

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended December 31, 2019**

**Commission File Number: 001-13836**

**JOHNSON CONTROLS INTERNATIONAL PLC**

(Exact name of registrant as specified in its charter)

**Ireland**

(Jurisdiction of Incorporation)

**98-0390500**

(I.R.S. Employer Identification No.)

**One Albert Quay, Cork, Ireland, T12 X8N6**

(Address of principal executive offices and postal code)

**(353) 21-423-5000**

(Registrant's telephone number)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary Shares, Par Value \$0.01	JCI	New York Stock Exchange
5.000% Senior Notes due 2020	JCI20A	New York Stock Exchange
0.000% Senior Notes due 2020	JCI20B	New York Stock Exchange
4.25% Senior Notes due 2021	JCI21B	New York Stock Exchange
3.750% Senior Notes due 2021	JCI21C	New York Stock Exchange
4.625% Notes due 2023	JCI23	New York Stock Exchange
1.000% Senior Notes due 2023	JCI23A	New York Stock Exchange
3.625% Senior Notes due 2024	JCI24A	New York Stock Exchange
1.375% Notes due 2025	JCI25A	New York Stock Exchange
3.900% Notes due 2026	JCI26A	New York Stock Exchange
6.000% Notes due 2036	JCI36A	New York Stock Exchange
5.70% Senior Notes due 2041	JCI41B	New York Stock Exchange
5.250% Senior Notes due 2041	JCI41C	New York Stock Exchange
4.625% Senior Notes due 2044	JCI44A	New York Stock Exchange
5.125% Notes due 2045	JCI45B	New York Stock Exchange
6.950% Debentures due December 1, 2045	JCI45A	New York Stock Exchange
4.500% Senior Notes due 2047	JCI47	New York Stock Exchange
4.950% Senior Notes due 2064	JCI64A	New York Stock Exchange

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>			Emerging growth company	<input type="checkbox"/>

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 outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Ordinary Shares Outstanding at December 31, 2019
Ordinary Shares, \$0.01 par value per share	764,047,226

**JOHNSON CONTROLS INTERNATIONAL PLC**

**FORM 10-Q**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### Johnson Controls International plc Consolidated Statements of Financial Position

(in millions, except par value; unaudited)

	December 31, 2019	September 30, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 2,160	\$ 2,805
Accounts receivable - net	5,612	5,770
Inventories	1,953	1,814
Assets held for sale	87	98
Other current assets	1,508	1,906
Current assets	<u>11,320</u>	<u>12,393</u>
Property, plant and equipment - net	3,341	3,348
Goodwill	18,351	18,178
Other intangible assets - net	5,610	5,632
Investments in partially-owned affiliates	865	853
Noncurrent assets held for sale	46	60
Other noncurrent assets	2,980	1,823
Total assets	<u>\$ 42,513</u>	<u>\$ 42,287</u>
<b>Liabilities and Equity</b>		
Short-term debt	\$ 20	\$ 10
Current portion of long-term debt	1,342	501
Accounts payable	3,336	3,582
Accrued compensation and benefits	844	953
Deferred revenue	1,495	1,407
Liabilities held for sale	44	44
Other current liabilities	2,611	2,573
Current liabilities	<u>9,692</u>	<u>9,070</u>
Long-term debt	5,920	6,708
Pension and postretirement benefits	1,013	1,044
Other noncurrent liabilities	5,457	4,636
Long-term liabilities	<u>12,390</u>	<u>12,388</u>
Commitments and contingencies (Note 21)		
Ordinary shares, \$0.01 par value	8	8
Ordinary A shares, €1.00 par value	—	—
Preferred shares, \$0.01 par value	—	—
Ordinary shares held in treasury, at cost	(1,116)	(1,086)
Capital in excess of par value	16,848	16,812
Retained earnings	4,129	4,827
Accumulated other comprehensive loss	(540)	(795)
Shareholders' equity attributable to Johnson Controls	<u>19,329</u>	<u>19,766</u>
Noncontrolling interests	1,102	1,063
Total equity	<u>20,431</u>	<u>20,829</u>
Total liabilities and equity	<u>\$ 42,513</u>	<u>\$ 42,287</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Johnson Controls International plc**  
**Consolidated Statements of Income**  
(in millions, except per share data; unaudited)

	Three Months Ended December 31,	
	2019	2018
Net sales		
Products and systems	\$ 4,036	\$ 3,922
Services	1,540	1,542
	<u>5,576</u>	<u>5,464</u>
Cost of sales		
Products and systems	2,866	2,824
Services	907	915
	<u>3,773</u>	<u>3,739</u>
Gross profit	1,803	1,725
Selling, general and administrative expenses	(1,427)	(1,438)
Restructuring and impairment costs	(111)	—
Net financing charges	(52)	(85)
Equity income	43	42
Income from continuing operations before income taxes	256	244
Income tax provision	65	108
Income from continuing operations	191	136
Income from discontinued operations, net of tax (Note 4)	—	263
Net income	191	399
Income from continuing operations attributable to noncontrolling interests	32	29
Income from discontinued operations attributable to noncontrolling interests	—	15
Net income attributable to Johnson Controls	<u>\$ 159</u>	<u>\$ 355</u>
Amounts attributable to Johnson Controls ordinary shareholders:		
Income from continuing operations	\$ 159	\$ 107
Income from discontinued operations	—	248
Net income	<u>\$ 159</u>	<u>\$ 355</u>
Basic earnings per share attributable to Johnson Controls		
Continuing operations	\$ 0.21	\$ 0.12
Discontinued operations	—	0.27
Net income	<u>\$ 0.21</u>	<u>\$ 0.39</u>
Diluted earnings per share attributable to Johnson Controls		
Continuing operations	\$ 0.21	\$ 0.12
Discontinued operations	—	0.27
Net income *	<u>\$ 0.21</u>	<u>\$ 0.38</u>

\* Certain items do not sum due to rounding.

The accompanying notes are an integral part of the consolidated financial statements.

**Johnson Controls International plc**  
**Consolidated Statements of Comprehensive Income (Loss)**  
(in millions; unaudited)

	Three Months Ended December 31,	
	2019	2018
Net income	\$ 191	\$ 399
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	261	(118)
Realized and unrealized gains on derivatives	7	2
Pension and postretirement plans	(1)	—
Other comprehensive income (loss)	267	(116)
Total comprehensive income	458	283
Comprehensive income attributable to noncontrolling interests	44	54
Comprehensive income attributable to Johnson Controls	<u>\$ 414</u>	<u>\$ 229</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Johnson Controls International plc**  
**Consolidated Statements of Cash Flows**  
(in millions; unaudited)

	Three Months Ended December 31,	
	2019	2018
<b>Operating Activities of Continuing Operations</b>		
Net income from continuing operations attributable to Johnson Controls	\$ 159	\$ 107
Income from continuing operations attributable to noncontrolling interests	32	29
Net income from continuing operations	191	136
Adjustments to reconcile net income from continuing operations to cash provided (used) by operating activities:		
Depreciation and amortization	207	211
Pension and postretirement benefit income	(40)	(29)
Pension and postretirement contributions	(12)	(21)
Equity in earnings of partially-owned affiliates, net of dividends received	8	(36)
Deferred income taxes	(3)	43
Noncash restructuring and impairment charges	54	—
Equity-based compensation	23	18
Other - net	(7)	10
Changes in assets and liabilities, excluding acquisitions and divestitures:		
Accounts receivable	237	146
Inventories	(114)	(222)
Other assets	(92)	(63)
Restructuring reserves	33	(25)
Accounts payable and accrued liabilities	(498)	(226)
Accrued income taxes	524	(21)
Cash provided (used) by operating activities from continuing operations	511	(79)
<b>Investing Activities of Continuing Operations</b>		
Capital expenditures	(126)	(153)
Sale of property, plant and equipment	1	2
Acquisition of businesses, net of cash acquired	(48)	(13)
Business divestitures, net of cash divested	—	6
Proceeds for equity swap	—	7
Changes in long-term investments	—	15
Cash used by investing activities from continuing operations	(173)	(136)
<b>Financing Activities of Continuing Operations</b>		
Increase in short-term debt - net	10	1,014
Debt financing costs	(4)	—
Stock repurchases and retirements	(651)	(467)
Payment of cash dividends	(203)	(240)
Proceeds from the exercise of stock options	21	13
Employee equity-based compensation withholding taxes	(20)	(21)
Dividends paid to noncontrolling interests	(5)	(43)
Other - net	2	—
Cash provided (used) by financing activities from continuing operations	(850)	256
<b>Discontinued Operations</b>		
Cash provided (used) by operating activities	(194)	193
Cash used by investing activities	—	(66)
Cash used by financing activities	—	(11)
Cash provided (used) by discontinued operations	(194)	116
Effect of exchange rate changes on cash, cash equivalents and restricted cash	57	(43)
Change in cash held for sale	—	(2)
<b>Increase (decrease) in cash, cash equivalents and restricted cash</b>	(649)	112
Cash, cash equivalents and restricted cash at beginning of period	2,821	200
Cash, cash equivalents and restricted cash at end of period	2,172	312
Less: Restricted cash	12	20
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,160</b>	<b>\$ 292</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Johnson Controls International plc**  
**Consolidated Statements of Shareholders' Equity Attributable to Johnson Controls Ordinary Shareholders**  
(in millions, except per share data; unaudited)

Three Months Ended December 31, 2018						
	Total	Ordinary Shares	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss
<b>At September 30, 2018</b>	\$ 21,164	\$ 10	\$ 16,549	\$ 6,604	\$ (1,053)	\$ (946)
Comprehensive income (loss)	229	—	—	355	—	(126)
Cash dividends						
Ordinary (\$0.26 per share)	(240)	—	—	(240)	—	—
Repurchases of ordinary shares	(467)	—	—	—	(467)	—
Adoption of ASC 606	(45)	—	—	(45)	—	—
Adoption of ASU 2016-01	—	—	—	8	—	(8)
Adoption of ASU 2016-16	(546)	—	—	(546)	—	—
Other, including options exercised	7	—	30	—	(23)	—
<b>At December 31, 2018</b>	<u>\$ 20,102</u>	<u>\$ 10</u>	<u>\$ 16,579</u>	<u>\$ 6,136</u>	<u>\$ (1,543)</u>	<u>\$ (1,080)</u>

Three Months Ended December 31, 2019						
	Total	Ordinary Shares	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss
<b>At September 30, 2019</b>	\$ 19,766	\$ 8	\$ 16,812	\$ 4,827	\$ (1,086)	\$ (795)
Comprehensive income	414	—	—	159	—	255
Cash dividends						
Ordinary (\$0.26 per share)	(201)	—	—	(201)	—	—
Repurchases and retirements of ordinary shares	(651)	—	—	(651)	—	—
Adoption of ASC 842	(5)	—	—	(5)	—	—
Other, including options exercised	6	—	36	—	(30)	—
<b>At December 31, 2019</b>	<u>\$ 19,329</u>	<u>\$ 8</u>	<u>\$ 16,848</u>	<u>\$ 4,129</u>	<u>\$ (1,116)</u>	<u>\$ (540)</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Johnson Controls International plc**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**  
**(unaudited)**

**1. Financial Statements**

The consolidated financial statements include the consolidated accounts of Johnson Controls International plc, a corporation organized under the laws of Ireland, and its subsidiaries (Johnson Controls International plc and all its subsidiaries, hereinafter collectively referred to as the "Company" or "Johnson Controls"). In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include normal recurring adjustments) necessary to state fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2019 filed with the SEC on November 21, 2019. The results of operations for the three month period ended December 31, 2019 are not necessarily indicative of results for the Company's 2020 fiscal year because of seasonal and other factors.

***Nature of Operations***

Johnson Controls International plc, headquartered in Cork, Ireland, is a global diversified technology and multi industrial leader serving a wide range of customers in more than 150 countries. The Company creates intelligent buildings, efficient energy solutions and integrated infrastructure that work seamlessly together to deliver on the promise of smart cities and communities. The Company is committed to helping its customers win and creating greater value for all of its stakeholders through its strategic focus on buildings.

The Company is a global market leader in engineering, developing, manufacturing and installing building products and systems around the world, including heating, ventilating, air-conditioning ("HVAC") equipment, HVAC controls, energy-management systems, security systems, fire detection systems and fire suppression solutions. The Company further serves customers by providing technical services (in the HVAC, security and fire-protection space), energy-management consulting and data-driven solutions via its data-enabled business. Finally, the Company has a strong presence in the North American residential air conditioning and heating systems market and is a global market leader in industrial refrigeration products.

***Principles of Consolidation***

The consolidated financial statements include the consolidated accounts of Johnson Controls International plc and its subsidiaries that are consolidated in conformity with U.S. GAAP. All significant intercompany transactions have been eliminated. The results of companies acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. Investments in partially-owned affiliates are accounted for by the equity method when the Company's interest exceeds 20% and the Company does not have a controlling interest.

The Company consolidates variable interest entities ("VIE") in which the Company has the power to direct the significant activities of the entity and the obligation to absorb losses or receive benefits from the entity that may be significant. The Company did not have a significant variable interest in any consolidated or nonconsolidated VIEs in its continuing operations for the presented reporting periods.

***Restricted Cash***

At December 31, 2019 and September 30, 2019, the Company held restricted cash of approximately \$12 million and \$16 million, respectively, all of which was recorded within other current assets in the consolidated statements of financial position. These amounts were related to cash restricted for payment of asbestos liabilities.



**Johnson Controls International plc**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**  
**(unaudited)**

**2. New Accounting Standards**

*Recently Adopted Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU No. 2016-02 requires recognition of operating leases as lease assets and liabilities on the balance sheet, and disclosure of key information about leasing arrangements. The Company adopted Topic 842 and the related amendments using a modified-retrospective approach as of October 1, 2019 and applied the new guidance to all leases through a cumulative-effect adjustment to beginning retained earnings. The comparative periods have not been recast and continue to be reported under the previous lease accounting guidance. The Company has elected to apply the package of transitional practical expedients, under which the Company did not reassess prior conclusions about lease identification, lease classification, and initial direct costs of existing leases as of the date of adoption. The adoption of the new guidance resulted in recognition of a right-of-use asset and related lease liabilities of \$1.1 billion, with an immaterial impact to retained earnings. Refer to Note 6, "Leases," for additional lease disclosures.

Other recently issued accounting pronouncements are not expected to have a material impact on the Company's consolidated financial statements.

**3. Acquisitions and Divestitures**

During the first quarter of fiscal 2020, the Company completed certain acquisitions for a combined purchase price, net of cash acquired, of \$54 million, of which \$48 million was paid as of December 31, 2019. In connection with the acquisitions, the Company recorded goodwill of \$17 million within the Global Products segment and \$12 million within the Building Solutions EMEA/LA segment.

During the first quarter of fiscal 2019, the Company completed an acquisition for a purchase price of \$13 million, all of which was paid as of December 31, 2018. In connection with the acquisition, the Company recorded goodwill of \$9 million within the Global Products segment.

During the first quarter of fiscal 2019, the Company completed certain divestitures within the Global Products business. The combined selling price was \$6 million, all of which was received as of December 31, 2018.

Acquisitions and divestitures were not material to the Company's consolidated financial statements in either the first quarter of fiscal 2020 or 2019.

**4. Discontinued Operations**

On November 13, 2018, the Company entered into a Stock and Asset Purchase Agreement ("Purchase Agreement") with BCP Acquisitions LLC ("Purchaser"). The Purchaser is a newly-formed entity controlled by investment funds managed by Brookfield Capital Partners LLC. Pursuant to the Purchase Agreement, on the terms and subject to the conditions therein, the Company agreed to sell, and Purchaser agreed to acquire, the Company's Power Solutions business for a purchase price of \$13.2 billion. The transaction closed on April 30, 2019 with net cash proceeds of \$11.6 billion after tax and transaction-related expenses.

During the first quarter of fiscal 2019, the Company determined that its Power Solutions business met the criteria to be classified as a discontinued operation and, as a result, Power Solutions' historical financial results are reflected in the Company's consolidated financial statements as a discontinued operation, and assets and liabilities were retrospectively reclassified as assets and liabilities held for sale. The Company did not allocate any general corporate overhead to discontinued operations.

**Johnson Controls International plc**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**  
**(unaudited)**

The following table summarizes the results of Power Solutions reclassified as discontinued operations for the three month period ended December 31, 2018 (in millions).

	Three Months Ended December 31, 2018
Net sales	\$ 2,427
Income from discontinued operations before income taxes	390
Provision for income taxes on discontinued operations	(127)
Income from discontinued operations attributable to noncontrolling interests, net of tax	(15)
Income from discontinued operations	<u>\$ 248</u>

For the three months ended December 31, 2018, income from discontinued operations before income taxes included transaction costs of \$28 million and a favorable impact of \$32 million for ceasing depreciation and amortization expense as the business was held for sale.

For the three months ended December 31, 2018, the effective tax rate was more than the Irish statutory rate of 12.5% primarily due the establishment of a deferred tax liability on the outside basis difference of the Company's investment in certain subsidiaries related to the planned divestiture of the business and tax rate differentials.

***Assets and Liabilities Held for Sale***

During the third quarter of fiscal 2019, the Company determined that a business within its Global Products segment met the criteria to be classified as held for sale. The assets and liabilities of this business are presented as held for sale in the consolidated statements of financial position as of December 31, 2019 and September 30, 2019. Assets and liabilities held for sale are required to be recorded at the lower of carrying value or fair value less any costs to sell. Accordingly, the Company has recorded total impairment charges of \$250 million within restructuring and impairment costs in the consolidated statements of income to write down the carrying value of the assets held for sale to fair value less any costs to sell. Of the \$250 million total impairment charges, \$235 million was recorded during the third quarter of fiscal 2019, and \$15 million was recorded during the first quarter of fiscal 2020. Refer to Note 18, "Impairment of Long-Lived Assets" of the notes to consolidated financial statements for further information regarding the impairment charges. The divestiture of the business held for sale could result in a gain or loss on sale to the extent the ultimate selling price differs from the current carrying value of the net assets recorded. The business did not meet the criteria to be classified as a discontinued operation as the divestiture of the business will not have a major effect on the Company's operations and financial results.

**Johnson Controls International plc**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**  
**(unaudited)**

**5. Revenue Recognition**

***Disaggregated Revenue***

The following table presents the Company's revenues disaggregated by segment and by products and systems versus services revenue for the three months ended December 31, 2019 and 2018 (in millions):

	Three Months Ended December 31, 2019			Three Months Ended December 31, 2018		
	Products & Systems	Services	Total	Products & Systems	Services	Total
Building Solutions North America	\$ 1,356	\$ 811	\$ 2,167	\$ 1,321	\$ 795	\$ 2,116
Building Solutions EMEA/LA	457	471	928	417	490	907
Building Solutions Asia Pacific	371	258	629	356	257	613
Global Products	1,852	—	1,852	1,828	—	1,828
Total	<u>\$ 4,036</u>	<u>\$ 1,540</u>	<u>\$ 5,576</u>	<u>\$ 3,922</u>	<u>\$ 1,542</u>	<u>\$ 5,464</u>

The following table presents further disaggregation of Global Products segment revenues by product type for the three months ended December 31, 2019 and 2018 (in millions):

	Three Months Ended December 31,	
	2019	2018
Building management systems	\$ 300	\$ 281
HVAC & refrigeration equipment	1,285	1,285
Specialty products	267	262
Total	<u>\$ 1,852</u>	<u>\$ 1,828</u>

***Contract Balances***

Contract assets relate to the Company's right to consideration for performance obligations satisfied but not billed and consist of unbilled receivables and costs in excess of billings. Contract liabilities relate to customer payments received in advance of satisfaction of performance obligations under the contract. Contract liabilities consist of deferred revenue. Contract balances are classified as assets or liabilities on a contract-by-contract basis at the end of each reporting period.

The following table presents the location and amount of contract balances in the Company's consolidated statements of financial position (in millions):

	Location of contract balances	December 31, 2019	September 30, 2019
Contract assets - current	Accounts receivable - net	\$ 1,465	\$ 1,389
Contract assets - noncurrent	Other noncurrent assets	99	90
Contract liabilities - current	Deferred revenue	(1,495)	(1,407)
Contract liabilities - noncurrent	Other noncurrent liabilities	(119)	(117)
Total		<u>\$ (50)</u>	<u>\$ (45)</u>

For the three months ended December 31, 2019 and December 31, 2018, the Company recognized revenue of \$686 million and \$712 million, respectively, that was included in the beginning of period contract liability balance.

**Johnson Controls International plc**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019**  
**(unaudited)**

***Performance Obligations***

A performance obligation is a distinct good, service, or a bundle of goods and services promised in a contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When contracts with customers require significant and complex integration, contain goods or services which are highly interdependent or interrelated, or are goods or services which significantly modify or customize other promises in the contracts and, therefore, are not distinct, then the entire contract is accounted for as a single performance obligation. For any contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation based on the estimated relative standalone selling price of each distinct good or service in the contract. For product sales, each product sold to a customer typically represents a distinct performance obligation.

Performance obligations are satisfied as of a point in time or over time. The timing of satisfying the performance obligation is typically indicated by the terms of the contract. As of December 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$14.7 billion, of which approximately 60% is expected to be recognized as revenue over the next two years. The remaining performance obligations expected to be recognized in revenue beyond two years primarily relate to large, multi-purpose contracts to construct hospitals, schools and other governmental buildings, which include services to be performed over the building's lifetime, with initial contract terms of 25 to 35 years. Future contract modifications could affect both the timing and the amount of the remaining performance obligations. The Company excludes the value of remaining performance obligations for contracts with an original expected duration of one year or less.

***Costs to Obtain or Fulfill a Contract***

The Company recognizes the incremental costs incurred to obtain or fulfill a contract with a customer as an asset when these costs are recoverable. These costs consist primarily of sales commissions and bid/proposal costs. Costs to obtain or fulfill a contract are capitalized and amortized to revenue over the period of contract performance.

As of December 31, 2019, the Company recorded the costs to obtain or fulfill a contract of \$236 million, of which \$127 million is recorded within other current assets and \$109 million is recorded within other noncurrent assets in the consolidated statements of financial position. As of September 30, 2019, the Company recorded the costs to obtain or fulfill a contract of \$212 million, of which \$110 million is recorded within other current assets and \$102 million is recorded within other noncurrent assets in the consolidated statements of financial position.

During the three months ended December 31, 2019 and 2018, the Company recognized amortization expense of \$26 million and \$35 million, respectively, related to costs to obtain or fulfill a contract. There were no impairment losses recognized in the three months ended December 31, 2019 and 2018.

**6. Leases**

***Lessee arrangements***

The Company leases certain administrative, production and other facilities, fleet vehicles, information technology equipment and other equipment under arrangements that are accounted for as operating leases. The Company determines whether an arrangement contains a lease at contract inception based on whether the arrangement involves the use of a physically distinct identified asset and whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period as well as the right to direct the use of the asset.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Right-of-use assets and the corresponding lease liabilities are recognized at commencement date based on the present value of lease payments for all leases with terms longer than twelve months. As the majority of the Company's leases do not provide an implicit interest rate, to determine the present value of lease payments, the Company uses its incremental borrowing rate based on information available on the lease commencement date and uses the implicit rate when readily determinable. The Company determines its incremental borrowing rate based on

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a comparable market yield curve consistent with the Company's credit rating, term of the lease and relative economic environment. The Company has elected to combine lease and non-lease components for its leases.

Most leases contain options to renew or terminate the lease. Right-of-use assets and lease liabilities reflect only the options which the Company is reasonably certain to exercise. Lease expense is recognized on a straight-line basis over the lease term.

The Company has certain real estate leases that contain variable lease payments which are based on changes in the Consumer Price Index (CPI). Additionally, the Company's leases generally require it to pay for fuel, maintenance, repair, insurance and taxes. These payments are not included in the right-of-use asset or lease liability and are expensed as incurred.

The following table presents the Company's lease costs for the three months ended December 31, 2019 (in millions):

	Three Months Ended December 31, 2019
Operating lease cost	\$ 99
Variable lease cost	40
Total lease costs	<u>\$ 139</u>

The following table presents supplemental consolidated statement of financial position information as of December 31, 2019 (in millions):

	Location of lease balances	December 31, 2019
Operating lease right-of-use assets	Other noncurrent assets	\$ 1,091
Operating lease liabilities - current	Other current liabilities	322
Operating lease liabilities - noncurrent	Other noncurrent liabilities	790
Weighted-average remaining lease term		6 years
Weighted-average discount rate		2.3%

The following table presents supplemental cash flow information related to operating leases for the three months ended December 31, 2019 (in millions):

	Three Months Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liability:	
Operating cash outflows from operating leases	\$ 97
Noncash operating lease activity:	
Right-of-use assets obtained in exchange for operating lease liabilities	74

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The following table presents maturities of operating lease liabilities as of December 31, 2019 (in millions):

	December 31, 2019
2020 (9 months)	\$ 264
2021	304
2022	217
2023	126
2024	85
After 2024	192
Total operating lease payments	1,188
Less interest	(76)
Present value of lease payments	\$ 1,112

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2019 and accounted for under the previous lease accounting guidance, future minimum operating lease payments for long-term noncancellable operating leases as of September 30, 2019 were as follows (in millions):

	September 30, 2019
2020	\$ 352
2021	287
2022	200
2023	111
2024	71
After 2024	172
Total minimum lease payments	\$ 1,193

***Lessor arrangements***

The Company's monitoring services and maintenance agreements within its electronic security business that include the subscriber system assets for which the Company retains ownership contain both lease and nonlease components. The Company has elected the practical expedient to combine lease and nonlease components for these arrangements where the timing and pattern of transfer of the lease and nonlease components are the same and the lease component would be classified as an operating lease if accounted for separately. The Company has concluded that in these arrangements the nonlease components are the predominant characteristic and as a result, the combined component is accounted for under the revenue guidance.

**7. Inventories**

Inventories consisted of the following (in millions):

	December 31, 2019	September 30, 2019
Raw materials and supplies	\$ 637	\$ 588
Work-in-process	167	176
Finished goods	1,149	1,050
Inventories	\$ 1,953	\$ 1,814

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**8. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill in each of the Company's reportable segments for the three month period ended December 31, 2019 were as follows (in millions):

	September 30, 2019	Business Acquisitions	Currency Translation and Other	December 31, 2019
Building Solutions North America	\$ 9,588	\$ —	\$ 12	\$ 9,600
Building Solutions EMEA/LA	1,849	12	67	1,928
Building Solutions Asia Pacific	1,194	—	36	1,230
Global Products	5,547	17	29	5,593
Total	<u>\$ 18,178</u>	<u>\$ 29</u>	<u>\$ 144</u>	<u>\$ 18,351</u>

At September 30, 2019, accumulated goodwill impairment charges included \$47 million related to the Building Solutions EMEA/LA - Latin America reporting unit.

The Company's other intangible assets, primarily from business acquisitions valued based on independent appraisals, consisted of (in millions):

	December 31, 2019			September 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Technology	\$ 1,328	\$ (403)	\$ 925	\$ 1,307	\$ (370)	\$ 937
Customer relationships	2,754	(817)	1,937	2,722	(759)	1,963
Miscellaneous	585	(231)	354	584	(224)	360
Total amortized intangible assets	<u>4,667</u>	<u>(1,451)</u>	<u>3,216</u>	<u>4,613</u>	<u>(1,353)</u>	<u>3,260</u>
Unamortized intangible assets						
Trademarks/trade names	2,304	—	2,304	2,282	—	2,282
Miscellaneous	90	—	90	90	—	90
	<u>2,394</u>	<u>—</u>	<u>2,394</u>	<u>2,372</u>	<u>—</u>	<u>2,372</u>
Total intangible assets	<u>\$ 7,061</u>	<u>\$ (1,451)</u>	<u>\$ 5,610</u>	<u>\$ 6,985</u>	<u>\$ (1,353)</u>	<u>\$ 5,632</u>

Amortization of other intangible assets included within continuing operations for the three month periods ended December 31, 2019 and 2018 was \$96 million and \$97 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization for fiscal 2021, 2022, 2023, 2024 and 2025 will be approximately \$394 million, \$390 million, \$379 million, \$368 million and \$344 million per year, respectively.

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**9. Significant Restructuring and Impairment Costs**

To better align its resources with its growth strategies and reduce the cost structure of its global operations in certain underlying markets, the Company commits to restructuring plans as necessary.

In fiscal 2020, the Company committed to a significant restructuring plan ("2020 Plan") and recorded \$111 million of restructuring and impairment costs for continuing operations in the consolidated statements of income. This was the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related primarily to cost reduction initiatives. The costs consist primarily of workforce reductions, plant closures and asset impairments. Of the restructuring and impairment costs recorded, \$87 million related to the Global Products segment, \$10 million related to the Building Solutions Asia Pacific segment, \$8 million related to the Building Solutions North America segment and \$6 million related to the Building Solutions EMEA/LA segment. The restructuring actions are expected to be substantially complete in fiscal 2020.

The following table summarizes the changes in the Company's 2020 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Total
Original reserve	\$ 54	\$ 54	\$ 3	\$ 111
Utilized—cash	(8)	—	—	(8)
Utilized—noncash	—	(54)	—	(54)
Balance at December 31, 2019	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 49</u>

In fiscal 2018, the Company committed to a significant restructuring plan ("2018 Plan") and recorded \$255 million of restructuring and impairment costs for continuing operations in the consolidated statements of income. This was the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related to cost reduction initiatives in the Company's Building Technologies & Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. Of the restructuring and impairment costs recorded, \$113 million related to the Global Products segment, \$56 million related to the Building Solutions EMEA/LA segment, \$50 million related to Corporate, \$20 million related to the Building Solutions North America segment and \$16 million related to the Building Solutions Asia Pacific segment. The restructuring actions are expected to be substantially complete in 2020.

Additionally, the Company recorded \$8 million of restructuring and impairment costs related to Power Solutions in fiscal 2018. This is reported within discontinued operations.



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The following table summarizes the changes in the Company's 2018 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Currency Translation	Total
Original reserve	\$ 209	\$ 42	\$ 12	\$ —	\$ 263
Utilized—cash	(45)	—	(2)	—	(47)
Utilized—noncash	—	(42)	—	—	(42)
Balance at September 30, 2018	\$ 164	\$ —	\$ 10	\$ —	\$ 174
Utilized—cash	(61)	—	(6)	—	(67)
Utilized—noncash	—	—	—	(1)	(1)
Transfer to liabilities held for sale	(4)	—	—	—	(4)
Balance at September 30, 2019	\$ 99	\$ —	\$ 4	\$ (1)	\$ 102
Utilized—cash	(5)	—	—	—	(5)
Utilized—noncash	—	—	—	2	2
Adoption of ASC 842 <sup>1</sup>	—	—	(4)	—	(4)
Balance at December 31, 2019	\$ 94	\$ —	\$ —	\$ 1	\$ 95

<sup>1</sup>Represents liability for facility closings recorded as an offset to right-of-use asset upon adoption of ASC 842.

In fiscal 2017, the Company committed to a significant restructuring plan ("2017 Plan") and recorded \$347 million of restructuring and impairment costs for continuing operations in the consolidated statements of income. This was the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related to cost reduction initiatives in the Company's Building Technologies & Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. Of the restructuring and impairment costs recorded, \$166 million related to Corporate, \$74 million related to the Building Solutions EMEA/LA segment, \$59 million related to the Building Solutions North America segment, \$32 million related to the Global Products segment and \$16 million related to the Building Solutions Asia Pacific segment. The restructuring actions are expected to be substantially complete in fiscal 2020.

Additionally, the Company recorded \$20 million of restructuring and impairment costs related to Power Solutions in fiscal 2017. This is reported within discontinued operations.

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The following table summarizes the changes in the Company's 2017 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Currency Translation	Total
Original reserve	\$ 276	\$ 77	\$ 14	\$ —	\$ 367
Utilized—cash	(75)	—	—	—	(75)
Utilized—noncash	—	(77)	(1)	—	(78)
Adjustment to restructuring reserves	25	—	—	—	25
Balance at September 30, 2017	\$ 226	\$ —	\$ 13	\$ —	\$ 239
Utilized—cash	(152)	—	(6)	—	(158)
Utilized—noncash	—	—	—	(1)	(1)
Balance at September 30, 2018	\$ 74	\$ —	\$ 7	\$ (1)	\$ 80
Utilized—cash	(11)	—	(2)	—	(13)
Utilized—noncash	—	—	—	(3)	(3)
Transfer to liabilities held for sale	(3)	—	—	—	(3)
Balance at September 30, 2019	\$ 60	\$ —	\$ 5	\$ (4)	\$ 61
Utilized—cash	(10)	—	—	—	(10)
Adoption of ASC 842 <sup>1</sup>	—	—	(5)	—	(5)
Balance at December 31, 2019	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (4)</u>	<u>\$ 46</u>

<sup>1</sup>Represents liability for facility closings recorded as an offset to right-of-use asset upon adoption of ASC 842.

The Company's fiscal 2020, 2018 and 2017 restructuring plans included workforce reductions of approximately 11,200 employees (9,000 for the Building Technologies & Solutions business and 2,200 for Corporate). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee or on a lump sum basis in accordance with individual severance agreements. As of December 31, 2019, approximately 8,100 of the employees have been separated from the Company pursuant to the restructuring plans. In addition, the restructuring plans included nine plant closures in the Building Technologies & Solutions business. As of December 31, 2019, eight of the nine plants have been closed.

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering and purchasing operations, as well as the overall global footprint for all its businesses.

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**10. Income Taxes**

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The statutory tax rate in Ireland is being used as a comparison since the Company is domiciled in Ireland. For the three months ended December 31, 2019, the Company's effective tax rate for continuing operations was 25% and was higher than the statutory tax rate of 12.5% primarily due to a discrete tax charge related to the remeasurement of deferred tax assets and liabilities as a result of Swiss tax reform and tax rate differentials, partially offset by the benefits of continuing global tax planning initiatives. For the three months ended December 31, 2018, the Company's effective tax rate for continuing operations was 44% and was higher than the statutory tax rate of 12.5% primarily due to valuation allowance adjustments as a result of tax law changes and tax rate differentials, partially offset by the benefits of continuing global tax planning initiatives.

***Valuation Allowance***

The Company reviews the realizability of its deferred tax assets on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

In the first quarter of fiscal 2019, as a result of changes to U.S. tax law, the Company recorded a discrete tax charge of \$76 million related to valuation allowances on certain U.S. deferred tax assets.

***Uncertain Tax Positions***

At September 30, 2019, the Company had gross tax effected unrecognized tax benefits of \$2,451 million, of which \$2,121 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2019 was approximately \$181 million (net of tax benefit). The interest and penalties accrued during the three months ended December 31, 2019 were approximately \$20 million (net of tax benefit). Interest and penalties accrued during the three months ended December 31, 2018 were immaterial. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The Company is currently under exam in the following major jurisdictions for continuing operations:

<u>Tax Jurisdiction</u>	<u>Tax Years Covered</u>
Belgium	2015 - 2018
China	2008 - 2016
Germany	2007 - 2016
Japan	2015 - 2018
Luxembourg	2016
United Kingdom	2012 - 2015

It is reasonably possible that certain tax examinations and/or tax litigation will conclude within the next twelve months, which could have a material impact on tax expense.

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***Impacts of Tax Legislation***

In the first quarter of fiscal 2020, the Company recorded a noncash discrete tax charge of \$30 million due to the remeasurement of deferred tax assets and liabilities related to Switzerland and the canton of Schaffhausen. On September 28, 2018, the Swiss Parliament approved the Federal Act on Tax Reform and AHV Financing ("TRAF"), which was subsequently approved by the Swiss electorate on May 19, 2019. During the fourth quarter of fiscal 2019, the Swiss Federal Council enacted TRAF which becomes effective for the Company on January 1, 2020. The impacts of the federal enactment did not have a material impact to the Company's financial statements. TRAF also provides for parameters which enable the Swiss cantons to adjust tax rates and establish new regulations for companies. As of September 30, 2019, the canton of Schaffhausen had not concluded its public referendum; however, the enactment did occur during the first quarter of fiscal 2020.

During the three months ended December 31, 2019 and 2018, other tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Company's consolidated financial statements.

***Other Tax Matters***

In the first quarter of fiscal 2020, the Company recorded \$111 million of significant restructuring and impairment costs. Refer to Note 9, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The restructuring costs generated a \$16 million tax benefit, which reflects the Company's current tax position in the impacted jurisdictions.

**11. Pension and Postretirement Plans**

The components of the Company's net periodic benefit costs from continuing operations associated with its defined benefit pension and postretirement plans, which are primarily recorded in selling, general and administrative expenses in the consolidated statements of income, are shown in the tables below in accordance with ASC 715, "Compensation – Retirement Benefits" (in millions):

	U.S. Pension Plans	
	Three Months Ended December 31,	
	2019	2018
Interest cost	\$ 18	\$ 25
Expected return on plan assets	(44)	(46)
Net periodic benefit credit	<u>\$ (26)</u>	<u>\$ (21)</u>
	Non-U.S. Pension Plans	
	Three Months Ended December 31,	
	2019	2018
Service cost	\$ 6	\$ 5
Interest cost	9	14
Expected return on plan assets	(27)	(27)
Net periodic benefit credit	<u>\$ (12)</u>	<u>\$ (8)</u>

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	Postretirement Benefits	
	Three Months Ended December 31,	
	2019	2018
Interest cost	\$ 1	\$ 2
Expected return on plan assets	(2)	(2)
Amortization of prior service credit	(1)	—
Net periodic benefit credit	<u>\$ (2)</u>	<u>\$ —</u>

## 12. Debt and Financing Arrangements

### *Net Financing Charges*

The Company's net financing charges line item in the consolidated statements of income for the three months ended December 31, 2019 and 2018 contained the following components (in millions):

	Three Months Ended December 31,	
	2019	2018
Interest expense, net of capitalized interest costs	\$ 62	\$ 91
Banking fees and bond cost amortization	5	6
Interest income	(13)	(7)
Net foreign exchange results for financing activities	(2)	(5)
Net financing charges	<u>\$ 52</u>	<u>\$ 85</u>

In December 2019, the Company entered into a syndicated \$2.5 billion committed revolving credit facility, which is scheduled to expire in December 2024, and a syndicated \$500 million committed revolving credit facility, which is scheduled to expire in December 2020. As of December 31, 2019, there were no draws on the facilities.

In December 2019, the Company terminated its syndicated 5-year \$2 billion committed revolving credit facility and four 364-day revolving credit facilities with total committed capacity of \$750 million.

## 13. Stock-Based Compensation

On September 2, 2016, the shareholders of the Company approved amendments to the Johnson Controls International plc 2012 Share and Incentive Plan (the "Plan"). The types of awards authorized by the Plan comprise of stock options, stock appreciation rights, performance shares, performance units and other stock-based compensation awards. The Compensation Committee of the Company's Board of Directors determines the types of awards to be granted to individual participants and the terms and conditions of the awards. Awards are typically granted annually in the Company's fiscal first quarter. A summary of the stock-based awards granted during the three month periods ended December 31, 2019 and 2018 is presented below:

	Three Months Ended December 31,			
	2019		2018	
	Number Granted	Weighted Average Grant Date Fair Value	Number Granted	Weighted Average Grant Date Fair Value
Stock options	1,302,729	\$ 7.29	1,713,733	\$ 5.56
Restricted stock/units	1,695,130	41.78	2,143,457	33.39
Performance shares	464,234	42.53	574,716	36.28

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## **Stock Options**

Stock options are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Stock option awards typically vest between two and three years after the grant date and expire ten years from the grant date.

The fair value of each option is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. The expected life of options represents the period of time that options granted are expected to be outstanding, assessed separately for executives and non-executives. The risk-free interest rate for periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on the historical volatility of the Company's stock since October 2016 blended with the historical volatility of certain peer companies' stock prior to October 2016 over the most recent period corresponding to the expected life as of the grant date. The expected dividend yield is based on the expected annual dividend as a percentage of the market value of the Company's ordinary shares as of the grant date. The Company uses historical data to estimate option exercises and employee terminations within the valuation model.

	Three Months Ended December 31,	
	2019	2018
Expected life of option (years)	6.5	6.4
Risk-free interest rate	1.67%	2.77%
Expected volatility of the Company's stock	22.4%	21.8%
Expected dividend yield on the Company's stock	2.49%	3.29%

## **Restricted (Nonvested) Stock / Units**

The Plan provides for the award of restricted stock or restricted stock units to certain employees. These awards are typically share settled unless the employee is a non-U.S. employee or elects to defer settlement until retirement at which point the award would be settled in cash. Restricted awards typically vest over a period of three years from the grant date. The Plan allows for different vesting terms on specific grants with approval by the Board of Directors. The fair value of each share-settled restricted award is based on the closing market value of the Company's ordinary shares on the date of grant. The fair value of each cash-settled restricted award is recalculated at the end of each reporting period based on the closing market value of the Company's ordinary shares at the end of the reporting period, and the liability and expense are adjusted based on the new fair value.

## **Performance Share Awards**

The Plan permits the grant of performance-based share unit ("PSU") awards. The PSUs are generally contingent on the achievement of pre-determined performance goals over a performance period of three years as well as on the award holder's continuous employment until the vesting date. The PSUs are also indexed to the achievement of specified levels of total shareholder return versus a peer group over the performance period. Each PSU that is earned will be settled with shares of the Company's ordinary shares following the completion of the performance period, unless the award holder elected to defer a portion or all of the award until retirement which would then be settled in cash.

The fair value of each PSU is estimated on the date of grant with the use of a Monte Carlo simulation that uses the assumptions noted in the following table. The risk-free interest rate for periods during the contractual life of the PSU is based on the U.S. Treasury yield curve in effect at the time of grant. For fiscal 2020, the expected volatility is based on the historical volatility of the Company's stock over the most recent three-year period as of the grant date. For fiscal 2019, the expected volatility is based on the historical volatility of the Company's stock since October 2016 blended with the historical volatility of certain peer companies' stock prior to October 2016 over the most recent three-year period as of the grant date.

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	Three Months Ended December 31,	
	2019	2018
Risk-free interest rate	1.60%	2.76%
Expected volatility of the Company's stock	21.8%	22.9%

#### 14. Earnings Per Share

The Company presents both basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income attributable to Johnson Controls by the weighted average number of ordinary shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income attributable to Johnson Controls by the weighted average number of ordinary shares and ordinary equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock options, unvested restricted stock and unvested performance share awards. The treasury stock method assumes that the Company uses the proceeds from the exercise of stock option awards to repurchase ordinary shares at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future and compensation cost for future service that the Company has not yet recognized. For unvested restricted stock and unvested performance share awards, assumed proceeds under the treasury stock method would include unamortized compensation cost.

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share (in millions):

	Three Months Ended December 31,	
	2019	2018
<b>Income Available to Ordinary Shareholders</b>		
Income from continuing operations	\$ 159	\$ 107
Income from discontinued operations	—	248
Basic and diluted income available to shareholders	<u>\$ 159</u>	<u>\$ 355</u>
<b>Weighted Average Shares Outstanding</b>		
Basic weighted average shares outstanding	769.9	921.6
Effect of dilutive securities:		
Stock options, unvested restricted stock and unvested performance share awards	4.1	3.6
Diluted weighted average shares outstanding	<u>774.0</u>	<u>925.2</u>
<b>Antidilutive Securities</b>		
Options to purchase shares	0.2	2.7

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**15. Equity and Noncontrolling Interests**

Other comprehensive income includes activity relating to discontinued operations. The following schedules present changes in consolidated equity attributable to Johnson Controls and noncontrolling interests (in millions, net of tax):

	Three Months Ended December 31, 2019			Three Months Ended December 31, 2018		
	Equity Attributable to Johnson Controls International plc	Equity Attributable to Noncontrolling Interests	Total Equity	Equity Attributable to Johnson Controls International plc	Equity Attributable to Noncontrolling Interests	Total Equity
Beginning balance, September 30,	\$ 19,766	\$ 1,063	\$ 20,829	\$ 21,164	\$ 1,294	\$ 22,458
Total comprehensive income:						
Net income	159	32	191	355	44	399
Foreign currency translation adjustments	251	10	261	(127)	9	(118)
Realized and unrealized gains on derivatives	5	2	7	1	1	2
Pension and postretirement plans	(1)	—	(1)	—	—	—
Other comprehensive income (loss)	255	12	267	(126)	10	(116)
Comprehensive income	414	44	458	229	54	283
Other changes in equity:						
Cash dividends—ordinary shares	(201)	—	(201)	(240)	—	(240)
Dividends attributable to noncontrolling interests	—	(5)	(5)	—	(43)	(43)
Repurchases and retirements of ordinary shares	(651)	—	(651)	(467)	—	(467)
Adoption of ASC 606	—	—	—	(45)	—	(45)
Adoption of ASU 2016-16	—	—	—	(546)	—	(546)
Adoption of ASC 842	(5)	—	(5)	—	—	—
Other, including options exercised	6	—	6	7	—	7
Ending balance, December 31,	\$ 19,329	\$ 1,102	\$ 20,431	\$ 20,102	\$ 1,305	\$ 21,407

During the quarter ended December 31, 2018, the Company adopted ASC 606, "Revenue from Contracts with Customers." As a result, the Company recorded \$45 million to beginning retained earnings, which relates primarily to deferred revenue recorded for the Power Solutions business for certain battery core returns that represent a material right provided to customers.

During the quarter ended December 31, 2018, the Company adopted ASU 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other Than Inventory." As a result, the Company recognized deferred taxes of \$546 million related to the tax effects of all intra-entity sales of assets other than inventory on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of October 1, 2018.

For the three months ended December 31, 2019, the Company repurchased and retired \$651 million of its ordinary shares. For the three months ended December 31, 2018, the Company repurchased \$467 million of its ordinary shares, which were retired in the fourth quarter of fiscal 2019. As of December 31, 2019, approximately \$3.9 billion remains available under the share repurchase program.



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The following schedules present changes in accumulated other comprehensive income ("AOCI") attributable to Johnson Controls (in millions, net of tax):

	Three Months Ended December 31,	
	2019	2018
<b>Foreign currency translation adjustments ("CTA")</b>		
Balance at beginning of period	\$ (785)	\$ (939)
Aggregate adjustment for the period (net of tax effect of \$0 and \$0)	251	(127)
Balance at end of period	(534)	(1,066)
<b>Realized and unrealized gains (losses) on derivatives</b>		
Balance at beginning of period	(2)	(13)
Current period changes in fair value (net of tax effect of \$2 and \$(2))	5	(4)
Reclassification to income (net of tax effect of \$0 and \$1) *	—	5
Balance at end of period	3	(12)
<b>Realized and unrealized gains (losses) on marketable securities</b>		
Balance at beginning of period	—	8
Adoption of ASU 2016-01**	—	(8)
Balance at end of period	—	—
<b>Pension and postretirement plans</b>		
Balance at beginning of period	(8)	(2)
Reclassification to income (net of tax effect of \$0 and \$0)	(1)	—
Balance at end of period	(9)	(2)
Accumulated other comprehensive loss, end of period	\$ (540)	\$ (1,080)

\* Refer to Note 16, "Derivative Instruments and Hedging Activities," of the notes to consolidated financial statements for disclosure of the line items in the consolidated statements of income affected by reclassifications from AOCI into income related to derivatives.

\*\* During the quarter ended December 31, 2018, the Company adopted ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." As a result, the Company reclassified \$8 million of unrealized gains on marketable securities to retained earnings as of October 1, 2018.

## 16. Derivative Instruments and Hedging Activities

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, stock-based compensation liabilities and interest rates. Under Company policy, the use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for speculative purposes is strictly prohibited. A description of each type of derivative utilized by the Company to manage risk is included in the following paragraphs. In addition, refer to Note 17, "Fair Value Measurements," of the notes to consolidated financial statements for information related to the fair value measurements and valuation methods utilized by the Company for each derivative type.

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*Cash Flow Hedges*

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Company selectively hedges anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange hedge contracts. The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures.

The Company selectively hedges anticipated transactions that are subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Company's purchases of copper and aluminum in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks are systematically managed pursuant to policy guidelines. The maturities of the commodity hedge contracts coincide with the expected purchase of the commodities.

As cash flow hedges under ASC 815, "Derivatives and Hedging," the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates during the three months ended December 31, 2019 and 2018.

The Company had the following outstanding contracts to hedge forecasted commodity purchases (in metric tons):

Commodity	Volume Outstanding as of	
	December 31, 2019	September 30, 2019
Copper	3,447	3,561
Aluminum	2,691	2,967

*Net Investment Hedges*

The Company enters into foreign currency denominated debt obligations to selectively hedge portions of its net investment in non-U.S. subsidiaries. The currency effects of the debt obligations are reflected in the AOCI account within shareholders' equity attributable to Johnson Controls ordinary shareholders where they offset currency gains and losses recorded on the Company's net investments globally. At December 31, 2019 and September 30, 2019, the Company had 888 million euro, 750 million euro, 423 million euro and 54 million euro in bonds designated as net investment hedges in the Company's net investment in Europe and 25 billion yen of foreign denominated debt designated as net investment hedge in the Company's net investment in Japan.

*Derivatives Not Designated as Hedging Instruments*

The Company selectively uses equity swaps to reduce market risk associated with certain of its stock-based compensation plans, such as its deferred compensation plans. These equity compensation liabilities increase as the Company's stock price increases and decrease as the Company's stock price decreases. In contrast, the value of the swap agreement moves in the opposite direction of these liabilities, allowing the Company to fix a portion of the liabilities at a stated amount. As of December 31, 2019, the Company hedged approximately 1.4 million shares of its ordinary shares, which have a cost basis of \$60 million. As of September 30, 2019, the Company hedged approximately 1.4 million shares of its ordinary shares, which have a cost basis of \$60 million.

The Company also holds certain foreign currency forward contracts for which hedge accounting treatment was not elected. The change in fair value of foreign currency exchange derivatives not designated as hedging instruments under ASC 815 are recorded in the consolidated statements of income.

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*Fair Value of Derivative Instruments*

The following table presents the location and fair values of derivative instruments and hedging activities included in the Company's consolidated statements of financial position (in millions):

	Derivatives and Hedging Activities Designated as Hedging Instruments under ASC 815		Derivatives and Hedging Activities Not Designated as Hedging Instruments under ASC 815	
	December 31, 2019	September 30, 2019	December 31, 2019	September 30, 2019
Other current assets				
Foreign currency exchange derivatives	\$ 10	\$ 16	\$ 37	\$ 19
Commodity derivatives	1	—	—	—
Other noncurrent assets				
Equity swap	—	—	58	62
Total assets	<u>\$ 11</u>	<u>\$ 16</u>	<u>\$ 95</u>	<u>\$ 81</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 8	\$ 23	\$ 1	\$ —
Commodity derivatives	—	1	—	—
Long-term debt				
Foreign currency denominated debt	2,602	2,544	—	—
Total liabilities	<u>\$ 2,610</u>	<u>\$ 2,568</u>	<u>\$ 1</u>	<u>\$ —</u>

*Counterparty Credit Risk*

The use of derivative financial instruments exposes the Company to counterparty credit risk. The Company has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. As a matter of practice, the Company deals with major banks worldwide having strong investment grade long-term credit ratings. To further reduce the risk of loss, the Company generally enters into International Swaps and Derivatives Association ("ISDA") master netting agreements with substantially all of its counterparties. The Company enters into ISDA master netting agreements with counterparties that permit the net settlement of amounts owed under the derivative contracts. The master netting agreements generally provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event. The Company has not elected to offset the fair value positions of the derivative contracts recorded in the consolidated statements of financial position.

The Company's derivative contracts do not contain any credit risk related contingent features and do not require collateral or other security to be furnished by the Company or the counterparties. The Company's exposure to credit risk associated with its derivative instruments is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. The Company does not anticipate any non-performance by any of its counterparties, and the concentration of risk with financial institutions does not present significant credit risk to the Company.

The gross and net amounts of derivative assets and liabilities were as follows (in millions):

	Fair Value of Assets		Fair Value of Liabilities	
	December 31, 2019	September 30, 2019	December 31, 2019	September 30, 2019
Gross amount recognized	\$ 106	\$ 97	\$ 2,611	\$ 2,568
Gross amount eligible for offsetting	(7)	(11)	(7)	(11)
Net amount	<u>\$ 99</u>	<u>\$ 86</u>	<u>\$ 2,604</u>	<u>\$ 2,557</u>

*Derivatives Impact on the Statements of Income and Statements of Comprehensive Income*

The following table presents the pre-tax gains (losses) recorded in other comprehensive income (loss) related to cash flow hedges for the three months ended December 31, 2019 and 2018 (in millions):

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Derivatives in ASC 815 Cash Flow Hedging Relationships	Three Months Ended December 31,	
	2019	2018
Foreign currency exchange derivatives	\$ 9	\$ —
Commodity derivatives	1	(6)
Total	<u>\$ 10</u>	<u>\$ (6)</u>

The following table presents the location and amount of the pre-tax gains (losses) on cash flow hedges reclassified from AOCI into the Company's consolidated statements of income for the three months ended December 31, 2019 and 2018 (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from AOCI into Income	Three Months Ended December 31,	
		2019	2018
Foreign currency exchange derivatives	Cost of sales	\$ 1	\$ —
Foreign currency exchange derivatives	Income from discontinued operations	—	1
Commodity derivatives	Cost of sales	(1)	(2)
Commodity derivatives	Income from discontinued operations	—	(5)
Total		<u>\$ —</u>	<u>\$ (6)</u>

The following table presents the location and amount of pre-tax gains (losses) on derivatives not designated as hedging instruments recognized in the Company's consolidated statements of income for the three months ended December 31, 2019 and 2018 (in millions):

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		Three Months Ended December 31,	
		2019	2018
Foreign currency exchange derivatives	Cost of sales	\$ —	\$ (4)
Foreign currency exchange derivatives	Net financing charges	59	(21)
Foreign currency exchange derivatives	Income from discontinued operations	—	26
Equity swap	Selling, general and administrative	(4)	(9)
Total		<u>\$ 55</u>	<u>\$ (8)</u>

The pre-tax gains (losses) on net investment hedges recorded in CTA within other comprehensive income (loss) were \$(58) million and \$34 million for the three months ended December 31, 2019 and 2018, respectively. For the three months ended December 31, 2019 and 2018, no gains or losses were reclassified from CTA into income.

## 17. Fair Value Measurements

ASC 820, "Fair Value Measurement," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

*Level 1:* Observable inputs such as quoted prices in active markets for identical assets or liabilities;

*Level 2:* Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

*Level 3:* Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

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ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

***Recurring Fair Value Measurements***

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2019 and September 30, 2019 (in millions):

Fair Value Measurements Using:				
	Total as of December 31, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 47	\$ —	\$ 47	\$ —
Exchange traded funds (fixed income) <sup>1</sup>	38	38	—	—
Commodity derivatives	1	—	1	—
Other noncurrent assets				
Deferred compensation plan assets	75	75	—	—
Exchange traded funds (fixed income) <sup>1</sup>	119	119	—	—
Exchange traded funds (equity) <sup>1</sup>	125	125	—	—
Equity swap	58	—	58	—
Total assets	<u>\$ 463</u>	<u>\$ 357</u>	<u>\$ 106</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 9	\$ —	\$ 9	\$ —
Total liabilities	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ —</u>

Fair Value Measurements Using:				
	Total as of September 30, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 35	\$ —	\$ 35	\$ —
Exchange traded funds (fixed income) <sup>1</sup>	19	19	—	—
Other noncurrent assets				
Deferred compensation plan assets	71	71	—	—
Exchange traded funds (fixed income) <sup>1</sup>	138	138	—	—
Exchange traded funds (equity) <sup>1</sup>	116	116	—	—
Equity swap	62	—	62	—
Total assets	<u>\$ 441</u>	<u>\$ 344</u>	<u>\$ 97</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 23	\$ —	\$ 23	\$ —
Commodity derivatives	1	—	1	—
Total liabilities	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ 24</u>	<u>\$ —</u>

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<sup>1</sup> Classified as restricted investments for payment of asbestos liabilities. See Note 21, "Commitments and Contingencies," of the notes to consolidated financial statements for further details.

***Valuation Methods***

*Foreign currency exchange derivatives:* The foreign currency exchange derivatives are valued under a market approach using publicized spot and forward prices.

*Commodity derivatives:* The commodity derivatives are valued under a market approach using publicized prices, where available, or dealer quotes.

*Equity swaps:* The equity swaps are valued under a market approach as the fair value of the swaps is equal to the Company's stock price at the reporting period date.

*Deferred compensation plan assets:* Assets held in the deferred compensation plans will be used to pay benefits under certain of the Company's non-qualified deferred compensation plans. The investments primarily consist of mutual funds which are publicly traded on stock exchanges and are valued using a market approach based on the quoted market prices. During the three months ended December 31, 2019 and 2018, the Company recognized unrealized losses of \$3 million and \$9 million, respectively, in the consolidated statements of income on these investments that were still held as of December 31, 2019 and 2018, where they offset unrealized gains and losses on the related deferred compensation plan liability.

*Investments in marketable common stock and exchange traded funds:* Investments in marketable common stock and exchange traded funds are valued using a market approach based on the quoted market prices, where available, or broker/dealer quotes of identical or comparable instruments. During the three months ended December 31, 2019, the Company recognized unrealized gains of \$10 million in the consolidated statements of income on these investments that were still held as of December 31, 2019, all of which related to restricted investments. During the three months ended December 31, 2018, the Company recognized unrealized losses of \$22 million in the consolidated statements of income on these investments that were still held as of December 31, 2018, of which \$21 million related to restricted investments. Refer to Note 21, "Commitments and Contingencies," of the notes to consolidated financial statements for further information.

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. At both December 31, 2019 and September 30, 2019, the fair value of long-term debt was \$7.6 billion, including public debt of \$7.4 billion, which was determined primarily using market quotes classified as Level 1 inputs within the ASC 820 fair value hierarchy and other long-term debt of \$0.2 billion, which was determined based on quoted market prices for similar instruments classified as Level 2 inputs within the ASC 820 fair value hierarchy.

**18. Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including right-of-use assets under operating leases, other tangible assets and intangible assets with definitive lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets," ASC 350-30, "General Intangibles Other than Goodwill" and ASC 985-20, "Costs of software to be sold, leased, or marketed." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset group is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals. ASC 350-30 requires intangible assets acquired in a business combination that are used in research and development activities to be considered indefinite lived until the completion or abandonment of the associated research and development efforts. During the period that those assets are considered indefinite lived, they shall not be amortized but shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. If the carrying amount of an intangible asset exceeds its fair value, an entity shall recognize an impairment loss in an amount equal to that excess. ASC 985-20 requires the unamortized capitalized costs of a computer software product

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be compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset shall be written off.

During the third quarter of fiscal 2019, the Company concluded it had a triggering event requiring assessment of impairment for certain of its long-lived assets in conjunction with the plans to dispose of a business within its Global Products segment that met the criteria to be classified as held for sale. Assets and liabilities held for sale are required to be recorded at the lower of carrying value or fair value less any costs to sell. The Company recorded an initial impairment charge of \$235 million within restructuring and impairment costs in the consolidated statements of income in the third quarter of fiscal 2019 to write down the carrying value of the assets held for sale to fair value less any costs to sell. In the first quarter of fiscal 2020, the Company recorded an additional impairment charge of \$15 million to further write down the carrying value of the assets held for sale to the current fair value less any costs to sell. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

In the first quarter of fiscal 2020, the Company concluded it had a triggering event requiring assessment of impairment for certain of its long-lived assets in conjunction with its restructuring actions announced in fiscal 2020. As a result, the Company reviewed the long-lived assets for impairment and recorded \$39 million of asset impairment charges within restructuring and impairment costs in the consolidated statements of income. Of the total impairment charges, \$33 million related to the Global Products segment and \$6 million related to the Building Solutions North America segment. Refer to Note 9, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairments were measured under a market approach utilizing an appraisal to determine fair values of the impaired assets. This method is consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

At December 31, 2019 and 2018, the Company concluded it did not have any other triggering events requiring assessment of impairment of its long-lived assets.

## **19. Segment Information**

ASC 280, "Segment Reporting," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in ASC 280, the Company has determined that it has four reportable segments for financial reporting purposes.

- Building Solutions North America designs, sells, installs, and services HVAC and controls systems, integrated electronic security systems (including monitoring), and integrated fire detection and suppression systems for commercial, industrial, retail, small business, institutional and governmental customers in North America. Building Solutions North America also provides energy efficiency solutions and technical services, including inspection, scheduled maintenance, and repair and replacement of mechanical and control systems, to non-residential building and industrial applications in the North American marketplace.
- Building Solutions EMEA/LA designs, sells, installs, and services HVAC, controls, refrigeration, integrated electronic security, integrated fire detection and suppression systems, and provides technical services to markets in Europe, the Middle East, Africa and Latin America.
- Building Solutions Asia Pacific designs, sells, installs, and services HVAC, controls, refrigeration, integrated electronic security, integrated fire detection and suppression systems, and provides technical services to the Asia Pacific marketplace.
- Global Products designs and produces heating and air conditioning for residential and commercial applications, and markets products and refrigeration systems to replacement and new construction market customers globally. The Global Products business also designs, manufactures and sells fire protection and security products, including intrusion security, anti-theft devices, and access control and video management systems, for commercial, industrial, retail, residential, small business, institutional and governmental customers worldwide. Global Products also includes the Johnson Controls-Hitachi joint venture.

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Management evaluates the performance of its business segments primarily on segment earnings before interest, taxes and amortization ("EBITA"), which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, restructuring and impairment costs, and the net mark-to-market adjustments related to pension and postretirement plans and restricted asbestos investments.

Financial information relating to the Company's reportable segments is as follows (in millions):

	Net Sales	
	Three Months Ended December 31,	
	2019	2018
Building Solutions North America	\$ 2,167	\$ 2,116
Building Solutions EMEA/LA	928	907
Building Solutions Asia Pacific	629	613
Global Products	1,852	1,828
Total net sales	<u>\$ 5,576</u>	<u>\$ 5,464</u>
	Segment EBITA	
	Three Months Ended December 31,	
	2019	2018
Building Solutions North America	\$ 258	\$ 250
Building Solutions EMEA/LA	90	77
Building Solutions Asia Pacific	72	66
Global Products	203	190
Total segment EBITA	<u>\$ 623</u>	<u>\$ 583</u>
Corporate expenses	\$ (118)	\$ (136)
Amortization of intangible assets	(96)	(97)
Restructuring and impairment costs	(111)	—
Net mark-to-market adjustments	10	(21)
Net financing charges	(52)	(85)
Income from continuing operations before income taxes	<u>\$ 256</u>	<u>\$ 244</u>

## 20. Guarantees

Certain of the Company's subsidiaries at the business segment level have guaranteed the performance of third-parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from the current fiscal year through the completion of such transactions and would typically be triggered in the event of nonperformance. Performance under the guarantees, if required, would not have a material effect on the Company's financial position, results of operations or cash flows.

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates and other known factors. Based on analysis of return rates and other factors, the Company's warranty provisions are



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adjusted as necessary. The Company monitors its warranty activity and adjusts its reserve estimates when it is probable that future warranty costs will be different than those estimates.

The Company's product warranty liability for continuing operations is recorded in the consolidated statements of financial position in deferred revenue or other current liabilities if the warranty is less than one year and in other noncurrent liabilities if the warranty extends longer than one year.

The changes in the carrying amount of the Company's total product warranty liability for continuing operations, including extended warranties for which deferred revenue is recorded, for the three months ended December 31, 2019 and 2018 were as follows (in millions):

	Three Months Ended December 31,	
	2019	2018
Balance at beginning of period	\$ 285	\$ 315
Accruals for warranties issued during the period	23	29
Accruals from acquisition and divestitures	1	—
Accruals related to pre-existing warranties	(2)	(5)
Settlements made (in cash or in kind) during the period	(21)	(30)
Currency translation	1	1
Balance at end of period	<u>\$ 287</u>	<u>\$ 310</u>

## 21. Commitments and Contingencies

### *Environmental Matters*

The Company accrues for potential environmental liabilities when it is probable a liability has been incurred and the amount of the liability is reasonably estimable. As of December 31, 2019, reserves for environmental liabilities for continuing operations totaled \$151 million, of which \$51 million was recorded within other current liabilities and \$100 million was recorded within other noncurrent liabilities in the consolidated statements of financial position. Reserves for environmental liabilities for continuing operations totaled \$159 million at September 30, 2019, of which \$52 million was recorded within other current liabilities and \$107 million was recorded within other noncurrent liabilities in the consolidated statements of financial position.

Tyco Fire Products L.P. ("Tyco Fire Products"), in coordination with the Wisconsin Department of Natural Resources ("WDNR"), has been conducting an environmental assessment of its Fire Technology Center ("FTC") located in Marinette, Wisconsin and surrounding areas in the City of Marinette and Town of Peshtigo, Wisconsin. In connection with the assessment, perfluorooctane sulfonate ("PFOS") and perfluorooctanoic acid ("PFOA") and/or other per- and poly fluorinated substances ("PFAS") have been detected at the FTC and in groundwater and surface water outside of the boundaries of the FTC. Tyco Fire Products continues to investigate the extent of potential migration of these compounds and is working with WDNR to address these issues insofar as they related to this migration.

During the third quarter of 2019, the Company increased its environmental reserves which included \$140 million related to remediation efforts to be undertaken to address contamination relating to fire-fighting foams containing PFAS compounds at or near the FTC, as well as the continued remediation of arsenic and other contaminants at the Tyco Fire Products Stanton Street manufacturing facility also located in Marinette, Wisconsin (the "Stanton Street Facility"). The Company is not able to estimate a possible loss or range of loss in excess of the established accruals at this time.

A substantial portion of the increased reserves relates to remediation resulting from the use of fire-fighting foams containing PFAS at the FTC. The use of fire-fighting foams at the FTC was primarily for training and testing purposes in order to ensure that such products sold by the Company's affiliates, Chemguard, Inc. ("Chemguard") and Tyco Fire Products, were effective at suppressing high intensity fires that may occur at military installations, airports or elsewhere. The reserve was recorded in

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the quarter ended June 30, 2019 following a comprehensive review by independent environmental consultants related to the presence of PFAS at or near the FTC, as well as remediation discussions with the WDNR.

On June 21, 2019, the WDNR announced that it had received from the Wisconsin Department of Health Services ("WDHS") a recommendation for groundwater quality standards as to, among other compounds, PFOA and PFOS. The WDHS recommended a groundwater enforcement standard for PFOA and PFOS of 20 parts per trillion. On August 22, 2019, the Governor of Wisconsin issued an executive order that, among other things, directed the WDNR to create a PFAS Coordinating Council and to work with other Wisconsin agencies (including WDHS) to establish final groundwater quality standards based on the WDHS's prior recommendation.

In July 2019, the Company received a letter from the WDNR directing the expansion of the evaluation of PFAS in the Marinette region to include (1) biosolids sludge produced by the City of Marinette Waste Water Treatment Plant and spread on certain fields in the area and (2) the Menominee and Peshtigo Rivers. Tyco Fire Products voluntarily responded to the WDNR's letter to request additional necessary information. On October 16, 2019, the WDNR issued a "Notice of Noncompliance" to Tyco Fire Products and Johnson Controls, Inc. regarding the WDNR's July 3, 2019 letter. The letter stated that "if you fail to take the actions required by Wis. Stat. § 292.11 to address this contamination, the DNR will move forward under Wis. Stat. § 292.31 to implement the SI workplan and evaluate further environmental enforcement actions and cost recovery under Wis. Stat. § 292.31(8)." The WDNR issued a further letter regarding the issue on November 4, 2019. Tyco Fire Products and Johnson Controls, Inc. believe that they have complied with all applicable environmental laws and regulations. The Company cannot predict what regulatory or enforcement actions, if any, might result from the WDNR's actions, or the consequences of any such actions.

Tyco Fire Products has been engaged in remediation activities at the Stanton Street Facility since 1990. Its corporate predecessor, Ansul Incorporated ("Ansul") manufactured arsenic-based agricultural herbicides at the Stanton Street Facility, which resulted in significant arsenic contamination of soil and groundwater on the site and in parts of the adjoining Menominee River. In 2009, Ansul entered into an Administrative Consent Order (the "Consent Order") with the U.S. Environmental Protection Agency to address the presence of arsenic at the site. Under this agreement, Tyco Fire Products' principal obligations are to contain the arsenic contamination on the site, pump and treat on-site groundwater, dredge, treat and properly dispose of contaminated sediments in the adjoining river areas, and monitor contamination levels on an ongoing basis. Activities completed under the Consent Order since 2009 include the installation of a subsurface barrier wall around the facility to contain contaminated groundwater, the installation of a groundwater extraction and treatment system and the dredging and offsite disposal of treated river sediment. The increase in the reserve related to the Stanton Street Facility was recorded following a further review of the Consent Order, which resulted in the identification of several structural upgrades needed to preserve the effectiveness of prior remediation efforts.

Potential environmental liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. It is possible that technological, regulatory or enforcement developments, the results of additional environmental studies or other factors could change the Company's expectations with respect to future charges and cash outlays, and such changes could be material to the Company's future results of operations, financial condition or cash flows. Nevertheless, the Company does not currently believe that any claims, penalties or costs in addition to the amounts accrued will have a material adverse effect on the Company's financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities. At December 31, 2019 and September 30, 2019, the Company recorded conditional asset retirement obligations for continuing operations of \$31 million and \$30 million, respectively.

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*Asbestos Matters*

The Company and certain of its subsidiaries, along with numerous other third parties, are named as defendants in personal injury lawsuits based on alleged exposure to asbestos containing materials. These cases have typically involved product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were used with asbestos containing components.

As of December 31, 2019, the Company's estimated asbestos related net liability recorded on a discounted basis within the Company's consolidated statements of financial position was \$132 million. The net liability within the consolidated statements of financial position was comprised of a liability for pending and future claims and related defense costs of \$502 million, of which \$50 million was recorded in other current liabilities and \$452 million was recorded in other noncurrent liabilities. The Company also maintained separate cash, investments and receivables related to insurance recoveries within the consolidated statements of financial position of \$370 million, of which \$42 million was recorded in other current assets, and \$328 million was recorded in other noncurrent assets. Assets included \$12 million of cash and \$282 million of investments, which have all been designated as restricted. In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable; the amount of such recoveries recorded at December 31, 2019 was \$76 million. As of September 30, 2019, the Company's estimated asbestos related net liability recorded on a discounted basis within the Company's consolidated statements of financial position was \$141 million. The net liability within the consolidated statements of financial position was comprised of a liability for pending and future claims and related defense costs of \$507 million, of which \$50 million was recorded in other current liabilities and \$457 million was recorded in other noncurrent liabilities. The Company also maintained separate cash, investments and receivables related to insurance recoveries within the consolidated statements of financial position of \$366 million, of which \$46 million was recorded in other current assets, and \$320 million was recorded in other noncurrent assets. Assets included \$16 million of cash and \$273 million of investments, which have all been designated as restricted. In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable; the amount of such recoveries recorded at September 30, 2019 was \$77 million.

The Company's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Company's historical claim experience, and estimates of the number and resolution cost of potential future claims that may be filed and is discounted to present value from 2068 (which is the Company's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Company affiliates). Asbestos related defense costs are included in the asbestos liability. The Company's legal strategy for resolving claims also impacts these estimates. The Company considers various trends and developments in evaluating the period of time (the look-back period) over which historical claim and settlement experience is used to estimate and value claims reasonably projected to be made through 2068. At least annually, the Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company also evaluates the recoverability of its insurance receivable on an annual basis. The Company evaluates all of these factors and determines whether a change in the estimate of its liability for pending and future claims and defense costs or insurance receivable is warranted.

The amounts recorded by the Company for asbestos-related liabilities and insurance-related assets are based on the Company's strategies for resolving its asbestos claims, currently available information, and a number of estimates and assumptions. Key variables and assumptions include the number and type of new claims that are filed each year, the average cost of resolution of claims, the identity of defendants, the resolution of coverage issues with insurance carriers, amount of insurance, and the solvency risk with respect to the Company's insurance carriers. Many of these factors are closely linked, such that a change in one variable or assumption will impact one or more of the others, and no single variable or assumption predominately influences the determination of the Company's asbestos-related liabilities and insurance-related assets. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the later portion of the projection period. Other factors that may affect the Company's liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be

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significantly higher or lower than those recorded if assumptions used in the Company's calculations vary significantly from actual results.

*Insurable Liabilities*

The Company records liabilities for its workers' compensation, product, general, and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. At December 31, 2019 and September 30, 2019, the insurable liabilities totaled \$378 million and \$379 million, respectively, of which \$101 million and \$99 million was recorded within other current liabilities, \$22 million and \$22 million was recorded within accrued compensation and benefits, and \$255 million and \$258 million was recorded within other noncurrent liabilities in the consolidated statements of financial position, respectively. The Company records receivables from third party insurers when recovery has been determined to be probable. The amount of such receivables recorded at December 31, 2019 were \$23 million, of which \$5 million was recorded within other current assets and \$18 million was recorded within other noncurrent assets, respectively. The amount of such receivables recorded at September 30, 2019 were \$23 million, of which \$5 million was recorded within other current assets and \$18 million was recorded within other noncurrent assets, respectively. The Company maintains captive insurance companies to manage its insurable liabilities.

*Aqueous Film-Forming Foam ("AFFF") Litigation*

Two of our subsidiaries, Chemguard and Tyco Fire Products, have been named, along with other defendant manufacturers, in a number of class action and other lawsuits relating to the use of fire-fighting foam products by the U.S. Department of Defense (the "DOD") and others for fire suppression purposes and related training exercises. Plaintiffs generally allege that the firefighting foam products manufactured by defendants contain or break down into the chemicals PFOS and PFOA and/or other PFAS compounds and that the use of these products by others at various airbases, airports and other sites resulted in the release of these chemicals into the environment and ultimately into communities' drinking water supplies neighboring those airports, airbases and other sites. PFOA, PFOS, and other PFAS compounds are being studied by the United States Environmental Protection Agency ("EPA") and other environmental and health agencies and researchers. The EPA has not issued binding regulatory limits, but has stated that it would propose regulatory standards for PFOS and PFOA in drinking water by the end of 2019, in accordance with its PFAS Action Plan released in February 2019, and issued interim recommendations for addressing PFOA and PFOS in groundwater in December 2019. While those studies continue, the EPA has issued a health advisory level for PFOA and PFOS in drinking water. Both PFOA and PFOS are types of synthetic chemical compounds that have been present in firefighting foam. However, both are also present in many existing consumer products. According to EPA, PFOA and PFOS have been used to make carpets, clothing, fabrics for furniture, paper packaging for food and other materials (e.g., cookware) that are resistant to water, grease or stains.

Plaintiffs generally seek compensatory damages, including damages for alleged personal injuries, medical monitoring, diminution in property values, investigation and remediation costs, and natural resources damages, and also seek punitive damages and injunctive relief to address remediation of the alleged contamination.

In September 2018, Tyco Fire Products and Chemguard filed a Petition for Multidistrict Litigation with the United States Judicial Panel on Multidistrict Litigation ("JPML") seeking to consolidate all existing and future federal cases into one jurisdiction. On December 7, 2018, the JPML issued an order transferring various AFFF cases to a multi-district litigation ("MDL") before the United States District Court for the District of South Carolina. Additional cases have been identified for transfer to the MDL.

*AFFF Putative Class Actions*

Chemguard and Tyco Fire Products are named in 24 putative class actions in federal and state courts in Colorado, Delaware, Florida, Massachusetts, New York, Pennsylvania, Washington New Hampshire, Guam, and Michigan. Each of these cases has been transferred to the MDL. The following putative class actions were filed since the beginning of fiscal year 2020:

- *Aguon et al. v. The 3M Company et al.*, filed October 3, 2019, in the United States District Court, District of Guam.

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*AFFF Individual or Mass Actions*

There are approximately 152 individual or “mass” actions pending in federal court in Colorado (41 cases), New York (4 cases), Pennsylvania (11 cases), New Mexico (2 cases) and South Carolina (94 cases) against Chemguard and Tyco Fire Products and other defendants in which the plaintiffs generally seek compensatory damages, including damages for alleged personal injuries, medical monitoring, and alleged diminution in property values. The cases involve approximately 7,000 plaintiffs in Colorado, approximately 126 plaintiffs in New York, 15 plaintiffs in Pennsylvania, two plaintiffs in New Mexico, and approximately 100 plaintiffs from various states who direct-filed complaints in South Carolina. These matters have been transferred to or directly-filed in the MDL. The Company is also on notice of approximately 660 other possible individual product liability claims by filings made in Pennsylvania state court, but complaints have not been filed in those matters in Pennsylvania. Some of the individuals who filed claims in Pennsylvania state court filed individual complaints in the MDL in South Carolina (and dismissed their claims in Pennsylvania state court), and the Company anticipates that the rest will soon be filed in the MDL.

*AFFF Municipal Cases*

Chemguard and Tyco Fire Products are also defendants in 37 cases in federal and state courts involving municipal or water provider plaintiffs in Alaska, Arizona, California, Colorado, Florida, Massachusetts, New Jersey, New York, Maryland, Ohio, Pennsylvania, and South Carolina. These municipal plaintiffs generally allege that the use of the defendants’ fire-fighting foam products at fire training academies, municipal airports, Air National Guard bases, or Navy or Air Force bases released PFOS and PFOA into public water supply wells, allegedly requiring remediation of public property. All of these cases but one have been transferred to the MDL. The following municipal actions were filed since the beginning of fiscal year 2020:

- *California Water Service Co. v. The 3M Company et al.*, direct-filed on October 14, 2019 in the MDL pending in the United States District Court, District of South Carolina.
- *Town of Ayer v. The 3M Company et al.*, direct-filed on November 4, 2019 in the MDL pending in the United States District Court, District of South Carolina.
- *Town of Maysville v. The 3M Company et al.*, direct-filed on December 10, 2019 in the MDL pending in the United States District Court, District of South Carolina.
- *Town of Grantsville v. The 3M Company et al.*, filed November 26, 2019, in the United States District Court, District of Maryland.
- *Town of Mountain Lake Park v. The 3M Company et al.*, filed November 26, 2019, in the United States District Court, District of Maryland.
- *Sanford Airport Authority v. The 3M Company et al.*, filed November 19, 2019, in circuit court in Seminole County, Florida, and removed to the United States District Court, Middle District of Florida. It has been tagged for transfer to the MDL pending in the United States District Court, District of South Carolina.
- *South Adams County Water & Sanitation District v. The 3M Company et al.*, filed December 20, 2019, in the MDL pending in the United States District Court, District of South Carolina.
- *Town of Southampton v. The 3M Company et al.*, filed December 17, 2019, in the MDL pending in the United States District Court, District of South Carolina.

In May 2018, the Company was also notified by the Widefield Water and Sanitation District in Colorado Springs, Colorado that it may assert claims regarding its remediation costs in connection with PFOS and PFOA contamination allegedly resulting from the use of those products at the Peterson Air Force Base.

*State Attorneys General Litigation related to AFFF*

In June 2018, the State of New York filed a lawsuit in New York state court (State of New York v. The 3M Company et al., No. 904029-18 (N.Y. Sup. Ct., Albany County)) against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at locations across New York, including Stewart Air National Guard Base in Newburgh and Gabreski Air National Guard Base in Southampton, Plattsburgh Air Force Base in Plattsburgh, Griffiss Air Force Base in Rome, and unspecified “other” sites throughout the State. The lawsuit seeks to recover costs and natural resource damages associated with contamination at these sites. This suit has been removed to the United States District Court for the Northern District of New York and transferred to the MDL.

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In February 2019, the State of New York filed a second lawsuit in New York state court (*State of New York v. The 3M Company et al.*, (N.Y. Sup. Ct., Albany County)), against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at additional locations across New York. This suit has been removed to the United States District Court for the Northern District of New York and transferred to the MDL. In July 2019, the State of New York filed a third lawsuit in New York state court (*State of New York v. The 3M Company et al.*, (N.Y. Sup. Ct., Albany County)), against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at further additional locations across New York. This suit has been removed to the United States District Court for the Northern District of New York and transferred to the MDL. In November 2019, the State of New York filed a fourth lawsuit in New York state court (*State of New York v. The 3M Company et al.*, (N.Y. Sup. Ct., Albany County)), against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at further additional locations across New York. This suit has been removed to federal court and transferred to the MDL.

In January 2019, the State of Ohio filed a lawsuit in Ohio state court (*State of Ohio v. The 3M Company et al.*, No. G-4801-CI-021804752 -000 (Court of Common Pleas of Lucas County, Ohio)) against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various specified and unspecified locations across Ohio. The lawsuit seeks to recover costs and natural resource damages associated with the contamination. This lawsuit has been removed to the United States District Court for the Northern District of Ohio and transferred to the MDL.

In addition, in May and June 2019, three other states filed lawsuits in their respective state courts against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various specified and unspecified locations across their jurisdictions (*State of New Hampshire v. The 3M Company et al.*; *State of Vermont v. The 3M Company et al.*; *State of New Jersey v. The 3M Company et al.*). All three of these suits have been removed to federal court and transferred to the MDL.

In September 2019, the government of Guam filed a lawsuit in the superior court of Guam against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various locations within its jurisdiction. This complaint has been removed to federal court and transferred to the MDL.

In November 2019, the government of the Commonwealth of the Northern Mariana Islands filed a lawsuit in the superior court of the Northern Mariana Islands against a number of manufacturers, including affiliates of the Group, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various locations within its jurisdiction. This complaint has been removed to federal court and tagged for transfer to the MDL.

*AFFF Matters Related to the Tyco Fire Products Fire Technology Center in Marinette, Wisconsin*

Tyco Fire Products and Chemguard are defendants in one lawsuit in Marinette County, Wisconsin alleging damages due to the historical use of AFFF products at Tyco's Fire Technology Center in Marinette, Wisconsin. The putative class action, *Joan & Richard Campbell for themselves and on behalf of other similarly situated v. Tyco Fire Products LP and Chemguard Inc., et al.* (Marinette County Circuit Court, filed Dec. 17, 2018) alleges PFAS (including PFOA/PFOS) contaminated groundwater migrated off Tyco's property and into residential drinking water wells causing both personal injuries and property damage to the plaintiffs; Tyco and Chemguard removed this case to the United States District Court for the Eastern District of Wisconsin and it has been transferred to the MDL. A second lawsuit, *Duane and Janell Goldsmith individually and on behalf of H.G. and K.G v. Tyco Fire Products LP and Chemguard Inc., et al.* (Marinette County Circuit Court, filed Dec. 17, 2018) was also filed by a family alleging personal injuries due to contaminated groundwater; this case has been dismissed without prejudice.

The Company is vigorously defending the above AFFF matters and believes that it has meritorious defenses to class certification and the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure, if any, represented by these matters, but

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there can be no assurance that any such exposure will not be material. The Company is also pursuing insurance coverage for these matters.

*Bosch Litigation*

On March 15, 2019, a German subsidiary of the Company received a complaint from Robert Bosch GmbH (“Bosch”), filed in a German court. The complaint relates to an automotive starter batteries joint venture in which the Company and Bosch were 80/20 parties to this joint venture. At the time the complaint was filed, JCI’s ownership interest in the joint venture was to be transferred to entities controlled by the Purchaser upon consummation of the previously announced sale of the Company’s Power Solutions business.

The complaint alleged that certain internal Company reorganization transactions were not in compliance with the arrangements relating to such joint venture. The complaint sought a declaration that such internal reorganization transactions are void or, in the alternative, a declaration of damages that represent an alleged difference between (i) the value ascribed to the joint venture interests in connection with the Power Solutions sale and (ii) the value that was assigned to those interests in connection with such internal reorganization transactions.

On August 8, 2019, Bosch entered into an agreement with Purchaser pursuant to which Purchaser would purchase Bosch’s interest in the joint venture. Simultaneously with this agreement, the Company and Bosch executed an agreement to dismiss the proceedings between the parties upon the completion of Purchaser’s acquisition of Bosch’s interest. In the first quarter of fiscal 2020, following the completion of Purchaser’s acquisition of Bosch’s interest in the joint venture, the Company and Bosch made filings with the German court terminating the litigation.

Pursuant to the Company’s obligations to Purchaser in connection with the divestiture of the Company’s Power Solutions business, the Company reimbursed Purchaser a portion of its costs in connection with its acquisition of Bosch’s interests in the joint venture, which is reflected as a cash outflow for discontinued operations.

*Other Matters*

The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses, including those pertaining to product liability, environmental, safety and health, intellectual property, employment, commercial and contractual matters, and various other casualty matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, it is management’s opinion that none of these will have a material adverse effect on the Company’s financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

## **22. Related Party Transactions**

In the ordinary course of business, the Company enters into transactions with related parties, such as equity affiliates. Such transactions consist of facility management services, the sale or purchase of goods and other arrangements.

The net sales to and purchases from related parties included in the consolidated statements of income for continuing operations were \$45 million and \$12 million, respectively, for the three months ended December 31, 2019; and \$43 million and \$14 million, respectively, for the three months ended December 31, 2018.

The following table sets forth the amount of accounts receivable due from and payable to related parties in the consolidated statements of financial position for continuing operations (in millions):

	December 31, 2019	September 30, 2019
Receivable from related parties	\$ 29	\$ 34
Payable to related parties	6	6

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

### Cautionary Statements for Forward-Looking Information

Unless otherwise indicated, references to "Johnson Controls," the "Company," "we," "our" and "us" in this Quarterly Report on Form 10-Q refer to Johnson Controls International plc and its consolidated subsidiaries.

The Company has made statements in this document that are forward-looking and therefore are subject to risks and uncertainties. All statements in this document other than statements of historical fact are, or could be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In this document, statements regarding Johnson Controls' future financial position, sales, costs, earnings, cash flows, other measures of results of operations, synergies and integration opportunities, capital expenditures and debt levels are forward-looking statements. Words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "forecast," "project" or "plan" and terms of similar meaning are also generally intended to identify forward-looking statements. However, the absence of these words does not mean that a statement is not forward-looking. Johnson Controls cautions that these statements are subject to numerous important risks, uncertainties, assumptions and other factors, some of which are beyond Johnson Controls' control, that could cause Johnson Controls' actual results to differ materially from those expressed or implied by such forward-looking statements, including, among others, risks related to: any delay or inability of Johnson Controls to realize the expected benefits and synergies of recent portfolio transactions such as the merger with Tyco and the disposition of the Power Solutions business, changes in tax laws (including but not limited to the Tax Cuts and Jobs Act enacted in December 2017), regulations, rates, policies or interpretations, the loss of key senior management, the tax treatment of recent portfolio transactions, significant transaction costs and/or unknown liabilities associated with such transactions, the outcome of actual or potential litigation relating to such transactions, the risk that disruptions from recent transactions will harm Johnson Controls' business, the strength of the U.S. or other economies, changes to laws or policies governing foreign trade, including increased tariffs or trade restrictions, energy and commodity prices, the availability of raw materials and component products, currency exchange rates, maintaining the capacity, reliability and security of our information technology infrastructure, the risk of infringement or expiration of intellectual property rights, work stoppages, union negotiations, labor disputes and other matters associated with the labor force, the outcome of litigation and governmental proceedings and cancellation of or changes to commercial arrangements. A detailed discussion of risks related to Johnson Controls' business is included in the section entitled "Risk Factors" in Johnson Controls' Annual Report on Form 10-K for the year ended September 30, 2019 filed with the United States Securities and Exchange Commission ("SEC") on November 21, 2019, which is available at [www.sec.gov](http://www.sec.gov) and [www.johnsoncontrols.com](http://www.johnsoncontrols.com) under the "Investors" tab. The forward-looking statements included in this document are made only as of the date of this document, unless otherwise specified, and, except as required by law, Johnson Controls assumes no obligation, and disclaims any obligation, to update such statements to reflect events or circumstances occurring after the date of this document.

### Overview

Johnson Controls International plc, headquartered in Cork, Ireland, is a global diversified technology and multi industrial leader serving a wide range of customers in more than 150 countries. The Company creates intelligent buildings, efficient energy solutions and integrated infrastructure that work seamlessly together to deliver on the promise of smart cities and communities. The Company is committed to helping its customers win and creating greater value for all of its stakeholders through its strategic focus on buildings.

Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company to manufacture, install and service automatic temperature regulation systems for buildings. The Company was renamed to Johnson Controls, Inc. in 1974. In 2005, the Company acquired York International, a global supplier of heating, ventilating, air-conditioning ("HVAC") and refrigeration equipment and services. In 2014, the Company acquired Air Distribution Technologies, Inc., one of the largest independent providers of air distribution and ventilation products in North America. In 2015, the Company formed a joint venture with Hitachi to expand its building related product offerings. In 2016, Johnson Controls, Inc. and Tyco completed their combination (the "Merger"). Following the Merger, Tyco changed its name to "Johnson Controls International plc."

On November 13, 2018, the Company entered into a Stock and Asset Purchase Agreement ("Purchase Agreement") with BCP Acquisitions LLC ("Purchaser"). The Purchaser is a newly-formed entity controlled by investment funds managed by Brookfield Capital Partners LLC. Pursuant to the Purchase Agreement, on the terms and subject to the conditions therein, the Company agreed to sell, and Purchaser agreed to acquire, the Company's Power Solutions business for a purchase price of \$13.2 billion. The transaction closed on April 30, 2019 with net cash proceeds of \$11.6 billion after tax and transaction-related expenses.



During the first quarter of fiscal 2019, the Company determined that its Power Solutions business met the criteria to be classified as a discontinued operation and, as a result, Power Solutions' historical financial results are reflected in the Company's consolidated financial statements as a discontinued operation, and its assets and liabilities were retrospectively reclassified as assets and liabilities held for sale.

The Company is a global market leader in engineering, developing, manufacturing and installing building products and systems around the world, including HVAC equipment, HVAC controls, energy-management systems, security systems, fire detection systems and fire suppression solutions. The Company further serves customers by providing technical services (in the HVAC, security and fire-protection space), energy-management consulting and data-driven solutions via its data-enabled business. Finally, the Company has a strong presence in the North American residential air conditioning and heating systems market and is a global market leader in industrial refrigeration products.

The following information should be read in conjunction with the September 30, 2019 consolidated financial statements and notes thereto, along with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended September 30, 2019 filed with the SEC on November 21, 2019. References in the following discussion and analysis to "Three Months" (or similar language) refer to the three months ended December 31, 2019 compared to the three months ended December 31, 2018.

### Net Sales

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Net sales	\$ 5,576	\$ 5,464	2%

The increase in consolidated net sales was due to higher organic sales (\$138 million) and acquisitions (\$8 million), partially offset by the unfavorable impact of foreign currency translation (\$27 million) and lower sales due to business divestitures (\$7 million). Excluding the impact of foreign currency translation and business acquisitions and divestitures, consolidated net sales increased 3% as compared to the prior year, with organic sales growth in all segments. Refer to the "Segment Analysis" below within this Item 2 for a discussion of net sales by segment.

### Cost of Sales / Gross Profit

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Cost of sales	\$ 3,773	\$ 3,739	1%
Gross profit	1,803	1,725	5%
% of sales	32.3%	31.6%	

Cost of sales, gross profit and gross profit as a percentage of sales increased. Gross profit increased due to organic sales growth across all segments, partially offset by business divestitures. Foreign currency translation had a favorable impact on cost of sales of approximately \$17 million. Refer to the "Segment Analysis" below within this Item 2 for a discussion of segment earnings before interest, taxes and amortization ("EBITA") by segment.

### Selling, General and Administrative Expenses

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Selling, general and administrative expenses	\$ 1,427	\$ 1,438	-1%
% of sales	25.6%	26.3%	

Selling, general and administrative expenses ("SG&A") decreased \$11 million, and SG&A as a percentage of sales decreased by 70 basis points. The decrease in SG&A was primarily due to favorable year-over-year impact of net mark-to-market adjustments on restricted asbestos investments. Foreign currency translation had a favorable impact on SG&A of \$7 million. Refer to the "Segment Analysis" below within this Item 2 for a discussion of segment EBITA by segment.

### Restructuring and Impairment Costs

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Restructuring and impairment costs	\$ 111	\$ —	*

\* Measure not meaningful

Refer to Note 9, "Significant Restructuring and Impairment Costs," and Note 18, "Impairment of Long-Lived Assets," of the notes to consolidated financial statements for further disclosure related to the Company's restructuring plans and impairment costs.

### Net Financing Charges

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Net financing charges	\$ 52	\$ 85	-39%

Refer to Note 12, "Debt and Financing Arrangements," of the notes to consolidated financial statements for further disclosure related to the Company's net financing charges.

### Equity Income

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Equity income	\$ 43	\$ 42	2%

The increase in equity income was primarily due to higher income at a certain partially-owned affiliate of the Johnson Controls - Hitachi joint venture. Foreign currency translation had an unfavorable impact on equity income of \$1 million. Refer to the "Segment Analysis" below within this Item 2 for a discussion of segment EBITA by segment.

### Income Tax Provision

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Income tax provision	\$ 65	\$ 108	-40%
Effective tax rate	25%	44%	

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The statutory tax rate in Ireland is being used as a comparison since the Company is domiciled in Ireland. For the three months ended December 31, 2019, the Company's effective tax rate for continuing operations was 25% and was higher than the statutory tax rate of 12.5% primarily due to a discrete tax charge related to the remeasurement of deferred tax assets and liabilities as a result of Swiss tax reform and tax rate differentials, partially offset by the benefits of continuing global tax planning initiatives. For the three months ended December 31, 2018, the Company's effective tax rate for continuing operations was 44% and was higher than the statutory tax rate of 12.5% primarily due to valuation allowance adjustments as a result of tax law changes and tax rate differentials, partially offset by the benefits of continuing global tax planning initiatives. The effective tax rate for the three months ended December 31, 2019 decreased as compared to the three months ended December 31, 2018 primarily due to the discrete tax items. Refer to Note 10, "Income Taxes," of the notes to consolidated financial statements for further details.

### Income From Discontinued Operations, Net of Tax

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Income from discontinued operations, net of tax	\$ —	\$ 263	*

\* Measure not meaningful

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Company's discontinued operations.

### Income Attributable to Noncontrolling Interests

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Income from continuing operations attributable to noncontrolling interests	\$ 32	\$ 29	10%
Income from discontinued operations attributable to noncontrolling interests	—	15	*

\* Measure not meaningful

The increase in income from continuing operations attributable to noncontrolling interests was primarily due to higher net income at certain partially-owned affiliates within the Global Products segment.

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Company's discontinued operations.

### Net Income Attributable to Johnson Controls

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Net income attributable to Johnson Controls	\$ 159	\$ 355	-55%

The decrease in net income attributable to Johnson Controls was primarily due to the prior year income from discontinued operations and current year restructuring and impairment charges, partially offset by higher gross profit, lower income tax provision and lower net financing charges.

Diluted earnings per share attributable to Johnson Controls for the three months ended December 31, 2019 was \$0.21 compared to \$0.38 for the three months ended December 31, 2018.

## Comprehensive Income Attributable to Johnson Controls

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Comprehensive income attributable to Johnson Controls	\$ 414	\$ 229	81%

The increase in comprehensive income attributable to Johnson Controls was due an increase in other comprehensive income attributable to Johnson Controls (\$381 million) resulting primarily from favorable currency translation adjustments, partially offset by lower net income attributable to Johnson Controls (\$196 million). The year-over-year favorable foreign currency translation adjustments were primarily driven by the strengthening of the British pound and euro currencies against the U.S. dollar in the current year.

## Segment Analysis

Management evaluates the performance of its business units based primarily on segment EBITA, which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, restructuring and impairment costs, and net mark-to-market adjustments related to pension and postretirement plans and restricted asbestos investments.

## Net Sales

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Building Solutions North America	\$ 2,167	\$ 2,116	2%
Building Solutions EMEA/LA	928	907	2%
Building Solutions Asia Pacific	629	613	3%
Global Products	1,852	1,828	1%
	<u>\$ 5,576</u>	<u>\$ 5,464</u>	<u>2%</u>

- The increase in Building Solutions North America was primarily attributable to higher installation / service sales (\$51 million).
- The increase in Building Solutions EMEA/LA was primarily attributable to higher installation sales (\$45 million) and incremental sales related to business acquisitions (\$5 million), partially offset by the unfavorable impact of foreign currency translation (\$25 million) and lower volumes due to business divestitures (\$4 million).
- The increase in Building Solutions Asia Pacific was primarily attributable to higher installation sales (\$19 million) and incremental sales related to business acquisitions (\$2 million), partially offset by the unfavorable impact of foreign currency translation (\$5 million).
- The increase in Global Products was primarily attributable to higher building management and specialty products sales (\$23 million), the favorable impact of foreign currency translation (\$3 million) and incremental sales related to business acquisitions (\$1 million), partially offset by lower volumes due to business divestitures (\$3 million).

## Segment EBITA

(in millions)	Three Months Ended December 31,		Change
	2019	2018	
Building Solutions North America	\$ 258	\$ 250	3%
Building Solutions EMEA/LA	90	77	17%
Building Solutions Asia Pacific	72	66	9%
Global Products	203	190	7%
	<u>\$ 623</u>	<u>\$ 583</u>	<u>7%</u>

- The increase in Building Solutions North America was due to favorable volumes (\$12 million) and prior year integration costs (\$3 million), partially offset by unfavorable mix, net of productivity savings (\$6 million) and current year integration costs (\$1 million).
- The increase in Building Solutions EMEA/LA was due to favorable volumes (\$9 million), lower SG&A and operating expenses (\$7 million), and higher income due to business acquisitions (\$1 million), partially offset by the unfavorable impact of foreign currency translation (\$3 million) and lower income due to business divestitures (\$1 million).
- The increase in Building Solutions Asia Pacific was due to favorable volumes and productivity savings (\$5 million) and higher income due to business acquisitions (\$1 million).
- The increase in Global Products was due to productivity savings and net favorable price / cost (\$10 million), prior year integration costs (\$4 million) and higher equity income (\$2 million), partially offset by current year integration costs (\$1 million), the unfavorable impact of foreign currency translation (\$1 million) and lower income due to business acquisitions (\$1 million).

## Backlog

The Company's backlog relating to the Building Technologies & Solutions business is applicable to its sales of systems and services. At December 31, 2019, the backlog was \$9.3 billion, of which \$9.0 billion is attributable to the field business. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the upcoming fiscal year.

In the first quarter of fiscal 2019, the Company adopted ASC 606, "Revenue from Contracts with Customers," and as a result is required to disclose remaining performance obligations. At December 31, 2019, remaining performance obligations were \$14.7 billion, which is \$5.4 billion higher than the Company's backlog of \$9.3 billion. Differences between the Company's remaining performance obligations and backlog are primarily due to:

- Remaining performance obligations include large, multi-purpose contracts to construct hospitals, schools and other governmental buildings, which are services to be performed over the building's lifetime with initial contract terms of 25 to 35 years for the entire term of the contract versus backlog which includes only the lifecycle period of these contracts which approximates five years;
- The Company has elected to exclude from remaining performance obligations certain contracts with customers with a term of one year or less or contracts that are cancelable without substantial penalty while these contracts are included within backlog; and
- Remaining performance obligations include the full remaining term of service contracts with substantial termination penalties versus backlog which includes one year for all outstanding service contracts.

The Company will continue to report backlog as it believes it is a useful measure of evaluating the Company's operational performance and relationship to total orders.

## Liquidity and Capital Resources

### Working Capital

(in millions)	December 31, 2019	September 30, 2019	Change
Current assets	\$ 11,320	\$ 12,393	
Current liabilities	(9,692)	(9,070)	
	1,628	3,323	-51%
Less: Cash	(2,160)	(2,805)	
Add: Short-term debt	20	10	
Add: Current portion of long-term debt	1,342	501	
Less: Assets held for sale	(87)	(98)	
Add: Liabilities held for sale	44	44	
Working capital (as defined)	\$ 787	\$ 975	-19%
Accounts receivable - net	\$ 5,612	\$ 5,770	-3%
Inventories	1,953	1,814	8%
Accounts payable	3,336	3,582	-7%

- The Company defines working capital as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt, and the current portions of assets and liabilities held for sale. Management believes that this measure of working capital, which excludes financing-related items and businesses to be divested, provides a more useful measurement of the Company's operating performance.
- The decrease in working capital at December 31, 2019 as compared to September 30, 2019, was primarily due to lower income tax assets and the establishment of an operating lease liability on the balance sheet in the first quarter of fiscal 2020 as a result of the adoption of ASC 842, partially offset by a decrease in accounts payable due to timing of supplier payments and other current liabilities.
- The Company's days sales in accounts receivable at December 31, 2019 and September 30, 2019 were 72 days and 67 days, respectively. There has been no significant adverse changes in the level of overdue receivables or significant changes in revenue recognition methods.
- The Company's inventory turns for the three months ended December 31, 2019 were lower than the comparable period ended September 30, 2019, primarily due to changes in inventory production levels.
- Days in accounts payable at December 31, 2019 were 76 days, higher than 72 days at the comparable period ended September 30, 2019.

## Cash Flows From Continuing Operations

(in millions)	Three Months Ended December 31,	
	2019	2018
Cash provided (used) by operating activities	\$ 511	\$ (79)
Cash used by investing activities	(173)	(136)
Cash provided (used) by financing activities	(850)	256

- The increase in cash provided by operating activities was primarily due to income tax refunds and favorable changes in accounts receivable and inventory, partially offset by unfavorable changes in accounts payable and accrued liabilities.
- The increase in cash used by investing activities was primarily due to net cash payments made for acquisitions.
- The increase in cash used by financing activities was primarily due to lower debt borrowings and higher stock repurchases.

## Capitalization

(in millions)	December 31, 2019	September 30, 2019	Change
Short-term debt	\$ 20	\$ 10	
Current portion of long-term debt	1,342	501	
Long-term debt	5,920	6,708	
Total debt	7,282	7,219	1%
Less: cash and cash equivalents	2,160	2,805	
Total net debt	5,122	4,414	16%
Shareholders' equity attributable to Johnson Controls ordinary shareholders	19,329	19,766	-2%
Total capitalization	\$ 24,451	\$ 24,180	1%
Total net debt as a % of total capitalization	20.9%	18.3%	

- Net debt and net debt as a percentage of total capitalization are non-GAAP financial measures. The Company believes the percentage of total net debt to total capitalization is useful to understanding the Company's financial condition as it provides a review of the extent to which the Company relies on external debt financing for its funding and is a measure of risk to its shareholders.
- The Company believes its capital resources and liquidity position at December 31, 2019 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, stock repurchases, minimum pension contributions, debt maturities and any potential acquisitions in the remainder of fiscal 2020 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The Company currently manages its short-term debt position in the U.S. and euro commercial paper markets and bank loan markets. In the event the Company is unable to issue commercial paper, it would have the ability to draw on its \$2.5 billion and \$0.5 billion revolving credit facilities. The facilities mature in December 2024 and December 2020, respectively. There were no draws on the revolving credit facilities as of December 31, 2019 and September 30, 2019. In addition, the Company held cash and cash equivalents of \$2.2 billion as of December 31, 2019. As such, the Company believes it has sufficient financial resources to fund operations and meet its obligations for the foreseeable future.
- The Company's debt financial covenant in its revolving credit facility requires a minimum consolidated shareholders' equity attributable to Johnson Controls of at least \$3.5 billion at all times. The revolving credit facility also limits the amount of debt secured by liens that may be incurred to a maximum aggregated amount of 10% of consolidated shareholders' equity attributable to Johnson Controls for liens and pledges. For purposes of calculating these covenants, consolidated shareholders' equity

attributable to Johnson Controls is calculated without giving effect to (i) the application of Accounting Standards Codification ("ASC") 715-60, "Defined Benefit Plans - Other Postretirement," or (ii) the cumulative foreign currency translation adjustment. As of December 31, 2019, the Company was in compliance with all covenants and other requirements set forth in its credit agreements and the indentures, governing its notes, and expect to remain in compliance for the foreseeable future. None of the Company's debt agreements limit access to stated borrowing levels or require accelerated repayment in the event of a decrease in the Company's credit rating.

- The key financial assumptions used in calculating the Company's pension liability are determined annually, or whenever plan assets and liabilities are re-measured as required under accounting principles generally accepted in the U.S., including the expected rate of return on its plan assets. In fiscal 2020, the Company believes the long-term rate of return will approximate 6.90%, 5.20% and 5.70% for U.S. pension, non-U.S. pension and postretirement plans, respectively. During the first three months of fiscal 2020, the Company made approximately \$12 million in total pension and postretirement contributions for continuing operations. In total, the Company expects to contribute approximately \$50 million in cash to its defined benefit pension plans in fiscal 2020 for continuing operations. The Company expects to contribute \$4 million in cash to its postretirement plans in fiscal 2020 for continuing operations.
- The Company earns a significant amount of its income outside of the parent company. Outside basis differences in these subsidiaries are deemed to be permanently reinvested except in limited circumstances. However, in fiscal 2019, the Company provided income tax expense related to a change in the Company's assertion over the outside basis differences of the Company's investment in certain subsidiaries as a result of the planned divestiture of the Power Solutions business. The Company currently does not intend nor foresee a need to repatriate undistributed earnings included in the outside basis differences other than in tax efficient manners. Except as noted, the Company's intent is to reduce basis differences only when it would be tax efficient. The Company expects existing U.S. cash and liquidity to continue to be sufficient to fund the Company's U.S. operating activities and cash commitments for investing and financing activities for at least the next twelve months and thereafter for the foreseeable future. In the U.S., should the Company require more capital than is generated by its operations, the Company could elect to raise capital in the U.S. through debt or equity issuances. The Company has borrowed funds in the U.S. and continues to have the ability to borrow funds in the U.S. at reasonable interest rates. In addition, the Company expects existing non-U.S. cash, cash equivalents, short-term investments and cash flows from operations to continue to be sufficient to fund the Company's non-U.S. operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next twelve months and thereafter for the foreseeable future. Should the Company require more capital at the Luxembourg and Ireland holding and financing entities, other than amounts that can be provided in tax efficient methods, the Company could also elect to raise capital through debt or equity issuances. These alternatives could result in increased interest expense or other dilution of the Company's earnings.
- To better align its resources with its growth strategies and reduce the cost structure of its global operations in certain underlying markets, the Company committed to a significant restructuring plan in fiscal 2020 and recorded \$111 million of restructuring and impairment costs in the consolidated statements of income. The restructuring action related to cost reduction initiatives in the Company's Building Technologies & Solutions business and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. The Company currently estimates that upon completion of the restructuring action, the fiscal 2020 restructuring plan will reduce annual operating costs for continuing operations by approximately \$80 million, which is primarily the result of lower cost of sales and SG&A due to reduced employee-related costs, depreciation and amortization expense. The Company expects the annual benefit of these actions will be substantially realized in 2021. For fiscal 2020, the savings, net of execution costs, are expected to be approximately 60% of the expected annual operating cost reduction. The restructuring action is expected to be substantially complete in 2020. The restructuring plan reserve balance of \$49 million at December 31, 2019 is expected to be paid in cash.
- To better align its resources with its growth strategies and reduce the cost structure of its global operations in certain underlying markets, the Company committed to a significant restructuring plan in fiscal 2018 and recorded \$255 million of restructuring and impairment costs in the consolidated statements of income. The restructuring action related to cost reduction initiatives in the Company's Building Technologies & Solutions business and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. The Company currently estimates that upon completion of the restructuring action, the fiscal 2018 restructuring plan will reduce annual operating costs for continuing operations by approximately \$300 million, which is primarily the result of lower cost of sales and SG&A due to reduced employee-related costs, depreciation and amortization expense. The Company expects the annual benefit of these actions will be substantially realized in 2020. The restructuring action is expected to be substantially complete in 2020. The restructuring plan reserve balance of \$95 million at December 31, 2019 is expected to be paid in cash.



- To better align its resources with its growth strategies and reduce the cost structure of its global operations in certain underlying markets, the Company committed to a significant restructuring plan in fiscal 2017 and recorded \$347 million of restructuring and impairment costs in the consolidated statements of income. The restructuring action related to cost reduction initiatives in the Company's Building Technologies & Solutions business and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. The Company currently estimates that upon completion of the restructuring action, the fiscal 2017 restructuring plan will reduce annual operating costs for continuing operations by approximately \$260 million, which is primarily the result of lower cost of sales and SG&A due to reduced employee-related costs, depreciation and amortization expense. The Company substantially realized the annual benefit of these actions in fiscal 2019. The restructuring actions are expected to be substantially complete in fiscal 2020. The restructuring plan reserve balance of \$46 million at December 31, 2019 is expected to be paid in cash.
- Refer to Note 12, "Debt and Financing Arrangements," of the notes to consolidated financial statements for additional information on items impacting capitalization.

## **New Accounting Standards**

Refer to Note 2, "New Accounting Standards," of the notes to consolidated financial statements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of December 31, 2019, the Company had not experienced any adverse changes in market risk exposures that materially affected the quantitative and qualitative disclosures presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2019.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of December 31, 2019 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

### **Changes in Internal Control Over Financial Reporting**

There have been no significant changes in the Company's internal control over financial reporting during the three months ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

#### Gumm v. Molinaroli, et al.

On August 16, 2016, a putative class action lawsuit, *Gumm v. Molinaroli, et al.*, Case No. 16-cv-1093, was filed in the United States District Court for the Eastern District of Wisconsin, naming Johnson Controls, Inc., the individual members of its board of directors at the time of the merger with the Company's merger subsidiary and certain of its officers, the Company and the Company's merger subsidiary as defendants. The complaint asserted various causes of action under the federal securities laws, state law and the Taxpayer Bill of Rights, including that the individual defendants allegedly breached their fiduciary duties and unjustly enriched themselves by structuring the merger among the Company, Tyco and the merger subsidiary in a manner that would result in a United States federal income tax realization event for the putative class of certain Johnson Controls, Inc. shareholders and allegedly

result in certain benefits to the defendants, as well as related claims regarding alleged misstatements in the proxy statement/prospectus distributed to the Johnson Controls, Inc. shareholders, conversion and breach of contract. The complaint also asserted that Johnson Controls, Inc., the Company and the Company's merger subsidiary aided and abetted the individual defendants in their breach of fiduciary duties and unjust enrichment. The complaint seeks, among other things, disgorgement of profits and damages. On September 30, 2016, approximately one month after the closing of the merger, plaintiffs filed a preliminary injunction motion seeking, among other items, to compel Johnson Controls, Inc. to make certain intercompany payments that plaintiffs contend will impact the United States federal income tax consequences of the merger to the putative class of certain Johnson Controls, Inc. shareholders and to enjoin Johnson Controls, Inc. from reporting to the Internal Revenue Service the capital gains taxes payable by this putative class as a result of the closing of the merger. The court held a hearing on the preliminary injunction motion on January 4, 2017, and on January 25, 2017, the judge denied the plaintiffs' motion. Plaintiffs filed an amended complaint on February 15, 2017, and the Company filed a motion to dismiss on April 3, 2017. On October 17, 2019, the court heard oral argument on the motion to dismiss and took the matter under advisement. Although the Company believes it has substantial defenses to plaintiffs' claims, it is not able to predict the outcome of this action.

Refer to Note 21, "Commitments and Contingencies," of the notes to consolidated financial statements for discussion of environmental, asbestos, insurable liabilities and other litigation matters, which is incorporated by reference herein and is considered an integral part of Part II, Item 1, "Legal Proceedings."

## ITEM 1A. RISK FACTORS

There have been no other material changes to the disclosure regarding risk factors presented in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended September 30, 2019.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In March 2019, the Company's Board of Directors approved a \$8.5 billion increase to its existing share repurchase authorization, subject to the completion of the previously announced sale of the Company's Power Solutions business, which closed on April 30, 2019. The share repurchase program does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice. During the three months ended December 31, 2019, the Company repurchased approximately \$651 million of its shares. As of December 31, 2019, approximately \$3.9 billion remains available under the share repurchase program.

The following table presents information regarding the repurchase of the Company's ordinary shares by the Company as part of the publicly announced program during the three months ended December 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs
10/1/19 - 10/31/19				
Purchases by Company	6,670,000	\$ 42.54	6,670,000	\$ 4,282,356,074
11/1/19 - 11/30/19				
Purchases by Company	4,573,800	42.99	4,573,800	4,085,719,498
12/1/19 - 12/31/19				
Purchases by Company	4,108,700	41.61	4,108,700	3,914,756,918

During the three months ended December 31, 2019, acquisitions of shares by the Company from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted shares were not material.

## ITEM 6. EXHIBITS

### INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1	<a href="#"><u>Credit Agreement, dated as of December 5, 2019, among Johnson Controls International plc, certain of its subsidiaries party thereto from time to time, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 6, 2019).</u></a>
10.2	<a href="#"><u>364-Day Credit Agreement, dated as of December 5, 2019, among Johnson Controls International plc, certain of its subsidiaries party thereto from time to time, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 6, 2019).</u></a>
10.3	<a href="#"><u>Restrictive covenants applicable to equity award agreements beginning December 2019 (filed herewith).*</u></a>
31.1	<a href="#"><u>Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101	The following materials from Johnson Controls International plc's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity Attributable to Johnson Controls Ordinary Shareholders and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101)

\* Management contract or compensatory plan.

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.

JOHNSON CONTROLS INTERNATIONAL PLC

Date: January 31, 2020

By: /s/ Brian J. Stief

Brian J. Stief

Vice Chairman and  
Chief Financial Officer

**CERTIFICATIONS**

I, George R. Oliver, of Johnson Controls International plc, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Johnson Controls International plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, 2020

*/s/ George R. Oliver*

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George R. Oliver  
Chairman and Chief Executive Officer

**CERTIFICATIONS**

I, Brian J. Stief, of Johnson Controls International plc, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Johnson Controls International plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, 2020

*/s/ Brian J. Stief*

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Brian J. Stief  
Vice Chairman and  
Chief Financial Officer

**CERTIFICATION OF PERIODIC FINANCIAL REPORTS**

We, George R. Oliver and Brian J. Stief, of Johnson Controls International plc, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q for the quarter ended December 31, 2019 (Periodic Report) to which this statement is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
2. information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Johnson Controls International plc.

Date: January 31, 2020

*/s/ George R. Oliver*

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George R. Oliver  
Chairman and Chief Executive Officer

*/s/ Brian J. Stief*

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Brian J. Stief  
Vice Chairman and  
Chief Financial Officer