BROADRIDGE FINANCIAL SOLUTIONS, INC.
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-33220

BROADRIDGE FINANCIAL SOLUTIONS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	33-1151291
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5 Dakota Drive Lake Success, NY	11042
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (516) 472-5400

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

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

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of October 31, 2018, was 116,750,513 shares.

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Earnings
(In millions, except per share amounts)
(Unaudited)

		Three Months Ended September 30,	
		2018	2017
Revenues	(Note 3)	$972.8	$924.8
Operating expenses:			
Cost of revenues		739.0	726.0
Selling, general and administrative expenses		133.7	113.5
Total operating expenses		872.7	839.6
Operating income		100.1	85.2
Interest expense, net	(Note 5)	9.6	9.4
Other non-operating expense, net	(Note 6)	1.2	1.5
Earnings before income taxes		89.3	74.3
Provision for income taxes	(Note 13)	12.6	24.4
Net earnings		$76.7	$49.9
Basic earnings per share		$0.66	$0.43
Diluted earnings per share		$0.64	$0.42
Weighted-average shares outstanding:			
Basic	(Note 4)	116.4	116.5
Diluted	(Note 4)	119.7	119.8
Dividends declared per common share		$0.485	$0.365

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended September 30,	
	2018	2017
Net earnings	$76.7	$49.9
Other comprehensive income (loss), net:		
Foreign currency translation adjustments	(10.1)	18.3
Net unrealized gains (losses) on available-for-sale securities, net of taxes of $(0.0) and $(0.2) for the three months ended September 30, 2018 and 2017, respectively	—	0.3
Pension and post-retirement liability adjustment, net of taxes of $(0.0) and $(0.1) for the three months ended September 30, 2018 and 2017, respectively	—	0.2
Total other comprehensive income (loss), net	(10.1)	18.8
Comprehensive income	$66.7	$68.7

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.
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Broadridge Financial Solutions, Inc.
Condensed Consolidated Balance Sheets
(In millions, except per share amounts)
(Unaudited)

		September 30, 2018	June 30, 2018
Assets			
Current assets:			
Cash and cash equivalents		$ 204.7	$263.9
Accounts receivable, net of allowance for doubtful accounts of $2.1 and $2.7, respectively		650.1	615.0
Other current assets		113.1	112.2
Total current assets		967.9	991.1
Property, plant and equipment, net		192.5	204.1
Goodwill		1,258.0	1,254.9
Intangible assets, net		470.8	494.1
Other non-current assets	(Note 9)	492.6	360.5
Total assets		$ 3,381.7	$3,304.7
Liabilities and Stockholders' Equity			
Current liabilities:			
Payables and accrued expenses	(Note 10)	$ 471.8	$671.0
Contract liabilities		101.5	106.3
Total current liabilities		573.3	777.3
Long-term debt	(Note 11)	1,143.7	1,053.4
Deferred taxes		84.2	57.9
Contract liabilities		138.6	75.2
Other non-current liabilities		207.8	246.5
Total liabilities		2,147.7	2,210.4
Commitments and contingencies	(Note 14)		
Stockholders' equity:			
Preferred stock: Authorized, 25.0 shares; issued and outstanding, none		—	—
Common stock, $0.01 par value: 650.0 shares authorized; 154.5 and 154.5 shares issued, respectively; and 116.8 and 116.3 shares outstanding, respectively		1.6	1.6
Additional paid-in capital		1,069.1	1,048.5
Retained earnings		1,850.0	1,727.0
Treasury stock, at cost: 37.7 and 38.1 shares, respectively		(1,623.2)	(1,630.8)
Accumulated other comprehensive loss	(Note 15)	(63.5)	(51.9)
Total stockholders' equity		1,234.0	1,094.3
Total liabilities and stockholders' equity		$ 3,381.7	$3,304.7

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.
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Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Three Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities		
Net earnings	$76.7	$49.9
Adjustments to reconcile Net earnings to Net cash flows used in operating activities:		
Depreciation and amortization	21.2	19.4
Amortization of acquired intangibles and purchased intellectual property	21.9	19.4
Amortization of other assets	21.6	11.1
Stock-based compensation expense	10.7	8.5
Deferred income taxes	(1.4)	(5.1)
Other	(5.4)	(2.1)
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Current assets and liabilities:		
Increase in Accounts receivable, net	(1.0)	(32.1)
Increase in Other current assets	(4.6)	(18.0)
Decrease in Payables and accrued expenses	(199.3)	(165.5)
Increase (decrease) in Contract liabilities	(4.0)	37.7
Non-current assets and liabilities:		
Increase in Other non-current assets	(45.6)	(24.6)
Increase in Other non-current liabilities	13.6	8.1
Net cash flows used in operating activities	(95.5)	(93.3)
Cash Flows From Investing Activities		
Capital expenditures	(8.7)	(29.7)
Software purchases and capitalized internal use software	(6.8)	(6.3)
Acquisitions, net of cash acquired	—	(3.7)
Other investing activities	(0.8)	(1.5)
Net cash flows used in investing activities	(16.3)	(41.2)
Cash Flows From Financing Activities		
Debt proceeds	120.0	190.0
Debt repayments	(30.0)	—
Dividends paid	(42.5)	(37.9)
Purchases of Treasury stock	(1.1)	(2.3)
Proceeds from exercise of stock options	7.6	1.8
Other financing activities	0.1	(5.5)
Net cash flows provided by financing activities	54.2	146.1
Effect of exchange rate changes on Cash and cash equivalents	(1.6)	6.0
Net change in Cash and cash equivalents	(59.3)	17.7
Cash and cash equivalents, beginning of period	263.9	271.1
Cash and cash equivalents, end of period	$204.7	$288.8
Supplemental disclosure of cash flow information:		
Cash payments made for interest	$9.5	$9.3
Cash payments made for income taxes, net of refunds	$30.2	$78.4
Non-cash investing and financing activities:		

Accrual of unpaid property, plant and equipment and software	$1.9	$1.4

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

A. Description of Business. Broadridge Financial Solutions, Inc. (“Broadridge” or the “Company”), a Delaware corporation and a member of the S&P 500, is a global financial technology leader providing investor communications and technology-driven solutions to banks, broker-dealers, asset managers and corporate issuers. Broadridge’s services include investor and customer communications, securities processing, and data and analytics solutions. In short, Broadridge provides important infrastructure that powers the financial services industry. With over 50 years of experience, including over 10 years as an independent public company, Broadridge provides financial services firms with advanced, dependable, scalable and cost-effective integrated solutions. Broadridge’s solutions help reduce the need for clients to make significant capital investments in operations infrastructure, thereby allowing them to increase their focus on core business activities.

The Company operates in two reportable segments: Investor Communication Solutions (“ICS”) and Global Technology and Operations (“GTO”). Broadridge serves a large and diverse client base across four client groups: capital markets, asset management, wealth management and corporations.

- Investor Communication Solutions—Broadridge offers Bank/Broker-Dealer Investor Communication Solutions, Customer Communication Solutions, Corporate Issuer Solutions, Advisor Solutions and Mutual Fund and Retirement Solutions in this segment. A large portion of Broadridge’s Investor Communication Solutions business involves the processing and distribution of proxy materials to investors in equity securities and mutual funds, as well as the facilitation of related vote processing. ProxyEdge®, Broadridge’s innovative electronic proxy delivery and voting solution for institutional investors and financial advisors, helps ensure the participation of the largest stockholders of many companies. In addition, Broadridge provides corporations with registered proxy services as well as registrar, stock transfer and record-keeping services. Broadridge also provides the distribution of regulatory reports and corporate action/reorganization event information, as well as tax reporting solutions that help our clients meet their regulatory compliance needs.

Broadridge provides customer communication solutions to companies in the financial services, healthcare, insurance, consumer finance, telecommunications, utilities, retail banking and other service industries. The Broadridge Communications Cloud℠ provides multi-channel communications delivery, communications management, information management and control and administration capabilities that enable and enhance our clients’ communications with their customers. Broadridge processes and distributes its clients’ essential communications including transactional (e.g., bills and statements), regulatory (e.g., explanations of benefits, notices, and trade confirmations) and marketing (e.g., direct mail) communications through print and digital channels.

Broadridge’s advisor solutions enable firms, financial advisors, wealth managers, and insurance agents to better engage with customers through cloud-based marketing and customer communication tools. Broadridge’s marketing ecosystem integrates data, content and technology to drive new client acquisition and cross-sell opportunities through the creation of sales and educational content, including seminars and a library of financial planning topics as well as customizable advisor websites, search engine marketing and electronic and print newsletters. Broadridge’s advisor solutions also help advisors optimize their practice management through customer and account data aggregation and reporting.

Broadridge provides asset managers and retirement service providers with data-driven solutions that help its clients grow revenue, operate efficiently, and maintain compliance. Broadridge’s communications solutions provide an end-to-end platform for content management, composition, and multi-channel distribution of regulatory, marketing, and transactional information. Broadridge’s data and analytics solutions provide investment product distribution data, analytical tools, insights, and research to enable asset managers to optimize product distribution across retail and institutional channels globally. Broadridge also provides mutual fund trade processing services for retirement providers, third party administrators, financial advisors, banks and wealth management professionals through its subsidiary, Matrix Financial Solutions, Inc. (“Matrix”).

- Global Technology and Operations—Broadridge is a leading global provider of middle- and back-office securities processing solutions for capital markets, wealth management, and asset management firms. Broadridge offers advanced solutions that automate the securities transaction lifecycle, from desktop productivity tools, data aggregation, performance reporting, and portfolio management to order capture and execution, trade confirmation,

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margin, cash management, clearance and settlement, asset servicing, reference data management, reconciliations, securities financing and collateral optimization, compliance and regulatory reporting, and accounting.
Broadridge's services help financial institutions efficiently and cost-effectively consolidate their books and records, gather and service assets under management and manage risk, thereby enabling them to focus on their core business activities. Provided on a software as a service ("SaaS") basis within large user communities, Broadridge's technology is a global solution. Broadridge's multi-asset, multi-market, multi-entity and multi-currency solutions support real-time global trade processing of equity, fixed income, mutual fund, foreign exchange, and exchange traded derivatives in established and emerging markets.
Broadridge also provides business process outsourcing services known as Managed Services that support the operations of its buy- and sell-side clients' businesses. These services combine Broadridge's technology with its operations expertise to support the entire trade lifecycle, including securities clearing and settlement, reconciliations, record-keeping, asset servicing, reference data management, regulatory and performance reporting, tax and cost basis services, revenue and trade expense management and portfolio accounting.
B. Consolidation and Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America ("U.S.") and in accordance with the U.S. Securities and Exchange Commission (the "SEC") requirements for Quarterly Reports on Form 10-Q. These financial statements present the condensed consolidated position of the Company and include the entities in which the Company directly or indirectly has a controlling financial interest as well as various entities in which the Company has investments recorded under the equity method of accounting as well as certain marketable and non-marketable securities. Intercompany balances and transactions have been eliminated. Amounts presented may not sum due to rounding. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (the "2018 Annual Report") filed on August 7, 2018 with the SEC. These Condensed Consolidated Financial Statements include all normal and recurring adjustments necessary for a fair presentation in accordance with GAAP of the Company's financial position at September 30, 2018 and June 30, 2018, the results of its operations for the three months ended September 30, 2018 and 2017, and its cash flows for the three months ended September 30, 2018 and 2017. Certain prior period amounts have been reclassified to conform to the current year presentation, except as it relates to (i) Financial Accounting Standards Board (the "FASB") Accounting Standards Update ("ASU") No. 2014-09 "Revenue from Contracts with Customers" and its related amendments (collectively "ASU No. 2014-09"), (ii) ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU No. 2016-01"), and (iii) ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU No. 2018-02"), as described further below.

Effective July 1, 2018, the Company adopted ASU No. 2014-09 using the modified retrospective transition approach applied to all contracts. Under this transition approach, the Company has not restated the prior period Condensed Consolidated Financial Statements presented to the current period presentation. However, the Company has provided additional disclosures related to the amount by which each relevant fiscal 2019 financial statement line item was affected by the adoption of ASU No. 2014-09 along with explanations for significant changes. Additional information about the Company's revenue recognition policies and the related impact of the adoption of ASU No. 2014-09 is included in Note 2, "New Accounting Pronouncements" and Note 3, "Revenue Recognition."

Effective July 1, 2018, the Company adopted ASU No. 2016-01, which requires changes in the fair value of publicly traded equity securities for which the Company does not have significant influence to be recorded as part of Net earnings rather than as Other comprehensive income (loss), net. In addition, equity investments that do not have a readily determinable fair value will be recorded at cost less impairment as further adjusted for observable price changes in orderly transactions for identical or similar investments of the issuer. The Company adopted ASU No. 2016-01 using the modified-retrospective transition approach by recording the cumulative effect of previously unrecognized gains or losses on publicly traded equity securities to retained earnings as of July 1, 2018. The provisions of ASU No. 2016-01 relative to equity investments that do not have a readily determinable fair value have been applied prospectively. The Condensed Consolidated Financial Statements have not been revised for periods prior to July 1, 2018. The impact of adopting ASU No. 2016-01 resulted in a reclassification of less than $0.1 million in unrealized gains, net from accumulated other comprehensive loss to retained earnings as of July 1, 2018.

Effective in the first quarter of fiscal year 2019, the Company adopted ASU No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU No. 2017-07”) whereby the Company revised its presentation in the Condensed Consolidated Statements of Earnings to reflect the non-service cost components of net benefit cost as part of Other non-operating (income) expenses, net, which were previously recorded as part of Total operating expenses. All prior period information has been conformed to the current period presentation.

C. Securities. Securities are non-derivatives that are reflected in Other non-current assets in the Condensed Consolidated Balance Sheets, unless management intends to dispose of the investment within twelve months of the end of the reporting period, in which case they are reflected in Other current assets in the Condensed Consolidated Balance Sheets. These investments are in entities over which the Company does not have control, joint control, or significant influence. Securities that have a readily determinable fair value are carried at fair value. Securities without a readily determinable fair value are initially recognized at cost and subsequently carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes in transactions for an identical or similar investment of the same issuer, such as subsequent capital raising transactions. Changes in the value of securities with or without a readily determinable fair value are recorded in the Condensed Consolidated Statements of Earnings. In determining whether a security without a readily determinable fair value is impaired, management considers qualitative factors to identify an impairment including the financial condition and near-term prospects of the issuer.

D. Use of Estimates. The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes thereto. These estimates are based on management’s best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions and judgment that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

E. Subsequent Events. In preparing the accompanying Condensed Consolidated Financial Statements, the Company has reviewed events that have occurred after September 30, 2018 through the date of issuance of the Condensed Consolidated Financial Statements. During this period, the Company did not have any subsequent events for disclosure.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In February 2018, the FASB issued ASU No. 2018-02, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with the change in the U.S. federal corporate tax rate resulting from the U.S. Tax Cuts and Jobs Act (the “Tax Act”) enacted in December 2017. ASU 2018-02 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company early adopted ASU 2018-02 as of July 1, 2018, and the adoption of this guidance resulted in an increase to retained earnings of $1.5 million.

In January 2017, the FASB issued ASU No. 2017-01, “Clarifying the Definition of a Business” (“ASU No. 2017-01”). ASU No. 2017-01 narrows the definition of a business, in part by concluding that an integrated set of assets and activities (referred to as a “set”) is not a business when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets. ASU No. 2017-01 is effective for the Company beginning in the first quarter of fiscal year 2019, to be applied on a prospective basis. The adoption of this guidance is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU No. 2016-02”), as amended by ASU No. 2018-10 “Codification Improvements to Topic 842, Leases” and ASU No. 2018-11 “Leases (Topic 842): Targeted Improvements” in July 2018 (collectively referred to herein as “ASU No. 2016-02, as amended”). Under ASU No. 2016-02, as amended, all lease arrangements, with certain limited exceptions, exceeding a twelve-month term must now be recognized as assets and liabilities on the balance sheet of the lessee by recording a right-of-use asset and corresponding lease obligation generally equal to the present value of the future lease payments over the lease term. Further, the income statement will reflect lease expense for leases classified as operating and amortization/interest expense for leases classified as financing, determined using classification criteria substantially similar to the current lease guidance for distinguishing between an operating and capital lease. ASU No. 2016-02, as amended, also contains certain additional qualitative and quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities, including significant judgments and changes in judgments. ASU No. 2016-02, as amended, is effective for the Company in the first quarter of fiscal year 2020 and can be adopted using either a modified retrospective basis which requires adjustment to all comparative periods presented in the consolidated financial statements, or by recognizing a cumulative-effect adjustment to the opening balance of retained earnings at the date of initial application. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-02, as amended, on the Company's Condensed Consolidated Financial Statements.

Effective July 1, 2018, the Company adopted ASU No. 2014-09. ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry specific requirements. It also includes guidance on accounting for the incremental costs of obtaining and costs incurred to fulfill a contract with a customer. The core principle of the revenue model is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As a result, it is possible more judgment and estimates may be required within the revenue recognition process including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 also requires certain enhanced disclosures, including disclosures on the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers.

The Company identified certain impacts of ASU No. 2014-09 on its Condensed Consolidated Financial Statements. Specifically, under ASU No. 2014-09, the Company now capitalizes certain sales commissions, and it capitalizes certain additional costs that are part of setting up or converting a client's systems to function with the Company's technology, both of which were previously expensed. Additionally, the Company now recognizes proxy revenue primarily at the time of proxy materials distribution to the client's shareholders rather than on the date of the client's shareholder meeting, which is typically 30 days after the proxy materials distribution. Other changes to the timing of revenue recognition include deferral of revenue from certain transaction processing platform enhancements as well as acceleration of revenue from certain multi-year software license arrangements that are currently recognized over the term of the software subscription.

The Company adopted ASU No. 2014-09 using the modified retrospective transition method applied to all contracts, which resulted in a cumulative-effect increase in the opening balance of retained earnings of $101.3 million, most notably related to the deferral of incremental sales commissions incurred in obtaining contracts in prior periods. Under this transition approach, the Company has not restated the prior period Condensed Consolidated Financial Statements presented. However, the Company has provided additional disclosures related to the amount by which each relevant fiscal 2019 financial statement line item was affected by adoption of ASU No. 2014-09 and explanations for significant changes. See Note 3, "Revenue Recognition" for additional information about the Company's revenue recognition policies and the related impact of the Company's adoption of ASU No. 2014-09.

NOTE 3. REVENUE RECOGNITION

Significant Accounting Policy

ASU No. 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognizes revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company's revenues from clients are primarily generated from fees for providing investor communications and technology-enabled services and solutions. Revenues are recognized for the two reportable segments as follows:

- Investor Communication Solutions—Revenues are generated primarily from processing and distributing investor communications and other related services as well as vote processing and tabulation. The Company typically enters into agreements with clients to provide services on a fee for service basis. Fees received for processing and distributing investor communications are generally variably priced and recognized as revenue over time as the Company provides the services to clients based on the number of units processed, which coincides with the pattern of value transfer to the client. Broadridge works directly with corporate issuers ("Issuers") and mutual funds to ensure that the account holders of the Company's bank and broker clients, who are also the shareholders of Issuers and mutual funds, receive the appropriate investor communications materials and that the services are fulfilled in accordance with each Issuer's and mutual fund's requirements. Broadridge works directly with the Issuers and mutual funds to resolve any issues that may arise. As such, Issuers and mutual funds are viewed as the customer of the Company's services. As a result, revenues for distribution services as well as proxy materials fulfillment services are recorded in Revenue on a gross basis with corresponding costs including amounts remitted to the broker-dealers and banks (referred to as "Nominees") recorded in Cost of revenues. Fees for the Company's investor communications services arrangements are typically billed and paid on a monthly basis following the delivery of the services. The Company also offers certain hosted service arrangements that can be priced on a fixed and/or variable basis for which revenue is recognized over time as the Company satisfies its performance obligation by delivering services to the client on a monthly basis based on the number of transactions processed or units delivered, in the case of variable priced arrangements, or a fixed monthly fee in the case of fixed price arrangements, in each case which coincides with the pattern of value transfer to the client. These services may be billed in a variety of payment frequencies depending on the specific arrangement.

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- Global Technology and Operations—Revenues are generated primarily from fees for transaction processing and related services. Revenue is recognized over time as the Company satisfies its performance obligation by delivering services to the client. The Company's arrangements for processing and related services typically consist of an obligation to provide specific services to its clients on a when and if needed basis (a stand ready obligation) with revenue recognized from the satisfaction of the performance obligations on a monthly basis generally in the amount billable to the client. These services are generally provided under variable priced arrangements based on volume of service and can include minimum monthly usage fees. Client service agreements often include up-front consideration in addition to the recurring fee for transaction processing. Up-front implementation fees, as well as certain enhancements to existing technology platforms, are deferred and recognized on a straight-line basis over the service term of the contract which corresponds to the timing of transfer of value to the client that commences after client acceptance when the processing term begins. In addition, revenue is also generated from the fulfillment of professional services engagements which are generally priced on a time and materials or fixed price basis, and are recognized as the services are provided to the client which corresponds to the timing of transfer of value to the client.

The Company uses the following methods, inputs, and assumptions in determining amounts of revenue to recognize:

Identification of Performance Obligations

For revenue arrangements containing multiple goods or services, the Company accounts for the individual goods or services as a separate performance obligation if they are distinct, the good or service is separately identifiable from other items in the arrangement, and if a client can benefit from it on its own or with other resources that are readily available to the client. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.

Transaction Price

Once separate performance obligations are determined, the transaction price is allocated to the individual performance obligations. If the contracted prices reflect the relative standalone selling prices for the individual performance obligations, no allocations are made. Otherwise, the Company uses the relative selling price method to allocate the transaction price, obtained from sources such as the observable price of a good or service when the Company sells that good or service separately in similar circumstances and to similar clients. If such evidence is unavailable, the Company uses the best estimate of the selling price, which includes various internal factors such as pricing strategy and market factors. A significant portion of the Company's performance obligations are generated from transactions with volume based fees and includes services that are delivered at the same time. The Company recognizes revenue related to these arrangements over time as the services are provided to the client. While many of the Company's contracts contain some component of variable consideration, the Company only recognizes variable consideration that is not expected to reverse. The Company allocates variable payments to distinct services in an overall contract when the variable payment relates specifically to that particular service and for which the variable payment reflects what the Company expects to receive in exchange for that particular service. As a result, the Company generally allocates and recognizes variable consideration in the period it has the contractual right to invoice the client.

As described above, our most significant performance obligations involve variable consideration which constitutes the majority of our revenue streams. The Company's variable consideration components meet the criteria in ASU No. 2014-09 for exclusion from disclosure of the remaining transaction price allocated to unsatisfied performance obligations as does any contracts with clients with an original duration of one year or less. The Company has contracts with clients that vary in length depending on the nature of the services and contractual terms negotiated with the client, and they generally extend over a multi-year period.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a client, are excluded from revenue.

Distribution revenues associated with shipping and handling activities are accounted for as a fulfillment activity and recognized as the related services or products are transferred to the client. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between client payment and the transfer of goods or services is expected to be one year or less.

Contract Costs

Direct costs incurred to set up or convert a client's systems to function with the Company's technology, that are expected to be recovered, are generally deferred and recognized on a straight-line basis over the service term of the arrangement to which the costs relate, which commences after client acceptance when the processing term begins. The Company evaluates the carrying value of deferred client conversion and start-up costs for impairment on the basis of whether these costs are fully recoverable from the expected future undiscounted net operating cash flows of the client to which the deferred costs relate.

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These deferred costs are reflected in Other non-current assets in the Condensed Consolidated Balance Sheets at September 30, 2018 and June 30, 2018, respectively. Refer to Note 9, “Other Non-Current Assets” for a further description of the Company’s Deferred client conversion and start-up costs.

The Company defers incremental costs to obtain a client contract that it expects to recover, which consists of sales commissions incurred, only if the contract is executed. Deferred sales commission costs are amortized on a straight-line basis using a portfolio approach consistent with the pattern of transfer of the goods or services to which the asset relates, which also considers expected customer lives. As a practical expedient, the Company recognizes the sales commissions as an expense when incurred if the amortization period of the sales commission asset that the entity otherwise would have recognized is one year or less. The Company evaluates the carrying value of deferred sales commission costs for impairment on the basis of whether these costs are fully recoverable from the expected future undiscounted net operating cash flows of the portfolio of clients to which the deferred sales commission costs relate. Refer to Note 9, “Other Non-Current Assets” for a further description of the Company’s Deferred sales commission costs.

Disaggregation of Revenue

The Company has presented below its revenue disaggregated by product line and by revenue type within each of its Investor Communication Solutions and Global Technology and Operations reportable segments.

Fee revenues in the Investor Communication Solutions segment are derived from both recurring and event-driven activity. In addition, the level of recurring and event-driven activity the Company processes directly impacts distribution revenues. While event-driven activity is highly repeatable, it may not recur on an annual basis. Event-driven fee revenues are based on the number of special events and corporate transactions the Company processes. Event-driven activity is impacted by financial market conditions and changes in regulatory compliance requirements, resulting in fluctuations in the timing and levels of event-driven fee revenues. Distribution revenues primarily include revenues related to the physical mailing and distribution of proxy materials, interim communications, transaction reporting, customer communications and fulfillment services, as well as Matrix administrative services.

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	Three Months Ended September 30, 2018 (in millions)
Investor Communication Solutions	
Equity proxy	$ 31.0
Mutual fund and exchange traded funds (“ETF”) interims	57.8
Customer communications and fulfillment	174.9
Other ICS	83.8
Total ICS Recurring fee revenues	$ 347.4
Equity and other	$ 24.1
Mutual funds	52.8
Total ICS Event-driven fee revenues	$ 76.9
Distribution revenues	$ 341.4
Total ICS Revenues	$ 765.8
Global Technology and Operations	
Equities and other	$ 187.1
Fixed income	40.6
Total GTO Recurring fee revenues	$ 227.7
Foreign currency exchange	$ (20.7)
Total Revenues	$ 972.8
Revenues by Type	
Recurring fee revenues	$ 575.2
Event-driven fee revenues	76.9
Distribution revenues	341.4
Foreign currency exchange	(20.7)
Total Revenues	$ 972.8

Contract Balances

The following table provides information about contract assets and liabilities:

	September 30, 2018	July 1, 2018
	(in millions)	
Contract assets	$37.4	$35.5
Contract liabilities	$240.2	$162.8

Contract assets result from revenue already recognized but not yet invoiced, including certain future amounts to be collected under software term licenses and certain other client contracts. Contract liabilities represent consideration received or receivable from clients before the transfer of control occurs (deferred revenue). Contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period.

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During the three months ended September 30, 2018, contract liabilities increased primarily due to the impact of a client contract termination. The Company recognized $40.4 million of revenue during the three months ended September 30, 2018 that was included in the contract liability balance as of July 1, 2018.

Changes in Accounting Policy

Except for the changes below, the Company has consistently applied its revenue and cost accounting policies to all periods presented in its Condensed Consolidated Financial Statements. The details of the significant changes are disclosed below.

- Sales Commissions - The Company previously recognized sales commissions related to contracts with clients as selling expenses when incurred. Under ASU No. 2014-09, the Company capitalizes incremental sales commissions as costs of obtaining a contract and, if expected to be recovered, amortizes such costs using a portfolio approach consistent with the pattern of transfer of the good or service to which the asset relates.

- Deferred Client Conversion and Start-Up Costs - The Company previously capitalized direct and incremental client conversion or start-up costs to set up or convert a client’s systems to function with the Company’s technology that are expected to be recovered. Under ASU No. 2014-09, the Company will capitalize certain additional client conversion or start-up costs that are directly related to the client conversion but that are not considered incremental costs to the Company.

- Proxy Revenues - The Company previously recognized proxy revenues following the client’s shareholder meeting, which is typically 30 days after the proxy materials distribution. Under ASU No. 2014-09, the Company will recognize proxy revenues primarily at the time of proxy materials distribution to the client’s shareholders.

- Software Term License Revenues - The Company previously recognized revenue from software term licenses that are not hosted by the Company ratably over the contract term. Under ASU No. 2014-09, for software license arrangements that are distinct, the Company recognizes software license revenue upon delivery assuming a contract is deemed to exist. For arrangements with clients that include significant customization, modification or production of software such that the software is not distinct from the associated implementation services, revenue is typically recognized over time based upon efforts expended to measure progress towards completion or in certain cases upon completion of the installation. Software term license revenue is not a significant portion of the Company’s revenues.

- Termination Fees - The Company previously recognized client contract termination fees at a point in time upon deconversion or receipt of a non-refundable cash payment. Under ASU No. 2014-09, a contract termination is considered a contract modification and therefore, the Company recognizes contract termination fees over the remaining modified contract term.

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Quantitative Impact on Financial Statements

The following tables summarize the impact of ASU No. 2014-09 adoption on the Company's Condensed Consolidated Financial Statements as of and for the three months ended September 30, 2018:

	As reported	Effects of ASU 2014-09	Without Effects of ASU No. 2014-09
	(in millions)		
Consolidated Statement of Earnings			
Revenues	$972.8	$36.7	$1,009.5
Cost of revenues	739.0	(0.8)	738.2
Selling, general and administrative expenses	133.7	(3.0)	130.7
Operating income	100.1	40.4	140.5
Earnings before income taxes	89.3	40.4	129.7
Provision for income taxes	12.6	10.0	22.5
Net earnings	$76.7	$30.5	$107.2
Basic earnings per share	$0.66	$0.26	$0.92
Diluted earnings per share	$0.64	$0.25	$0.90
Consolidated Balance Sheet			
Assets:			
Current assets	$967.9	$(59.6)	$908.3
Total assets	$3,381.7	$(187.2)	$3,194.5
Liabilities:			
Current liabilities	$573.3	$(29.5)	$543.8
Total liabilities	$2,147.7	$(117.5)	$2,030.2
Stockholders' equity:			
Total stockholders' equity	$1,234.0	$(69.6)	$1,164.3

The adoption of ASU 2014-09 did not change the net cash provided by or used in operating activities, investing activities or financing activities on the Condensed Consolidated Statements of Cash Flows, nor the amount of Other comprehensive income (loss) on the Condensed Consolidated Statements of Comprehensive Income.

NOTE 4. WEIGHTED-AVERAGE SHARES OUTSTANDING

Basic earnings per share ("EPS") is calculated by dividing the Company's Net earnings by the basic Weighted-average shares outstanding for the periods presented. The Company calculates diluted EPS using the treasury stock method, which reflects the potential dilution that could occur if outstanding stock options at the presented date are exercised and restricted stock unit awards have vested.

For the three months ended September 30, 2018, there were no options to purchase Broadridge common stock that would have been anti-dilutive to exclude from the computation of diluted EPS. For the three months ended September 30, 2017, the computation of diluted EPS did not include 0.3 million options to purchase Broadridge common stock as the effect of their inclusion would have been anti-dilutive.

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The following table sets forth the denominators of the basic and diluted EPS computations (in millions):

	Three Months Ended September 30,	
	2018	2017
Weighted-average shares outstanding:		
Basic	116.4	116.5
Common stock equivalents	3.3	3.3
Diluted	119.7	119.8

NOTE 5. INTEREST EXPENSE, NET

Interest expense, net consisted of the following:

	Three Months Ended September 30,	
	2018	2017
	(in millions)	
Interest expense on borrowings	$10.2	$10.0
Interest income	(0.6)	(0.6)
Interest expense, net	$9.6	$9.4

NOTE 6. OTHER NON-OPERATING (INCOME) EXPENSES, NET

Other non-operating (income) expenses, net consisted of the following:

	Three Months Ended September 30,	
	2018	2017
	(in millions)	
Investment (gains) losses, net	$1.4	$1.0
Other (gains) losses, net	0.3	0.8
Foreign currency exchange (gain) loss	(0.4)	(0.3)
Other non-operating (income) expenses, net	$1.2	$1.5

NOTE 7. ACQUISITIONS

Assets acquired and liabilities assumed in business combinations are recorded on the Company’s Condensed Consolidated Balance Sheets as of the respective acquisition date based upon the estimated fair values at such date. The results of operations of the business acquired by the Company are included in the Company’s Condensed Consolidated Statements of Earnings since the respective date of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed is allocated to Goodwill.

Pro forma supplemental financial information for all acquisitions is not provided as the impact of these acquisitions on the Company’s operating results, financial position or cash flows was not material for any acquisition individually.

During the first quarter of fiscal year 2019, there were no business combinations or asset acquisitions.

The following represents the fiscal year 2018 acquisitions:

BUSINESS COMBINATIONS

Summit

In October 2017, the Company completed the acquisition of Summit Financial Disclosure, LLC (“Summit”), a full service financial document management solutions provider, including document composition and regulatory filing services. The aggregate purchase price was $30.6 million, consisting of $26.4 million in cash payments net of cash acquired, a $1.4 million

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note payable to the sellers that will be settled in the future, and a contingent consideration liability with an acquisition date fair value of $2.7 million. The contingent consideration liability is payable over the next three years upon the achievement by the acquired business of certain revenue and earnings targets. The contingent consideration liability has a maximum potential pay-out of $11.0 million upon the achievement in full of the defined financial targets by the acquired business. Net tangible assets acquired in the transaction were $0.2 million. This acquisition resulted in $18.5 million of Goodwill, which is primarily tax deductible. Intangible assets acquired, which totaled $12.0 million, consist primarily of software technology and customer relationships which are being amortized over a five-year life and seven-year life, respectively.

ActivePath

In March 2018, the Company completed the acquisition of ActivePath Solutions Ltd (“ActivePath”), a digital technology company with technology that enhances the consumer experience associated with consumer statements, bills and regulatory communications. The aggregate purchase price was $24.2 million, consisting of $21.8 million in cash payments net of cash acquired, and a $2.4 million note payable to the sellers that will be settled in the future. Net tangible liabilities assumed in the transaction were $10.0 million. This acquisition resulted in $28.7 million of Goodwill, which is not tax deductible. Intangible assets acquired, which totaled $5.6 million, consist primarily of software technology and customer relationships, which are being amortized over a five-year life and two-year life, respectively.

FundAssist

In May 2018, the Company completed the acquisition of FundAssist Limited (“FundAssist”), a regulatory, marketing and sales solutions service provider to the global investments industry. The aggregate purchase price was $47.7 million, consisting of $41.3 million in cash payments net of cash acquired, and a contingent consideration liability with an acquisition date fair value of $6.4 million. The contingent consideration liability contains a revenue component which will be settled in fiscal year 2021, based on the achievement of a defined revenue target by the acquired business. Net tangible liabilities assumed in the transaction were $1.9 million. This acquisition resulted in $29.2 million of Goodwill, which is not tax deductible. Intangible assets acquired, which totaled $20.4 million, consist primarily of customer relationships and software technology, which are being amortized over a six-year life and five-year life, respectively.

ASSET ACQUISITIONS

Purchase of Intellectual Property

In February 2018, the Company paid $40.0 million to an affiliate of Inveshare, Inc. (“Inveshare”) for delivery of blockchain technology applications, as contemplated as part of the Company’s acquisition of intellectual property assets from Inveshare.

NOTE 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Level 1	Quoted market prices in active markets for identical assets and liabilities.
Level 2	Observable market-based inputs other than quoted prices in active markets for identical assets and liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company calculates the fair value of its Level 1 and Level 2 instruments, as applicable, based on the exchange traded price of similar or identical instruments where available or based on other observable instruments. These calculations take into consideration the credit risk of both the Company and its counterparties. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The fair values of the contingent consideration obligations are based on a probability weighted approach derived from the estimates of earn-out criteria and the probability assessment with respect to the likelihood of achieving those criteria. The measurement is based on significant inputs that are not observable in the market, therefore, the Company classifies this

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liability as Level 3 in the table below.

The following tables set forth the Company's financial assets and liabilities at September 30, 2018 and June 30, 2018, respectively, that are recorded at fair value, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$65.8	$ —	$ —	$65.8
Other current assets:				
Securities	0.1	—	—	0.1
Other non-current assets:				
Securities	75.8	—	—	75.8
Total assets as of September 30, 2018	$141.7	$ —	$ —	$141.7
Liabilities:				
Contingent consideration obligations	—	—	18.1	18.1
Total liabilities as of September 30, 2018	$—	$ —	$ 18.1	$18.1

	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$86.8	$ —	$ —	$86.8
Other current assets:				
Securities	0.1	—	—	0.1
Other non-current assets:				
Securities	66.9	—	—	66.9
Total assets as of June 30, 2018	$153.8	$ —	$ —	$153.8
Liabilities:				
Contingent consideration obligations	—	—	18.6	18.6
Total liabilities as of June 30, 2018	$—	$ —	$ 18.6	$18.6

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(1) Money market funds include money market deposit account balances of $28.7 million and $28.4 million as of September 30, 2018 and June 30, 2018, respectively.

In addition, the company has non-marketable securities with a carrying amount of $7.3 million as of September 30, 2018 that are classified as part of Other non-current assets.

The following table sets forth an analysis of changes during the three months ended September 30, 2018 and 2017, in Level 3 financial liabilities of the Company:

	September 30, 2018	September 30, 2017
	(in millions)	
Beginning balance	$ 18.6	$ 6.7
Additional contingent consideration incurred	—	1.7
Increase (decrease) in contingent consideration liability	—	—
Foreign currency impact on contingent consideration liability	(0.4)	—
Payments	(0.2)	—
Ending balance	$ 18.1	$ 8.4

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Changes in economic conditions or model based valuation techniques may require the transfer of financial instruments between levels. The Company's policy is to record transfers between levels if any, as of the beginning of the fiscal year.

NOTE 9. OTHER NON-CURRENT ASSETS

Other non-current assets consisted of the following:

	September 30, 2018	June 30, 2018
	(in millions)	
Deferred client conversion and start-up costs	$185.0	$ 169.5
Deferred sales commissions costs	84.6	—
Contract assets (a)	37.4	16.5
Deferred data center costs (b)	33.4	35.0
Long-term investments	88.6	80.3
Long-term broker fees	36.8	28.7
Other	26.7	30.5
Total	$492.6	$ 360.5

(a) Contract assets result from revenue already recognized but not yet invoiced, including certain future amounts to be collected under software term licenses and certain other client contracts.

(b) Represents deferred data center costs associated with the Company's information technology services agreements with International Business Machines Corporation ("IBM"). Please refer to Note 14, "Contractual Commitments, Contingencies and Off-Balance Sheet Arrangements" for a further discussion.

The total amount of deferred client conversion and start-up costs and deferred sales commission costs amortized in Operating expenses during the period was $15.7 million.

NOTE 10. PAYABLES AND ACCRUED EXPENSES

Payables and accrued expenses consisted of the following:

	September 30, 2018	June 30, 2018
	(in millions)	
Accounts payable	$128.4	$ 191.8
Employee compensation and benefits	126.4	233.2
Accrued broker fees	53.8	85.2
Accrued taxes	16.6	25.3
Accrued dividend payable	56.5	42.5
Customer deposits	36.3	39.2
Other	53.7	53.9
Total	$471.8	$ 671.0

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NOTE 11. BORROWINGS

Outstanding borrowings and available capacity under the Company’s borrowing arrangements were as follows:

	Expiration Date	Principal amount outstanding at September 30, 2018	Carrying value at September 30, 2018	Carrying value at June 30, 2018	Unused Available Capacity	Fair Value at September 30, 2018
			(in millions)			
Long-term debt						
Fiscal 2017 Revolving Credit Facility	February 2022	$ 250.0	$ 250.0			