

ENERGIZER HOLDINGS, INC.  
Form 10-Q  
August 01, 2018

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 June 30, 2018

Or

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: 001-36837

---

ENERGIZER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Missouri 36-4802442  
(State or other jurisdiction of (I. R. S. Employer  
incorporation or organization) Identification No.)

533 Maryville University Drive  
St. Louis, Missouri 63141  
(Address of principal executive offices) (Zip Code)

(314) 985-2000  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted 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). 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

(Do not check if smaller reporting company) Emerging growth company

Edgar Filing: ENERGIZER HOLDINGS, INC. - Form 10-Q

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

Indicate the number of shares of Energizer Holdings, Inc. common stock, \$.01 par value, outstanding as of the close of business on July 30, 2018: 59,769,793.

| INDEX   | Page      |
|---|-----------|
| PART I — FINANCIAL INFORMATION  |           |
| Item 1. Financial Statements (Unaudited)  |           |
| Consolidated Statements of Earnings and Comprehensive Income (Condensed) for the Quarter and Nine Months Ended June 30, 2018 and 2017 | <u>3</u>  |
| Consolidated Balance Sheets (Condensed) as of June 30, 2018 and September 30, 2017  | <u>4</u>  |
| Consolidated Statements of Cash Flows (Condensed) for the Nine Months Ended June 30, 2018 and 2017                                    | <u>5</u>  |
| Notes to Consolidated (Condensed) Financial Statements  | <u>6</u>  |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations   | <u>25</u> |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk  | <u>38</u> |
| Item 4. Controls and Procedures   | <u>40</u> |
| PART II — OTHER INFORMATION   |           |
| Item 1. Legal Proceedings   | <u>41</u> |
| Item 1A. Risk Factors   | <u>41</u> |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds   | <u>44</u> |
| Item 6. Exhibits  | <u>44</u> |
| EXHIBIT INDEX   | <u>45</u> |
| SIGNATURES  | <u>47</u> |

ENERGIZER HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME  
(Condensed)  
(In millions, except per share data - Unaudited)

|   | For the Quarter<br>Ended June 30, |         | For the Nine Months<br>Ended June 30, |           |
|---|-----------------------------------|---------|---------------------------------------|-----------|
|   | 2018                              | 2017    | 2018                                  | 2017      |
| Net sales   | \$392.8                           | \$372.0 | \$1,340.5                             | \$1,290.6 |
| Cost of products sold   | 216.7                             | 214.0   | 717.6                                 | 693.1     |
| Gross profit  | 176.1                             | 158.0   | 622.9                                 | 597.5     |
| Selling, general and administrative expense   | 111.9                             | 86.3    | 315.3                                 | 263.4     |
| Advertising and sales promotion expense   | 22.9                              | 20.2    | 81.1                                  | 71.1      |
| Research and development expense  | 5.2                               | 5.1     | 15.9                                  | 16.0      |
| Amortization of intangible assets   | 2.8                               | 2.8     | 8.4                                   | 8.4       |
| Spin restructuring  | —                                 | —       | —                                     | (3.8 )    |
| Gain on sale of real estate   | (4.6 )                            | (1.7 )  | (4.6 )                                | (16.9 )   |
| Interest expense  | 17.7                              | 13.3    | 47.6                                  | 39.7      |
| Other items, net  | (11.3 )                           | 1.5     | (9.1 )                                | (4.3 )    |
| Earnings before income taxes  | 31.5                              | 30.5    | 168.3                                 | 223.9     |
| Income tax provision  | 7.7                               | 5.6     | 76.3                                  | 56.5      |
| Net earnings  | \$23.8                            | \$24.9  | \$92.0                                | \$167.4   |
| Basic net earnings per share  | \$0.40                            | \$0.40  | \$1.54                                | \$2.71    |
| Diluted net earnings per share  | \$0.39                            | \$0.40  | \$1.50                                | \$2.67    |
| Weighted average shares of common stock - Basic   | 59.7                              | 61.8    | 59.9                                  | 61.8      |
| Weighted average shares of common stock - Diluted   | 61.4                              | 62.8    | 61.4                                  | 62.8      |
| Dividends per common share  | \$0.29                            | \$0.275 | \$0.87                                | \$0.825   |
| Statements of Comprehensive Income:   |                                   |         |                                       |           |
| Net earnings  | \$23.8                            | \$24.9  | \$92.0                                | \$167.4   |
| Other comprehensive income/(loss), net of tax expense/(benefit)   |                                   |         |                                       |           |
| Foreign currency translation adjustments  | (31.5 )                           | 11.9    | (14.9 )                               | (4.5 )    |
| Pension activity, net of tax of \$0.4 and \$1.2, for the quarter and nine months ended June 30, 2018, respectively, and \$0.6 and \$1.9 for the quarter and nine months ended June 30, 2017, respectively.                          | 3.0                               | (0.5 )  | 4.8                                   | 3.9       |
| Deferred gain/(loss) on hedging activity, net of tax of \$2.1 and \$4.7 for the quarter and nine months ended June 30, 2018, respectively, and (\$1.2) and \$1.9 for the quarter and nine months ended June 30, 2017, respectively. | 6.7                               | (4.7 )  | 13.0                                  | 1.4       |
| Total comprehensive income  | \$2.0                             | \$31.6  | \$94.9                                | \$168.2   |

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS  
(Condensed)  
(In millions - Unaudited)

| Assets   | June 30,<br>2018 | September<br>30,<br>2017 |
|--|------------------|--------------------------|
| Current assets   |                  |                          |
| Cash and cash equivalents  | \$510.9          | \$378.0                  |
| Trade receivables, less allowance for doubtful accounts of \$4.9 and \$5.8, respectively | 165.6            | 230.2                    |
| Inventories  | 307.8            | 317.1                    |
| Other current assets   | 106.6            | 94.9                     |
| Total current assets   | 1,090.9          | 1,020.2                  |
| Property, plant and equipment, net   | 166.9            | 176.5                    |
| Goodwill   | 229.8            | 230.0                    |
| Other intangible assets, net   | 214.4            | 223.8                    |
| Deferred tax asset   | 33.8             | 47.7                     |
| Other assets   | 69.0             | 125.4                    |
| Total assets   | \$1,804.8        | \$1,823.6                |
| Liabilities and Shareholders' Equity   |                  |                          |
| Current liabilities  |                  |                          |
| Current maturities of long-term debt   | \$4.0            | \$4.0                    |
| Notes payable  | 174.6            | 104.1                    |
| Accounts payable   | 194.4            | 219.3                    |
| Other current liabilities  | 226.3            | 254.6                    |
| Total current liabilities  | 599.3            | 582.0                    |
| Long-term debt   | 976.7            | 978.5                    |
| Other liabilities  | 181.0            | 178.0                    |
| Total liabilities  | 1,757.0          | 1,738.5                  |
| Shareholders' equity   |                  |                          |
| Common stock   | 0.6              | 0.6                      |
| Additional paid-in capital   | 224.4            | 196.7                    |
| Retained earnings  | 196.4            | 198.7                    |
| Treasury stock   | (117.7 )         | (72.1 )                  |
| Accumulated other comprehensive loss   | (255.9 )         | (238.8 )                 |
| Total shareholders' equity   | 47.8             | 85.1                     |
| Total liabilities and shareholders' equity   | \$1,804.8        | \$1,823.6                |

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Condensed)  
(In millions - Unaudited)

|  | For the Nine<br>Months Ended<br>June 30, |         |
|--|--|---------|
|  | 2018                                     | 2017    |
| <b>Cash Flow from Operating Activities</b>                       |  |         |
| Net earnings   | \$92.0                                   | \$167.4 |
| Non-cash restructuring costs                                     | —  | (2.5 )  |
| Depreciation and amortization                                    | 33.8                                     | 38.3    |
| Deferred income taxes  | 11.1                                     | 2.1     |
| Share-based compensation expense                                 | 21.0                                     | 17.8    |
| Gain on sale of real estate                                      | (4.6 )                                   | (16.9 ) |
| Mandatory transition tax   | 28.2                                     | —       |
| Non-cash items included in income, net                           | (2.1 )                                   | 5.8     |
| Other, net   | (7.8 )                                   | (19.6 ) |
| Changes in current assets and liabilities used in operations     | 16.4                                     | (46.8 ) |
| Net cash from operating activities                               | 188.0                                    | 145.6   |
| <b>Cash Flow from Investing Activities</b>                       |  |         |
| Capital expenditures   | (17.2 )                                  | (17.5 ) |
| Proceeds from sale of assets                                     | 6.1                                      | 27.2    |
| Net cash (used by)/from investing activities                     | (11.1 )                                  | 9.7     |
| <b>Cash Flow from Financing Activities</b>                       |  |         |
| Payments on debt with maturities greater than 90 days            | (3.0 )                                   | (3.0 )  |
| Net increase in debt with original maturities of 90 days or less | 70.6                                     | 40.7    |
| Debt issuance costs  | (1.4 )                                   | (0.8 )  |
| Dividends paid   | (52.3 )                                  | (52.1 ) |
| Common stock purchased   | (50.0 )                                  | (9.3 )  |
| Taxes paid for withheld share-based payments                     | (1.8 )                                   | (8.2 )  |
| Net cash used by financing activities                            | (37.9 )                                  | (32.7 ) |
| Effect of exchange rate changes on cash                          | (6.1 )                                   | (5.5 )  |
| Net increase in cash and cash equivalents                        | 132.9                                    | 117.1   |
| Cash and cash equivalents, beginning of period                   | 378.0                                    | 287.3   |
| Cash and cash equivalents, end of period                         | \$510.9                                  | \$404.4 |

The above financial statements should be read in conjunction with the Notes To Consolidated (Condensed) Financial Statements (Unaudited).

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business - Energizer Holdings, Inc. and its subsidiaries (Energizer or the Company) is a global manufacturer, marketer and distributor of household batteries, specialty batteries and portable lights under the Energizer® and Eveready® brand names. Energizer offers batteries using lithium, alkaline, carbon zinc, nickel metal hydride, zinc air and silver oxide constructions. On July 1, 2016, Energizer expanded its offering of brands with an acquisition of a leading designer and marketer of automotive fragrance and appearance products. The Company's brands now include Refresh Your Car!®, California Scents®, Driven®, Bahama & Co.®, LEXOL® and Eagle One®. Subsequent to the end of the quarter, on July 2, 2018, the Company acquired Nu Finish® and Scratch Doctor® to add to its automotive appearance offerings as well.

Basis of Presentation - The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Energizer and its subsidiaries. All significant intercompany transactions are eliminated. Energizer has no material equity method investments, variable interests or non-controlling interests.

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year-end condensed Consolidated Balance Sheet was derived from the audited financial statements included in Energizer's Report on Form 10-K, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of our operations, financial position and cash flows have been included. Certain reclassifications have been made to the prior year financial statements to conform to the current presentation. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the financial statements and notes thereto for Energizer for the year ended September 30, 2017 included in the Annual Report on Form 10-K dated November 14, 2017.

Recently Adopted Accounting Pronouncements - During the quarter ended March 31, 2018, the Company early adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02). This update allows for the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act (the Act) from accumulated other comprehensive income (AOCI) to retained earnings. The amount of the reclassification is calculated as the difference between the historical and newly enacted tax rates on deferred taxes originally recorded through AOCI. The Company reclassified \$20.0 of stranded tax from AOCI to Retained earnings in the second quarter. Tax effects unrelated to the Act are released from AOCI using either the specific identification approach or the portfolio approach based on the nature of the underlying item.

During the quarter ended December 31, 2017, the Company adopted ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This update requires the service component of the net periodic pension cost to be reported in the same income statement line item as similar compensation costs, while all other pension cost components should be reported separately from the service cost component on the income statement. The adoption of this update resulted in \$1.7 and \$5.1 of non-compensation related pension benefit in Other items, net in the quarter and nine months ended June 30, 2018, respectively, and a reclassification of \$3.1 and \$9.3 of pension benefit out of Selling, general and administrative expense and into Other items, net for the quarter and nine months ended June 30, 2017. All non-compensation related pension costs will be recorded in Other items, net going forward.

During the quarter ended December 31, 2017, the Company adopted ASU 2015-11, Inventory (Topic 330), which aligns the measurement of inventory under GAAP more closely with International Financial Reporting Standards. Under the new guidance, an entity that measures inventory using the first-in, first-out or average cost should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The impact of adoption was immaterial.

During the quarter ended December 31, 2017, the Company early adopted ASU 2016-16, Intra-entity Transfers of Assets Other Than Inventory. This update requires tax expense to be recognized from the sale of intra-entity assets, other than inventory, when the transfer occurs, even though the effects of the transaction are eliminated in consolidation. Under the previous guidance, the tax effects of transfers would have been deferred until the



ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

transferred asset was sold or otherwise recovered through use. Upon adoption, any deferred charge previously established upon the intra-company transfer is recorded as a cumulative effect adjustment to retained earnings. During the quarter ended December 31, 2017, a deferred charge of \$59.2 was removed from Other assets and recorded as an adjustment to retained earnings. Any future tax impacts will be recognized as incurred.

During the quarter ended December 31, 2017, the Company early adopted ASU 2017-01, Clarifying the Definition of a Business. This update creates a more practical definition and guidelines to determine whether a set of assets and activities is a business. This simplifies the decision making process of determining whether a purchase constitutes a business combination or an acquisition of assets and the Company will apply this definition for future acquisitions. During the quarter ended December 31, 2017, the Company early adopted ASU 2017-04, Simplifying the Test for Goodwill Impairment. This update eliminates the need to assign the fair value of a reporting unit to each of its assets and liabilities when quantifying an impairment charge. The impairment charge is now determined based on the comparison of the fair value of a reporting unit to its carrying amount. The Company will apply the new guidance when completing its goodwill testing procedures in the current year.

Recently Issued Accounting Pronouncements - On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. On August 12, 2015, the FASB issued a one-year deferral of the effective date. This update is effective for Energizer beginning October 1, 2018 and will be adopted on a modified retrospective basis. The Company has substantially completed its assessment of the new guidance against its current accounting policies and procedures, through activities that included analysis of standard sales transactions and terms, coordination and discussion with our commercial teams and reviewing contracts with customers. Based on its assessment, the new guidance will not have a material impact on the Company's consolidated financial position, results of operations or cash flows. The Company is still assessing the overall impact on the Company's disclosures and controls.

On February 25, 2016, the FASB issued ASU 2016-02, Leases. This update aligns the measurement of leases under GAAP more closely with International Financial Reporting Standards by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update will be effective for Energizer beginning October 1, 2019 with early adoption permitted. Energizer is in the process of evaluating the impact the guidance will have on its financial statements.

On August 26, 2016, the FASB issued ASU 2016-15, Statement of Cash Flows- Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice in how certain transactions are classified in the statements of cash flows. This update will be effective for Energizer beginning October 1, 2018. The Company is currently assessing the impact the revised guidance will have on our current classification on the Statement of Cash Flows.

On August 28, 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities. This update intends to simplify hedge accounting and decrease complexity for both the preparation and understanding of hedging disclosures in the financial statements. This update is effective for the Company beginning October 1, 2019 with early adoption permitted. The Company is currently assessing the impact the revised guidance will have on its accounting practices and financial statements.

ENERGIZER HOLDINGS, INC.  
 NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
 (In millions - Unaudited)

(2) Spin Costs

On July 1, 2015, Energizer completed its legal separation from Edgewell Personal Care Company (Edgewell) via a tax free spin-off (the spin-off or spin). The Company incurred costs associated with the evaluation, planning and execution of the spin transaction. For the quarter and nine months ended June 30, 2018, the Company recorded no activity related to spin.

During the nine months ended June 30, 2017, the Company recorded income of \$3.8 in spin restructuring which included \$2.5 of income in the second quarter reflecting the true up of previously accrued contract termination costs related to the fiscal 2016 right-sizing of the corporate headquarters and the first quarter sale of a facility in North America that was previously closed as a part of the spin for a gain of \$1.3. The total costs incurred or allocated to Energizer for the spin were \$197.6, inclusive of the costs of early debt retirement recorded in fiscal 2015. We do not expect any additional costs related to spin.

The following table represents the spin restructuring accrual activity and ending accrual balance as of June 30, 2017 recorded in Other current liabilities on the Consolidated Condensed Balance Sheet. There were no liabilities outstanding at September 30, 2017 or June 30, 2018.

|   | October 1,<br>2016 | Charge<br>to<br>Income | Utilized<br>Cash | June 30,<br>2017 |
|---|--------------------|------------------------|------------------|------------------|
| Severance and termination related costs | \$ 2.8             | \$ —                   | \$(2.1)          | \$ 0.7           |
| Contract termination costs              | 3.6                | (2.5 )                 | (1.1 )           | —                |
| Net gain on asset sales                 | —                  | (1.3 )                 | 1.3              | —                |
| Total                                   | \$ 6.4             | \$ (3.8 )              | \$(1.9)          | \$ 0.7           |

(3) Acquisitions

On January 15, 2018, the Company entered into a definitive acquisition agreement with Spectrum Brands Holdings, Inc. to acquire its global battery, lighting, and portable power business (Spectrum acquisition) for a purchase price of \$2,000.0 in cash, subject to certain purchase price adjustments. Energizer will fund this acquisition through the net proceeds from the issuance of new senior notes maturing in 2026, term loans and cash on hand. In addition, Energizer intends to maintain its existing senior notes, maturing in 2025. Refer to Note 9, Debt, for additional discussion on the new senior notes associated with this acquisition which were issued and placed into escrow on July 6, 2018. The closing of this transaction is subject to various conditions and regulatory approvals, but is expected to close by the end of calendar year 2018.

The Company is also committed to pay a \$100.0 termination fee to Spectrum if the transaction does not close by July 15, 2019, and all conditions precedent to the Company's obligation to consummate the acquisition have otherwise been satisfied except for one or more of the regulatory approval conditions specified in the acquisition agreement. Success fees of \$11.0 are due to the financial adviser, subject to the closing of the transaction. In addition, \$2.0 was paid in January 2018 to the financial adviser for services rendered on the transaction.

The Company incurred \$25.8 and \$50.9 of pre-tax acquisition and integration costs in the quarter and nine months ended June 30, 2018, respectively. Included in the quarter and nine month pre-tax acquisition and integration costs

were \$3.4 and \$6.3, respectively, of debt commitment fees related to the Spectrum acquisition that were recorded in Interest expense. The remaining pre-tax acquisition and integration costs were recorded in SG&A and primarily related to legal, consulting and advisory fees to assist with obtaining regulatory approval around the globe and to plan for the closing and integration of the Spectrum acquisition.

The Company also recorded a gain in Other items, net of \$9.9 on foreign currency contracts which were entered into in June 2018 and locked in the U.S. dollar (USD) value of the Euro notes related to the Spectrum acquisition. These contracts were terminated when the funds were placed into escrow on July 6, 2018. The Company also incurred \$0.5 and \$6.0 of tax withholding costs in the quarter and nine months ending June 30, 2018, related to anticipated cash movement to fund the acquisition.

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

Subsequent to the end of the quarter, on July 2, 2018, the Company acquired all of Reed-Union Corporation's automotive appearance business, including Nu Finish Car Polish and Nu Finish Scratch Doctor brands. The acquisition purchase price of \$37.7, subject to working capital adjustments, was funded through a combination of cash on hand and committed debt facilities.

#### (4) Income Taxes

The nine month effective tax rate was 45.3% as compared to 25.2% for the prior year comparative period. The provision includes the impact of the new U.S. tax legislation discussed below and \$0.5 and \$6.0 of tax withholding costs incurred in the quarter and nine months, respectively, related to anticipated cash movement to fund the Spectrum acquisition.

In addition, on December 22, 2017, H.R. 1, formally known as the Tax Cuts and Jobs Act (the Act) was enacted into law. The Act provides for numerous significant tax law changes and modifications with varying effective dates, which include reducing the corporate income tax rate from 35% to 21%, creating a territorial tax system (with a mandatory transition tax on previously deferred foreign earnings) and allowing for immediate capital expensing of certain qualified property. As a fiscal year end taxpayer, certain provisions of the Act began to impact us in our fiscal first quarter ended December 31, 2017, while other provisions will impact us beginning in fiscal year 2019. The corporate tax rate reduction is effective for Energizer as of January 1, 2018 and, accordingly, will reduce our current fiscal year federal statutory rate to a blended rate of approximately 24.5% for fiscal year 2018.

The changes included in the Act are broad and complex. The final transition impacts of the Act may differ from our current estimates, possibly materially, due to, among other things, changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. The Securities and Exchange Commission has issued rules that would allow for a measurement period of up to one year after the enactment date of the Act to finalize the recording of the related tax impacts.

As a result of the reduction of the Federal corporate income tax rate, we have remeasured certain deferred tax assets and liabilities at the rate which they are expected to reverse in the future. We are still analyzing certain aspects of the Act, including the future impacts of the Global Intangible Low-Taxed Income provision, and refining our calculations, which could potentially affect the remeasurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our deferred tax balance was tax expense of approximately \$0.6.

The mandatory transition tax is based on our total post-1986 earnings and profits (E&P) that we previously deferred from U.S. income taxes. We recorded a provisional amount for our mandatory transition tax liability, resulting in an increase in income tax expense of approximately \$30. We have not yet completed our calculation of the total post-1986 E&P for these foreign subsidiaries. Further, the mandatory transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets.

(5) Share-Based Payments

Total compensation cost for Energizer's share-based compensation arrangements was \$7.0 and \$21.0 for the quarter and nine months ended June 30, 2018, respectively, and \$5.9 and \$17.8 for the quarter and nine months ended June 30, 2017, respectively, and was recorded in SG&A expense.

Restricted Stock Equivalents (RSE)—(in whole dollars and total shares)

In November 2017, the Company granted RSE awards to a group of key employees of approximately 100,000 shares that vest ratably over four years and granted RSE awards to a group of key executives of approximately 68,000 shares that vest on the third anniversary of the date of grant. In addition, the Company granted approximately 238,000 performance shares to a group of key employees and key executives that will vest subject to meeting target amounts for both cumulative adjusted earnings per share and cumulative free cash flow as a

## ENERGIZER HOLDINGS, INC.

## NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

percentage of sales over the three year performance period. These performance measures are equally weighted in determining the final share award with the maximum award payout of approximately 476,000 shares. The closing stock price on the date of the grant used to determine the award fair value was \$44.20.

In November 2016, the Company granted RSE awards to a group of key employees of approximately 92,000 shares that vest ratably over four years and granted RSE awards to a group of key executives of approximately 73,000 shares that vest on the third anniversary of the date of the grant. In addition, the Company granted approximately 249,000 performance shares to a group of key employees and key executives that will vest subject to meeting targeted amounts for both cumulative adjusted earnings per share and cumulative free cash flow as a percentage of sales over the three year performance period. These performance measures are equally weighted in determining the final share award with the maximum award payout of approximately 498,000 shares. The closing stock price on the date of the grant used to determine the award fair value was \$43.84.

In November 2015, the Company granted RSE awards to a group of key employees of approximately 106,000 shares that vest ratably over four years and granted RSE awards to a group of key executives of approximately 87,000 shares that vest on the third anniversary of the date of the grant. In addition, the Company granted approximately 290,000 performance shares to a group of key employees and key executives that will vest subject to meeting targeted amounts for both cumulative adjusted earnings per share and cumulative free cash flow as a percentage of sales over the three year performance period. These performance measures are equally weighted in determining the final share award with the maximum award payout of approximately 580,000 shares. The closing stock price on the date of the grant used to determine the award fair value was \$37.34.

## (6) Earnings per share

Basic earnings per share is based on the average number of common shares outstanding during the period. Diluted earnings per share is based on the average number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of restricted stock equivalents, performance share awards and deferred compensation equity plans.

The following table sets forth the computation of basic and diluted earnings per share for the quarter and nine months ended June 30, 2018 and 2017:

(in millions, except per share data)

|  | For the<br>Quarter<br>Ended June<br>30, |        | For the Nine<br>Months<br>Ended June<br>30, |         |
|--|---|--------|---|---------|
|  | 2018                                    | 2017   | 2018  | 2017    |
| Net earnings                                     | \$23.8                                  | \$24.9 | \$92.0                                      | \$167.4 |
| Basic average shares outstanding                 | 59.7                                    | 61.8   | 59.9  | 61.8    |
| Effect of dilutive restricted stock equivalents  | 0.5                                     | 0.5    | 0.4   | 0.5     |
| Effect of dilutive performance shares            | 1.0                                     | 0.5    | 0.9   | 0.5     |
| Effect of stock based deferred compensation plan | 0.2                                     | —      | 0.2   | —       |
| Diluted average shares outstanding               | 61.4                                    | 62.8   | 61.4  | 62.8    |
| Basic earnings per common share                  | \$0.40                                  | \$0.40 | \$1.54                                      | \$2.71  |
| Diluted earnings per common share                | \$0.39                                  | \$0.40 | \$1.50                                      | \$2.67  |

For the quarter and nine months ended June 30, 2018 and 2017, all restricted stock equivalents and performance shares were dilutive and included in the diluted net earnings per share calculations. During the quarter, a portion of the Company's unfunded deferred compensation plan was modified to be paid out in shares rather than cash payment. As a result of the modification, \$11.9 was reclassified from a liability based plan to an equity compensation plan. This modification resulted in approximately 200,000 additional dilutive shares for the quarter and nine months ended June 30, 2018.

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

(7) Segments

Operations for Energizer are managed via two major geographic reportable segments: Americas and International. Prior to January 1, 2018, the International segment was reported as two separate geographic reportable segments: Europe, Middle East and Africa (EMEA) and Asia Pacific. The Company changed its reporting structure to reflect how the Company is managing the operations as well as what the chief operating decision maker is reviewing to make organizational decisions about resource allocation. The prior period segment information has been recast to reflect the current reportable segment structure of the Company.

Segment performance is evaluated based on segment operating profit, exclusive of general corporate expenses, share-based compensation costs, costs associated with restructuring initiatives, acquisition and integration activities, amortization costs, business realignment activities, research & development costs, gain on sale of real estate and other items determined to be corporate in nature. Financial items, such as interest income and expense, are managed on a global basis at the corporate level. The exclusion of substantially all acquisition, integration, restructuring and realignment costs from segment results reflects management's view on how it evaluates segment performance.

Energizer's operating model includes a combination of standalone and shared business functions between the geographic segments, varying by country and region of the world. Shared functions include, but are not limited to, IT, procurement and finance. Energizer applies a fully allocated cost basis, in which shared business functions are allocated between segments. Such allocations are estimates, and do not represent the costs of such services if performed on a standalone basis.



ENERGIZER HOLDINGS, INC.  
NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
(In millions - Unaudited)

Segment sales and profitability for the quarter and nine months ended June 30, 2018 and 2017, respectively, are presented below:

|  | For the Quarter |         | For the Nine Months |           |
|--|-----------------|---------|---------------------|-----------|
|  | Ended June 30,  |         | Ended June 30,      |           |
|  | 2018            | 2017    | 2018                | 2017      |
| Net Sales  |                 |         |                     |           |
| Americas   | \$241.3         | \$228.6 | \$838.5             | \$812.2   |
| International                                      | 151.5           | 143.4   | 502.0               | 478.4     |
| Total net sales                                    | \$392.8         | \$372.0 | \$1,340.5           | \$1,290.6 |
| Segment Profit                                     |                 |         |                     |           |
| Americas   | \$60.4          | \$53.6  | \$239.2             | \$237.2   |
| International                                      | 32.6            | 25.7    | 115.9               | 109.8     |
| Total segment profit                               | 93.0            | 79.3    | 355.1               | 347.0     |
| General corporate and other expenses (1) (2)       | (24.7 )         | (19.4 ) | (71.0 )             | (66.1 )   |
| Global marketing expense                           | (4.6 )          | (5.0 )  | (13.0 )             | (12.0 )   |
| Research and development expense                   | (5.2 )          | (5.1 )  | (15.9 )             | (16.0 )   |
| Amortization of intangible assets                  | (2.8 )          | (2.8 )  | (8.4 )              | (8.4 )    |
| Acquisition and integration costs (3)              | (22.4 )         | (6.7 )  | (44.6 )             | (9.2 )    |
| Spin restructuring                                 | —               | —       | —                   | 3.8       |
| Gain on sale of real estate                        | 4.6             | 1.7     | 4.6                 | 16.9      |
| Acquisition debt commitment fee (4)                | (3.4 )          | —       | (6.3 )              | —         |
| Gain on acquisition foreign currency contracts (5) | 9.9             | —       | 9.9                 | —         |
| Interest expense (4)                               | (14.3 )         | (13.3 ) | (41.3 )             | (39.7 )   |
| Other items, net (2) (5) (6)                       | 1.4             | 1.8     | (0.8 )              | 7.6       |
| Total earnings before income taxes                 | \$31.5          | \$30.5  | \$168.3             | \$223.9   |

(1) Included in SG&A in the unaudited Consolidated Condensed Statement of Earnings and Comprehensive Income.

(2) As a result of the adoption of ASU 2017-07 in the first quarter of 2018, a \$3.1 and \$9.3 benefit was reclassified from SG&A to Other items, net for the quarter and nine months ended June 30, 2017, respectively.

(3) The quarter and nine months ended June 30, 2017 included \$0.9 and \$1.1, respectively, recorded in Cost of products sold and \$3.3 recorded in Other items, net. All other costs were included in SG&A.

(4) Acquisition debt commitment fee represents the amortization of financing commitment fees related to the Spectrum acquisition which are recorded in Interest expense on the unaudited Consolidated Statement of Earnings.

(5) Gain on acquisition foreign currency contracts was recorded in Other items, net on the unaudited Consolidated Statement of Earnings. These contracts, which were entered into in June 2018, locked in the USD value of the future Euro Notes related to the Spectrum Acquisition and were terminated when the funds from the Euro Notes offering were placed into escrow on July 6, 2018.

(6) The amounts for the quarter and the nine months ended June 30, 2017 on the Consolidated Statement of Earnings included \$3.3 million of acquisition and integration costs which have been reclassified for purposes of the reconciliation above.

Supplemental product information is presented below for revenues from external customers:

|           | For the Quarter |      | For the Nine |      |
|-----------|-----------------|------|--------------|------|
|           | Ended June 30,  |      | Months Ended |      |
|           | June 30,        |      | June 30,     |      |
|           | 2018            | 2017 | 2018         | 2017 |
| Net Sales |                 |      |              |      |

Edgar Filing: ENERGIZER HOLDINGS, INC. - Form 10-Q

|                 |         |         |           |           |
|-----------------|---------|---------|-----------|-----------|
| Batteries       | \$350.1 | \$325.8 | \$1,204.9 | \$1,138.8 |
| Other           | 42.7    | 46.2    | 135.6     | 151.8     |
| Total net sales | \$392.8 | \$372.0 | \$1,340.5 | \$1,290.6 |

12

---

ENERGIZER HOLDINGS, INC.  
 NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
 (In millions - Unaudited)

Corporate assets shown in the following table include all financial instruments, deferred tax assets and deferred charges that are managed outside of operating segments. Total assets by segment are presented below:

|                                      | June 30,<br>2018 | September 30,<br>2017 |
|--------------------------------------|------------------|-----------------------|
| Americas                             | \$466.1          | \$ 533.9              |
| International                        | 794.5            | 698.2                 |
| Total segment assets                 | \$1,260.6        | \$ 1,232.1            |
| Corporate                            | 100.0            | 137.7                 |
| Goodwill and other intangible assets | 444.2            | 453.8                 |
| Total assets                         | \$1,804.8        | \$ 1,823.6            |

(8) Goodwill and intangible assets

Goodwill and intangible assets deemed to have an indefinite life are not amortized, but are evaluated annually for impairment as part of our annual business planning cycle in the fourth fiscal quarter, or when indicators of a potential impairment are present.

The following table sets forth goodwill by segment as of October 1, 2017 and June 30, 2018:

|  | Americas | International | Total   |
|--|----------|---------------|---------|
| Balance at October 1, 2017               | \$ 213.8 | \$ 16.2       | \$230.0 |
| Cumulative translation adjustment (0.2 ) | —        | —             | (0.2 )  |
| Balance at June 30, 2018                 | \$ 213.6 | \$ 16.2       | \$229.8 |

Energizer had indefinite-lived intangible assets of \$77.3 at June 30, 2018 and \$78.3 at September 30, 2017. Changes in indefinite-lived intangible assets are due to changes in foreign currency translation.

Total amortizable intangible assets at June 30, 2018 are as follows:

|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|--|-----------------------------|-----------------------------|---------------------------|
| Trademarks                               | \$ 40.1                     | \$ 5.4                      | \$ 34.7                   |
| Customer relationships                   | 84.4                        | 11.7                        | 72.7                      |
| Patents                                  | 34.5                        | 5.1                         | 29.4                      |
| Non-compete                              | 0.5                         | 0.2                         | 0.3                       |
| Total intangible assets at June 30, 2018 | \$ 159.5                    | \$ 22.4                     | \$ 137.1                  |

Total amortizable intangible assets at September 30, 2017 were as follows:

|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|---|-----------------------------|-----------------------------|---------------------------|
| Trademarks                                    | \$ 40.1                     | \$ 3.4                      | \$ 36.7                   |
| Customer relationships                        | 84.4                        | 7.3                         | 77.1                      |
| Patents                                       | 34.5                        | 3.2                         | 31.3                      |
| Non-compete                                   | 0.5                         | 0.1                         | 0.4                       |
| Total intangible assets at September 30, 2017 | \$ 159.5                    | \$ 14.0                     | \$ 145.5                  |



ENERGIZER HOLDINGS, INC.  
 NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
 (In millions - Unaudited)

## (9) Debt

The detail of long-term debt was as follows:

|   | June 30, September |          |
|---|--------------------|----------|
|   | 2018               | 30, 2017 |
| Senior Secured Term Loan B Facility, net of discount due 2022 | \$389.0            | \$ 392.0 |
| 5.50% Senior Notes due 2025                                   | 600.0              | 600.0    |
| Total long-term debt, including current maturities            | 989.0              | 992.0    |
| Less current portion  | (4.0 )             | (4.0 )   |
| Less unamortized debt discount and debt issuance fees         | (8.3 )             | (9.5 )   |
| Total long-term debt  | \$976.7            | \$ 978.5 |

The Company's \$600.0 of 5.50% Senior Notes due 2025 (2025 Notes) were sold to qualified institutional buyers and will not be registered under federal or applicable state securities laws. Interest is payable semi-annually on the 2025 Notes in December and June. The 2025 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis by each of the Company's domestic restricted subsidiaries that is a borrower or guarantor under the Revolving Facility and Term Loan.

The Company has a credit agreement which provides for a five-year \$350.0 senior secured revolving credit facility (Revolving Facility) which matures in June 2020 and a seven-year \$400.0 senior secured term loan B facility (Term Loan) which is due in June 2022. Borrowings under the Revolving Facility will bear interest at LIBOR or the Base Rate (as defined) plus the applicable margin based on total Company leverage. As of June 30, 2018, the Company had \$165.0 of outstanding borrowings under the Revolving Facility and had \$6.7 of outstanding letters of credit. Taking into account outstanding letters of credit, \$178.3 remains available as of June 30, 2018. As of June 30, 2018 and September 30, 2017, our weighted average interest rate on short-term borrowings was 4.15% and 2.98%, respectively.

The \$400.0 Term Loan was issued at a \$1.0 discount which is amortized with a corresponding charge to interest expense over the remaining life of the loan. The original interest rate was LIBOR subject to a 75 basis points floor, plus 250 basis points. In March 2017, the Company completed the repricing of its Term Loan reducing the interest to LIBOR plus 200 basis points and eliminating the 75 basis points floor. The loans and commitments under the Term Loan require quarterly principal payments at a rate of 0.25%, or \$1.0, of the original principal balance.

Obligations under the Revolving Facility and Term Loan are jointly and severally guaranteed by certain of its existing and future direct and indirectly wholly-owned U.S. subsidiaries. There is a first priority perfected lien on substantially all of the assets and property of the Company and guarantors and proceeds therefrom excluding certain excluded assets. No other terms were changed as result of the Term Loan repricing.

In March 2017, the Company entered into an interest rate swap agreement with one major financial institution that fixed the variable benchmark component (LIBOR) on \$200.0 of Energizer's variable rate debt through June 2022 at an interest rate of 2.03%.

The notes payable balance was \$174.6 at June 30, 2018 and \$104.1 at September 30, 2017. The June 30, 2018 balance was comprised of \$165.0 outstanding borrowings on the Revolving Facility as well as \$9.6 of other borrowings, including those from foreign affiliates. The September 30, 2017 balance was comprised of \$95.0 outstanding borrowings on the Revolving facility as well as \$9.1 of other borrowings, including those from foreign affiliates.

On June 21, 2018, the Company finalized the pricing of two senior note offerings due in 2026 of \$500.0 at 6.375% (USD Notes) and €650.0 at 4.625% (Euro Notes and collectively with the USD Notes, the 2026 Notes), which were issued by wholly-owned subsidiaries. The 2026 Notes priced at 100% of the principal amount and the offering closed subsequent to the quarter on July 6, 2018, with the funds held in escrow until certain conditions are met. Interest on the 2026 Notes began to accrue in July 2018.

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

If the escrow conditions (which include conditions relating to the completion of the Spectrum acquisition) are not satisfied on or prior to July 15, 2019 or in certain other circumstances, the 2026 Notes will be redeemed at a price equal to 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the date of redemption. The 2026 Notes will be jointly and severally guaranteed on an unsecured basis by the Company's domestic restricted subsidiaries that guarantee indebtedness of the Company under its expected new revolving credit facility and the Euro Notes will also be guaranteed by the Company.

In connection with the closing of the Spectrum acquisition, the Company expects to enter into a new senior secured first lien credit agreement, which would include a new 5-year \$400 undrawn revolving credit facility and also provide for \$1,200 of borrowings under a \$200 3-year term loan A facility and \$1,000 7-year term loan B facility. The borrowings are expected to bear interest at a rate per annum equal to, at the option of the Company, LIBOR or the Base Rate (as defined) plus the applicable margin based on total Company leverage. The new credit agreement is expected to contain customary affirmative and restrictive covenants. The new term loans began to accrue financing fees in July 2018.

Energizer intends to use the net proceeds from the offerings of the 2026 Notes, together with borrowings under the new term loans, to fund the previously announced Spectrum acquisition, to repay the debt outstanding under its existing credit agreement, and to pay related fees, costs and expenses.

#### Debt Covenants

The agreements governing the Company's debt contain certain customary representations and warranties, affirmative, negative and financial covenants and provisions relating to events of default. If the Company fails to comply with these covenants or with other requirements of these debt agreements, the lenders may have the right to accelerate the maturity of the debt. Acceleration under one of these facilities would trigger cross defaults to other borrowings. As of June 30, 2018, the Company was, and expects to remain, in compliance with the provisions and covenants associated with its debt agreements.

Aggregate maturities of long-term debt, including current maturities, at June 30, 2018 were as follows: \$4.0 in one year, \$4.0 in two years, \$4.0 in three years, \$4.0 in four years, \$373.0 in five years and \$600.0 thereafter.

The counterparties to long-term committed borrowings consist of a number of major financial institutions. The Company consistently monitors positions with, and credit ratings of, counterparties both internally and by using outside ratings agencies.

#### (10) Pension Plans

The Company has several defined benefit pension plans covering many of its employees in the U.S. and certain employees in other countries. The plans provide retirement benefits based on various factors including years of service and in certain circumstances, earnings. The U.S. plan was frozen in fiscal year 2015.

The Company's net periodic pension (benefit)/cost for these plans are as follows:

|   | For the Quarter Ended June 30,     |         |               |        |
|---|------------------------------------|---------|---------------|--------|
|   | U.S.                               |         | International |        |
|   | 2018                               | 2017    | 2018          | 2017   |
| Service Cost                            | \$—                                | \$—     | \$0.1         | \$0.4  |
| Interest Cost                           | 4.7                                | 4.6     | 1.1           | 0.8    |
| Expected return on plan assets          | (7.5 )                             | (8.6 )  | (1.6 )        | (2.0 ) |
| Amortization of unrecognized net losses | 1.1                                | 1.2     | 0.5           | 0.9    |
| Net periodic (benefit)/cost             | \$(1.7)                            | \$(2.8) | \$0.1         | \$0.1  |
|   | For the Nine Months Ended June 30, |         |               |        |
|   | U.S.                               |         | International |        |
|   | 2018                               | 2017    | 2018          | 2017   |
| Service Cost                            | \$—                                | \$—     | \$0.4         | \$1.2  |
| Interest Cost                           | 14.1                               | 13.7    | 3.2           | 2.5    |
| Expected return on plan assets          | (22.6 )                            | (25.8 ) | (4.8 )        | (6.0 ) |
| Amortization of unrecognized net losses | 3.3                                | 3.6     | 1.6           | 2.7    |
| Settlement charge                       | 0.1                                | —       | —             | —      |
| Net periodic (benefit)/cost             | \$(5.1)                            | \$(8.5) | \$0.4         | \$0.4  |

The Company adopted ASU 2017-07 in the quarter ended December 31, 2017. The service cost component of the net periodic (benefit)/cost above is recorded in Selling, general and administrative expense on the Consolidated Statement of Earnings and Comprehensive Income, while the remaining components are recorded to Other items, net. The prior year amounts have been reclassified to provide comparable presentation in line with the guidance.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are required by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and, therefore, are not included in the information presented above.

#### (11) Shareholder's Equity

In July 2015, the Company's Board of Directors approved an authorization for the Company to acquire up to 7.5 million shares of its common stock. During the nine months ended June 30, 2018, the Company repurchased 1,126,379 shares for \$50.0, at an average price of \$44.41 per share, under this authorization. There were no shares repurchased during the third quarter of fiscal 2018. Future share repurchases, if any, will be determined by the Company based on its evaluation of the market conditions, capital allocation objectives, legal and regulatory requirements and other factors.

On November 13, 2017, the Board of Directors declared a dividend for the first quarter of fiscal 2018 of \$0.29 per share of common stock. The dividend was paid on December 14, 2017, to all shareholders of record as of November 30, 2017 and totaled \$17.3.

On January 29, 2018, the Board of Directors declared a dividend for the second quarter of 2018 of \$0.29 per share of common stock. The dividend was paid on March 13, 2018, to all shareholders of record as of February 20, 2018 and totaled \$17.3.



On April 30, 2018, the Board of Directors declared a dividend for the third quarter of 2018 or \$0.29 per share of common stock. The dividend was paid on June 13, 2018, to all shareholders of record as of May 21, 2018 and totaled \$17.3.

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

In addition, dividend payments of \$0.4 were made in fiscal 2018 related to restricted stock awards that vested during November 2017.

Subsequent to the end of the fiscal quarter, on July 27, 2018, the Board of Directors declared a dividend for the fourth quarter of 2018 of \$0.29 per share of common stock, payable on September 12, 2018, to all shareholders of record as of the close of business August 16, 2018.

## (12) Financial Instruments and Risk Management

The market risk inherent in the Company's operations creates potential earnings volatility arising from changes in currency rates, interest rates and commodity prices. The Company's policy allows derivatives to be used only for identifiable exposures and, therefore, the Company does not enter into hedges for trading or speculative purposes where the sole objective is to generate profits.

**Concentration of Credit Risk**—The counterparties to derivative contracts consist of a number of major financial institutions and are generally institutions with which the Company maintains lines of credit. The Company does not enter into derivative contracts through brokers nor does it trade derivative contracts on any other exchange or over-the-counter markets. Risk of currency positions and mark-to-market valuation of positions are strictly monitored.

The Company continually monitors positions with, and credit ratings of, counterparties both internally and by using outside rating agencies. While nonperformance by these counterparties exposes Energizer to potential credit losses, such losses are not anticipated.

In the ordinary course of business, the Company may enter into contractual arrangements (derivatives) to reduce its exposure to commodity price and foreign currency risks. The section below outlines the types of derivatives that existed at June 30, 2018 and September 30, 2017, as well as the Company's objectives and strategies for holding these derivative instruments.

**Commodity Price Risk**—Energizer uses raw materials that are subject to price volatility. The Company has used, and may in the future use, hedging instruments to reduce exposure to variability in cash flows associated with future purchases of certain materials and commodities. At June 30, 2018 and September 30, 2017, there were no open derivative or hedging instruments for future purchases of raw materials or commodities.

**Foreign Currency Risk**—A significant portion of Energizer's product cost is more closely tied to the U.S. dollar than to the local currencies in which the product is sold. As such, a weakening of currencies relative to the U.S. dollar results in margin declines unless mitigated through pricing actions, which are not always available due to the economic or competitive environment. Conversely, a strengthening in currencies relative to the U.S. dollar can improve margins. The primary currencies to which Energizer is exposed include the Euro, the British pound, the Canadian dollar and the Australian dollar. However, the Company also has significant exposures in many other currencies which, in the aggregate, may have a material impact on the Company's operations.

Additionally, Energizer's foreign subsidiaries enter into internal and external transactions that create nonfunctional currency balance sheet positions at the foreign subsidiary level. These exposures are generally the result of intercompany purchases, intercompany loans and, to a lesser extent, external purchases, and are revalued in the foreign subsidiary's local currency at the end of each period. Changes in the value of the non-functional currency balance sheet positions in relation to the foreign subsidiary's local currency results in a transaction gain or loss

recorded in Other items, net on the Consolidated Statements of Earnings and Comprehensive Income. The primary currency to which Energizer's foreign subsidiaries are exposed is the U.S. dollar.

Interest Rate Risk—Energizer has interest rate risk with respect to interest expense on variable rate debt. At June 30, 2018, Energizer had variable rate debt outstanding with an original principal balance of \$400.0 under the Term Loan. In March 2017, the Company entered into an interest rate swap agreement with one major financial institution that fixed the variable benchmark component (LIBOR) on \$200.0 of Energizer's variable rate debt through June 2022 at an interest rate of 2.03%.

In February 2018, the Company entered into a forward starting interest rate swap with an effective date of October 1, 2018, with one major financial institution that will fix the variable benchmark component (LIBOR) on additional

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

variable rate debt at an interest rate of 2.47%. At the effective date, the swap will have a notional value of \$400.0. Beginning April 1, 2019, the notional amount decreases \$50.0 each quarter until its termination date of December 31, 2020.

These hedging instruments are considered cash flow hedges for accounting purposes. At June 30, 2018 and September 30, 2017, Energizer recorded an unrecognized pre-tax gain and unrecognized pre-tax loss of \$6.2 and \$1.3, respectively, on these interest rate swap contracts, both of which were included in Accumulated other comprehensive loss on the Consolidated Balance Sheet.

Cash Flow Hedges - The Company has entered into a series of forward currency contracts to hedge the cash flow uncertainty of forecasted inventory purchases due to short term currency fluctuations. Energizer's foreign affiliates, which have the largest exposure to U.S. dollar purchases, have the Euro, the British pound, the Canadian dollar and the Australian dollar as their local currencies. These foreign currencies represent a significant portion of Energizer's foreign currency exposure. At June 30, 2018 and September 30, 2017, Energizer had an unrealized pre-tax gain of \$4.1 and loss of \$5.8, respectively, on these forward currency contracts accounted for as cash flow hedges included in Accumulated other comprehensive loss on the unaudited Condensed Consolidated Balance Sheets. Assuming foreign exchange rates versus the U.S. dollar remain at June 30, 2018 levels, over the next 12 months, \$4.0 of the pre-tax gain included in Accumulated other comprehensive loss is expected to be recognized in earnings. Contract maturities for these hedges extend into fiscal year 2020. There were 64 open foreign currency contracts at June 30, 2018, with a total notional value of approximately \$143.

Derivatives not Designated in Hedging Relationships - Energizer enters into foreign currency derivative contracts which are not designated as cash flow hedges for accounting purposes, to hedge existing balance sheet exposures. Any gains or losses on these contracts are expected to be offset by corresponding exchange losses or gains on the underlying exposures; and as such are not subject to significant market risk. There were 11 open foreign currency derivative contracts which are not designated as cash flow hedges at June 30, 2018, with a total notional value of approximately \$858.

At June 30, 2018, included in the above, were two foreign currency derivative contracts with a notional value of \$774 which locked in the USD value of future Euro Notes related to the Spectrum acquisition. These contracts were entered into in June 2018 and terminated on July 6, 2018 when the funds from the Euro Notes offering were placed into escrow. At June 30, 2018, these contracts had a gain of \$9.9 recorded in Other items, net.

## ENERGIZER HOLDINGS, INC.

## NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

The following table provides the Company's estimated fair values as of June 30, 2018 and September 30, 2017, and the amounts of gains and losses on derivative instruments classified as cash flow hedges for the quarter and nine months ended June 30, 2018 and 2017, respectively:

| Derivatives designated as Cash Flow Hedging Relationships | At June 30,<br>2018                         | For the Quarter<br>Ended June 30,<br>2018 |  | For the Nine Months<br>Ended June 30, 2018 |  |
|---|---|---|--|--|--|
|   | Estimated<br>Fair Value<br>Asset<br>(1) (2) | Gain<br>Recognized<br>in<br>OCI<br>(3)    | Loss<br>Reclassified<br>From OCI<br>into Income<br>(Effective<br>Portion) (4)<br>(5) | Gain<br>Recognized<br>in OCI<br>(3)        | Loss<br>Reclassified<br>From OCI<br>into Income<br>(Effective<br>Portion) (4)<br>(5) |
| Foreign currency contracts                                | \$ 4.1                                      | \$ 5.6                                    | \$ (0.8 )  | \$ 4.8                                     | \$ (5.1 )  |
| Interest rate contracts                                   | 6.2   | 2.2                                       | (0.2 )   | 6.7  | (1.0 )   |
| Total   | \$ 10.3                                     | \$ 7.8                                    | \$ (1.0 )  | \$ 11.5                                    | \$ (6.1 )  |

| Derivatives designated as Cash Flow Hedging Relationships | At<br>September<br>30, 2017                     | For the Quarter<br>Ended June 30,<br>2017 |   | For the Nine Months<br>Ended June 30, 2017 |   |
|---|---|---|---|--|---|
|   | Estimated<br>Fair Value<br>Liability<br>(1) (2) | Loss<br>Recognized<br>in<br>OCI<br>(3)    | Gain/(Loss)<br>Reclassified<br>From OCI<br>into Income<br>(Effective<br>Portion) (4)<br>(5) | (Loss)/Gain<br>Recognized<br>in OCI<br>(3) | Gain/(Loss)<br>Reclassified<br>From OCI<br>into Income<br>(Effective<br>Portion) (4)<br>(5) |
| Foreign currency contracts                                | \$ (5.8 )                                       | \$(4.8)                                   | \$ 0.4  | \$(1.6 )                                   | \$ 1.6  |
| Interest rate contracts                                   | (1.3 )  | (1.2 )                                    | (0.5 )  | 4.6  | (1.9 )  |
| Total   | \$ (7.1 )                                       | \$(6.0)                                   | \$ (0.1 )   | \$ 3.0                                     | \$ (0.3 )   |

(1) All derivative assets are presented in Other current assets or Other assets.

(2) All derivative liabilities are presented in Other current liabilities or Other liabilities.

(3) OCI is defined as other comprehensive income.

(4) Gain/(loss) reclassified to Income was recorded as follows: Foreign currency contracts in Other items, net and interest rate contracts in Interest expense.

(5) Each of these hedging relationships has derivative instruments with a high correlation to the underlying exposure being hedged and has been deemed highly effective in offsetting the underlying risk.

The following table provides estimated fair values as of June 30, 2018 and September 30, 2017 and the gains and losses on derivative instruments not classified as cash flow hedges for the quarter and nine months ended June 30, 2018 and 2017, respectively:

| At June 30,<br>2018 | For the<br>Quarter<br>Ended June<br>30, 2018 | For the Nine<br>Months<br>Ended June<br>30, 2018 |
|---------------------|--|--|
|---------------------|--|--|

|                            | Estimated<br>Fair Value<br>Asset (1) | Gain<br>Recognized<br>in Income<br>(1) (2) | Gain<br>Recognized<br>in Income<br>(1) (2) |
|----------------------------|--------------------------------------|--|--|
| Foreign currency contracts | \$ 9.5                               | \$ 8.7                                     | \$ 10.0                                    |

|                            | At<br>September<br>30, 2017      | For the<br>Quarter<br>Ended June<br>30, 2017 | For the Nine<br>Months<br>Ended June<br>30, 2017 |
|----------------------------|----------------------------------|--|--|
|                            | Estimated<br>Fair Value<br>Asset | Loss<br>Recognized<br>in Income<br>(2)       | Loss<br>Recognized<br>in Income<br>(2)           |
| Foreign currency contracts | \$ 0.9                           | \$ (0.2 )                                    | \$ (1.5 )  |

(1) Includes the foreign currency contracts, which were entered into in June 2018, to lock in the USD value of future Euro Notes related to the Spectrum acquisition. These contracts were terminated when the funds from the Euro Notes offering were placed into escrow on July 6, 2018.

(2) Gain/(loss) recognized in Income was recorded as foreign currency in Other items, net.

ENERGIZER HOLDINGS, INC.  
NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
(In millions - Unaudited)

Energizer has the following recognized financial assets resulting from those transactions that meet the scope of the disclosure requirements as necessitated by applicable accounting guidance for balance sheet offsetting.

Offsetting of derivative assets

| Description                | Balance Sheet location             | At June 30, 2018                   |   |  | At September 30, 2017              |   |  |
|----------------------------|------------------------------------|------------------------------------|---|--|------------------------------------|---|--|
|                            |                                    | Gross amounts of recognized assets | Gross amounts offset in the Balance Sheet | Net amounts of assets presented in the Balance Sheet | Gross amounts of recognized assets | Gross amounts offset in the Balance Sheet | Net amounts of assets presented in the Balance Sheet |
| Foreign Currency Contracts | Other Current Assets, Other Assets | \$ 14.9                            | \$ (0.4 )                                 | \$ 14.5  | \$ 1.1                             | \$ —                                      | \$ 1.1   |

Offsetting of derivative liabilities

| Description                | Balance Sheet location                       | At June 30, 2018                        |   |   | At September 30, 2017                   |   |   |
|----------------------------|--|---|---|---|---|---|---|
|                            |  | Gross amounts of recognized liabilities | Gross amounts offset in the Balance Sheet | Net amounts of liabilities presented in the Balance Sheet | Gross amounts of recognized liabilities | Gross amounts offset in the Balance Sheet | Net amounts of liabilities presented in the Balance Sheet |
| Foreign Currency Contracts | Other Current Liabilities, Other Liabilities | \$ (0.9 )                               | \$ —                                      | \$ (0.9 )   | \$ (6.4 )                               | \$ 0.4                                    | \$ (6.0 )   |

Fair Value Hierarchy—Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

Under the fair value accounting guidance hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth the Company's financial assets and liabilities, which are carried at fair value, as of June 30, 2018 and September 30, 2017 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

| Assets/(Liabilities) at estimated fair value: | Level 2       |                    |
|---|---------------|--------------------|
|   | June 30, 2018 | September 30, 2017 |
| Deferred Compensation                         | \$ (28.5)     | \$ (41.0 )         |

Edgar Filing: ENERGIZER HOLDINGS, INC. - Form 10-Q

|  |        |            |   |
|--|--------|------------|---|
| Derivatives - Foreign Currency Contracts | 13.6   | (4.9       | ) |
| Derivatives - Interest Rate Contracts    | 6.2    | (1.3       | ) |
| Exit lease liability                     | —      | (0.3       | ) |
| Net Liabilities at estimated fair value  | \$(8.7 | ) \$ (47.5 | ) |

20

---



ENERGIZER HOLDINGS, INC.  
 NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
 (In millions - Unaudited)

Energizer had no Level 1 financial assets or liabilities, other than pension plan assets, and no Level 3 financial assets or liabilities at June 30, 2018 and at September 30, 2017.

Due to the nature of cash and cash equivalents, carrying amounts on the balance sheets approximate estimated fair value. The estimated fair value of cash and cash equivalents has been determined based on level 1 and level 2 inputs, respectively.

At June 30, 2018, the estimated fair value of the Company's unfunded deferred compensation liability is determined based upon the quoted market prices of investment options that are offered under the plan. During the quarter, a portion of the Company's unfunded deferred compensation plan was modified to be paid out in shares rather than cash payment. As a result of the modification, \$11.9 was reclassified from a liability based plan to an equity compensation plan.

The estimated fair value of foreign currency contracts and interest rate swap as described above is the amount that the Company would receive or pay to terminate the contracts, considering first, quoted market prices of comparable agreements, or in the absence of quoted market prices, such factors as interest rates, currency exchange rates and remaining maturities. The estimated fair value of the exit lease liability was determined based on the discounted cash flows of the remaining lease rentals reduced by estimated sublease rentals that could be reasonably obtained for the property.

At June 30, 2018 and September 30, 2017, the fair market value of fixed rate long-term debt was \$596.0 and \$615.7, respectively, compared to its carrying value of \$600.0. The estimated fair value of the long-term debt is estimated using yields obtained from independent pricing sources for similar types of borrowing arrangements. The estimated fair value of fixed rate long-term debt has been determined based on Level 2 inputs.

### (13) Accumulated Other Comprehensive (Loss)/Income

The following table presents the changes in accumulated other comprehensive (loss)/income (AOCI), net of tax by component:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Pension<br>Activity | Hedging<br>Activity | Interest<br>Rate<br>Contracts | Total     |
|--|---|---------------------|---------------------|-------------------------------|-----------|
| Balance at September 30, 2017              | \$ (93.1 )  | \$(139.4)           | \$ (4.5 )           | \$ (1.8 )                     | \$(238.8) |
| OCI before reclassifications               | (14.9 )   | 1.1                 | 3.6                 | 4.7                           | (5.5 )    |
| Reclassifications to earnings              | —   | 3.7                 | 4.0                 | 0.7                           | 8.4       |
| Reclassifications to retained earnings (1) | —   | (19.9 )             | —                   | (0.1 )                        | (20.0 )   |
| Balance at June 30, 2018                   | \$ (108.0 )                                       | \$(154.5)           | \$ 3.1              | \$ 3.5                        | \$(255.9) |

(1) Refer to Note 1- Description of Business and Basis of Presentation for additional information on our adoption of ASU 2018-02.

## ENERGIZER HOLDINGS, INC.

## NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

The following table presents the reclassifications out of AOCI to earnings:

| Details of AOCI Components                    | For the<br>Quarter<br>Ended June<br>30,<br>2018 |                                  | For the Nine<br>Months<br>Ended June<br>30,<br>2017 |                                  | Affected Line Item in the Combined Statements of<br>Earnings |
|---|---|----------------------------------|---|----------------------------------|--|
|   | 2018  | 2017                             | 2018  | 2017                             |  |
|   | Amount  | Amount                           | Amount  | Amount                           |  |
|   | Reclassified<br>from AOCI<br>(1)                | Reclassified<br>from AOCI<br>(1) | Reclassified<br>from AOCI<br>(1)                    | Reclassified<br>from AOCI<br>(1) |  |
| Gains and losses on cash flow hedges          |   |                                  |   |                                  |  |
| Foreign exchange contracts                    | \$(0.8)   | \$0.4                            | \$(5.1)   | \$1.6                            | Other items, net   |
| Interest rate contracts                       | (0.2 )  | (0.5 )                           | (1.0 )  | (1.9 )                           | Interest expense   |
|   | (1.0 )  | (0.1 )                           | (6.1 )  | (0.3 )                           | Earnings before income taxes                                 |
|   | 0.2   | 0.2                              | 1.4   | 0.5                              | Income tax provision   |
|   | \$(0.8)   | \$0.1                            | \$(4.7)   | \$0.2                            | Net earnings   |
| Amortization of defined benefit pension items |   |                                  |   |                                  |  |
| Actuarial loss                                | (1.6 )  | (2.1 )                           | (4.9 )  | (6.2 )                           | (2)  |
| Settlement loss                               | —   | —                                | (0.1 )  | —                                | (2)  |
|   | (1.6 )  | (2.1 )                           | (5.0 )  | (6.2 )                           | Earnings before income taxes                                 |
|   | 0.5   | 0.6                              | 1.3   | 1.9                              | Income tax provision   |
|   | \$(1.1)   | \$(1.5)                          | \$(3.7)   | \$(4.3)                          | Net earnings   |
| Total reclassifications to earnings           | \$(1.9)   | \$(1.4)                          | \$(8.4)   | \$(4.1)                          | Net earnings   |

(1) Amounts in parentheses indicate debits to Consolidated Statement of Earnings.

(2) This AOCI component is included in the computation of net periodic pension (benefit)/cost (see Note 10, Pension Plans, for further details).

ENERGIZER HOLDINGS, INC.  
NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS  
(In millions - Unaudited)

## (14) Supplemental Financial Statement Information

|  | June 30, September |          |
|--|--------------------|----------|
|  | 2018               | 30, 2017 |
| Inventories  |                    |          |
| Raw materials and supplies                             | \$44.5             | \$ 36.6  |
| Work in process  | 96.1               | 84.8     |
| Finished products                                      | 167.2              | 195.7    |
| Total inventories                                      | \$307.8            | \$ 317.1 |
| Other Current Assets                                   |                    |          |
| Miscellaneous receivables                              | \$8.3              | \$ 13.7  |
| Prepaid expenses                                       | 53.8               | 52.7     |
| Value added tax collectible from customers             | 19.3               | 23.4     |
| Other  | 25.2               | 5.1      |
| Total other current assets                             | \$106.6            | \$ 94.9  |
| Property, Plant and Equipment                          |                    |          |
| Land   | \$4.6              | \$ 4.6   |
| Buildings  | 110.9              | 122.4    |
| Machinery and equipment                                | 691.8              | 697.9    |
| Construction in progress                               | 16.0               | 19.4     |
| Total gross property                                   | 823.3              | 844.3    |
| Accumulated depreciation                               | (656.4 )           | (667.8 ) |
| Total property, plant and equipment, net               | \$166.9            | \$ 176.5 |
| Other Current Liabilities                              |                    |          |
| Accrued advertising, sales promotion and allowances    | \$11.6             | \$ 21.8  |
| Accrued trade allowances                               | 37.4               | 51.1     |
| Accrued salaries, vacations and incentive compensation | 41.8               | 54.4     |
| Income taxes payable                                   | 30.0               | 21.6     |
| Other  | 105.5              | 105.7    |
| Total other current liabilities                        | \$226.3            | \$ 254.6 |
| Other Liabilities                                      |                    |          |
| Pensions and other retirement benefits                 | \$73.1             | \$ 87.7  |
| Deferred compensation                                  | 28.5               | 41.0     |
| Mandatory transition tax                               | 25.8               | —        |
| Other non-current liabilities                          | 53.6               | 49.3     |
| Total other liabilities                                | \$181.0            | \$ 178.0 |

ENERGIZER HOLDINGS, INC.

NOTES TO CONSOLIDATED (CONDENSED) FINANCIAL STATEMENTS

(In millions - Unaudited)

(15) Legal proceedings/contingencies and other obligations

Legal proceedings/contingencies - The Company and its affiliates are subject to a number of legal proceedings in various jurisdictions arising out of its operations. Many of these legal matters are in preliminary stages and involve complex issues of law and fact, and may proceed for protracted periods of time. The amount of liability, if any, from these proceedings cannot be determined with certainty. We are a party to legal proceedings and claims that arise during the ordinary course of business. We review our legal proceedings and claims, regulatory reviews and inspections and other legal proceedings on an ongoing basis and follow appropriate accounting guidance when making accrual and disclosure decisions. We establish accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated. Based upon present information, the Company believes that its liability, if any, arising from such pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is not reasonably likely to be material to the Company's financial position, results of operations, or cash flows, when taking into account established accruals for estimated liabilities.

Other obligations - In the ordinary course of business, the Company also enters into supply and service contracts. These contracts can include either volume commitments or fixed expiration dates, termination provisions and other standard contractual considerations. At June 30, 2018, the Company had approximately \$72 of purchase obligations.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is meant to provide investors with information that management believes helpful in reviewing Energizer's historical-basis results of operations, operating segment results, and liquidity and capital resources. Statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") that are not historical may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You should read the following MD&A in conjunction with the Consolidated Financial Statements (unaudited) and corresponding notes included herein. This MD&A contains forward-looking statements. The matters discussed in these forward-looking statements are subject to risk, uncertainties, and other factors that could cause actual results to differ materially from those projected or implied in the forward-looking statements. Please see "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 for a discussion of the uncertainties, risks and assumptions associated with these statements as well as in Item 1A. Risk Factors of this Form 10-Q.

All amounts discussed are in millions of U.S. dollars, unless otherwise indicated.

### Non-GAAP Financial Measures

The Company reports its financial results in accordance with accounting principles generally accepted in the U.S. ("GAAP"). However, management believes that certain non-GAAP financial measures provide users with additional meaningful comparisons to the corresponding historical or future period. These non-GAAP financial measures exclude items that are not reflective of the Company's on-going operating performance, such as acquisition and integration costs and related items, costs related to the spin, gain on sale of real estate and the one-time impact of the new U.S. tax legislation. In addition, these measures help investors to see year over year comparability when excluding currency fluctuations, acquisition activity as well as other company initiatives that are not on-going. We believe these non-GAAP financial measures are an enhancement to assist investors in understanding our business and in performing analysis consistent with financial models developed by research analysts. Investors should consider non-GAAP measures in addition to, not as a substitute for, or superior to, the comparable GAAP measures. In addition, these non-GAAP measures may not be the same as similar measures used by other companies due to possible differences in method and in the items being adjusted.

We provide the following non-GAAP measures and calculations, as well as the corresponding reconciliation to the closest GAAP measure:

**Segment Profit.** This amount represents the operations of our two reportable segments including allocations for shared support functions. General corporate and other expenses, Global marketing expenses, R&D expenses, Amortization expense, Interest expense, Other items, net and charges related to Acquisition and integration and the Spin-off and the Gain on sale of real estate have all been excluded from segment profit.

**Adjusted Earnings Before Income Taxes, Adjusted Net Earnings and Adjusted Diluted Earnings Per Share (EPS).** These measures exclude the impact of the costs related to acquisition and integration, the spin-off, gain on sale of real estate and the one-time impact of the new U.S. income tax legislation.

**Organic.** This is the non-GAAP financial measurement of the change in revenue, segment profit or other margins that excludes or otherwise adjusts for the impact of currency from the changes in foreign currency exchange rates as defined below:

**Impact of currency.** The Company evaluates the operating performance of our Company on a currency neutral basis. The impact of currency is the difference between the value of current year foreign operations at the current period ending USD exchange rate, compared to the value of the current year foreign operations at the prior period ending

USD exchange rate.

Adjusted Selling, General & Administrative (SG&A) as a percent of sales. Detail for adjusted SG&A as a percent of sales are also supplemental non-GAAP measures. These measures exclude the impact of costs related to acquisition and integration.

25

---

## Forward-Looking Statements

This document contains both historical and forward-looking statements. Forward-looking statements are not based on historical facts but instead reflect our expectations, estimates or projections concerning future results or events, including, without limitation, the future sales, gross margins, costs, earnings, cash flows, tax rates and performance of Energizer. These statements generally can be identified by the use of forward-looking words or phrases such as "believe," "expect," "expectation," "anticipate," "may," "could," "intend," "belief," "estimate," "plan," "target," "predict," "likely," "will," "should," "forecast," "outlook," or other similar words or phrases. These statements are not guarantees of performance and are inherently subject to known and unknown risks, uncertainties and assumptions that are difficult to predict and could cause our actual results to differ materially from those indicated by those statements. We cannot assure that any of our expectations, estimates or projections will be achieved. The forward-looking statements included in this document are only made as of the date of this document and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances. Numerous factors could cause our actual results and events to differ materially from those expressed or implied by forward-looking statements, including, without limitation:

- market and economic conditions;
- market trends in the categories in which we compete;
- our ability to close the proposed Spectrum acquisition of the global battery, lighting, and portable power business (the "Business"), which may be delayed or may not close at all due to the failure to obtain required regulatory approvals, or satisfy other closing conditions;
- our ability to obtain financing for the Spectrum acquisition on favorable terms;
- our ability to acquire and integrate businesses, and to realize the projected results of acquisitions, including our ability to promptly and effectively integrate the Business after the Spectrum acquisition has closed, and our ability to obtain expected cost savings, synergies and other anticipated benefits of the Spectrum acquisition within the expected timeframe;
- the impact of the pending Spectrum acquisition on the respective business operations;
- the success of new products and the ability to continually develop and market new products;
- our ability to attract, retain and improve distribution with key customers;
- our ability to continue planned advertising and other promotional spending;
- our ability to timely execute strategic initiatives, including restructurings, and international go-to-market changes in a manner that will positively impact our financial condition and results of operations and does not disrupt our business operations;
- the impact of strategic initiatives, including restructurings, on our relationships with employees, customers and vendors;
- our ability to maintain and improve market share in the categories in which we operate despite heightened competitive pressure;
- our ability to improve operations and realize cost savings;
- the impact of foreign currency exchange rates and currency controls, as well as offsetting hedges, including the impact of the United Kingdom's referendum vote and announced intention to exit the European Union;
- the impact of raw materials and other commodity costs;
- the impact of legislative changes or regulatory determinations or changes by federal, state and local, and foreign authorities, including customs and tariff determinations, as well as the impact of potential changes to tax laws, policies and regulations;
- costs and reputational damage associated with cyber-attacks or information security breaches or other events;
- the impact of advertising and product liability claims and other litigation; and
- compliance with debt covenants and maintenance of credit ratings as well as the impact of interest and principal repayment of our existing and any future debt.

In addition, other risks and uncertainties not presently known to us or that we consider immaterial could affect the accuracy of any such forward-looking statements. The list of factors above is illustrative, but by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. Additional risks and uncertainties include those detailed from time to time in our publicly filed documents, including those described under the heading “Risk Factors” in our Form 10-K filed with the Securities and Exchange Commission on November 14, 2017 as well as in Item 1A. Risk Factors of this Form 10-Q.



## Acquisitions

On January 15, 2018, the Company entered into a definitive acquisition agreement with Spectrum Brands Holdings, Inc. to acquire its global battery, lighting, and portable power business (Spectrum acquisition) for a purchase price of \$2,000.0 in cash, subject to certain purchase price adjustments. Energizer will fund this acquisition through the net proceeds from the issuance of new senior notes maturing in 2026, term loans and cash on hand. In addition, Energizer intends to maintain its existing senior notes, maturing in 2025. Refer to Note 9, Debt, for additional discussion on the new senior notes associated with this acquisition which were issued and placed into escrow on July 6, 2018. The closing of this transaction is subject to various conditions and regulatory approvals, but is expected to close by the end of calendar year 2018.

The Company is also committed to pay a \$100.0 termination fee to Spectrum if the transaction does not close by July 15, 2019, and all conditions precedent to the Company's obligation to consummate the acquisition have otherwise been satisfied except for one or more of the regulatory approval conditions specified in the acquisition agreement. Success fees of \$11.0 are due to the financial adviser, subject to the closing of the transaction. In addition, \$2.0 was paid in January 2018 to the financial adviser for services rendered on the transaction.

The Company incurred \$25.8 and \$50.9 of pre-tax acquisition and integration costs in the quarter and nine months ended June 30, 2018, respectively. Included in the quarter and nine month pre-tax acquisition and integration costs were \$3.4 and \$6.3, respectively, of debt commitment fees related to the Spectrum acquisition that were recorded in Interest expense. The remaining pre-tax acquisition and integration costs were recorded in SG&A and primarily related to legal, consulting and advisory fees to assist with obtaining regulatory approval around the globe and to plan for the closing and integration of the Spectrum acquisition.

The Company also recorded a gain in Other items, net of \$9.9 on foreign currency contracts which were entered into in June 2018 and locked in the U.S. dollar (USD) value of the Euro Notes related to the Spectrum acquisition. The contracts were terminated when the funds from the Euro Notes offering were placed into escrow on July 6, 2018. The Company also incurred \$0.5 and \$6.0 of acquisition tax withholding costs in the quarter and nine months ending June 30, 2018, related to anticipated cash movement to fund the acquisition.

Subsequent to the end of the quarter, on July 2, 2018, the Company acquired all of Reed-Union Corporation's automotive appearance business, including Nu Finish Car Polish and Nu Finish Scratch Doctor brands. The acquisition purchase price of \$37.7, subject to working capital adjustments, was funded through a combination of cash on hand and committed debt facilities.

## Highlights / Operating Results

### Financial Results (in millions, except per share data)

Energizer reported third fiscal quarter net earnings of \$23.8, or \$0.39 per diluted share. This compares to net earnings of \$24.9, or \$0.40 per diluted share, in the prior year third fiscal quarter. Adjusted net earnings per diluted share were \$0.54 for the third fiscal quarter as compared to \$0.43 in the prior year quarter, an increase of 25.6%.

Energizer reported net earnings of \$92.0, or \$1.50 per diluted share, for the nine months ended June 30, 2018. This compares to net income of \$167.4, or \$2.67 per diluted share in the prior year comparative period. Adjusted net earnings per diluted share of for the nine months ended June 30, 2018 were \$2.55 as compared to \$2.44 for the nine months ended June 30, 2017.

Earnings before income taxes, Net earnings and Diluted EPS for the time periods presented were impacted by certain items related to acquisition and integration costs, gain on sale of real estate, spin restructuring costs and the one-time impact of the new U.S. tax legislation as described in the tables below. The impact of these items are provided below as a reconciliation of Earnings before income taxes, Net earnings and Diluted EPS to adjusted Earnings before income taxes, adjusted Net earnings and adjusted Diluted EPS, which are non-GAAP measures. See disclosure on non-GAAP measures above.

| (in millions, except per share data)            | For the Quarters Ended June 30,    |         |              |         |             |         |
|---|------------------------------------|---------|--------------|---------|-------------|---------|
|   | Earnings                           |         |              |         |             |         |
|   | Before Income Taxes                |         | Net Earnings |         | Diluted EPS |         |
|   | 2018                               | 2017    | 2018         | 2017    | 2018        | 2017    |
| Reported - GAAP                                 | \$31.5                             | \$30.5  | \$23.8       | \$24.9  | \$0.39      | \$0.40  |
| Impacts: Expense (Income)                       |                                    |         |              |         |             |         |
| Acquisition and integration costs (1)           | 25.8                               | 6.7     | 20.2         | 3.1     | 0.33        | 0.05    |
| Acquisition withholding tax (2)                 | —                                  | —       | 0.5          | —       | 0.01        | —       |
| Gain on acquisition foreign currency contracts  | (9.9 )                             | —       | (7.2 )       | —       | (0.12 )     | —       |
| Gain on sale of real estate                     | (4.6 )                             | (1.7 )  | (3.5 )       | (1.3 )  | (0.06 )     | (0.02 ) |
| One-time impact of the new U.S. tax legislation | —                                  | —       | (0.6 )       | —       | (0.01 )     | —       |
| Adjusted - Non-GAAP (3)                         | \$42.8                             | \$35.5  | \$33.2       | \$26.7  | \$0.54      | \$0.43  |
| Weighted average shares - Diluted               |                                    |         |              |         | 61.4        | 62.8    |
| (in millions, except per share data)            | For the Nine Months Ended June 30, |         |              |         |             |         |
|   | Earnings Before                    |         |              |         |             |         |
|   | Income Taxes                       |         | Net Earnings |         | Diluted EPS |         |
|   | 2018                               | 2017    | 2018         | 2017    | 2018        | 2017    |
| Reported - GAAP                                 | \$168.3                            | \$223.9 | \$92.0       | \$167.4 | \$1.50      | \$2.67  |
| Impacts: Expense (Income)                       |                                    |         |              |         |             |         |
| Spin restructuring                              | —                                  | (3.8 )  | —            | (2.4 )  | —           | (0.04 ) |
| Acquisition and integration costs (1)           | 50.9                               | 9.2     | 38.4         | 4.7     | 0.63        | 0.07    |
| Acquisition withholding tax (2)                 | —                                  | —       | 6.0          | —       | 0.10        | —       |
| Gain on acquisition foreign currency contracts  | (9.9 )                             | —       | (7.2 )       | —       | (0.12 )     | —       |
| Gain on sale of real estate                     | (4.6 )                             | (16.9 ) | (3.5 )       | (16.5 ) | (0.06 )     | (0.26 ) |
| One-time impact of the new U.S. tax legislation | —                                  | —       | 30.6         | —       | 0.50        | —       |
| Adjusted - Non-GAAP (4)                         | \$204.7                            | \$212.4 | \$156.3      | \$153.2 | \$2.55      | \$2.44  |
| Weighted average shares - Diluted               |                                    |         |              |         | 61.4        | 62.8    |

(1) The quarter and nine months ended June 30, 2018 includes \$3.4 and \$6.3, respectively, of Spectrum acquisition debt commitment fees recorded to interest expense. The quarter and nine months ended June 30, 2017, includes \$0.9 and \$1.1, respectively, recorded to COGS and \$3.3 of expense recorded in Other items, net from our 2016 auto care acquisition. All other acquisition and integration costs were recorded in SG&A.

(2) This represents the \$0.5 and \$6.0 of tax withholding expense related to anticipated cash movement to fund the Spectrum acquisition for the three and nine months ended June 30, 2018, respectively.

(3) The effective tax rate for the quarters ended June 30, 2018 and 2017 for the Adjusted - Non-GAAP Net Earnings and Diluted EPS was 22.4% and 24.8%, respectively, as calculated utilizing the statutory rate for where the costs were incurred. The net tax impact associated with the non-GAAP adjustments highlighted in the table was expense of \$1.9 and \$3.2, respectively, for the quarters ended June 30, 2018 and 2017.

(4) The effective tax rate for the nine months ended June 30, 2018 and 2017 for the Adjusted - Non-GAAP Net Earnings and Diluted EPS was 23.6% and 27.9%, respectively, as calculated utilizing the statutory rate for where the costs were incurred. The net tax impact associated with the non-GAAP adjustments highlighted in the table was a benefit of \$27.9 and expense of \$2.7, respectively, for the nine months ended June 30, 2018 and 2017.



## Highlights

Total Net Sales (In millions -  
Unaudited)

Quarter Ended June 30, 2018

| Total Net Sales    | Q3      | %<br>Chg | Nine<br>Months | %<br>Chg |
|--------------------|---------|----------|----------------|----------|
| Net sales - FY '17 | \$372.0 |          | \$1,290.6      |          |
| Organic            | 19.7    | 5.3%     | 32.2           | 2.5%     |
| Impact of currency | 1.1     | 0.3%     | 17.7           | 1.4%     |
| Net sales - FY '18 | \$392.8 | 5.6%     | \$1,340.5      | 3.9%     |

See non-GAAP measure disclosures above.

Net sales were \$392.8 for the third quarter of 2018, an increase of \$20.8 as compared to the prior year quarter driven by the following items:

Organic net sales were up 5.3% in the third fiscal quarter due to the following items:

Distribution gains across both segments and increased volumes at existing customers, primarily in North America, contributed 3.5% to the organic increase;

Favorable pricing across several markets increased net sales by 1.3%;

Benefits from our portfolio optimization contributed 0.8% to the organic sales increase; and

Partially offsetting the increase was the May 2017 divestiture of the non-core promotional sales business acquired with the 2016 auto care acquisition, which negatively impacted net sales by 0.3%. This is the final quarter that the divestiture will provide a negative year over year comparative.

Favorable currency impacts were \$1.1, or 0.3%.

Net sales for the nine months ended June 30, 2018 were \$1,340.5, an increase of \$49.9 as compared to the prior year comparative period driven by the following items:

Organic sales increased 2.5% primarily driven by:

Favorable pricing across several markets increased net sales by 2.0%;

Distribution gains across both segments and increased volumes at existing customers, primarily in North America, contributed 0.6% to the organic increase;

Investments made for our portfolio optimization in the back half of fiscal 2017 benefited our top-line in fiscal 2018 accounting for 0.8% of the organic sales increase; and

Partially offsetting the increase was lapping of storm volume from prior year of 0.3% and the May 2017 divestiture of the non-core promotional sales business acquired with the 2016 auto care acquisition negatively impacted net sales by 0.6%.

Gross margin percentage for the third fiscal quarter of 2018 was 44.8% and was up 230 basis points compared to prior year. Excluding prior year acquisition and integration costs of \$0.9, gross margin increased 210 basis points versus the

prior year primarily due to the benefit of lapping our prior year investment related to our portfolio optimization. The impact of favorable product mix and foreign currency also contributed to the increase.

Gross margin percentage for the nine months ended June 30, 2018 was up 20 basis points. Excluding prior year acquisition and integration costs of \$1.1, gross margin increased 10 basis points driven by the benefit of lapping our

30

---

prior year investment related to our portfolio optimization and favorable foreign currency, offset by less favorable overhead absorption and investments made in continuous improvement initiatives in the first half of the current fiscal year.

Advertising and sales promotion expense (A&P) was \$22.9, or 5.8% of net sales, in the third fiscal quarter of 2018, as compared to \$20.2, or 5.4% of net sales, in the prior fiscal quarter 2017. A&P was \$81.1, or 6.0% of net sales, for the nine months ended June 30, 2018, as compared to \$71.1, or 5.5% of net sales, in the prior year comparative period. The increase versus the quarter and nine month comparative periods was due to more normalized spending throughout fiscal 2018 while spending in fiscal 2017 was heavily weighted in the fourth quarter in support of our portfolio optimization and the launch of our improved Energizer Max offering.

Selling, general, and administrative expense (SG&A) was \$111.9 in the third fiscal quarter of 2018, or 28.5% of net sales, as compared to \$86.3, or 23.2% of net sales, in the prior period. Included in the third fiscal quarter of 2018 and 2017 results were acquisition and integration costs of \$22.4 and \$2.5, respectively. Excluding acquisition and integration costs, SG&A was \$89.5, or 22.8% of net sales, as compared to \$83.8, or 22.5% of net sales, in the prior year. The increase of \$5.7 versus the prior year was primarily due to the timing of benefit costs and an adjustment to international customs costs.

SG&A was \$315.3 for the nine months ended June 30, 2018, or 23.5% of net sales, as compared to \$263.4, or 20.4% of net sales, in the prior year comparative period. Included in the nine months ended June 30, 2018 and 2017 results were acquisition and integration costs of \$44.6 and \$4.8, respectively. Excluding the acquisition and integration costs, SG&A was \$270.7, an increase of \$12.1 over the prior year SG&A of \$258.6. The increase was due to current year investments in our continuous improvement initiatives to simplify, streamline and reduce costs of our business processes in addition to the timing of benefit costs. SG&A, excluding acquisition and integration costs, were 20.2% of net sales compared to 20.0% in the prior year, or essentially flat.

Research and Development (R&D) was flat at \$5.2, or 1.3% of net sales, for the quarter ended June 30, 2018, as compared to \$5.1, or 1.4% of net sales, in the prior year comparative period. For the nine months ended June 30, 2018, R&D was \$15.9, or 1.2% of net sales, as compared to \$16.0, or 1.2% of net sales in the prior year comparative period.

Interest expense was \$17.7 for the third fiscal quarter of 2018, compared to \$13.3 for the prior year comparative period. Interest expense was \$47.6 for the nine months ended June 30, 2018, and \$39.7 for the prior year comparative period. The fiscal quarter and nine months ended June 30, 2018 expense included \$3.4 and \$6.3, respectively, of debt commitment fees related to the Spectrum acquisition. Excluding the debt commitment fees, the current year interest expense increased \$1.0 and \$1.6 for the quarter and nine months ended June 30, 2018, respectively, driven by increased borrowings and increased rates on our variable debt outstanding.

Other items, net was income of \$11.3 for the third fiscal quarter of 2018 compared to expense of \$1.5 for the prior year third quarter. The current year income primarily reflects a \$9.9 gain on foreign currency contracts. The contracts, which were entered into in June 2018, locked in the USD value of the Euro Notes related to the Spectrum acquisition and were terminated subsequent to the third fiscal quarter when the funds from the Euro Notes offering were placed into escrow on July 6, 2018. Also included in Other items, net are the impact of interest income, non-compensation related pension benefits and net revaluation gains on nonfunctional currency balance sheet exposures, slightly offset by hedge contract losses. The prior fiscal quarter expense of \$1.5 includes a loss of \$3.3 from the sale of a non-core promotional sales business acquired with the 2016 auto care acquisition. The remaining income primarily reflects the net impact of non-compensation related pension benefits, interest income and hedging contract gains partially offset by the net revaluation losses on nonfunctional currency balance sheet exposures.

Other items, net was income of \$9.1 for the nine months ended June 30, 2018 and income of \$4.3 for the prior year comparative period. The nine months ended June 30, 2018 results primarily reflect the \$9.9 gain on foreign currency contracts mentioned above. In addition, the nine month results include net revaluation losses on nonfunctional currency balance sheet exposures and hedge contract losses offset by the impact of interest income and non-compensation related pension benefits. The prior period income of \$4.3 reflects the net impact of

non-compensation related pension benefits and interest income partially offset by net hedging contract losses and a loss of \$3.3 from the sale of a non-core promotional sales business acquired with the 2016 auto care acquisition.

The effective tax rate was 45.3% as compared to 25.2% for the prior year comparative period. The current year rate includes a \$30.6 million charge for the one-time impact of the new U.S. tax legislation passed in December



2017, as well as the impact of tax withholding expense of \$6.0 related to anticipated cash movement to fund the Spectrum acquisition. Excluding the impact of our Non-GAAP adjustments, the year to date tax rate was 23.6% as compared to 27.9% in the prior year. The decrease in the rate is driven by the U.S. tax legislation and takes into account the new statutory U.S. rate that is now effective for fiscal year 2018.

### Spin Costs

There were no costs associated with the spin transaction recorded in fiscal 2018 as the project has been completed. For the nine months ended June 30, 2017, the Company recorded income of \$3.8 in spin restructuring which included \$2.5 of income in the second quarter reflecting the true up of previously accrued contract termination costs related to the fiscal 2016 right-sizing of the corporate headquarters and the first quarter sale of a facility in North America that was previously closed as a part of the spin for a gain of \$1.3. The total costs incurred or allocated to Energizer for the spin were \$197.6, inclusive of the costs of early debt retirement recorded in fiscal 2015. We do not expect any additional costs related to spin.

### Segment Results

Operations for Energizer are managed via two major geographic reportable segments: Americas and International. Prior to January 1, 2018, the International segment was reported as two separate geographic reportable segments: Europe, Middle East and Africa (EMEA) and Asia Pacific. The Company changed its reporting structure to reflect how the Company is managing the operations as well as what the chief operating decision maker is reviewing to make organizational decisions about resource allocation. The prior period segment information has been recast to reflect the current reportable segment structure of the Company.

Segment performance is evaluated based on segment operating profit, exclusive of general corporate expenses, share-based compensation costs, costs associated with restructuring initiatives, acquisition and integration activities, amortization costs, business realignment activities, research & development costs, gain on sale of real estate and other items determined to be corporate in nature. Financial items, such as interest income and expense, are managed on a global basis at the corporate level. The exclusion of substantially all acquisition, integration, restructuring and realignment costs from segment results reflects management's view on how it evaluates segment performance.

Energizer's operating model includes a combination of standalone and shared business functions between the geographic segments, varying by country and region of the world. Shared functions include, but are not limited to, IT, procurement and finance. Energizer applies a fully allocated cost basis, in which shared business functions are allocated between segments. Such allocations are estimates, and do not represent the costs of such services if performed on a standalone basis. This structure is the basis for Energizer's reportable operating segments information, as included in the tables in Note 7, Segments, to the unaudited Consolidated Condensed Financial Statements for the periods ended June 30, 2018.

Segment sales and Segment profit analysis for the quarter and nine months ended June 30, 2018 are presented below.

Net Sales (In millions)

Quarter and Nine Months Ended June 30, 2018

|                        | Quarter Ended<br>June 30, 2018 |        | Nine Months Ended<br>June 30, 2018 |        |  |
|------------------------|--------------------------------|--------|------------------------------------|--------|--|
|                        | \$<br>Change                   | % Chg  | \$ Change                          | % Chg  |  |
| <b>Americas</b>        |                                |        |                                    |        |  |
| Net sales - FY '17     | \$228.6                        |        | \$812.2                            |        |  |
| Organic                | 15.4                           | 6.7 %  | 28.9                               | 3.6 %  |  |
| Impact of currency     | (2.7)                          | (1.1)% | (2.6)                              | (0.4)% |  |
| Net Sales - FY '18     | \$241.3                        | 5.6 %  | \$838.5                            | 3.2 %  |  |
| <b>International</b>   |                                |        |                                    |        |  |
| Net sales - FY '17     | \$143.4                        |        | \$478.4                            |        |  |
| Organic                | 4.3                            | 3.0 %  | 3.3                                | 0.7 %  |  |
| Impact of currency     | 3.8                            | 2.6 %  | 20.3                               | 4.2 %  |  |
| Net Sales - FY '18     | \$151.5                        | 5.6 %  | \$502.0                            | 4.9 %  |  |
| <b>Total Net Sales</b> |                                |        |                                    |        |  |
| Net sales - FY '17     | \$372.0                        |        | \$1,290.6                          |        |  |
| Organic                | 19.7                           | 5.3 %  | 32.2                               | 2.5 %  |  |
| Impact of currency     | 1.1                            | 0.3 %  | 17.7                               | 1.4 %  |  |
| Net Sales - FY '18     | \$392.8                        | 5.6 %  | \$1,340.5                          | 3.9 %  |  |

Results for the Quarter Ended June 30, 2018

Americas reported a net sales increase of 5.6% which was negatively impacted by foreign currency of \$2.7, or 1.1%. Organic net sales increased 6.7% due primarily to distribution gains, increased volumes, favorable pricing and the favorable net impact from our portfolio optimization. These amounts were partially offset by the May 2017 divestiture of the non-core promotional sales business acquired with the 2016 auto care acquisition.

International reported net sales increased 5.6% positively impacted by foreign currency of \$3.8, or 2.6%. Organic net sales increased 3.0% benefiting from distribution gains, pricing actions in several markets and improved product mix.

Results for the Nine Months Ended June 30, 2018

Americas reported net sales improved 3.2%, which was negatively impacted by foreign currency of \$2.6, or 0.4%. Organic net sales increased 3.6% due primarily to distribution gains, increased volumes, favorable pricing and the favorable net impact of our portfolio optimization. These amounts were partially offset by retailer merchandising changes, lapping of storm volume and the May 2017 divestiture of the non-core promotional sales business acquired with the 2016 auto care acquisition.

International reported net sales improved 4.9%. This growth was driven by the positive impact of foreign currency of \$20.3, or 4.2%. Organic net sales increased 0.7% as a result of distribution gains, pricing actions taken in several markets and improved product mix. These increases were partially offset by the first quarter impact of timing on holiday orders which shifted into the fourth quarter of fiscal 2017.



## Segment Profit (In millions)

Quarter and Nine Months Ended June 30, 2018

|                         | Quarter Ended<br>June 30, 2018 |         | Nine Months<br>Ended June 30,<br>2018 |         |
|-------------------------|--------------------------------|---------|---------------------------------------|---------|
|                         | \$<br>Change                   | % Chg   | \$<br>Change                          | % Chg   |
| <b>Americas</b>         |                                |         |                                       |         |
| Segment Profit - FY '17 | \$53.6                         |         | \$237.2                               |         |
| Organic                 | 8.9                            | 16.6 %  | 4.2                                   | 1.8 %   |
| Impact of currency      | (2.1 )                         | (3.9 )% | (2.2 )                                | (1.0 )% |
| Segment Profit - FY '18 | \$60.4                         | 12.7 %  | \$239.2                               | 0.8 %   |

**International**

|                         |        |        |         |         |
|-------------------------|--------|--------|---------|---------|
| Segment Profit - FY '17 | \$25.7 |        | \$109.8 |         |
| Organic                 | 4.0    | 15.6 % | (7.5 )  | (6.8 )% |
| Impact of currency      | 2.9    | 11.2 % | 13.6    | 12.4 %  |
| Segment Profit - FY '18 | \$32.6 | 26.8 % | \$115.9 | 5.6 %   |

**Total Segment Profit**

|                         |        |        |         |         |
|-------------------------|--------|--------|---------|---------|
| Segment Profit - FY '17 | \$79.3 |        | \$347.0 |         |
| Organic                 | 12.9   | 16.3 % | (3.3 )  | (1.0 )% |
| Impact of currency      | 0.8    | 1.0 %  | 11.4    | 3.3 %   |
| Segment Profit - FY '18 | \$93.0 | 17.3 % | \$355.1 | 2.3 %   |

Refer to Note 7, Segments, in the unaudited Condensed Consolidated Financial Statements for a reconciliation from segment profit to earnings before income taxes.

**Results for the Quarter Ended June 30, 2018**

Global reported segment profit improved by \$13.7, or 17.3%. Excluding the favorable movement in foreign currencies of \$0.8, organic segment profit increased \$12.9, or 16.3%, in the current fiscal period. The increase was driven by top-line growth in the quarter as well as the benefit of lapping our prior year investment related to our portfolio optimization. These increases were partially offset by higher SG&A and A&P spending in the current fiscal quarter.

Americas reported segment profit improved \$6.8, or 12.7%. Exclusive of the negative impact from foreign currency of \$2.1, organic segment profit increased by \$8.9, or 16.6%. The increase was driven by top-line growth in the quarter slightly offset by higher A&P as spending in fiscal 2017 was heavily weighted in the fourth quarter in support of our portfolio optimization and the launch of our improved Energizer Max offering.

International reported segment profit improved \$6.9, or 26.8%. Excluding the favorable movement in foreign currencies of \$2.9, organic segment profit increased \$4.0, or 15.6%, driven by top-line growth in the quarter.

**Results for the Nine Months Ended June 30, 2018**

Global reported segment profit improved by \$8.1, or 2.3%. Excluding the favorable movement in foreign currencies of \$11.4, organic segment profit decreased \$3.3, or 1.0%, as the benefits of top-line growth and lapping of our prior year investment related to our portfolio optimization were more than offset by investments made in continuous improvement initiatives in the first half of the fiscal year and higher A&P spending versus the prior year as spending in fiscal 2017 was heavily weighted in the fourth quarter in support of our portfolio optimization and the launch of our improved Energizer Max offering.



Americas reported segment profit improved by \$2.0, or 0.8%, compared to the prior period. Excluding the unfavorable movement in foreign currencies of \$2.2, organic segment profit increased by \$4.2, or 1.8%. The increase was driven by top-line growth as well as the lapping of our prior year investment related to our portfolio optimization, which contributed to our improved gross margin in the current year. This increase was partially offset by increased A&P spending versus the prior year as spending in fiscal 2017 was heavily weighted to the fourth quarter in support of our portfolio optimization and the launch of our improved Energizer Max offering.

International reported segment profit improved \$6.1, or 5.6%, compared to the prior period. Excluding the favorable movement in foreign currencies of \$13.6, organic segment profit decreased by \$7.5, or 6.8% in the current fiscal period as top-line growth was more than offset by unfavorable product and customer mix and increased overhead spending due to current year investments in our continuous improvement initiatives.

#### General Corporate and Global Marketing Expenses

|  | For the Quarter<br>Ended June 30, |        | For the Nine<br>Months Ended<br>June 30, |        |
|--|-----------------------------------|--------|--|--------|
|  | 2018                              | 2017   | 2018                                     | 2017   |
| General corporate and other expenses           | \$24.7                            | \$19.4 | \$71.0                                   | \$66.1 |
| Global marketing expense                       | 4.6                               | 5.0    | 13.0                                     | 12.0   |
| General corporate and global marketing expense | \$29.3                            | \$24.4 | \$84.0                                   | \$78.1 |
| % of Net Sales                                 | 7.5                               | % 6.6  | % 6.3                                    | % 6.1  |

For the quarter ended June 30, 2018, general corporate and other expenses were \$24.7, an increase of \$5.3 as compared to the prior year comparative period. For the nine months ended June 30, 2018, general corporate and other expenses were \$71.0, an increase of \$4.9 as compared to the prior year. The increases were primarily due to timing of compensation costs and mark to market expense on our unfunded deferred compensation liability.

For the quarter and nine months ended June 30, 2018, respectively, global marketing expenses were \$4.6 and \$13.0, respectively, compared to \$5.0 and \$12.0 in the prior year comparative periods. The global marketing expense represents a center led approach to managing global marketing activities in support of our brands.

#### Liquidity and Capital Resources

Energizer's primary future cash needs will be centered on operating activities, working capital and strategic investments. We believe that our future cash from operations, together with our access to capital markets, will provide adequate resources to fund our operating and financing needs. Our access to, and the availability of, financing on acceptable terms in the future will be affected by many factors, including: (i) our credit rating, (ii) the liquidity of the overall capital markets and (iii) the current state of the economy. There can be no assurances that we will continue to have access to capital markets on terms acceptable to us. See the "Risk Factors" section of our Annual Report on Form 10-K for the year ended September 30, 2017 filed with the Securities and Exchange Commission on November 14, 2017 as well as in Item 1A. Risk Factors of this Form 10-Q.

Cash is managed centrally with net earnings reinvested locally and working capital requirements met from existing liquid funds. At June 30, 2018, Energizer had \$510.9 of cash and cash equivalents, substantially all of which was held outside of the U.S. Given our extensive international operations, a significant portion of our cash is denominated in foreign currencies. We manage our worldwide cash requirements by reviewing available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to regulatory capital requirements; however, those balances are generally available without legal restrictions to fund ordinary business operations.

The Company has a \$350.0 senior secured revolving credit facility (Revolving Facility) which matures in 2020. Borrowings under the Revolving Facility will bear interest at LIBOR or the Base Rate (as defined) plus the applicable margin based on total Company leverage. As of June 30, 2018, the Company had \$165.0 of outstanding borrowings under the Revolving Facility and had \$6.7 of outstanding letters of credit. Taking into account outstanding letters of credit, \$178.3 remains available as of June 30, 2018.

The Company plans to finance the Spectrum acquisition purchase price of \$2,000.0, subject to certain purchase price adjustments, through the net proceeds from the issuance of new senior notes, term loans and cash on hand. On June 21, 2018, the Company finalized the pricing of two senior note offerings due in 2026 of \$500.0 at 6.375% and €650.0 at 4.625% (2026 Notes), which were issued by wholly-owned subsidiaries. The 2026 Notes priced at 100% of the principal amount and the offering closed subsequent to the quarter on July 6, 2018, with the funds held in escrow until certain conditions are met. Interest on the 2026 Notes began to accrue in July 2018.

In connection with the closing of the Spectrum Acquisition, the Company expects to enter into a new senior secured first lien credit agreement, which would include a new 5-year \$400 undrawn revolving credit facility and also provide for \$1,200 of borrowings under a \$200 3-year term loan A facility and \$1,000 7-year term loan B facility. The borrowings are expected to bear interest at a rate per annum equal to, at the option of the Company, LIBOR or the Base Rate (as defined) plus the applicable margin based on total Company leverage. The new credit agreement is expected to contain customary affirmative and restrictive covenants. The new term loans began to accrue financing fees in July 2018.

Energizer intends to use the net proceeds from the offerings of the 2026 Notes, together with borrowings under the new term loans, to fund the previously announced Spectrum acquisition, to repay the debt outstanding under its existing credit agreement, and to pay related fees, costs and expenses.

The Company is also committed to pay a \$100.0 termination fee to Spectrum if the transaction does not close by July 15, 2019, and all conditions precedent to the Company's obligation to consummate the acquisition have otherwise been satisfied except for one or more of the regulatory approval conditions specified in the acquisition agreement. Success fees of \$11.0 are due to the financial adviser, subject to the closing of the transaction. In addition, \$2.0 was paid in January 2018 to the financial adviser for services rendered on the transaction.

### Operating Activities

Cash flow from operating activities was \$188.0 in the nine months ended June 30, 2018, as compared to \$145.6 in the prior year comparative period. The increase was primarily driven by the year over year improvement in working capital of approximately \$63. Accounts receivable was the main driver of the working capital improvement as the strong operating performance in the last quarter of fiscal 2017, largely driven by hurricane activity in the U.S., as well as strong organic growth in fiscal 2018, driven by distribution gains, increased volumes, price increases and our portfolio optimization resulted in higher cash collections in the first three quarters of 2018 as compared to 2017. The improvements in working capital were partially offset by lower year over year net earnings, driven by cash costs of approximately \$17 associated with the Spectrum Acquisition.

### Investing Activities

Net cash used by investing activities was \$11.1 and net cash from investing activities was \$9.7 in nine months ended June 30, 2018 and 2017, respectively, and consisted of the following:

• Capital expenditures of \$17.2 and \$17.5 in the nine months ended June 30, 2018 and 2017, respectively.

• The current year expenditures were partially offset by proceeds from the sale of assets of \$6.1 in the current quarter.

The prior year expenditures were fully offset by proceeds from the sale of assets of \$27.2. The proceeds were primarily related to the sale of a previously closed facility in the first quarter, office space in the second quarter and land in the third quarter of the prior year.



Investing cash outflows of approximately \$30 are anticipated for the full fiscal year 2018 for capital expenditures relating to maintenance, product development and cost reduction initiatives.

## Financing Activities

Net cash used by financing activities was \$37.9 for the nine months ended June 30, 2018 as compared to \$32.7 in the prior fiscal year comparative period. For nine months ended June 30, 2018, cash used by financing activities consists of the following:

• Net increase in debt with original maturities of 90 days or less of \$70.6, primarily related to borrowings on our Revolving Facility;

• Dividends paid of \$52.3 (see below);

• Common stock repurchases of \$50.0 at an average price of \$44.41 per share (see below);

• Payments of debt with maturities greater than 90 days of \$3.0;

• Taxes paid for withheld share-based payments of \$1.8; and

• Debt issuance costs of \$1.4.

For the nine months ended June 30, 2017, cash used by financing activities consisted of the following:

• Dividends paid of \$52.1;

• Net increase in debt with original maturities of 90 days or less of \$40.7, primarily related to borrowings on our Revolving Facility;

• Common stock repurchases of \$9.3;

• Taxes paid for withheld share-based payments of \$8.2;

• Payments of debt with maturities greater than 90 days of \$3.0; and

• Debt issuance costs of \$0.8.

## Dividends

On November 13, 2017, the Board of Directors declared a dividend for the first quarter of fiscal 2018 of \$0.29 per share of common stock. The dividend was paid on December 14, 2017 to shareholders on record as of November 30, 2017 and totaled \$17.3.

On January 29, 2018, the Board of Directors declared a dividend for the second quarter of fiscal 2018 of \$0.29 per share of common stock. The dividend was paid on March 13, 2018 to shareholders on record as of February 20, 2018 and totaled \$17.3.

On April 30, 2018, the Board of Directors declared a dividend for the third quarter of fiscal 2018 of \$0.29 per share of common stock. The dividend was paid on June 13, 2018 to shareholders on record as of May 21, 2018 and totaled \$17.3.

In addition, dividend payments of \$0.4 were made in the first nine months of 2018 related to restricted stock awards that vested during November 2017.

Subsequent to the fiscal quarter end, on July 27, 2018, the Board of Directors declared a dividend for the fourth quarter of 2018 of \$0.29 per share of common stock, payable on September 12, 2018 to each shareholder of record as of the close of business August 16, 2018.

## Share Repurchases

In July 2015, the Company's Board of Directors approved an authorization for the Company to acquire up to 7.5 million shares of its common stock. During the nine months ended June 30, 2018, the Company repurchased 1,126,379 shares at an average price of \$44.41 per share, or \$50.0, under this authorization. There were no shares repurchased during the third quarter of fiscal 2018. Future share repurchases, if any, will be determined by the Company based on its evaluation of the market conditions, capital allocation objectives, legal and regulatory requirements and other factors.

From July 2015 and through the date of this filing, a total of 3.3 million shares were repurchased on the open market at an average price of \$42.17 under the current share repurchase authorization. At August 1, 2018, the date of this filing, 4.2 million shares remain available for repurchase.

## Other Matters

### Environmental Matters

Accrued environmental costs at June 30, 2018 were \$5.1. It is difficult to quantify with certainty the cost of environmental matters, particularly remediation and future capital expenditures for environmental control equipment. Total environmental capital expenditures and operating expenses are not expected to have a material effect on our total capital and operating expenditures, earnings or competitive position. However, current environmental spending estimates could be modified as a result of changes in our plans or our understanding of underlying facts, changes in legal requirements, including any requirements related to global climate change, or other factors.

### Contractual Obligations

A summary of Energizer's significant contractual obligations at June 30, 2018 is show below:

|  | Total     | Less<br>than 1<br>year | 1 - 3<br>years | 3 - 5<br>years | More<br>than 5<br>years |
|--|-----------|------------------------|----------------|----------------|-------------------------|
| Long term debt, including current maturities | \$989.0   | \$4.0                  | \$8.0          | \$377.0        | \$600.0                 |
| Interest on long-term debt (1)               | 293.0     | 48.7                   | 97.0           | 81.3           | 66.0                    |
| Notes payable                                | 174.6     | 174.6                  | —              | —              | —                       |
| Operating leases                             | 67.8      | 12.6                   | 18.7           | 4.1            | 32.4                    |
| Pension plans (2)                            | 5.0       | 5.0                    | —              | —              | —                       |
| Purchase obligations and other (3)           | 72.4      | 43.3                   | 29.1           | —              | —                       |
| Mandatory transition tax                     | 28.2      | 2.4                    | 4.8            | 6.4            | 14.6                    |
| Total  | \$1,630.0 | \$290.6                | \$157.6        | \$468.8        | \$713.0                 |

(1) The above table is based upon the debt balance and LIBOR rate as of June 30, 2018. In March 2017, Energizer entered into an interest rate swap agreement with one major financial institution that fixed the variable benchmark component (LIBOR) on \$200 of Energizer's variable rate debt through June 2022 at an interest rate of 2.03%.

(2) Globally, total expected pension contributions for the Company for fiscal year 2018 are estimated to be \$11.7. The Company has made payments of \$6.7 year to date. The projected payments beyond fiscal year 2018 are not currently estimable.

(3) Included in the table above are future purchase commitments for goods and services which are legally binding and that specify all significant terms including price and/or quantity.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Sensitive Instruments and Positions

The market risk inherent in the Company's financial instruments' positions represents the potential loss arising from adverse changes in currency rates, commodity prices and interest rates. The following risk management discussion and the estimated amounts generated from the sensitivity analysis are forward-looking statements of market risk assuming certain adverse market conditions occur. The Company's derivatives are used only for identifiable exposures, and we have not entered into hedges for trading purposes where the sole objective is to generate profits.

#### Derivatives Designated as Cash Flow Hedging Relationships

A significant share of Energizer's product cost is more closely tied to the U.S. dollar than to the local currencies in which the product is sold. As such, a weakening of currencies relative to the U.S. dollar results in margin declines unless mitigated through pricing actions, which are not always available due to the economic or competitive environment. Conversely, strengthening of currencies relative to the U.S. dollar can improve reported results. The primary currencies to which Energizer is exposed include the Euro, the British pound, the Canadian dollar and the Australian dollar. However, the Company also has significant exposures in many other currencies which, in the aggregate, may have a material impact on the Company's operations.

The Company has entered into a series of forward currency contracts to hedge the cash flow uncertainty of forecasted inventory purchases due to short term currency fluctuations. Energizer's foreign affiliates, which have the largest exposure to U.S. dollar purchases, have the Euro, the British pound, the Canadian dollar and the Australian dollar as their local currencies. These foreign currencies represent a significant portion of Energizer's foreign currency exposure. At June 30, 2018 and September 30, 2017, Energizer had an unrealized pre-tax gain of \$4.1 and a loss of \$5.8, respectively, on these forward currency contracts accounted for as cash flow hedges, included in Accumulated other comprehensive loss on the Unaudited Condensed Consolidated Balance Sheets. Assuming foreign exchange rates versus the U.S. dollar remain at June 30, 2018 levels over the next twelve months, \$4.0 of the pre-tax gain included in Accumulated other comprehensive loss at June 30, 2018, is expected to be recognized in earnings. Contract maturities for these hedges extend into fiscal year 2020.

#### Derivatives Not Designated as Cash Flow Hedging Relationships

Energizer's foreign subsidiaries enter into internal and external transactions that create nonfunctional currency balance sheet positions at the foreign subsidiary level. These exposures are generally the result of intercompany purchases, intercompany loans and to a lesser extent, external purchases, and are revalued in the foreign subsidiary's local currency at the end of each period. Changes in the value of the non-functional currency balance sheet positions in relation to the foreign subsidiary's local currency results in an exchange gain or loss recorded in Other items, net on the Consolidated Statements of Earnings and Comprehensive Income. The primary currency to which Energizer's foreign subsidiaries are exposed is the U.S. dollar.

The Company enters into foreign currency derivative contracts which are not designated as cash flow hedges for accounting purposes to hedge balance sheet exposures. Any gains or losses on these contracts are expected to be offset by exchange gains or losses on the underlying exposures, thus they are not subject to significant market risk. The change in estimated fair value of the foreign currency contracts for the quarter and nine months ended June 30, 2018 resulted in a gain of \$8.7 and \$10.0, respectively, and loss of \$0.2 and \$1.5 for the quarter and nine months ended June 30, 2017, respectively, and was recorded in Other items, net on the unaudited Consolidated Statements of Earnings and Comprehensive Income (Condensed).

At June 30, 2018, included in the above, were two foreign currency derivative contracts which locked in the USD value of future Euro Notes related to the Spectrum acquisition. These contracts were entered into in June 2018 and terminated on July 6, 2018 when the funds from the Euro Notes offering were placed into escrow. At June 30, 2018, these contracts had a gain of \$9.9 recorded in Other items, net.

#### Foreign Currency Rate Exposure

Effective July 1, 2018, the financial statements for our Argentina subsidiary will be consolidated under the rules governing the translation of financial information in a highly inflationary economy. Under U.S. GAAP, an economy is considered highly inflationary if the cumulative inflation rate for a three year period meets or exceeds 100 percent.

The Argentina economy exceeded the three year cumulative inflation rate of 100 percent as of June 2018. If a subsidiary is considered to be in a highly inflationary economy, the financial statements of the subsidiary must be re-measured into the Company's reporting currency (U.S. dollar) and future exchange gains and losses from the re-measurement of monetary assets and liabilities are reflected in current earnings, rather than exclusively in the equity section of the balance sheet, until such time as the economy is no longer considered highly inflationary. It is difficult to determine what, if any, impact the use of highly inflationary accounting for Argentina may have on our consolidated financial statements as such impact is dependent upon movements in the applicable exchange rates between the local currency and the U.S. dollar and the amount of monetary assets and liabilities included in our

affiliate's balance sheet. At June 30, 2018, the U.S. dollar value of monetary assets, net of monetary liabilities, which would be subject to an earnings impact from translation rate movements for our Argentina affiliate under highly inflationary accounting was \$6. We have not included any adjustments for highly inflationary accounting in our current results as the economy was deemed highly inflationary subsequent to the third quarter end.

#### Commodity Price Exposure

The Company uses raw materials that are subject to price volatility. The Company has used, and may in the future use, hedging instruments to reduce exposure to variability in cash flows associated with future purchases of certain raw materials and commodities. At June 30, 2018, there were no open derivative or hedging instruments for future purchases of raw materials or commodities.

#### Interest Rate Exposure

The Company has interest rate risk with respect to interest expense on variable rate debt. At June 30, 2018, Energizer had variable rate debt outstanding with an original principal balance of \$400.0 under the Term Loan. In March 2017, the Company also entered into an interest rate swap agreement with one major financial institution that fixed the variable benchmark component (LIBOR) on \$200.0 of Energizer's variable rate debt through June 2022 at an interest rate of 2.03%.

In February 2018, the Company entered into a forward starting interest rate swap with an effective date of October 1, 2018, with one major financial institution that will fix the variable benchmark component (LIBOR) on additional variable rate debt at an interest rate of 2.47%. At the effective date, the swap will have a notional value of \$400.0. Beginning April 1, 2019, the notional amount decreases \$50.0 each quarter until its termination date of December 31, 2020.

For the quarter ended June 30, 2018, our weighted average interest rate on variable rate debt, inclusive of the interest rate swap, was 4.20%.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Energizer's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Based on that evaluation performed, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of June 30, 2018, to provide reasonable assurance of the achievement of these objectives. Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to report material information otherwise required to be set forth in the Company's reports.

They have also determined in their evaluation that there was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2018 that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.





## PART II -- OTHER INFORMATION

### Item 1. Legal Proceedings

The Company and its affiliates are subject to a number of legal proceedings in various jurisdictions arising out of its operations. Many of these legal matters are in preliminary stages and involve complex issues of law and fact, and may proceed for protracted periods of time. The amount of liability, if any, from these proceedings cannot be determined with certainty. We are a party to legal proceedings and claims that arise during the ordinary course of business. We review our legal proceedings and claims, regulatory reviews and inspections and other legal proceedings on an ongoing basis and follow appropriate accounting guidance when making accrual and disclosure decisions. We establish accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated. Based upon present information, the Company believes that its liability, if any, arising from such pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is not reasonably likely to be material to the Company's financial position, results of operations, or cash flows, when taking into account established accruals for estimated liabilities.

### Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended September 30, 2017, which was filed with the Securities and Exchange Commission on November 14, 2017, contains a detailed discussion of risk factors that could materially adversely affect our business, our operating results or our financial condition. There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the year ended September 30, 2017, except for the addition of the following:

#### Risks Related to the Acquisition of the Global Battery, Lighting, and Portable Power Business of Spectrum Brands Holdings, Inc. (the "Acquisition")

The pending Acquisition is subject to the satisfaction of certain conditions, including obtaining required regulatory approvals, and may not be consummated, and if not consummated under certain circumstances, we may be subject to monetary or other damages under the acquisition agreement.

On January 16, 2018, we announced that we had entered into a definitive acquisition agreement to acquire the global battery, lighting, and portable power business (the "Business") of Spectrum Brands Holdings, Inc. ("Spectrum"). The consummation of the Acquisition is subject to certain customary conditions, including, among other things, (i) the absence of a material adverse effect on the Business, (ii) the receipt of certain antitrust approvals in certain jurisdictions (the "Antitrust Conditions"), (iii) the accuracy of the representations and warranties of the parties (generally subject to a customary material adverse effect standard (as described in the acquisition agreement) or other customary materiality qualifications), (iv) the absence of governmental restrictions on the consummation of the Acquisition in certain jurisdictions, and (v) material compliance by the parties with their respective covenants and agreements under the acquisition agreement.

Many of the closing conditions are not within our control, and there can be no assurance that the closing conditions for the Acquisition will be satisfied in a timely manner, or at all. Any delay could cause us not to realize some or all of the cost savings, synergies and other benefits that we expect to achieve if the Acquisition were to be successfully completed within its expected time frame. If any of these conditions are not satisfied or waived prior to July 15, 2019 (the "Termination Date"), it is possible that the acquisition agreement may be terminated. Further, if the Acquisition has not been consummated by the Termination Date and all conditions precedent to the Company's obligation to consummate the Acquisition have otherwise been satisfied except for one or more of the Antitrust Conditions, then the Company would be required to pay Spectrum a termination fee of \$100 million.

We may be unable to obtain the regulatory clearances required to complete the Acquisition or, in order to do so, we or Spectrum may be required to comply with material restrictions or satisfy material conditions.

The Acquisition is subject to antitrust approvals in certain jurisdictions. We cannot provide any assurance that all required antitrust clearances will be obtained. There can be no assurance as to the cost, scope or impact of the actions that may be required to obtain antitrust approval. In addition, the acquisition agreement provides that we are

required to commit to dispositions of assets up to a certain amount in order to obtain regulatory clearance. If we are required to or otherwise decide to take such actions in order to close the Acquisition, it could be detrimental to the combined organization following the consummation of the Acquisition. Furthermore, these actions could have the effect of delaying or preventing completion of the proposed Acquisition or imposing additional costs on or limiting the revenues or cash of the combined organization following the consummation of the Acquisition. However, if certain antitrust clearances are not obtained and the acquisition agreement is terminated under specified circumstances, we could be liable to Spectrum for a termination fee of \$100 million.

Even if the parties receive antitrust approvals, the U.S. Department of Justice, the Federal Trade Commission, or other regulatory authorities could take action under the antitrust laws to prevent or rescind the Acquisition, require the divestiture of assets or seek other remedies. Additionally, state attorneys general could seek to block or challenge the Acquisition as they deem necessary or desirable in the public interest at any time, including after completion of the transaction. In addition, in some circumstances, a third party could initiate a private action under antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. We may not prevail and may incur significant costs in defending or settling any action under the antitrust laws.

Our indebtedness following the completion of the Acquisition will be significant and could adversely affect our business and our ability to meet our obligations, and if sufficient financing on favorable terms or other sources of capital are not available, we may be subject to significant monetary or other damages under the Acquisition Agreement.

On July 6, 2018, we completed the issuance of \$500.0 million of 6.375% senior notes and €650.0 million of 4.625% senior notes both due 2026, with the proceeds placed into escrow pending completion of the Acquisition. We currently expect to have indebtedness in excess of \$3 billion once the Acquisition is completed. Interest costs related to this debt or other debt we may incur in connection with the Acquisition will be significant. Our new indebtedness is expected to contain negative or financial covenants that would limit our operational flexibility. Our increased level of indebtedness could reduce funds available for additional acquisitions or other business purposes, restrict our financial and operating flexibility, or create competitive disadvantages compared to other companies with lower debt levels. This in turn may reduce our flexibility in responding to changes in our businesses and in our industry.

Additionally, although we have obtained financing commitments with respect to the Acquisition in an amount which we believe would be sufficient to allow us to complete the transaction, the consummation of the financing pursuant to these commitments is subject to conditions that may not be satisfied. Our ability to obtain any financing to fund a portion of the purchase price is not a condition to closing under the acquisition agreement. However, if we are unable to obtain sufficient financing on favorable terms or experience a significant diminution of our existing cash and cash equivalents or other sources of capital, and as a result we do not have sufficient funds to complete the Acquisition, we may be subject to monetary or other damages under the acquisition agreement as a result of our failure to complete the Acquisition.

We may be unable to integrate the Business successfully and realize the anticipated benefits of the Acquisition.

The pending Acquisition involves the combination of two companies that have operated independently. We will be required to devote significant management attention and resources to integrating business practices, cultures and operations of each business. Potential difficulties we may encounter as part of the integration process include the following:

- the inability to successfully combine our respective businesses in a manner that permits us to achieve the cost savings, synergies and other anticipated benefits from the Acquisition;
- the challenge of integrating complex systems, operating procedures, compliance programs, technology, networks and other assets of the Business in a manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- difficulties in retaining key management and other key employees;
- the challenge of managing the expanded operations of a significantly larger and more complex company and coordinating geographically separate organizations; and
-

potential unknown liabilities, liabilities that are significantly larger than we currently anticipate, and unforeseen increased expenses or delays associated with the Acquisition, including cash costs to integrate the two businesses that may exceed the cash costs that we currently anticipate.

Any one of these factors could result in increased costs, decreases in the amount of anticipated benefits and diversion of management's attention, which could materially impact our business, financial condition and results of operations. In addition, even if we are able to integrate the Business successfully, the anticipated benefits of the pending Acquisition may not be realized fully, or at all, or may take longer to realize than expected.

Failure to complete the Acquisition could impact our stock price and our future business and financial results.

If the Acquisition is not completed, our ongoing business and financial results may be adversely affected and we will be subject to a number of risks, including the following: depending on the reasons for the failure to complete the Acquisition, we could be liable to Spectrum for monetary or other damages in connection with the termination or breach of the acquisition agreement, including a termination fee of \$100 million; we have dedicated significant time and resources, financial and otherwise, in planning for the Acquisition and the associated integration, of which we would lose the benefit if the Acquisition is not completed; we are responsible for certain transaction costs relating to the Acquisition, whether or not the Acquisition is completed; while the acquisition agreement is in force, we are subject to certain restrictions on the conduct of our business, including our ability to make any other significant acquisition which would reasonably be expected to delay, hinder or otherwise obstruct the consummation of the Acquisition, which restrictions may adversely affect our ability to execute certain of our business strategies; and matters relating to the Acquisition (including integration planning) may require substantial commitments of time and resources by our management, whether or not the Acquisition is completed, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

In addition, if the Acquisition is not completed, we may experience negative reactions from the financial markets and from our customers and employees. We also may be subject to litigation related to any failure to complete the Acquisition or to enforcement proceedings commenced against us to perform our obligations under the acquisition agreement. If the Acquisition is not completed, these risks may materialize and may adversely affect our business, financial results and financial condition, as well as the price of our common stock.

While the Acquisition is pending, we and Spectrum will be subject to business uncertainties that could adversely affect our respective businesses.

Our success following the Acquisition will depend in part upon the ability of us and Spectrum to maintain our respective business relationships. Uncertainty about the effect of the Acquisition on customers, suppliers, employees and other constituencies may have a material adverse effect on us and the Business. Customers, suppliers and others who deal with us or Spectrum may delay or defer business decisions, decide to terminate, modify or renegotiate their relationships or take other actions as a result of the Acquisition that could negatively affect the revenues, earnings and cash flows of the Company or the Business. If we are unable to maintain these business and operational relationships, our financial position, results of operations or cash flows could be materially affected.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table reports purchases of equity securities during the third quarter of fiscal 2018 by Energizer and any affiliated purchasers pursuant to SEC rules, including any treasury shares withheld to satisfy employee withholding obligations upon vesting of restricted stock and the execution of net exercises.

## Issuer Purchases of Equity Securities

| Period             | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Announced Plans or Programs (2) | Maximum Number That May Yet Be Purchased Under the Plans or Programs (2) |
|--------------------|--------------------------------------|------------------------------|---|--|
| April 1 - April 30 | —                                    | \$ —                         | —   | 4,151,623  |
| May 1 - May 31     | —                                    | \$ —                         | —   | 4,151,623  |
| June 1 - June 30   | 170                                  | \$ 61.09                     | —   | 4,151,623  |
| Total              | 170                                  | \$ 61.09                     | —   |  |

(1) 170 shares purchased during the quarter relate to the surrender to the Company of shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock or execution of net exercises.

(2) On July 1, 2015, the Board of Directors approved a share repurchase authorization for the repurchase of up to 7.5 million shares. No shares were repurchased on the open market during the quarter under this share repurchase authorization.

## Item 6. Exhibits

See the Exhibit Index hereto.

EXHIBIT INDEX

The exhibits below are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

| Exhibit No.   | Description of Exhibit   |
|---------------|--|
| <u>2.1</u> ** | Separation and Distribution Agreement by and between Energizer Holdings, Inc. (f/k/a Energizer SpinCo, Inc.) and Edgewell Personal Care Company (f/k/a Energizer Holdings, Inc.) dated as of June 25, 2015 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 29, 2015). |
| <u>2.2</u> ** | Tax Matters Agreement by and between Energizer Holdings, Inc. (f/k/a Energizer SpinCo, Inc.) and Edgewell Personal Care Company (f/k/a Energizer Holdings, Inc.) dated as of June 26, 2015 (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed June 29, 2015).                 |
| <u>2.3</u> ** | Employee Matters Agreement by and between Energizer Holdings, Inc. (f/k/a Energizer SpinCo, Inc.) and Edgewell Personal Care Company (f/k/a Energizer Holdings, Inc.) dated as of June 25, 2015 (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed June 29, 2015).            |
| <u>2.4</u> ** | Transition Services Agreement by and between Energizer Holdings, Inc. (f/k/a Energizer SpinCo, Inc.) and Edgewell Personal Care Company (f/k/a Energizer Holdings, Inc.) dated as of June 25, 2015 (incorporated by reference to Exhibit 2.4 to the Company's Current Report on Form 8-K filed June 29, 2015).         |
| <u>2.5</u>    | Contribution Agreement by and between the Company and Edgewell Personal Care Company (f/k/a Energizer Holdings, Inc.) dated June 30, 2015 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 30, 2015).  |
| <u>2.6</u> ** | Agreement and Plan of Merger, dated as of May 24, 2016, by and among the Company, Energizer Reliance, Inc., Trivest Partners V, L.P., and HandStands Holding Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed May 27, 2016).                                    |
| <u>2.7</u> ** | Acquisition Agreement, dated as of January 15, 2018, by and among the Company and Spectrum Brands Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 16, 2018).  |
| <u>3.1</u>    | Third Amended and Restated Articles of Incorporation of Energizer Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed January 29, 2018).  |
| <u>3.2</u>    | Third Amended and Restated Bylaws of Energizer Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed January 29, 2018).   |
| <u>4.1</u>    | Indenture, dated July 6, 2018, by and among Energizer Gamma Acquisition, Inc., the Guarantors party thereto from time to time and The Bank Of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 9, 2018).               |
| <u>4.2</u>    | Form of 6.375% Senior Notes due 2026 (included in Exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed July 9, 2018).  |
| <u>4.3</u>    | Indenture, dated July 6, 2018, by and among Energizer Gamma Acquisition B.V., the Guarantors party thereto from time to time and The Bank Of New York Mellon Trust Company, N.A., as Trustee and   |



Registrar, the Bank of New York Mellon, London Branch, as Paying Agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed July 9, 2018).

4.4 Form of 4.625% Senior Notes due 2026 (included in Exhibit 4.3) (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed July 9, 2018).

10.1 Amendment No. 3 to Credit Agreement, dated as of June 21, 2018, by and among Energizer Holdings, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 22, 2018).

10.2 Commitment Letter, dated July 6, 2018, by and between Energizer Holdings, Inc. and Energizer Gamma Acquisition, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 9, 2018).

10.3 Commitment Letter, dated July 6, 2018, by and between Energizer Holdings, Inc. and Energizer Gamma Acquisition B.V. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 9, 2018).

10.4\*,\*\*\* First Amendment to the Energizer Holdings, Inc. Deferred Compensation Plan.

31(i)\* Certification of periodic financial report by the Chief Executive Officer of Energizer Holdings, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31(ii)\* Certification of periodic financial report by the Chief Financial Officer of Energizer Holdings, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32(i)\* Certification of periodic financial report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Executive Officer of Energizer Holdings, Inc.

32(ii)\* Certification of periodic financial report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer of Energizer Holdings, Inc.

101 Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following documents formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited Consolidated Statements of Earnings and Comprehensive Income, (ii) the unaudited Consolidated Balance Sheets, (iii) the unaudited Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements (Condensed). The financial information contained in the XBRL-related documents is "unaudited" and "unreviewed."

\* Filed herewith.

\*\* The Company undertakes to furnish supplementally a copy of any omitted schedule or exhibit to such agreement to the Securities and Exchange Commission.

\*\*\* Denotes a management contract or compensatory plan or arrangement.

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.

ENERGIZER HOLDINGS, INC.

Registrant

By: /s/ Timothy W. Gorman  
Timothy W. Gorman  
Executive Vice President and Chief Financial Officer

Date: August 1, 2018