

TE Connectivity Ltd.
Form 10-Q
April 26, 2019
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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 March 29, 2019

or

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

001 33260

(Commission File Number)

TE CONNECTIVITY LTD.

(Exact name of registrant as specified in its charter)

Switzerland 98 0518048
(Jurisdiction of Incorporation) (I.R.S. Employer Identification No.)

Rheinstrasse 20

CH 8200 Schaffhausen, Switzerland

(Address of principal executive offices)

+41 (0)52 633 66 61

(Registrant's telephone number)

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

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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 Smaller reporting company Emerging growth company
filer

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

The number of common shares outstanding as of April 22, 2019 was 336,866,119.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2019	March 30, 2018	March 29, 2019	March 30, 2018
	(in millions, except per share data)			
Net sales	\$ 3,412	\$ 3,562	\$ 6,759	\$ 6,898
Cost of sales	2,294	2,350	4,527	4,522
Gross margin	1,118	1,212	2,232	2,376
Selling, general, and administrative expenses	373	409	762	786
Research, development, and engineering expenses	166	173	327	338
Acquisition and integration costs	7	3	12	5
Restructuring and other charges, net	42	6	117	40
Operating income	530	621	1,014	1,207
Interest income	4	4	9	8
Interest expense	(15)	(28)	(42)	(54)
Other income, net	1	1	—	3
Income from continuing operations before income taxes	520	598	981	1,164
Income tax expense	(91)	(108)	(169)	(707)
Income from continuing operations	429	490	812	457
Income (loss) from discontinued operations, net of income taxes	10	—	(97)	(7)
Net income	\$ 439	\$ 490	\$ 715	\$ 450
Basic earnings per share:				
Income from continuing operations	\$ 1.27	\$ 1.40	\$ 2.39	\$ 1.30
Income (loss) from discontinued operations	0.03	—	(0.29)	(0.02)
Net income	1.30	1.40	2.10	1.28
Diluted earnings per share:				
Income from continuing operations	\$ 1.26	\$ 1.38	\$ 2.37	\$ 1.29
Income (loss) from discontinued operations	0.03	—	(0.28)	(0.02)
Net income	1.29	1.38	2.09	1.27
Weighted-average number of shares outstanding:				
Basic	338	351	340	351
Diluted	340	354	342	355

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Quarters Ended March 29, March 30, 2019 2018		For the Six Months Ended March 29, March 30, 2019 2018	
	(in millions)			
Net income	\$ 439	\$ 490	\$ 715	\$ 450
Other comprehensive income:				
Currency translation	64	114	83	181
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	6	8	12	15
Gains (losses) on cash flow hedges, net of income taxes	27	(49)	51	(47)
Other comprehensive income	97	73	146	149
Comprehensive income	\$ 536	\$ 563	\$ 861	\$ 599

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 29, 2019	September 28, 2018
	(in millions, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 565	\$ 848
Accounts receivable, net of allowance for doubtful accounts of \$24 and \$22, respectively	2,463	2,361
Inventories	1,970	1,857
Prepaid expenses and other current assets	448	661
Assets held for sale	—	472
Total current assets	5,446	6,199
Property, plant, and equipment, net	3,596	3,497
Goodwill	5,626	5,684
Intangible assets, net	1,596	1,704
Deferred income taxes	2,607	2,144
Other assets	391	1,158
Total assets	\$ 19,262	\$ 20,386
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 612	\$ 963
Accounts payable	1,485	1,548
Accrued and other current liabilities	1,770	1,711
Liabilities held for sale	—	188
Total current liabilities	3,867	4,410
Long-term debt	3,370	3,037
Long-term pension and postretirement liabilities	1,081	1,102
Deferred income taxes	196	207
Income taxes	333	312
Other liabilities	421	487
Total liabilities	9,268	9,555
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common shares, CHF 0.57 par value, 357,069,981 shares authorized and issued	157	157
Accumulated earnings	11,710	12,114
Treasury shares, at cost, 19,761,517 and 12,279,603 shares, respectively	(1,713)	(1,134)
Accumulated other comprehensive loss	(160)	(306)
Total shareholders' equity	9,994	10,831
Total liabilities and shareholders' equity	\$ 19,262	\$ 20,386

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(UNAUDITED)

For the Quarter Ended March 29, 2019

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares (in millions)	Amount	Shares	Amount				
Balance at December 28, 2018	357	\$ 157	(18)	\$ (1,550)	\$ —	\$ 11,886	\$ (257)	\$ 10,236
Net income	—	—	—	—	—	439	—	439
Other comprehensive income	—	—	—	—	—	—	97	97
Share-based compensation expense	—	—	—	—	16	—	—	16
Dividends	—	—	—	—	—	(620)	—	(620)
Exercise of share options	—	—	—	10	—	—	—	10
Restricted share award vestings and other activity	—	—	1	16	(16)	5	—	5
Repurchase of common shares	—	—	(3)	(189)	—	—	—	(189)
Balance at March 29, 2019	357	\$ 157	(20)	\$ (1,713)	\$ —	\$ 11,710	\$ (160)	\$ 9,994

For the Six Months Ended March 29, 2019

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares (in millions)	Amount	Shares	Amount				
Balance at September 28, 2018	357	\$ 157	(12)	\$ (1,134)	\$ —	\$ 12,114	\$ (306)	\$ 10,831
Adoption of ASU No. 2016 16	—	—	—	—	—	(443)	—	(443)

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Net income	—	—	—	—	—	715	—	715
Other comprehensive income	—	—	—	—	—	—	146	146
Share-based compensation expense	—	—	—	—	39	—	—	39
Dividends	—	—	—	—	—	(616)	—	(616)
Exercise of share options	—	—	—	17	—	—	—	17
Restricted share award vestings and other activity	—	—	1	88	(39)	(60)	—	(11)
Repurchase of common shares	—	—	(9)	(684)	—	—	—	(684)
Balance at March 29, 2019	357	\$ 157	(20)	\$ (1,713)	\$ —	\$ 11,710	\$ (160)	\$ 9,994

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(UNAUDITED) (Continued)

For the Quarter Ended March 30, 2018

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 29, 2017	357	\$ 157	(6)	\$ (489)	\$ —	\$ 10,047	\$ (84)	\$ 9,631
Adoption of ASU No. 2018-02	—	—	—	—	—	38	(38)	—
Net income	—	—	—	—	—	490	—	490
Other comprehensive income	—	—	—	—	—	—	73	73
Share-based compensation expense	—	—	—	—	23	—	—	23
Dividends	—	—	—	—	—	(617)	—	(617)
Exercise of share options	—	—	1	40	—	—	—	40
Restricted share award vestings and other activity	—	—	1	33	(23)	(1)	—	9
Repurchase of common shares	—	—	(2)	(169)	—	—	—	(169)
Balance at March 30, 2018	357	\$ 157	(6)	\$ (585)	\$ —	\$ 9,957	\$ (49)	\$ 9,480

For the Six Months Ended March 30, 2018

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at September 29, 2017	357	\$ 157	(5)	\$ (421)	\$ —	\$ 10,175	\$ (160)	\$ 9,751

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Adoption of ASU No. 2018-02	—	—	—	—	—	38	(38)	—
Net income	—	—	—	—	—	450	—	450
Other comprehensive income	—	—	—	—	—	—	149	149
Share-based compensation expense	—	—	—	—	52	—	—	52
Dividends	—	—	—	—	—	(617)	—	(617)
Exercise of share options	—	—	2	94	—	—	—	94
Restricted share award vestings and other activity	—	—	1	125	(52)	(89)	—	(16)
Repurchase of common shares	—	—	(4)	(383)	—	—	—	(383)
Balance at March 30, 2018	357	\$ 157	(6)	\$ (585)	\$ —	\$ 9,957	\$ (49)	\$ 9,480

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended	
	March 29, 2019	March 30, 2018
	(in millions)	
Cash flows from operating activities:		
Net income	\$ 715	\$ 450
Loss from discontinued operations, net of income taxes	97	7
Income from continuing operations	812	457
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	341	329
Deferred income taxes	(28)	497
Provision for losses on accounts receivable and inventories	28	25
Share-based compensation expense	38	51
Other	32	(17)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(107)	(376)
Inventories	(70)	(227)
Prepaid expenses and other current assets	91	(105)
Accounts payable	(44)	184
Accrued and other current liabilities	(206)	(210)
Income taxes	21	2
Other	(25)	35
Net cash provided by continuing operating activities	883	645
Net cash provided by (used in) discontinued operating activities	(30)	82
Net cash provided by operating activities	853	727
Cash flows from investing activities:		
Capital expenditures	(401)	(439)
Proceeds from sale of property, plant, and equipment	13	7
Proceeds from divestiture of discontinued operation, net of cash retained by sold operation	297	—
Other	8	(2)
Net cash used in continuing investing activities	(83)	(434)
Net cash used in discontinued investing activities	(2)	(8)
Net cash used in investing activities	(85)	(442)
Cash flows from financing activities:		
Net increase in commercial paper	90	225
Proceeds from issuance of debt	350	119
Repayment of debt	(441)	(708)
Proceeds from exercise of share options	17	94
Repurchase of common shares	(739)	(381)

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Payment of common share dividends to shareholders	(299)	(281)
Transfers (to) from discontinued operations	(32)	74
Other	(30)	(32)
Net cash used in continuing financing activities	(1,084)	(890)
Net cash provided by (used in) discontinued financing activities	32	(74)
Net cash used in financing activities	(1,052)	(964)
Effect of currency translation on cash	1	20
Net decrease in cash, cash equivalents, and restricted cash	(283)	(659)
Cash, cash equivalents, and restricted cash at beginning of period	848	1,218
Cash, cash equivalents, and restricted cash at end of period	\$ 565	\$ 559
See Notes to Condensed Consolidated Financial Statements.		

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”) have been prepared in United States (“U.S.”) dollars, in accordance with accounting principles generally accepted in the U.S. (“GAAP”) and the instructions to Form 10-Q under the Securities Exchange Act of 1934. In management’s opinion, the unaudited Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire fiscal year or any subsequent interim period.

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2018.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2019 and fiscal 2018 are to our fiscal years ending September 27, 2019 and ended September 28, 2018, respectively.

Revenue Recognition

We account for revenue in accordance with Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers, which introduced a single, comprehensive, five-step revenue recognition model. Our revenues are generated principally from the sale of our products. Revenue is recognized as performance obligations under the terms of a contract, such as a purchase order with a customer, are satisfied; generally this occurs with the transfer of control. We transfer control and recognize revenue when we ship product to our customers, the customers accept and have legal title for the product, and we have a right to payment for such product. Revenue is measured as the amount of consideration that we expect to receive in exchange for those products and excludes taxes assessed by governmental authorities and collected from customers concurrent with the sale of products. Shipping and handling costs are treated as fulfillment costs and are included in cost of sales. Since we typically invoice our customers when we satisfy our performance obligations, we do not have material contract assets or contract liabilities. Our credit terms are customary and do not contain significant financing components that extend beyond one year of fulfillment of performance obligations. We apply the practical expedient of ASC 606 with respect to financing components and do not evaluate contracts in which payment is due within one year of satisfaction of the related performance obligation. Since our performance obligations to deliver products are part of contracts that generally have original durations of one year or less, we have elected to use the optional exemption to not disclose the aggregate amount of transaction prices associated with unsatisfied or partially satisfied performance obligations as of March 29, 2019. See Note 15 for net sales disaggregated by industry end market and geographic region which is summarized by segment and that we consider meaningful to depict the nature, amount, timing, and uncertainty of revenue and cash flows affected by economic factors.

We generally warrant that our products will conform to our, or mutually agreed to, specifications and that our products will be free from material defects in materials and workmanship for a limited time. We limit our warranty to the replacement or repair of defective parts, or a refund or credit of the price of the defective product. We do not account for these warranties as separate performance obligations.

Although products are generally sold at fixed prices, certain distributors and customers receive incentives or awards, such as sales rebates, return allowances, scrap allowances, and other rights, which are accounted for as variable consideration. We estimate these amounts in the same period revenue is recognized based on the expected value to be provided to customers and reduce revenue accordingly. Our estimates of variable consideration and ultimate determination of

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

the estimated amounts to include in the transaction price are based primarily on our assessment of anticipated performance and historical and forecasted information that is reasonably available to us.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02 which codified ASC 842, Leases. This guidance, as subsequently amended, requires lessees to recognize a lease liability and a right-of-use asset for most leases and is effective for us in the first quarter of fiscal 2020. We are currently in the process of updating policies, internal controls, financial statement disclosures, and systems to incorporate the impact of the new standard in our financial reporting processes. We intend to adopt the standard using the optional transition method permitted by ASU No. 2018-11, which allows for application of the standard at the adoption date and no restatement of comparative periods. We expect that adoption will likely have a material impact on our Condensed Consolidated Balance Sheet; however, we currently do not expect adoption to have a material impact on our results of operations or cash flows. We believe that we are following an appropriate timeline to allow for the proper recognition, reporting, and disclosure of leases upon adoption of ASC 842 at the beginning of fiscal 2020.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued ASU No. 2017-12, an update to ASC 815, Derivatives and Hedging. The update improves and simplifies hedge accounting and related disclosures. We elected to early adopt this update, which did not have a material impact on our Condensed Consolidated Financial Statements, in the quarter ended December 28, 2018.

In October 2016, the FASB issued ASU No. 2016-16, an update to ASC 740, Income Taxes. This guidance requires the recognition of the income tax consequences of intra-entity transfers of assets other than inventory in the period in which the transfer occurs. The update was adopted on a modified retrospective basis in the quarter ended December 28, 2018 and resulted in a \$443 million cumulative-effect adjustment to beginning accumulated earnings, which represented the net reversal of all balances associated with deferred tax impacts of intra-entity transfers of assets other than inventory. This included a decrease in other assets of \$798 million, an increase in deferred tax assets of \$418 million, and a decrease in prepaid expenses and other current assets of \$63 million on the Condensed Consolidated Balance Sheet.

In May 2014, the FASB issued ASU No. 2014-09 which codified ASC 606, Revenue from Contracts with Customers. This guidance supersedes ASC 605, Revenue Recognition, and introduces a single, comprehensive, five-step revenue recognition model. ASC 606 also enhances disclosures related to revenue recognition. We adopted ASC 606, as amended, in the quarter ended December 28, 2018 using a modified retrospective approach. Prior period amounts have not been adjusted and continue to be reported under the accounting standards in effect for those periods. Transition impacts, which relate primarily to incentive compensation arrangements, were not material to our results of operations or financial position. Because the impact of adoption was immaterial, we have not recorded a cumulative-effect adjustment to beginning accumulated earnings.

2. Restructuring and Other Charges, Net

Net restructuring and other charges consisted of the following:

	For the Quarters Ended March 29, March 30, 2019 2018		For the Six Months Ended March 29, March 30, 2019 2018	
	(in millions)			
Restructuring charges, net	\$ 42	\$ 10	\$ 117	\$ 44
Other charges (credits), net	—	(4)	—	(4)
Restructuring and other charges, net	\$ 42	\$ 6	\$ 117	\$ 40

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Net restructuring charges by segment were as follows:

	For the		For the	
	Quarters Ended		Six Months Ended	
	March 29,	March 30,	March 29,	March 30,
	2019	2018	2019	2018
	(in millions)			
Transportation Solutions	\$ 24	\$ 1	\$ 45	\$ 5
Industrial Solutions	17	8	52	30
Communications Solutions	1	1	20	9
Restructuring charges, net	\$ 42	\$ 10	\$ 117	\$ 44

Activity in our restructuring reserves was as follows:

	Balance at		Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation	Balance at
	September 28, 2018 (in millions)	Charges					March 29, 2019
Fiscal 2019 Actions:							
Employee severance	\$ —	\$ 107	\$ —	\$ (14)	\$ —	\$ —	\$ 93
Fiscal 2018 Actions:							
Employee severance	114	1	—	(32)	—	(3)	80
Facility and other exit costs	4	2	—	(2)	—	—	4
Property, plant, and equipment	—	2	—	—	(2)	—	—
Total	118	5	—	(34)	(2)	(3)	84
Pre-Fiscal 2018 Actions:							
Employee severance	49	7	(4)	(14)	—	(2)	36
Facility and other exit costs	—	1	—	(2)	—	1	—
Property, plant, and equipment	—	1	—	—	(1)	—	—
Total	49	9	(4)	(16)	(1)	(1)	36
Total Activity	\$ 167	\$ 121	\$ (4)	\$ (64)	\$ (3)	\$ (4)	\$ 213
Fiscal 2019 Actions							

During fiscal 2019, we initiated a restructuring program associated with footprint consolidation and structural improvements impacting all segments. In connection with this program, during the six months ended March 29, 2019, we recorded restructuring charges of \$107 million. We expect to complete all restructuring actions commenced during the six months ended March 29, 2019 by the end of fiscal 2021 and to incur additional charges of approximately \$20

million primarily in the Transportation Solutions and Industrial Solutions segments.

Fiscal 2018 Actions

During fiscal 2018, we initiated a restructuring program associated with footprint consolidation and structural improvements primarily impacting the Industrial Solutions and Transportation Solutions segments. In connection with this program, during the six months ended March 29, 2019 and March 30, 2018, we recorded restructuring charges of \$5 million and \$35 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2018 by the end of fiscal 2020 and to incur additional charges of approximately \$10 million primarily in the Industrial Solutions segment.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Pre-Fiscal 2018 Actions

Prior to fiscal 2018, we initiated a restructuring program associated with footprint consolidation related to recent acquisitions and structural improvements impacting all segments. Also prior to fiscal 2018, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. During the six months ended March 29, 2019 and March 30, 2018, we recorded net restructuring charges of \$5 million and \$9 million, respectively, related to pre-fiscal 2018 actions. We expect additional charges related to pre-fiscal 2018 actions to be insignificant.

Total Restructuring Reserves

Restructuring reserves included on the Condensed Consolidated Balance Sheets were as follows:

	March 29, September 28, 2019 2018 (in millions)	
Accrued and other current liabilities	\$ 193	\$ 141
Other liabilities	20	26
Restructuring reserves	\$ 213	\$ 167

3. Discontinued Operations

During the six months ended March 29, 2019, we sold our Subsea Communications (“SubCom”) business for net cash proceeds of \$297 million and incurred a pre-tax loss on sale of \$86 million, related primarily to the recognition of cumulative translation adjustment losses of \$67 million and the guarantee liabilities discussed below. The SubCom business met the held for sale and discontinued operations criteria and was reported as such in all periods presented on the Condensed Consolidated Financial Statements. Prior to reclassification to discontinued operations, the SubCom business was included in the Communications Solutions segment.

In connection with the sale, we contractually agreed to continue to honor performance guarantees and letters of credit related to the SubCom business’ projects that existed as of the date of sale. These guarantees had a combined value of approximately \$1.7 billion as of March 29, 2019 and are expected to expire at various dates through fiscal 2025; however, the majority are expected to expire within two years. At the time of sale, we determined that the fair value of these guarantees was \$12 million, which we recognized by a charge to pre-tax loss on sale. Also, under the terms of the definitive agreement, we are required to issue up to \$300 million of new performance guarantees, subject to certain limitations, for projects entered into by the SubCom business following the sale for a period of up to three years. During the six months ended March 29, 2019, we issued a guarantee of \$70 million for a new project. We have contractual recourse against the SubCom business if we are required to perform on any SubCom guarantees; however, based on historical experience, we do not anticipate having to perform.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

The following table presents the summarized components of income (loss) from discontinued operations, net of income taxes, for the SubCom business and prior divestitures:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2019	March 30, 2018	March 29, 2019	March 30, 2018
	(in millions)			
Net sales	\$ —	\$ 183	\$ 41	\$ 326
Cost of sales	—	(151)	(50)	(283)
Selling, general, and administrative expenses	(1)	(16)	(5)	(23)
Research, development, and engineering expenses	—	(10)	(3)	(20)
Restructuring and other charges, net	—	(4)	(3)	(4)
Pre-tax income (loss) from discontinued operations	(1)	2	(20)	(4)
Pre-tax gain (loss) on sale of discontinued operations	10	(1)	(86)	(1)
Income tax (expense) benefit	1	(1)	9	(2)
Income (loss) from discontinued operations, net of income taxes	\$ 10	\$ —	\$ (97)	\$ (7)

The following table presents balance sheet information for assets and liabilities held for sale at September 28, 2018; there were no such balances at March 29, 2019:

	September 28, 2018
	(in millions)
Accounts receivable, net	\$ 72
Inventories	130
Other current assets	32
Property, plant, and equipment, net	221
Other assets	17
Total assets held for sale	\$ 472
Accounts payable	\$ 63
Accrued and other current liabilities	26
Deferred revenue	60
Other liabilities	39
Total liabilities held for sale	\$ 188

4. Inventories

Inventories consisted of the following:

	March 29, 2019	September 28, 2018
	(in millions)	
Raw materials	\$ 282	\$ 276
Work in progress	777	656
Finished goods	911	