | 397.0                               | 32.0                                |  | 17.5                | 4.4     |
| Asia            | 135.8                                  | 10.2                                |  | 146.8                               | 11.9                                |  | (11.0 )             | (7.6 )  |
| Total net sales | \$ 1,331.4                             | 100.0 %                             |  | \$ 1,239.9                          | 100.0 %                             |  | \$ 91.5             | 7.4 %   |

Net sales increased \$43.2 million or 7.0% in the second quarter of fiscal 2019 as compared to the second quarter of fiscal 2018. This increase was the result of a 7% increase in organic volume and a 2% increase in pricing, partially offset by a 2% decrease in foreign currency translation impact.

Net sales increased \$91.5 million or 7.4% in the six months of fiscal 2019 as compared to the six months of fiscal 2018. This increase was the result of a 6% increase in organic volume and a 2% increase in pricing, partially offset by a 1% decrease in foreign currency translation impact.

The Americas segment’s net sales increased \$47.1 million or 13.8% in thesecond quarter of fiscal 2019 as compared to the second quarter of fiscal 2018, primarily due to a 12% increase in organic volume and a 3% increase in pricing, partially offset by a 1% decrease in foreign currency translation impact. Net sales increased \$85.0 million or 12.2% in the six months of fiscal 2019 as compared to the six months of fiscal 2018, primarily due to a 11% increase in organic volume and a 3% increase in pricing, partially offset by a 2% decrease in foreign currency translation impact.

The EMEA segment’s net sales increased \$6.1 million or 3.1% in thesecond quarter of fiscal 2019 as compared to the second quarter of fiscal 2018, primarily due to a 6% increase in organic volume, partially offset by a 3% decrease in foreign currency translation impact. Net sales

increased \$17.5 million or 4.4% in the six months of fiscal 2019 as compared to the six months of fiscal 2018, primarily due to a 3% increase in organic volume and a 1% increase in pricing.

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The Asia segment's net sales decreased \$10.0 million or 12.9% in the second quarter of fiscal 2019 as compared to the second quarter of fiscal 2018, primarily due to a 14% decrease in organic volume partially offset by a 1% increase in pricing. Net sales decreased \$11.0 million or 7.6% in the six months of fiscal 2019 as compared to the six months of fiscal 2018, primarily due to a 10% decrease in organic volume and a 1% increase each in pricing and foreign currency translation impact.

### Product line sales

|                 | Quarter ended<br>September 30, 2018    |                                     |   | Quarter ended<br>October 1, 2017    |                                     |   | Increase (Decrease) |       |
|-----------------|----------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|-------|
|                 | In<br>Millions                         | Percentage<br>of Total<br>Net Sales |   | In<br>Millions                      | Percentage<br>of Total<br>Net Sales |   | In<br>Millions      | %     |
| Reserve power   | \$313.4                                | 47.4                                | % | \$292.2                             | 47.3                                | % | \$ 21.2             | 7.2 % |
| Motive power    | 347.1                                  | 52.6                                |   | 325.1                               | 52.7                                |   | 22.0                | 6.8   |
| Total net sales | \$660.5                                | 100.0                               | % | \$617.3                             | 100.0                               | % | \$ 43.2             | 7.0 % |
|                 | Six months ended<br>September 30, 2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |       |
|                 | In<br>Millions                         | Percentage<br>of Total<br>Net Sales |   | In<br>Millions                      | Percentage<br>of Total<br>Net Sales |   | In<br>Millions      | %     |
| Reserve power   | \$637.4                                | 47.9                                | % | \$597.4                             | 48.2                                | % | \$ 40.0             | 6.7 % |
| Motive power    | 694.0                                  | 52.1                                |   | 642.5                               | 51.8                                |   | 51.5                | 8.0   |
| Total net sales | \$1,331.4                              | 100.0                               | % | \$1,239.9                           | 100.0                               | % | \$ 91.5             | 7.4 % |

Net sales of our reserve power products in the second quarter of fiscal 2019 increased \$21.2 million or 7.2% compared to the second quarter of fiscal 2018. The increase was primarily due to a 7% increase in organic volume and a 2% increase in pricing, partially offset by a 2% decrease in foreign currency translation impact. Net sales increased \$40.0 million or 6.7% in the six months of fiscal 2019 as compared to the six months of fiscal 2018, primarily due to a 6% increase in organic volume and a 1% increase in pricing.

Net sales of our motive power products in the second quarter of fiscal 2019 increased by \$22.0 million or 6.8% compared to the second quarter of fiscal 2018. The increase was primarily due to a 7% increase in organic volume and a 2% increase in pricing, partially offset by a 2% decrease in foreign currency translation impact. Net sales increased \$51.5 million or 8.0% in the six months of fiscal 2019 as compared to the six months of fiscal 2018, primarily due to a 6% increase in organic volume and a 2% increase in pricing.

### Gross Profit

|              | Quarter ended<br>September 30, 2018    |                                     |   | Quarter ended<br>October 1, 2017    |                                     |   | Increase (Decrease) |       |
|--------------|----------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|-------|
|              | In<br>Millions                         | Percentage<br>of Total<br>Net Sales |   | In<br>Millions                      | Percentage<br>of Total<br>Net Sales |   | In<br>Millions      | %     |
| Gross Profit | \$160.9                                | 24.4                                | % | \$160.3                             | 26.0                                | % | \$ 0.6              | 0.4 % |
|              | Six months ended<br>September 30, 2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |       |
|              | In<br>Millions                         | Percentage<br>of Total<br>Net Sales |   | In<br>Millions                      | Percentage<br>of Total<br>Net Sales |   | In<br>Millions      | %     |
| Gross Profit | \$326.2                                | 24.5                                | % | \$323.8                             | 26.1                                | % | \$ 2.4              | 0.8 % |

Gross profit increased \$0.6 million or 0.4% in the second quarter and increased \$2.4 million or 0.8% in the six months of fiscal 2019 compared to the comparable prior year periods of fiscal 2018. Gross profit, as a percentage of net sales, decreased 160 basis points in both the second quarter and six months of fiscal 2019 compared to the second quarter and six months of fiscal 2018, respectively. This decrease in the gross profit margin in both the second quarter and six months is primarily due to an increase in commodity costs of approximately \$14 million and \$30 million, respectively, which were offset by increases in organic volume and pricing, but still resulted in gross margin dilution.



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### Operating Items

|                       | Quarter ended<br>September 30,<br>2018 |                                     |   | Quarter ended<br>October 1, 2017    |                                     |   | Increase (Decrease) |        |   |
|-----------------------|----------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|--------|---|
|                       | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      | % |
| Operating expenses    | \$96.5                                 | 14.6                                | % | \$94.1                              | 15.3                                | % | \$2.4               | 2.4    | % |
| Restructuring charges | \$1.1                                  | 0.2                                 | % | \$1.8                               | 0.3                                 | % | \$(0.7)             | (36.9) | % |
|                       |                                        |                                     |   |                                     |                                     |   |                     |        |   |
|                       | Six months ended<br>September 30, 2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |        |   |
|                       | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %      | % |
| Operating expenses    | \$195.8                                | 14.7                                | % | \$186.8                             | 15.1                                | % | \$9.0               | 4.8    | % |
| Restructuring charges | \$2.9                                  | 0.2                                 | % | \$2.6                               | 0.2                                 | % | \$0.3               | 9.6    | % |

Operating expenses, as a percentage of sales, decreased 70 basis points in the second quarter of fiscal 2019 and decreased 40 basis points in the six months of fiscal 2019, compared to the comparable prior year periods of fiscal 2018. Excluding the impact of the foreign currency translation, the increase in dollars was primarily due to payroll related expenses.

Selling expenses, our main component of operating expenses, were 47.9% and 48.7% of total operating expenses in the second quarter and six months, respectively, compared to 52.1% and 52.7% of total operating expenses in the second quarter and six months of fiscal 2018.

### Restructuring charges

Included in our second quarter of fiscal 2019 operating results are restructuring charges of \$1.0 million in EMEA and \$0.1 million in Asia. The charges in the EMEA relate to improving efficiencies of our general operations, while charges in Asia relate to a strategic shift in our India operations from reserve power production to motive power production.

Included in our second quarter of fiscal 2018 operating results are restructuring charges of \$0.3 million in Americas and \$1.5 million in EMEA. The charges in Americas related to the sale of the building at our Cleveland, Ohio charger manufacturing facility in the U.S., which ceased operations in fiscal 2017, while charges in EMEA related to restructuring our motive power production, supply chain and general operations in EMEA to improve efficiencies.

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## Operating Earnings

|                                  | Quarter ended<br>September 30, 2018 |                                                    |   | Quarter ended<br>October 1, 2017 |                                                    |   | Increase (Decrease) |         |   |
|----------------------------------|-------------------------------------|----------------------------------------------------|---|----------------------------------|----------------------------------------------------|---|---------------------|---------|---|
|                                  | In<br>Millions                      | Percentage<br>of Total<br>Net Sales <sup>(1)</sup> |   | In<br>Millions                   | Percentage<br>of Total<br>Net Sales <sup>(1)</sup> |   | In<br>Millions      | %       |   |
| Americas                         | \$48.3                              | 12.4                                               | % | \$44.1                           | 12.9                                               | % | \$ 4.2              | 9.4     | % |
| EMEA                             | 13.8                                | 6.8                                                |   | 17.9                             | 9.0                                                |   | (4.1 )              | (22.3 ) |   |
| Asia                             | 2.3                                 | 3.5                                                |   | 4.2                              | 5.4                                                |   | (1.9 )              | (44.0 ) |   |
| Subtotal                         | 64.4                                | 9.8                                                |   | 66.2                             | 10.7                                               |   | (1.8 )              | (2.5 )  |   |
| Restructuring charges - Americas | —                                   | —                                                  |   | (0.3 )                           | (0.1 )                                             |   | 0.3                 | NM      |   |
| Restructuring charges - EMEA     | (1.0 )                              | (0.5 )                                             |   | (1.5 )                           | (0.8 )                                             |   | 0.5                 | (32.5 ) |   |
| Restructuring charges - Asia     | (0.1 )                              | (0.2 )                                             |   | —                                | —                                                  |   | (0.1 )              | NM      |   |
| Total operating earnings         | \$63.3                              | 9.6                                                | % | \$64.4                           | 10.4                                               | % | \$ (1.1 )           | (1.6 )% |   |

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

NM = not meaningful

|                                                        | Six months ended<br>September 30, 2018 |                                                    |   | Six months ended<br>October 1, 2017 |                                                    |   | Increase (Decrease) |         |  |
|--------------------------------------------------------|----------------------------------------|----------------------------------------------------|---|-------------------------------------|----------------------------------------------------|---|---------------------|---------|--|
|                                                        | In<br>Millions                         | Percentage<br>of Total<br>Net Sales <sup>(1)</sup> |   | In<br>Millions                      | Percentage<br>of Total<br>Net Sales <sup>(1)</sup> |   | In<br>Millions      | %       |  |
| Americas                                               | \$96.1                                 | 12.3                                               | % | \$97.9                              | 14.1                                               | % | \$ (1.8 )           | (1.9 )% |  |
| EMEA                                                   | 31.0                                   | 7.5                                                |   | 31.7                                | 8.0                                                |   | (0.7 )              | (1.7 )  |  |
| Asia                                                   | 3.8                                    | 2.8                                                |   | 7.4                                 | 5.1                                                |   | (3.6 )              | (48.2 ) |  |
| Subtotal                                               | 130.9                                  | 9.8                                                |   | 137.0                               | 11.0                                               |   | (6.1 )              | (4.4 )  |  |
| Restructuring charges - Americas                       | —                                      | —                                                  |   | (0.3 )                              | —                                                  |   | 0.3                 | NM      |  |
| Restructuring charges - EMEA                           | (2.2 )                                 | (0.5 )                                             |   | (2.3 )                              | (0.6 )                                             |   | 0.1                 | (5.4 )  |  |
| Inventory write-off relating to exit activities - Asia | (0.5 )                                 | (0.4 )                                             |   | —                                   | —                                                  |   | (0.5 )              | NM      |  |
| Restructuring charges - Asia                           | (0.7 )                                 | (0.5 )                                             |   | —                                   | —                                                  |   | (0.7 )              | NM      |  |
| Total operating earnings                               | \$127.5                                | 9.6                                                | % | \$134.4                             | 10.8                                               | % | \$ (6.9 )           | (5.1 )% |  |

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

NM = not meaningful

Operating earnings decreased \$1.1 million or 1.6% and decreased \$6.9 million or 5.1% in the second quarter and six months of fiscal 2019, respectively, compared to the second quarter and six months of fiscal 2018. Operating earnings, as a percentage of net sales, decreased 80 basis points and 120 basis points in the second quarter and six months of fiscal 2019, respectively, compared to the second quarter and six months of fiscal 2018, primarily due to an increase in commodity costs and freight, partially offset by organic volume improvement, price recoveries and cost saving initiatives.

The Americas segment's operating earnings, excluding restructuring charges, decreased 50 basis points and 180 basis points in the second quarter and six months of fiscal 2019, respectively, compared to the second quarter and six months of fiscal 2018 primarily due to higher commodity costs, partially offset by organic volume improvement, price recoveries and cost saving initiatives.

The EMEA segment's operating earnings, excluding restructuring charges, decreased 220 basis points and 50 basis points in the second quarter and six months of fiscal 2019, respectively, compared to the second quarter and six months of fiscal 2018, primarily due to higher commodity costs and freight, partially offset by organic volume improvement and cost saving initiatives.

The Asia segment's operating earnings, excluding restructuring charges, decreased 190 basis points and 230 basis points in the second quarter and six months of fiscal 2019, respectively, compared to the second quarter and six months of fiscal 2018, primarily due to a decrease in organic volume from a slow down in telecom spending during the six months of fiscal 2019 in the People's Republic of China and higher commodity costs.



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### Interest Expense

|                  | Quarter ended<br>September 30,<br>2018 |                                     |   | Quarter ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |         |
|------------------|----------------------------------------|-------------------------------------|---|----------------------------------|-------------------------------------|---|---------------------|---------|
|                  | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %       |
| Interest expense | \$6.4                                  | 1.0                                 | % | \$6.5                            | 1.1                                 | % | \$ (0.1 )           | (1.5 )% |

  

|                  | Six months ended<br>September 30,<br>2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |       |
|------------------|-------------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|-------|
|                  | In<br>Millions                            | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %     |
| Interest expense | \$12.9                                    | 1.0                                 | % | \$12.2                              | 1.0                                 | % | \$ 0.7              | 5.6 % |

Interest expense of \$6.4 million in the second quarter of fiscal 2019 (net of interest income of \$0.5 million) was \$0.1 million lower than the interest expense of \$6.5 million in the second quarter of fiscal 2018 (net of interest income of \$0.7 million). Interest expense of \$12.9 million in the six months quarter of fiscal 2019 (net of interest income of \$1.0 million) was \$0.7 million higher than the interest expense of \$12.2 million in the six months quarter of fiscal 2018 (net of interest income of \$1.4 million).

The decrease in interest expense in the second quarter of fiscal 2019 is primarily due to lower average debt and the repayment of our high interest debt in South America, offset by higher interest rates. The increase in interest expense in the six months of fiscal 2019 is primarily due to higher interest rates, partially offset by lower average debt. Our average debt outstanding was \$628.3 million and \$619.8 million in the second quarter and six months of fiscal 2019 compared to \$680.5 million and \$654.5 million in the second quarter and six months of fiscal 2018.

Included in interest expense are non-cash charges for deferred financing fees of \$0.3 million and \$0.6 million in the second quarter and six months of fiscal 2019 compared to \$0.6 million and \$1.0 million, in the second quarter and six months of fiscal 2018.

### Other (Income) Expense, Net

|                             | Quarter ended<br>September 30,<br>2018 |                                     |   | Quarter ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |    |
|-----------------------------|----------------------------------------|-------------------------------------|---|----------------------------------|-------------------------------------|---|---------------------|----|
|                             | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                   | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %  |
| Other (income) expense, net | \$(1.3)                                | (0.2)                               | % | \$2.8                            | 0.4                                 | % | \$ (4.1 )           | NM |

  

|                             | Six months ended<br>September 30,<br>2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |    |
|-----------------------------|-------------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|----|
|                             | In<br>Millions                            | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %  |
| Other (income) expense, net | \$(0.9)                                   | (0.1)                               | % | \$6.1                               | 0.4                                 | % | \$ (7.0 )           | NM |

NM = not meaningful

Other (income) expense, net in the second quarter of fiscal 2019 was income of \$1.3 million compared to expense of \$2.8 million in the second quarter of fiscal 2018. Other (income) expense, net in the six months of fiscal 2019 was income of \$0.9 million compared to expense of \$6.1 million in the six months of fiscal 2018. Foreign currency impact resulted in a gain of \$1.8 million and \$2.2 million, in the second quarter of fiscal 2019 and six months of fiscal 2019, respectively, compared to a foreign currency loss of \$2.5 million and \$5.1 million in the second quarter and six months of fiscal 2018, respectively.

The adoption of ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)" in fiscal 2019 resulted in pension expense components other than service, being recorded in Other (income) expense, net. These amounted to \$0.3 million and \$0.4 million in the second quarter of fiscal 2019 and fiscal 2018, respectively, and were \$0.6 million and \$0.8 million in the six months of fiscal 2019 and fiscal 2018, respectively.



Table of Contents**Earnings Before Income Taxes**

|                              | Quarter ended<br>September 30,<br>2018 |                                     |   | Quarter ended<br>October 1, 2017    |                                     |   | Increase (Decrease) |         |
|------------------------------|----------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|---------|
|                              | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %       |
| Earnings before income taxes | \$58.2                                 | 8.8                                 | % | \$55.1                              | 8.9                                 | % | \$ 3.1              | 5.8 %   |
|                              | Six months ended<br>September 30, 2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |         |
|                              | In<br>Millions                         | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %       |
| Earnings before income taxes | \$115.5                                | 8.7                                 | % | \$116.1                             | 9.4                                 | % | \$ (0.6 )           | (0.4 )% |

As a result of the above, earnings before income taxes in the second quarter of fiscal 2019 increased \$3.1 million, or 5.8%, compared to the second quarter of fiscal 2018 and decreased \$0.6 million or 0.4%, in the six months of fiscal 2019, compared to the six months of fiscal 2018.

**Income Tax Expense**

|                    | Quarter ended<br>September 30,<br>2018    |                                     |   | Quarter ended<br>October 1, 2017    |                                     |   | Increase (Decrease) |          |
|--------------------|-------------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---------------------|----------|
|                    | In<br>Millions                            | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %        |
| Income tax expense | \$10.8                                    | 1.6                                 | % | \$11.9                              | 1.9                                 | % | \$ (1.1 )           | (9.4 )%  |
| Effective tax rate | 18.6%                                     |                                     |   | 21.7%                               |                                     |   | (3.1)%              |          |
|                    | Six months ended<br>September 30,<br>2018 |                                     |   | Six months ended<br>October 1, 2017 |                                     |   | Increase (Decrease) |          |
|                    | In<br>Millions                            | Percentage<br>of Total<br>Net Sales | % | In<br>Millions                      | Percentage<br>of Total<br>Net Sales | % | In<br>Millions      | %        |
| Income tax expense | \$22.1                                    | 1.7                                 | % | \$24.6                              | 2.0                                 | % | \$ (2.5 )           | (10.0 )% |
| Effective tax rate | 19.1%                                     |                                     |   | 21.2%                               |                                     |   | (2.1)%              |          |

The Company's income tax provision consists of federal, state and foreign income taxes. The tax provision for thesecond quarter of fiscal 2019 and 2018 was based on the estimated effective tax rates applicable for the full years ending March 31, 2019 and March 31, 2018, respectively, after giving effect to items specifically related to the interim periods. Our effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions in which we operate, change in tax laws and the amount of our consolidated income before taxes.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. Among the significant changes resulting from the law, the Tax Act reduced the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, and required companies to pay a one-time transition tax on unrepatriated cumulative non-U.S. earnings of foreign subsidiaries and created new taxes on certain foreign sourced earnings. The U.S. statutory tax rate for fiscal 2019 is 21.0%.

As of September 30, 2018, we have not completed our accounting for the tax effects of enactment of the Tax Act; however, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. We did not obtain additional information during the quarter affecting the provisional amounts initially recorded for the year ended March 31, 2018. In accordance with Staff Accounting Bulletin 118, these amounts are considered provisional and may be affected by future guidance, if and when issued. The estimate of our transition tax liability may change when we finalize both the calculation of post-1986 foreign earnings and profits previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets.

Beginning in fiscal 2019, the global intangible low-taxed income ("GILTI"), foreign derived intangible income ("FDII"), and base-erosion and anti-abuse ("BEAT") provisions became effective. The GILTI provisions require us to include in our US income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. Due to the complexities of the GILTI tax rules, we are continuing to evaluate the application of ASC 740. Under US GAAP, we are allowed to make an accounting policy choice of either (1) treating the taxes due on future US inclusions in taxable income as a current-period expense when incurred ("period cost method") or (2) factoring amounts into a Company's measurement of its deferred taxes ("deferred method"). As of the second quarter of fiscal 2019, we have not elected an

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accounting policy treatment for the method we would utilize for GILTI. Based on existing legislative guidance and interpretation, we have estimated the impact on the tax provision of the GILTI inclusion, offset by the related foreign tax credit, and expects the annual effective tax rate to be increased by approximately 2.8%.

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FDII allows a new deduction for U.S. corporations up to 37.5% of foreign derived intangible income. This is an export incentive that reduces the tax on foreign derived sales and service income in excess of a base amount to 13.125%. Based upon the existing legislative guidance and interpretation, we have estimated the impact on the annual effective tax rate to be decreased by approximately 0.5%.

The BEAT provisions eliminate the deductions of certain base-erosion payments to related foreign corporations and impose a minimum tax if greater than regular tax. We do not expect to be subject to BEAT in fiscal 2019.

The consolidated effective income tax rates were 18.6% and 21.7%, respectively, for the second quarters of fiscal 2019 and 2018 and were 19.1% and 21.2% for the six months of fiscal 2019 and 2018. The rate decrease in the second quarter and six months of fiscal 2019 compared to the comparable prior year periods of fiscal 2018 is primarily due to changes in the mix of earnings among tax jurisdictions and items related to the Tax Act. The Tax Act items accounted for a net decrease of 2.2% comprising a 4.5% decrease for the rate change, a 0.5% decrease for the FDII deduction and a 2.8% increase for GILTI inclusion.

Foreign income as a percentage of worldwide income is estimated to be 68% for fiscal 2019 compared to 63% for fiscal 2018. The foreign effective income tax rates for the six months of fiscal 2019 and 2018 were 11.1% and 11.2%, respectively. The rate decrease compared to the prior year period is primarily due to changes in the mix of earnings among tax jurisdictions. Income from the Company's Swiss subsidiary comprised a substantial portion of our overall foreign mix of income and is taxed at an effective income tax rate of approximately 6%.

## **Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies from those discussed under the caption "Critical Accounting Policies and Estimates" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in 2018 Annual Report. The adoption of ASC 606 did not result in a material change to our "Revenue Recognition" critical accounting estimate. See *Recently Adopted Accounting Pronouncements* in Note 1- Basis of Presentation, to the Consolidated Condensed Financial Statements, for further information on the adoption of ASC 606.

The Company issued performance condition-based awards in the second quarter ended September 30, 2018. The fair value of performance condition based awards are recognized as compensation expense beginning at the time in which the performance conditions are deemed probable of achievement, which the Company assesses at each reporting period. Once a performance condition is considered probable, the Company records compensation expense based on the portion of the service period elapsed to date with respect to that award, with a cumulative catch-up, net of estimated forfeitures, and recognize any remaining compensation expense, if any, over the remaining requisite service period using the straight method as the awards are subject to cliff vesting. See Note 11, Stock-Based Compensation, to the Consolidated Condensed Financial Statements, for further information.

## **Liquidity and Capital Resources**

Operating activities provided cash of \$84.0 million in the six months of fiscal 2019 compared to \$45.5 million in the comparable period of fiscal 2018. In the six months of fiscal 2019, cash provided by operating activities was primarily from net earnings of \$93.4 million, depreciation and amortization of \$27.3 million, stock-based compensation of \$9.1 million, non-cash charges relating to write-off of assets of \$1.1 million, non-cash interest of \$0.6 million and provision for deferred taxes of \$0.8 million. Cash provided by earnings as adjusted for non-cash items were partially offset by the increase in primary working capital of \$22.3 million, net of currency translation changes, and an outflow of \$4.2 million relating to prepaid assets and \$20.6 million relating to accrued expenses for income tax payments.

In the six months of fiscal 2018, cash provided by operating activities was primarily from net earnings of \$91.5 million, depreciation and amortization of \$26.6 million, stock-based compensation of \$9.5 million, provision of doubtful accounts of \$0.8 million and non-cash interest of \$1.0 million. Cash provided by earnings as adjusted for non-cash items was partially offset by the increase in primary working capital of \$46.8 million, net of currency translation changes, decrease in accrued expenses of \$32.4 million, comprising primarily of legal proceedings related payments, payroll related expenses and income taxes and an increase in prepaid and other current assets of \$5.4 million, comprising primarily of prepaid taxes.

As explained in the discussion of our use of "non-GAAP financial measures," we monitor the level and percentage of primary working capital to sales. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable. The resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary working capital percentage. Primary working capital was \$666.0 million (yielding a primary working capital percentage of 25.2%) at September 30, 2018, \$701.6 million (yielding a primary working capital percentage of 25.7%) at March 31, 2018 and \$690.2 million at October 1, 2017 (yielding a primary working capital percentage of 28.0%). The primary working capital percentage of 25.2% at September 30, 2018 is 50 basis points lower than that for March 31, 2018, and 280



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basis points lower than that for the prior year period. Excluding the impact of certain reclasses relating to the adoption of ASC 606, primary working capital percentage was 26.0%, which is 30 basis points higher than that for March 31, 2018 and 200 basis points lower than that for the prior year period. The increase in primary working capital from March 31, 2018 is primarily due to inventories, on account of rising commodity costs and freight, and a longer supply chain on select products. The decrease in primary working capital from the prior year quarter of October 1, 2017 was due to increased annualized sales, as well as improvements in all three components of primary working capital.

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Primary working capital and primary working capital percentages at September 30, 2018, March 31, 2018 and October 1, 2017 are computed as follows:

(\$ in Millions)

| Balance At         | Trade<br>Receivables | Inventory | Accounts<br>Payable | Total    | Quarter<br>Revenue<br>Annualized | Primary<br>Working<br>Capital % |
|--------------------|----------------------|-----------|---------------------|----------|----------------------------------|---------------------------------|
| September 30, 2018 | \$ 519.5             | \$ 396.4  | \$(249.9)           | \$ 666.0 | \$ 2,641.8                       | 25.2 %                          |
| March 31, 2018     | 546.3                | 414.2     | (258.9 )            | 701.6    | 2,732.2                          | 25.7                            |
| October 1, 2017    | 502.9                | 422.5     | (235.2 )            | 690.2    | 2,469.2                          | 28.0                            |

Investing activities used cash of \$35.3 million in the six months of fiscal 2019 and primarily consisted of capital expenditures relating to plant improvements.

Investing activities used cash of \$29.4 million in the six months of fiscal 2018 and primarily consisted of capital expenditures of \$26.6 million, and a \$3.0 million acquisition.

Financing activities provided cash of \$6.8 million in the six months of fiscal 2019. During the six months of fiscal 2019, we borrowed \$84.5 million under the 2017 Revolver and repaid \$65.0 million. Payment of cash dividends to our stockholders were \$14.7 million and payment of taxes related to net share settlement of equity awards were \$3.4 million. Proceeds from stock options were \$8.3 million and net payments on short-term debt were \$2.9 million.

Financing activities used cash of \$8.3 million in the six months of fiscal 2018. During the second quarter of fiscal 2018, we entered into a 2017 Credit Facility and borrowed \$343.5 million under the 2017 Revolver and \$150.0 million under the 2018 Term loan. Repayments on the 2017 Revolver during the six months of fiscal 2018 were \$58.3 million. Borrowings and repayments on the 2011 Revolver during the six months of fiscal 2018 were \$147.1 million and \$312.1 million, respectively, and repayment of the 2011 Term loan was \$127.5 million. On August 4, 2017, the outstanding balance on the 2011 Revolver and the 2011 Term Loan of \$240.0 million and \$123.0 million, respectively, was repaid utilizing the proceeds from the 2017 Credit Facility. We also paid \$100.0 million under an accelerated share repurchase agreement ("ASR"), which was settled on January 5, 2018, the scheduled settlement date for the ASR. Treasury stock open market purchases were \$21.2 million, payment of cash dividends to our stockholders were \$15.0 million, payment of taxes related to net share settlement of equity awards were \$7.4 million and debt issuance costs were \$2.7 million. Net repayments on short-term debt were \$5.4 million and proceeds from stock options were \$0.7 million.

Currency translation had a negative impact of \$32.5 million on our cash balance in the six months of fiscal 2019 compared to a positive impact of \$32.0 million in the six months of fiscal 2018. In the six months of fiscal 2019, principal currencies in which we do business such as the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso weakened versus the U.S. dollar.

As a result of the above, total cash and cash equivalents increased by \$23.1 million to \$545.2 million, in the six months of fiscal 2019 compared to an increase by \$39.8 million to \$540.1 million, in the comparable period of fiscal 2018.

All obligations under our 2017 Credit Facility are secured by, among other things, substantially all of our U.S. assets. The 2017 Credit Facility contains various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under this credit facility.

We are in compliance with all covenants and conditions under our credit agreement and our 5.00% Senior Notes due 2023. We believe that we will continue to comply with these covenants and conditions, and that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 8 to the Consolidated Financial Statements included in our 2018 Annual Report and Note 9 to the Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for a detailed description of our debt.

### **Contractual Obligations and Commercial Commitments**

A table of our obligations is contained in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations of our 2018 Annual Report for the year ended March 31, 2018. As of September 30, 2018, we had no significant changes to our contractual obligations table contained in our 2018 Form 10-K.



Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Market Risks***

Our cash flows and earnings are subject to fluctuations resulting from changes in raw material costs, foreign currency exchange rates and interest rates. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

***Counterparty Risks***

We have entered into lead forward purchase contracts and foreign exchange forward and purchased option contracts to manage the risk associated with our exposures to fluctuations resulting from changes in raw material costs and foreign currency exchange rates. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at September 30, 2018 are \$4.3 million (pre-tax). Those contracts that result in an asset position at September 30, 2018 are \$0.1 million (pre-tax) and the vast majority of these will settle within one year. The impact on the Company due to nonperformance by the counterparties has been evaluated and not deemed material.

***Interest Rate Risks***

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements as well as short-term borrowings in our foreign subsidiaries.

A 100 basis point increase in interest rates would have increased interest expense, on an annualized basis, by approximately \$3.2 million on the variable rate portions of our debt.

***Commodity Cost Risks – Lead Contracts***

We have a significant risk in our exposure to certain raw materials. Our largest single raw material cost is for lead, for which the cost remains volatile. In order to hedge against increases in our lead cost, we have entered into forward contracts with financial institutions to fix the price of lead. A vast majority of such contracts are for a period not extending beyond one year. We had the following contracts outstanding at the dates shown below:

| <b>Date</b>        | <b>\$'s Under Contract (in millions)</b> | <b># Pounds Purchased (in millions)</b> | <b>Average Cost/Pound</b> | <b>Approximate % of Lead Requirements (1)</b> |
|--------------------|------------------------------------------|-----------------------------------------|---------------------------|-----------------------------------------------|
| September 30, 2018 | \$ 67.5                                  | 68.9                                    | \$ 0.98                   | 12 %                                          |
| March 31, 2018     | 72.2                                     | 62.9                                    | 1.15                      | 14                                            |
| October 1, 2017    | 53.2                                     | 50.1                                    | 1.06                      | 9                                             |

(1) Based on approximate annual lead requirements for the periods then ended.

For the remaining two quarters of this fiscal year, we believe approximately 56% of the cost of our lead requirements is known. This takes into account the hedge contracts in place at September 30, 2018, lead purchased by September 30, 2018 that will be reflected in future costs under our FIFO accounting policy, and the benefit from our lead tolling program.

We estimate that a 10% increase in our cost of lead would have increased our cost of goods sold by approximately \$18 million and \$36 million, in the second quarter and six months of fiscal 2019.

***Foreign Currency Exchange Rate Risks***

We manufacture and assemble our products globally in the Americas, EMEA and Asia. Approximately 50% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso.

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We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and intercompany and third party trade transactions. On a selective basis, we enter into foreign currency forward contracts and purchase option

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contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

We hedge approximately 10% - 15% of the nominal amount of our known foreign exchange transactional exposures. We primarily enter into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. The vast majority of such contracts are for a period not extending beyond one year.

Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. We also selectively hedge anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with Topic 815 - Derivatives and Hedging.

At September 30, 2018 and October 1, 2017, we estimate that an unfavorable 10% movement in the exchange rates would have adversely changed our hedge valuations by approximately \$2.5 million and \$3.8 million, respectively.

**Agreement to Acquire Alpha Group**

On October 29, 2018, EnerSys entered into a Share Purchase Agreement (the “Purchase Agreement”) with AlphaTec Ltd. (the “ATS Seller”), the sole shareholder of Alpha Technologies Services, Inc. (“ATS”); Alpha Innovations Ltd., Radiant Energy Systems Ltd. and AlphaTec Ltd. (collectively, the “ATL Sellers” and together with the ATS Seller, the “Sellers” or “Alpha”), the shareholders of Alpha Technologies Ltd. (“ATL”); and Fortis Advisors LLC, as seller representative. Pursuant to the terms of the Purchase Agreement, EnerSys (through one or more wholly owned subsidiaries) will acquire all issued and outstanding shares of ATS and ATL, and will acquire substantially all of the assets of Alpha Technologies Inc. and certain assets of Altair Advanced Industries, Inc. and other affiliates of ATS and ATL, in each case in accordance with the terms and conditions of the Restructuring Agreements (such stock and asset acquisitions being collectively, the “Transaction”). Capitalized terms used, but undefined herein, have the meanings ascribed to them in the Purchase Agreement.

Under the terms of the Purchase Agreement, the total consideration for the Transaction is \$750 million, which consists of \$650 million in cash, to be funded using existing cash and credit facilities, and \$100 million in shares of our common stock, at a per share price based on the thirty-day volume weighted average stock price of our common stock at the closing of the Transaction (the “Closing VWAP”). The equity component of total consideration may be decreased (and the cash component correspondingly increased) (i) at the election of the Sellers if the Closing VWAP is greater than \$95.00, or (ii) at the election of EnerSys if the Closing VWAP is less than \$65.00. Assuming no adjustment in the mix of total consideration based on the Closing VWAP, EnerSys common stock issued at the closing of the Transactions is expected to represent approximately 3% of its issued and outstanding shares.

Upon the closing of the Transaction, EnerSys will enter into five-year Non-Compete and Restrictive Covenant Agreements with Fred Kaiser, the owner of ATS and ATL, and Grace Borsari, the owner of Altair Advanced Industries, Inc. The Transaction is subject to certain closing conditions, including the receipt of governmental regulatory approvals and the proper conveyance of all required closing deliverables. The Transaction is expected to close within thirty (30) to sixty (60) days of signing, subject to the satisfaction of customary closing conditions.

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**ITEM 4. CONTROLS AND PROCEDURES**

(a) Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as noted below.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we are involved in litigation incidental to the conduct of our business. See Litigation and Other Legal Matters in Note 7 - Commitments, Contingencies and Litigation to the Consolidated Condensed Financial Statements, which is incorporated herein by reference.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2018 Annual Report for the year ended March 31, 2018, which could materially affect our business, financial condition or future results and the following relating to our recently announced agreement to acquire Alpha.

*The regulatory approvals and any other required approvals in connection with the Transaction may not be obtained on the proposed terms or on the anticipated schedule.*

The completion of the Transaction will depend upon a number of conditions being satisfied, including, among others, obtaining all regulatory approvals required to complete the Transaction, including the expiration or early termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and any required foreign regulatory approvals, and the absence of any injunction prohibiting the Transaction and absence of any legal requirements enacted by a court or other governmental entity since the date of the Purchase Agreement that remain in effect prohibiting consummation of the Transaction. We can provide no assurance that all required approvals will be obtained on the anticipated schedule, or at all.

The waiting period with respect to the notifications filed under the HSR Act expires 30 calendar days after such filings, unless otherwise extended or terminated. The Federal Trade Commission ("FTC") or Department of Justice ("DOJ") may effectively extend the statutory waiting period by requesting additional information regarding the Transaction and its potential effects on competition. Also, at any time before or after completion of the Transaction, the FTC or the DOJ could act under the antitrust laws to prevent a substantial lessening of competition or the creation of a monopoly, including by seeking to enjoin completion of the Transaction or seeking divestiture of our or Alpha's assets, businesses or product lines.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table summarizes the number of shares of common stock we purchased from participants in our equity incentive plans as well as repurchases of common stock authorized by the Board of Directors. As provided by the Company's equity incentive plans, (a) vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Company's equity incentive plans to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise and (b) the withholding tax requirements related to the vesting and settlement of restricted stock units and market condition-based share units may be satisfied by the surrender of shares of the Company's common stock.

**Purchases of Equity Securities**

| Period                         | (a)<br>Total number<br>of shares (or<br>units)<br>purchased | (b)<br>Average price<br>paid<br>per share (or<br>unit) | (c)<br>Total number of<br>shares (or units)<br>purchased as part of<br>publicly announced<br>plans or programs | (d)<br>Maximum number (or<br>approximate dollar<br>value) of shares (or units)<br>that may be purchased<br>under the plans or<br>programs (1) (2) |
|--------------------------------|-------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| July 2 – July 29, 2018         | —                                                           | \$ —                                                   | —                                                                                                              | \$ 100,000,000                                                                                                                                    |
| July 30 – August 26, 2018      | 26,835                                                      | 78.71                                                  | —                                                                                                              | 100,000,000                                                                                                                                       |
| August 27 – September 30, 2018 | —                                                           | —                                                      | —                                                                                                              | 100,000,000                                                                                                                                       |
| Total                          | 26,835                                                      | \$ 78.71                                               | —                                                                                                              |                                                                                                                                                   |

The Company's Board of Directors has authorized the Company to repurchase up to such number of shares as shall equal the dilutive effects of any equity (1) based award granted during such fiscal year under the 2017 Equity Incentive Plan and the number of shares exercised through stock option awards during such fiscal year.

(2) On November 8, 2017, the Company announced the establishment of a \$100 million stock repurchase authorization, with no expiration date. The authorization is in addition to the existing stock repurchase programs.

**Item 4. Mine Safety Disclosures**

Not applicable.





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**ITEM 6.EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description of Exhibit</b>                                                                                                                                                                                      |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                       | <u>Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).</u> |
| 3.2                       | <u>Third Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-32253) filed on August 3, 2016).</u>                                   |
| 31.1                      | <u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).</u>                                                               |
| 31.2                      | <u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).</u>                                                               |
| 32.1                      | <u>Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>     |
| 101.INS                   | XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.                                                    |
| 101.SCH                   | XBRL Taxonomy Extension Schema Document                                                                                                                                                                            |
| 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                              |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                               |
| 101.LAB                   | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                    |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                             |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERSYS (Registrant)

By /s/ Michael J. Schmittlein

Michael J. Schmittlein

Chief Financial Officer

Date: November 7, 2018