HUBBELL INC
Form 10-Q
October 24, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

þ 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 PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ______________
Commission File Number 1-2958

HUBBELL INCORPORATED
(Exact name of registrant as specified in its charter)

STATE OF CONNECTICUT	06-0397030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
40 Waterview Drive, Shelton, CT	06484
(Address of principal executive offices)	(Zip Code)
(475) 882-4000	
(Registrant's telephone number, including area code)	

N/A
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark	YES	NO
• 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.	þ	¨
• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	þ	¨
• 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.
(Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer (Do not check if a smaller reporting company) ¨	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 standard provided pursuant to Section 13(a) of the Exchange Act. ¨		

•

whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ þ

The number of outstanding shares of Hubbell Common Stock as of October 22, 2018 was 54,706,738.

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PART IFINANCIAL INFORMATION

ITEM 1 Financial Statements

Condensed Consolidated Statements of Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Net sales	$1,179.7	$950.5	$3,337.6	$2,751.1
Cost of goods sold	830.7	642.9	2,357.8	1,885.4
Gross profit	349.0	307.6	979.8	865.7
Selling & administrative expenses	185.2	157.5	559.5	473.4
Operating income	163.8	150.1	420.3	392.3
Interest expense, net	(18.4)	(11.6)	(54.5)	(34.3)
Loss on extinguishment of debt	—	(10.1)	—	(10.1)
Other expense, net	(2.9)	(4.8)	(13.5)	(16.7)
Total other expense	(21.3)	(26.5)	(68.0)	(61.1)
Income before income taxes	142.5	123.6	352.3	331.2
Provision for income taxes	27.8	40.8	75.4	103.7
Net income	114.7	82.8	276.9	227.5
Less: Net income attributable to noncontrolling interest	1.1	2.0	4.7	4.8
Net income attributable to Hubbell	$113.6	$80.8	$272.2	$222.7
Earnings per share				
Basic	$2.07	$1.47	$4.96	$4.05
Diluted	$2.06	$1.47	$4.93	$4.02
Cash dividends per common share	$0.77	$0.70	$2.31	$2.10

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended September 30,	
(in millions)	2018	2017
Net income	$114.7	$82.8
Other comprehensive income (loss):		
Foreign currency translation adjustments	(0.7)	16.1
Defined benefit pension and post-retirement plans, net of taxes of ($1.6) and ($0.9)	7.0	1.8
Unrealized gain (loss) on investments, net of taxes of $0.1 and ($0.3)	—	0.5
Unrealized gain (loss) on cash flow hedges, net of taxes of $0.4 and $0.5	(0.9)	(1.0)
Other comprehensive income (loss)	5.4	17.4
Total comprehensive income	120.1	100.2
Less: Comprehensive income attributable to noncontrolling interest	1.1	2.0
Comprehensive income attributable to Hubbell	$119.0	$98.2

See notes to unaudited condensed consolidated financial statements.

	Nine Months Ended September 30,	
(in millions)	2018	2017
Net income	$276.9	$227.5
Other comprehensive income (loss):		
Foreign currency translation adjustments	(21.5)	35.3
Defined benefit pension and post-retirement plans, net of taxes of ($2.8) and ($2.8)	10.9	5.5
Unrealized gain (loss) on investments, net of taxes of $0.1 and ($0.7)	(0.4)	1.0
Unrealized gain (loss) on cash flow hedges, net of taxes of ($0.2) and $0.9	0.7	(1.9)
Other comprehensive income (loss)	(10.3)	39.9
Total comprehensive income	266.6	267.4
Less: Comprehensive income attributable to noncontrolling interest	4.7	4.8
Comprehensive income attributable to Hubbell	$261.9	$262.6

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Balance Sheets (unaudited)

(in millions)	September 30, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 228.8	$ 375.0
Short-term investments	11.2	14.5
Accounts receivable, net	788.2	540.3
Inventories, net	672.5	634.7
Other current assets	59.4	39.6
Total Current Assets	1,760.1	1,604.1
Property, Plant, and Equipment, net	499.5	458.3
Other Assets		
Investments	61.2	57.7
Goodwill	1,766.4	1,089.0
Intangible assets, net	847.3	460.4
Other long-term assets	63.0	51.1
TOTAL ASSETS	$ 4,997.5	$ 3,720.6
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt and current portion of long-term debt	$ 130.3	$ 68.1
Accounts payable	420.7	326.5
Accrued salaries, wages and employee benefits	110.0	76.6
Accrued insurance	62.9	60.0
Other accrued liabilities	214.1	174.9
Total Current Liabilities	938.0	706.1
Long-Term Debt	1,792.5	987.1
Other Non-Current Liabilities	495.2	379.5
TOTAL LIABILITIES	3,225.7	2,072.7
Total Hubbell Shareholders' Equity	1,754.8	1,634.2
Noncontrolling interest	17.0	13.7
TOTAL EQUITY	1,771.8	1,647.9
TOTAL LIABILITIES AND EQUITY	$ 4,997.5	$ 3,720.6

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows (unaudited)

(in millions)	Nine Months Ended September 30, 2018	2017
Cash Flows from Operating Activities		
Net income	$276.9	$227.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	112.8	74.7
Deferred income taxes	22.2	4.2
Stock-based compensation	13.4	11.9
Loss on extinguishment of debt	—	10.1
Changes in assets and liabilities, excluding effects of acquisitions:		
Increase in accounts receivable, net	(133.9)	(73.0)
Decrease (increase) in inventories, net	17.8	(79.2)
Increase in accounts payable	48.1	50.7
Increase (decrease) in current liabilities	(10.2)	14.9
Changes in other assets and liabilities, net	(3.4)	(12.3)
Contribution to qualified defined benefit pension plans	(11.4)	(1.3)
Other, net	6.9	0.4
Net cash provided by operating activities	339.2	228.6
Cash Flows from Investing Activities		
Capital expenditures	(70.7)	(53.2)
Acquisition of businesses, net of cash acquired	(1,118.0)	(110.3)
Purchases of available-for-sale investments	(16.6)	(15.1)
Proceeds from available-for-sale investments	17.5	14.1
Other, net	2.3	2.9
Net cash used in investing activities	(1,185.5)	(161.6)
Cash Flows from Financing Activities		
Long-term debt borrowings, net	835.0	(2.4)
Short-term debt borrowings, net	37.0	90.7
Payment of dividends	(126.5)	(115.5)
Payment of dividends to noncontrolling interest	(3.8)	(3.5)
Repurchase of common shares	(20.0)	(92.6)
Make whole payment for retirement of long term debt	—	(9.9)
Debt issuance costs	(7.6)	(3.0)
Other, net	(9.4)	(3.7)
Net cash (used) provided by financing activities	704.7	(139.9)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4.6)	21.7
Decrease in cash and cash equivalents	(146.2)	(51.2)
Cash and cash equivalents		
Beginning of period	375.0	437.6
End of period	$228.8	$386.4

See notes to unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Hubbell Incorporated (“Hubbell”, the “Company”, “registrant”, “we”, “our” or “us”, which references include its divisions and subsidiaries) have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States of America (“U.S.”) GAAP for audited financial statements. In the opinion of management, all adjustments consisting only of normal recurring adjustments considered necessary for a fair statement of the results of the periods presented have been included. Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Hubbell Incorporated Annual Report on Form 10-K for the year ended December 31, 2017.

On February 2, 2018 the Company acquired Meter Readings Holding Group, LLC ("Aclara") for approximately $1.1 billion. Aclara is a leading global provider of smart infrastructure solutions for electric, gas, and water utilities, with advanced metering solutions and grid monitoring sensor technology, as well as leading software enabled installation services. The acquisition has been added to the Power segment and is intended to extend the Power segment's capabilities into smart automation technologies, accelerate ongoing innovation efforts to address utility customer demand for data and integrated solutions, and expand the segment's reach to a broader set of utility customers. The results of operations of Aclara are included in Hubbell's results beginning on February 2, 2018.

Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (ASU 2018-02) relating to the reclassification of certain tax effects from accumulated other comprehensive income/(loss). The new guidance allows an entity to reclassify the income tax effects of the Public Law 115-97 "An Act to Provide Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018", commonly known as the Tax Cuts and Job Act of 2017 ("TCJA") on items within accumulated other comprehensive income/(loss) to retained earnings. This new guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The new standard must be adopted retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The Company is currently assessing the impact of adopting this standard on its financial statements.

In response to the enactment of the TCJA, the Securities and Exchange Commission’s Office of the Chief Accountant published Staff Accounting Bulletin 118 ("SAB 118"). SAB 118 addresses the requirements to account for the impact of a change in tax law or tax rates in the period of enactment. Specifically, SAB 118 provides guidance for issuers that are not able to complete the accounting for the income tax effects of the TCJA by the time financial statements are issued for the reporting period that includes the enactment date (“enactment period financials”).

Pursuant to SAB 118, if the accounting for specific income tax effects of the TCJA is incomplete at the time the financial statements are issued, a company should provide a provisional amount for specific income tax effects for which a reasonable estimate can be determined. For any specific income tax effects of the TCJA for which a reasonable estimate cannot be determined because additional information, data, analysis or preparation is required, a company should not report a provisional amount but continue to apply the rules in effect immediately prior to enactment. For income tax effects for which a company was not able to determine a reasonable estimate in the enactment period financials, a provisional amount must be recorded in the first reporting period in which a reasonable estimate can be determined.

Under SAB 118, the measurement period for accounting for the TCJA begins in the period of enactment and ends when an entity has obtained, prepared and analyzed the information necessary to complete the accounting requirements under ASC 740, Income Taxes, (the “measurement period”), but in no event can the measurement period extend beyond one year from the TCJA’s enactment date. Any provisional amount or adjustment to a provisional amount included in a company’s financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense or benefit in the reporting period the amounts are determined.

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In March 2017, the FASB issued an Accounting Standards Update (ASU 2017-07) relating to the presentation of net periodic pension costs and net periodic post-retirement benefit cost. This new guidance requires the service component of net periodic pension and post-retirement benefit costs to be reported in the same income statement line item as other employee compensation costs, and the other components to be reported outside of operating income. The Company adopted the requirements of the new standard in the first quarter of 2018 and applied the guidance on a retrospective basis, as required by the standard. The impact to our fiscal quarters and year-ended 2017 is shown in the table below (in millions):

	Three Months Ended				Twelve Months Ended
(in millions, except per share amounts)	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2017
Cost of goods sold	$(0.9)	$(0.8)	$(0.8)	$(0.8)	$ (3.3)
Selling & administrative expenses	(2.9)	(3.0)	(3.0)	(2.9)	(11.8)
Total operating expenses	(3.8)	(3.8)	(3.8)	(3.7)	(15.1)
Operating income	3.8	3.8	3.8	3.7	15.1
Total other expense	(3.8)	(3.8)	(3.8)	(3.7)	(15.1)
Net income	$—	$—	$—	$—	$ —

In February 2016, the FASB issued an Accounting Standards Update (ASU 2016-02) related to the accounting and financial statement presentation for leases. This new guidance, codified in ASC 842, will require a lessee to recognize a right-of-use asset and a lease liability for both financing and operating leases, with a policy election permitting an exception to this guidance for leases with a term of twelve months or less and that do not contain a purchase option that is reasonably certain to be exercised. For financing leases, the lessee will recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee will recognize a straight-line lease expense. This guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will adopt the standard as of January 1, 2019.

Pursuant to ASU 2018-11, ASC 842 must be adopted using a modified retrospective transition at the beginning of the earliest comparative period presented. The standard, as originally issued, was to be applied retrospectively, however in July 2018 the FASB issued ASU No. 2018-11 “Leases (Topic 842): Targeted Improvements,” which provides an additional transition method that permits changes to be applied by means of a cumulative-effect adjustment recorded in retained earnings as of the beginning of the fiscal year of adoption. It is our intention to apply this approach in adopting the standard.
In preparing to adopt ASC 842, we are designing processes and controls to manage and account for our active leases under the new requirements. We have completed a qualitative assessment of the company’s portfolio of active leases and are compiling a central repository of related data. In addition, we are implementing a software system to address the new reporting requirements. Lease data elements, required for accounting under the new standard, are being abstracted, validated and loaded into the software solution. The Company estimates that it will recognize approximately $100 million of right-of-use assets and corresponding lease liabilities on the balance sheet upon adoption. However, the population of contracts subject to balance sheet recognition and their initial measurement remains under evaluation; final balance sheet impacts will depend on the lease portfolio as the time of adoption. The Company does not expect that adoption will have a material impact on our results of operations or liquidity.

In May 2014, the FASB issued an Accounting Standards Update (ASU 2014-09) related to new revenue recognition guidance (ASC 606) that supersedes the existing revenue recognition guidance and most industry-specific guidance applicable to revenue recognition. According to the new guidance, an entity will apply a principles-based five step model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. Subsequently, the FASB has issued amendments to certain aspects of the guidance including the effective date.

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Effective January 1, 2018, the Company adopted the requirements of ASC 606 using the modified retrospective approach. The Company applied the guidance to all contracts and recognized a cumulative effect adjustment to Retained Earnings as of January, 1, 2018 of $0.6 million. The impacts to the financial statements are primarily related to balance sheet classification, including amounts associated with the change in balance sheet classification of sales returns reserves, while the impacts on the income statement reflect the change in classification of restocking fees. The impact to our financial statements for the quarter ended September 30, 2018 was as follows (in millions):

	For the Three Months Ended September 30, 2018		
Income Statement	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Higher/(Lower)
Net sales	$1,179.7	$1,179.0	$ 0.7
Costs and expenses			
Cost of goods sold	$830.7	$830.0	$ 0.7

	For the Nine Months Ended September 30, 2018		
Income Statement	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Higher/(Lower)
Net sales	$3,337.6	$3,335.3	$ 2.3
Costs and expenses			
Cost of goods sold	$2,357.8	$2,355.5	$ 2.3

	As of September 30, 2018		
Balance Sheet	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Higher/(Lower)
ASSETS			
Accounts receivable, net	$788.2	$769.6	$ 18.6
Inventories, net	672.5	684.6	(12.1)
Other current assets	59.4	48.2	11.2
Total Assets	$4,997.5	$4,979.8	$ 17.7
LIABILITIES			
Other accrued liabilities	$214.1	$197.0	$ 17.1
Total Liabilities	$3,225.7	$3,208.6	$ 17.1
EQUITY			
Retained earnings	$2,034.1	$2,033.5	$ 0.6
Total Equity	$1,771.8	$1,771.2	$ 0.6

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NOTE 2 Revenue

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs, for products, upon the transfer of control in accordance with the contractual terms and conditions of the sale. The majority of the Company’s revenue associated with products is recognized at a point in time when the product is shipped to the customer, with a relatively small amount of transactions in the Power segment recognized upon delivery of the product at the contractually specified destination. Revenue from service contracts and post-shipment performance obligations is less than three percent of total annual consolidated net revenue and those service contracts and post-shipment obligations are primarily within the Power segment. Revenue from service contracts and post-shipment performance obligations is recognized when or as those obligations are satisfied. The Company primarily offers assurance-type standard warranties that do not represent separate performance obligations and on occasion will separately offer and price extended warranties that are separate performance obligations for which the associated revenue is recognized over-time based on the extended warranty period. The Company records amounts billed to customers for reimbursement of shipping and handling costs within revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of goods sold. Sales taxes and other usage-based taxes are excluded from revenue.

Within the Electrical segment, certain businesses require a portion of the transaction price to be paid in advance of transfer of control. Advance payments are not considered a significant financing component as they are received less than one year before the related performance obligations are satisfied. In addition, in the Power segment, certain businesses offer annual maintenance service contracts that require payment at the beginning of the contract period. These payments are treated as a contract liability and are classified in Other accrued liabilities in the Condensed Consolidated Balance Sheet. Once control transfers to the customer and the Company meets the revenue recognition criteria, the deferred revenue is recognized in the Condensed Consolidated Statement of Income. The deferred revenue relating to the annual maintenance service contracts is recognized in the Condensed Consolidated Statement of Income on a straight line basis over the expected term of the contract.

Approximately two-thirds of the Company's net sales are to distributors who then sell directly into the residential, non-residential, industrial, electrical transmission and distribution and oil and gas end markets. In the Power segment, the businesses sell to distributors, with the majority of sales to the utility end markets. The Power businesses also sell directly into transmission and distribution utility markets.

The Company has certain arrangements that require us to estimate at the time of sale the amounts of variable consideration that should not be recorded as revenue as certain amounts are not expected to be collected from customers, as well as an estimate of the value of the product to be returned. The Company principally relies on historical experience, specific customer agreements and anticipated future trends to estimate these amounts at the time of shipment and to reduce the transaction price. These arrangements include sales discounts and allowances based on sales volumes, specific programs and special pricing allowances, and returned goods, as are customary in the electrical products industry. Customer returns have historically ranged from 1%-2% of gross sales.

The following table presents disaggregated revenue by business group (in millions) for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Electrical	Power	Total	Electrical	Power	Total
Net sales						
Hubbell Commercial and Industrial	$234.2	$—	$234.2	$685.0	$—	$685.0

Hubbell Construction and Energy	204.9	—	204.9	598.7	—	598.7
Hubbell Lighting	248.3	—	248.3	710.4	—	710.4
Hubbell Power Systems	—	492.3	492.3	—	1,343.5	1,343.5
Total net sales	$687.4	$492.3	$1,179.7	$1,994.1	$1,343.5	$3,337.6

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The following table presents disaggregated third-party net sales by geographic location (in millions) for the three and nine months ended September 30, 2018 (on a geographic basis, the Company defines "international" as businesses based outside of the United States and its possessions):

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Electrical	Power	Total	Electrical	Power	Total
Net sales						
United States	$615.3	$448.0	$1,063.3	$1,776.1	$1,236.4	$3,012.5
International	72.1	44.3	116.4	218.0	107.1	325.1
Total net sales	$687.4	$492.3	$1,179.7	$1,994.1	$1,343.5	$3,337.6

Contract Balances

Our contract liabilities consist of advance payments for products as well as deferred revenue on service obligations and extended warranties. The current portion of deferred revenue is included in Other accrued liabilities and the non-current portion of deferred revenue is included in Other non-current liabilities in the Condensed Consolidated Balance Sheet.

Contract liabilities were $28.4 million as of September 30, 2018 compared to $10.2 million as of December 31, 2017. The $18.2 million increase in our contract liabilities balance was primarily due to timing of advance payments on certain orders and the acquisition of Aclara, partially offset by the recognition of $8.9 million in revenue related to amounts that were recorded in contract liabilities at January 1, 2018. The Company has an immaterial amount of contract assets relating to performance obligations satisfied prior to payment that is recorded in Other long-term assets in the Condensed Consolidated Balance Sheet. Impairment losses recognized on our receivables and contract assets were immaterial in the nine months ended September 30, 2018. See Note 1 – Basis of Presentation and Note 3 – Business Acquisitions in the Notes to Condensed Consolidated Financial Statements for additional information.

Unsatisfied Performance Obligations

The Company has elected the practical expedient to disclose only the value of unsatisfied performance obligations for contracts with an original expected length greater than one year. Prior to the acquisition of Aclara, the majority of Hubbell's revenues resulted from sales of inventoried products with short periods of manufacture and delivery and thus are excluded from this disclosure. As of September 30, 2018, the Company had approximately $600 million of unsatisfied performance obligations for contracts with an original expected length of greater than one year, primarily relating to long-term contracts of the Aclara business (within the Power segment) to deliver and install meters and grid monitoring sensor technology. The Company expects that a majority of the unsatisfied performance obligations will be completed and recognized over the next 3 years.

Practical Expedients

We apply a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less.

NOTE 3 Business Acquisitions

On February 2, 2018, the Company completed the acquisition of Aclara for approximately $1.1 billion. Aclara is a leading global provider of smart infrastructure solutions for electric, gas, and water utilities, with advanced metering solutions and grid monitoring sensor technology, as well as leading software enabled installation services. The acquisition was structured as a merger in which Aclara became a wholly owned indirect subsidiary of the Company. Aclara's businesses have been added to the Power segment. The acquisition extends the Power segment's capabilities into smart automation technologies, accelerates ongoing innovation efforts to address utility customer demand for data and integrated solutions, and expands the segment's reach to a broader set of utility customers.

The Company financed the acquisition and related transactions with net proceeds from borrowings under a new unsecured term loan facility in the aggregate principal amount of $500 million, the issuance of 3.50% Senior Notes due 2028 in the aggregate principal amount of $450 million and issuances of commercial paper.

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Preliminary Allocation of Consideration Transferred to Net Assets Acquired

The following table presents the preliminary determination of the fair value of identifiable assets acquired and liabilities assumed from the Company's acquisition of Aclara. The final determination of the fair value of certain assets and liabilities will be completed within the one year measurement period as required by the FASB ASC Topic 805, "Business Combinations." As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The finalization of the purchase accounting assessment may result in a change in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company's results of operations and financial position.

The following is a preliminary estimate of the assets acquired and the liabilities assumed by the Company in the merger, reconciled to the estimated acquisition consideration (in millions):

Accounts receivable	$119.6
Inventories	77.1
Other current assets	9.0
Property, plant and equipment	32.2
Intangible assets	444.0
Accounts payable	(51.8)
Other accrued liabilities	(79.4)
Deferred tax liabilities, net	(78.2)
Other non-current liabilities	(38.8)
Noncontrolling interest	(2.5)
Goodwill	685.1
Total Estimate of Consideration Transferred, Net of Cash Acquired	$1,116.3

Cash used for the acquisition of businesses, net of cash acquired as reported in the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2018 is $1,118.0 million and includes approximately $1.7 million of deferred purchase price and net working capital settlements relating to acquisitions completed in prior years.

In connection with the merger, the Company recorded goodwill of $685.1 million, which is attributable primarily to expected synergies, expanded market opportunities, and other expected benefits that the Company believes will result from combining its operations with the operations of Aclara. The historical goodwill of Aclara resulting from their prior asset acquisitions is expected to be deductible for tax purposes. Any incremental goodwill created in the merger is not deductible for tax purposes. The goodwill resulting from the acquisition of Aclara is subject to potential significant changes as the purchase price allocation is completed. Goodwill has been allocated to the Power segment.

The preliminary purchase price allocation to identifiable intangible assets acquired is as follows:

	Estimated Fair Value	Weighted Average Estimated Useful Life
Patents, tradenames and trademarks	$ 55.0	20.0
Customer relationships	204.0	17.0
Developed technology	185.0	13.0
Total	$ 444.0	

Customer relationship and developed technology intangible assets acquired are amortized using an accelerated method that reflects the pattern in which economic benefits of the intangible assets are consumed and results in higher amortization in the earlier years of the asset's useful life.

Supplemental Pro-Forma Data

Aclara’s results of operations have been included in the Company's financial statements for the period subsequent to the completion of the acquisition on February 2, 2018. Aclara contributed sales of approximately $429.7 million and operating income of approximately $12.8 million for the period from the completion of the acquisition through September 30, 2018.

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The following unaudited supplemental pro-forma information presents consolidated results as if the acquisition had been completed on January 1, 2017. Following that approach, for the purpose of the pro-forma results presented in the tables below, certain costs incurred by the Company during the three and nine months ended September 30, 2018 and three months ended December 31, 2017 have been reclassified out of their respective periods and into the pro-forma periods ended September 30, 2017. Those reclassifications primarily include the following, which represent the amount of increase or (decrease) to reported results to arrive at the pro forma results. Per share amounts in 2018 reflect the reduction in the U.S. federal corporate income tax rate from 35% to 21%:

(pre-tax in millions, except per share amounts)	Three Months Ended September 30,		Per Diluted Share	
	2018	2017	2018	2017
Aclara transaction costs incurred in the third quarter of 2018[1]	$1.5	$(1.5)	$0.02	$(0.02)
Intangible amortization and inventory step up amortization[2]	(1.9)	(10.0)	(0.03)	(0.11)
Interest expense[3]	4.6	(8.0)	0.06	(0.09)

(pre-tax in millions, except per share amounts)	Nine Months Ended September 30,		Per Diluted Share	
	2018	2017	2018	2017
Aclara transaction costs incurred in the first nine months of 2018[1]	$12.1	$(12.1)	$0.18	$(0.16)
Aclara transaction costs incurred in the fourth quarter of 2017[1]	—	(7.1)	—	(0.10)
Intangible amortization and inventory step up[2]	(1.3)	(36.8)	(0.02)	(0.41)
Interest expense[3]	3.1	(22.3)	0.04	(0.25)

[1] Aclara transaction costs incurred in the three and nine months ended September 30, 2018 have been reclassified into the comparable pro-forma September 30, 2017 period. The pro-forma nine months ended September 30, 2017 period also includes transaction costs incurred by the Company during the fourth quarter of 2017.

[2] Aclara intangible amortization and inventory step up amortization incurred in three and nine months ended September 30, 2018 has been reclassified into the comparable pro-forma September 30, 2017 period and, in the nine month period, increased to reflect the assumption the transaction was completed on January 1, 2017. The pro-forma September 30, 2018 periods include the intangible amortization that would be incurred assuming the transaction had been completed on January 1, 2017.

[3] Interest expense incurred in the three and nine months ended September 30, 2018, reflecting amounts incurred from the date of the acquisition, has been reclassified into the pro-forma September 30, 2017 period and, in the nine month period, increased to reflect the assumption the transaction was completed on January 1, 2017. The pro-forma September 30, 2018 period includes the interest expense that would have been incurred assuming the transaction had been completed on January 1, 2017.

The pro-forma results were calculated by combining the results of the Company with the stand-alone results of Aclara for the pre-acquisition periods, as described above:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$1,180.4	$1,112.7	$3,385.8	$3,150.2

Net income attributable to Hubbell	$117.3	$77.4	$284.5	$193.7
Earnings Per Share:				
Basic	$2.14	$1.41	$5.18	$3.52
Diluted	$2.13	$1.40	$5.16	$3.50

The unaudited supplemental pro-forma financial information does not reflect the actual performance of Aclara in the periods presented and does not reflect the potential realization of cost savings relating to the integration of the two companies. Further, the pro-forma data should not be considered indicative of the results that would have occurred if the acquisition and related financing had been consummated on January 1, 2017, nor are they indicative of future results.

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NOTE 4 Segment Information

The Company's reporting segments consist of the Electrical segment and the Power segment. The Electrical segment comprises businesses that sell stock and custom products including standard and special application wiring device products, rough-in electrical products, connector and grounding products, light fixtures and controls, components and assemblies for the natural gas distribution market as well as other electrical and communication equipment, some of which is designed such that it can also be used in harsh and hazardous locations primarily in the oil, gas (onshore and offshore) and mining industries. These products are primarily sold to electrical distributors who then sell directly into the residential, non-residential, industrial, electrical transmission and distribution, and oil and gas end markets. The Electrical segment comprises three business groups, which have been aggregated as they have similar long-term economic characteristics, customers and distribution channels, among other factors. The Power segment primarily serves the electric utility industry and comprises a wide variety of electrical distribution, transmission and substation products with high voltage applications as well as telecommunication products and smart infrastructure solutions. The Aclara businesses have been added to the Power segment and are intended to extend the segment's capabilities into smart automation technologies, accelerate ongoing innovations efforts to address utility customer demand for data and integrated solutions and expand the segment's reach to a broader set of utility customers. See Note 1 – Basis of Presentation and Note 3 – Business Acquisitions in the Notes to Condensed Consolidated Financial Statements for additional information. The following table sets forth financial information by business segment (in millions):

	Net Sales		Operating Income		Operating Income as a % of Net Sales	
	2018	2017	2018	2017	2018	2017
Three Months Ended September 30,						
Electrical	$687.4	$654.0	$94.0	$88.4	13.7 %	13.5 %
Power	492.3	296.5	69.8	61.7	14.2 %	20.8 %
TOTAL	$1,179.7	$950.5	$163.8	$150.1	13.9 %	15.8 %
Nine Months Ended September 30,						
Electrical	$1,994.1	$1,897.9	$246.5	$215.2	12.4 %	11.3 %
Power	1,343.5	853.2	173.8	177.1	12.9 %	20.8 %
TOTAL	$3,337.6	$2,751.1	$420.3	$392.3	12.6 %	14.3 %

NOTE 5 Inventories, net

Inventories, net are composed of the following (in millions):

	September 30, 2018	December 31, 2017
Raw material	$ 226.4	$ 190.0
Work-in-process	114.4	115.8
Finished goods	393.0	390.5
	733.8	696.3
Excess of FIFO over LIFO cost basis	(61.3)	(61.6)
TOTAL	$ 672.5	$ 634.7

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NOTE 6 Goodwill and Intangible Assets, net

Changes in the carrying values of goodwill for the nine months ended September 30, 2018, were as follows (in millions):

	Segment		
	Electrical	Power	Total
BALANCE DECEMBER 31, 2017	$717.6	$371.4	$1,089.0
Current year acquisitions (Note 3 – Business Acquisitions)	—	685.1	685.1
Foreign currency translation and prior year acquisitions	(1.1)	(6.6)	(7.7)
BALANCE SEPTEMBER 30, 2018	$716.5	$1,049.9	$1,766.4

In the first nine months of 2018, the Company completed one acquisition (Aclara) that was added to the Power segment. This acquisition has been accounted for as a business combination and has resulted in the recognition of $685.1 million of goodwill. See Note 3 – Business Acquisitions in the Notes to Condensed Consolidated Financial Statements for additional information.

The carrying value of other intangible assets included in Intangible assets, net in the Condensed Consolidated Balance Sheet is as follows (in millions):

	September 30, 2018		December 31, 2017	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Definite-lived:				
Patents, tradenames and trademarks	$204.9	$ (56.5)	$151.4	$ (50.1)
Customer/agent relationships and other	844.9	(199.7)	462.0	(156.7)
Total	$1,049.8	$ (256.2)	$613.4	$ (206.8)
Indefinite-lived:				
Tradenames and other	53.7	—	53.8	—
TOTAL	$1,103.5	$ (256.2)	$667.2	$ (206.8)

Amortization expense associated with definite-lived intangible assets was $53.2 million and $26.4 million for the nine months ended September 30, 2018 and 2017, respectively. Future amortization expense associated with these intangible assets is expected to be $18.8 million for the remainder of 2018, $77.7 million in 2019, $76.1 million in 2020, $74.4 million in 2021, $66.0 million in 2022, and $59.4 million in 2023.

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NOTE 7 Other Accrued Liabilities

Other accrued liabilities are composed of the following (in millions):

	September 30, 2018	December 31, 2017
Customer program incentives	$ 41.8	$ 41.2
Accrued income taxes	12.6	27.5
Contract liabilities - deferred revenue	28.4	10.2
Customer refund liability	17.5	—
Accrued warranties	31.2	14.0
Other	82.6	82.0
TOTAL	$ 214.1	$ 174.9

NOTE 8 Other Non-Current Liabilities

Other non-current liabilities are composed of the following (in millions):

	September 30, 2018	December 31, 2017
Pensions	$ 198.8	$ 213.2
Other post-retirement benefits	24.6	24.6
Deferred tax liabilities	128.5	23.7
Accrued warranties long-term	30.2	—
Other	113.1	118.0
TOTAL	$ 495.2	$ 379.5

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NOTE 9 Total Equity

Total equity is composed of the following (in millions, except per share amounts):

	September 30, 2018	December 31, 2017
Common stock, $.01 par value:		
Common Stock – authorized 200.0 shares; issued and outstanding 54.7 and 54.9 shares	$ 0.6	$ 0.6
Additional paid-in capital	0.2	11.0
Retained earnings	2,034.1	1,892.4
Accumulated other comprehensive loss:		
Pension and post retirement benefit plan adjustment, net of tax	(165.6)	(176.5)
Cumulative translation adjustment	(113.4)	(91.9)
Unrealized gain (loss) on investment, net of tax	(1.0)	(0.6)
Cash flow hedge gain (loss), net of tax	(0.1)	(0.8)
Total Accumulated other comprehensive loss	(280.1)	(269.8)
Hubbell shareholders' equity	1,754.8	1,634.2
Noncontrolling interest	17.0	13.7
TOTAL EQUITY	$ 1,771.8	$ 1,647.9

A summary of the changes in equity for the nine months ended September 30, 2018 and 2017 is provided below (in millions):

	Nine Months Ended September 30,					
	2018			2017		
	Hubbell Shareholders' Equity	Noncontrolling interest	Total Equity	Hubbell Shareholders' Equity	Noncontrolling interest	Total Equity
EQUITY, JANUARY 1	$1,634.2	$ 13.7	$1,647.9	$1,592.8	$ 10.4	$1,603.2
Total comprehensive income	261.9	4.7	266.6	262.6	4.8	267.4
Stock-based compensation	13.4	—	13.4	11.9	—	11.9
ASC 606 adoption to retained earnings	0.6	—	0.6	—	—	—
Repurchase/surrender of shares of common stock	(28.8)	—	(28.8)	(96.0)	—	(96.0)
Issuance of shares related to directors' deferred compensation, net	0.3	—	0.3	0.4	—	0.4
Dividends to noncontrolling interest	—	(3.8)	(3.8)	—	(3.5)	(3.5)
Aclara noncontrolling interest	—	2.4	2.4	—	—	—
Cash dividends declared	(126.8)	—	(126.8)	(115.7)	—	(115.7)
EQUITY, SEPTEMBER 30	$1,754.8	$ 17.0	$1,771.8	$1,656.0	$ 11.7	$1,667.7

The detailed components of total comprehensive income are presented in the Condensed Consolidated Statement of Comprehensive Income.

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NOTE 10 Accumulated Other Comprehensive Loss

A summary of the changes in Accumulated other comprehensive loss (net of tax) for the nine months ended September 30, 2018 is provided below (in millions):

(debit) credit	Cash flow hedge (loss) gain	Unrealized gain (loss) on available-for-sale securities	Pension and post retirement benefit plan adjustment	Cumulative translation adjustment	Total
BALANCE AT DECEMBER 31, 2017	$(0.8)	$ (0.6)	$ (176.5)	$ (91.9)	$(269.8)
Other comprehensive income (loss) before reclassifications	0.7	(0.4)	5.1	(21.5)	(16.1)
Amounts reclassified from accumulated other comprehensive loss	—	—	5.8	—	5.8
Current period other comprehensive income (loss)	0.7	(0.4)	10.9	(21.5)	(10.3)
BALANCE AT SEPTEMBER 30, 2018	$(0.1)	$ (1.0)	$ (165.6)	$ (113.4)	$(280.1)

A summary of the gain (loss) reclassifications out of Accumulated other comprehensive loss for the three and nine months ended September 30, 2018 and 2017 is provided below (in millions):

Details about Accumulated Other Comprehensive Loss Components	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Location of Gain (Loss) Reclassified into Income
Cash flow hedges gain (loss):			
Forward exchange contracts	$ 0.1	$ (0.2)	Net sales
	0.2	(0.4)	Cost of goods sold
	0.3	(0.6	