JABIL INC
Form 10-Q
January 09, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 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: 001-14063

JABIL INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-1886260**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

10560 Dr. Martin Luther King, Jr. Street North, St. Petersburg, Florida 33716

(Address of principal executive offices) (Zip Code)

(727) 577-9749

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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	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

As of January 3, 2019, there were 154,715,128 shares of the registrant s Common Stock outstanding.

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JABIL INC. AND SUBSIDIARIES INDEX

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)

	November 30, 2018 (Unaudited)	August 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 804,409	$ 1,257,949
Accounts receivable, net of allowance for doubtful accounts of $14,401 as of November 30, 2018 and $15,181 as of August 31, 2018	2,777,601	1,693,268
Contract assets	761,405	
Inventories, net	3,214,513	3,457,706
Prepaid expenses and other current assets	662,811	1,141,000
Total current assets	8,220,739	7,549,923
Property, plant and equipment, net of accumulated depreciation of $3,761,554 as of November 30, 2018 and $3,646,945 as of August 31, 2018	3,271,559	3,198,016
Goodwill	625,431	627,745
Intangible assets, net of accumulated amortization of $314,219 as of November 30, 2018 and $307,178 as of August 31, 2018	270,684	279,131
Deferred income taxes	216,209	218,252
Other assets	173,715	172,574
Total assets	$ 12,778,337	$ 12,045,641
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of notes payable and long-term debt	$ 25,193	$ 25,197
Accounts payable	5,458,398	4,942,932
Accrued expenses	2,551,720	2,262,744
Total current liabilities	8,035,311	7,230,873
Notes payable and long-term debt, less current installments	2,487,912	2,493,502
Other liabilities	96,317	94,617
Income tax liabilities	136,480	148,884
Deferred income taxes	116,804	114,385

Total liabilities	10,872,824	10,082,261
Commitments and contingencies		
Equity:		
Jabil Inc. stockholders equity:		
Preferred stock, $0.001 par value, authorized 10,000,000 shares; no shares issued and no shares outstanding		
Common stock, $0.001 par value, authorized 500,000,000 shares; 258,816,662 and 257,130,145 shares issued and 157,986,896 and 164,588,172 shares outstanding as of November 30, 2018 and August 31, 2018, respectively	259	257
Additional paid-in capital	2,235,827	2,218,673
Retained earnings	1,911,451	1,760,097
Accumulated other comprehensive loss	(31,948)	(19,399)
Treasury stock at cost, 100,829,766 and 92,541,973 shares as of November 30, 2018 and August 31, 2018, respectively	(2,223,673)	(2,009,371)
Total Jabil Inc. stockholders equity	1,891,916	1,950,257
Noncontrolling interests	13,597	13,123
Total equity	1,905,513	1,963,380
Total liabilities and equity	$ 12,778,337	$ 12,045,641

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share data)

(Unaudited)

	Three months ended	
	November 30, 2018	November 30, 2017
Net revenue	$ 6,506,275	$ 5,585,532
Cost of revenue	5,986,625	5,116,247
Gross profit	519,650	469,285
Operating expenses:		
Selling, general and administrative	278,126	293,055
Research and development	11,143	9,109
Amortization of intangibles	7,646	9,979
Restructuring and related charges	6,025	11,388
Operating income	216,710	145,754
Other expense	13,550	5,882
Interest income	(4,379)	(3,813)
Interest expense	42,652	36,246
Income before income tax	164,887	107,439
Income tax expense	40,813	43,520
Net income	124,074	63,919
Net income attributable to noncontrolling interests, net of tax	474	124
Net income attributable to Jabil Inc.	$ 123,600	$ 63,795
Earnings per share attributable to the stockholders of Jabil Inc.:		
Basic	$ 0.77	$ 0.36
Diluted	$ 0.76	$ 0.35
Weighted average shares outstanding:		
Basic	161,557	176,936
Diluted	163,670	180,203

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended November 30, 2018	Three months ended November 30, 2017
Net income	$ 124,074	$ 63,919
Other comprehensive income (loss):		
Foreign currency translation adjustment	377	(3,801)
Derivative instruments	(4,284)	2,553
Available for sale securities	(8,745)	(1,465)
Actuarial gain (loss)	103	(423)
Total other comprehensive loss	(12,549)	(3,136)
Comprehensive income	$ 111,525	$ 60,783
Comprehensive income attributable to noncontrolling interests	474	124
Comprehensive income attributable to Jabil Inc.	$ 111,051	$ 60,659

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except for share data)

(Unaudited)

	Jabil Inc. Stockholders Equity							
	Common Stock							
	Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance as of August 31, 2018	164,588,172	$ 257	$ 2,218,673	$ 1,760,097	$ (19,399)	$ (2,009,371)	$ 13,123	$ 1,963,380
Shares issued under employee stock purchase plan	354		8					8
Vesting of restricted stock awards	1,686,163	2	(2)					
Purchases of treasury stock under employee stock plans	(407,447)					(9,715)		(9,715)
Treasury shares purchased	(7,880,346)					(204,587)		(204,587)
Recognition of stock-based compensation			17,148					17,148
Declared dividends				(13,101)				(13,101)
Cumulative effect adjustment for adoption of new accounting standards				40,855				40,855
Comprehensive income				123,600	(12,549)		474	111,525

Balance as of November 30, 2018	157,986,896	$ 259	$ 2,235,827	$ 1,911,451	$ (31,948)	$ (2,223,673)	$ 13,597	$ 1,905,513

	Jabil Inc. Stockholders Equity							
	Common Stock							
	Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance as of August 31, 2017	177,727,653	$ 253	$ 2,104,203	$ 1,730,893	$ 54,620	$ (1,536,455)	$ 14,830	$ 2,368,344
Shares issued upon exercise of stock options	29,534							
Vesting of restricted stock awards	2,474,125	3	(3)					
Purchases of treasury stock under employee stock plans	(724,323)					(20,745)		(20,745)
Treasury shares purchased	(3,201,329)					(93,309)		(93,309)
Recognition of stock-based compensation			44,973					44,973
Declared dividends				(15,353)				(15,353)
Comprehensive income				63,795	(3,136)		124	60,783
Foreign currency adjustments attributable to noncontrolling interests							(1)	(1)
Balance as of November 30, 2017	176,305,660	$ 256	$ 2,149,173	$ 1,779,335	$ 51,484	$ (1,650,509)	$ 14,953	$ 2,344,692

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three months ended November 30, 2018	Three months ended November 30, 2017
Cash flows provided by (used in) operating activities:		
Net income	$ 124,074	$ 63,919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	188,836	194,633
Restructuring and related charges	184	6,812
Recognition of stock-based compensation expense and related charges	17,249	44,974
Deferred income taxes	4,371	(11,507)
Other, net	44,282	3,812
Change in operating assets and liabilities, exclusive of net assets acquired:		
Accounts receivable	(600,630)	(872,907)
Contract assets	(761,910)	
Inventories	242,506	(320,814)
Prepaid expenses and other current assets	(103,040)	(99,635)
Other assets	(2,528)	(13,549)
Accounts payable, accrued expenses and other liabilities	754,913	354,617
Net cash used in operating activities	(91,693)	(649,645)
Cash flows provided by (used in) investing activities:		
Acquisition of property, plant and equipment	(231,513)	(218,617)
Proceeds and advances from sale of property, plant and equipment	10,227	20,330
Cash paid for business and intangible asset acquisitions, net of cash		(95,858)
Cash receipts on sold receivables	96,846	596,058
Other, net	(6,812)	(1,067)
Net cash (used in) provided by investing activities	(131,252)	300,846
Cash flows provided by (used in) financing activities:		
Borrowings under debt agreements	3,071,559	1,792,000
Payments toward debt agreements	(3,078,197)	(1,748,599)
Payments to acquire treasury stock	(204,587)	(93,309)
Dividends paid to stockholders	(14,528)	(16,231)
Treasury stock minimum tax withholding related to vesting of restricted stock	(9,715)	(20,745)
Other, net	8	(3,912)

Net cash used in financing activities	(235,460)	(90,796)
Effect of exchange rate changes on cash and cash equivalents	4,865	(4,066)
Net decrease in cash and cash equivalents	(453,540)	(443,661)
Cash and cash equivalents at beginning of period	1,257,949	1,189,919
Cash and cash equivalents at end of period	$ 804,409	$ 746,258

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein have been included. Jabil Inc. (the Company) has made certain reclassification adjustments to conform prior periods Condensed Consolidated Financial Statements to the current presentation. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Annual Report on Form 10-K of the Company for the fiscal year ended August 31, 2018. Results for the three months ended November 30, 2018 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2019.

2. Earnings Per Share and Dividends

Earnings Per Share

The Company calculates its basic earnings per share by dividing net income attributable to the Company by the weighted average number of common shares outstanding during the period. The Company s diluted earnings per share is calculated in a similar manner, but includes the effect of dilutive securities. The difference between the weighted average number of basic shares outstanding and the weighted average number of diluted shares outstanding is primarily due to dilutive unvested restricted stock awards and dilutive stock appreciation rights.

Potential shares of common stock are excluded from the computation of diluted earnings per share when their effect would be antidilutive. Performance-based restricted stock awards are considered dilutive when the related performance criteria have been met assuming the end of the reporting period represents the end of the performance period. All potential shares of common stock are antidilutive in periods of net loss. Potential shares of common stock not included in the computation of earnings per share because their effect would have been antidilutive or because the performance criterion was not met were as follows (in thousands):

	Three months ended	
	November 30, 2018	**November 30, 2017**
Restricted stock awards	2,157	2,549

Dividends

The following table sets forth cash dividends declared by the Company to common stockholders during the three months ended November 30, 2018 and 2017 (in thousands, except for per share data):

	Dividend Declaration Date	Dividend per Share	Total of Cash Dividends Declared	Date of Record for Dividend Payment	Dividend Cash Payment Date
Fiscal Year 2019:	October 18, 2018	$ 0.08	$ 13,226	November 15, 2018	December 3, 2018
Fiscal Year 2018:	October 19, 2017	$ 0.08	$ 14,588	November 15, 2017	December 1, 2017

3. Inventories

Inventories consist of the following (in thousands):

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	November 30, 2018	August 31, 2018
Raw materials	$ 2,293,803	$ 2,070,569
Work in process	502,723	788,742
Finished goods	492,172	659,335
Reserve for excess and obsolete inventory	(74,185)	(60,940)
Inventories, net	$ 3,214,513	$ 3,457,706

4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	November 30, 2018	August 31, 2018
Contract liabilities	$ 709,258	$
Deferred income		691,365
Accrued compensation and employee benefits	585,585	570,400
Other accrued expenses	1,256,877	1,000,979
Accrued expenses	$ 2,551,720	$ 2,262,744

5. Stock-Based Compensation and Share Repurchases

The Company recognized stock-based compensation expense within selling, general and administrative expense as follows (in thousands):

	Three months ended	
	November 30, 2018	November 30, 2017
Restricted stock and stock appreciation rights	$ 15,051	$ 43,507
Employee stock purchase plan	2,198	1,700
Other[1]		7,538
Total	$ 17,249	$ 52,745

(1) Represents a one-time cash-settled stock award that vested on November 30, 2017.

As of November 30, 2018, the shares available to be issued under the 2011 Stock Award and Incentive Plan were 11,936,088.

Restricted Stock Awards

Certain key employees have been granted time-based, performance-based and market-based restricted stock unit awards. The time-based restricted stock units generally vest on a graded vesting schedule over three years. The performance-based restricted stock units generally vest on a cliff vesting schedule over three years and up to a maximum of 150%, depending on the specified performance condition and the level of achievement obtained. The performance-based restricted stock units have a vesting condition that is based upon the Company s cumulative adjusted core earnings per share during the performance period. The market-based restricted stock units generally vest on a cliff vesting schedule over three years and up to a maximum of 200%, depending on the specified performance condition and the level of achievement obtained. The market-based restricted stock units have a vesting condition that is tied to the Company s total shareholder return based on the Company s stock performance in relation to the companies in the Standard and Poor s (S&P) Super Composite Technology Hardware and Equipment Index excluding the Company. During the three months ended November 30, 2018 and 2017, the Company awarded approximately 1.5 million and 1.3 million time-based restricted stock units, respectively, 0.4 million and 0.4 million performance-based restricted stock units, respectively and 0.4 million and 0.4 million market-based stock units, respectively.

The following represents the stock-based compensation information for the period indicated (in thousands):

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		Three months ended November 30, 2018
Unrecognized stock-based compensation expense restricted stock	$	78,158
Remaining weighted-average period for restricted stock expense		1.5 years

Share Repurchases

In June 2018, the Company s Board of Directors authorized the repurchase of up to $350.0 million of the Company s common stock (the 2018 Share Repurchase Program). The 2018 Share Repurchase Program expires August 31, 2019. As of November 30, 2018, 7.9 million shares had been repurchased for $204.5 million and $145.5 million remains available under the 2018 Share Repurchase Program.

6. Concentration of Risk and Segment Data

Concentration of Risk

Sales of the Company s products are concentrated among specific customers. During the three months ended November 30, 2018, the Company s five largest customers accounted for approximately 48% of its net revenue and 75 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Electronics Manufacturing Services (EMS) and Diversified Manufacturing Services (DMS) operating segments.

The Company procures components from a broad group of suppliers. Some of the products manufactured by the Company require one or more components that are available from only a single source.

Segment Data

Net revenue for the operating segments is attributed to the segment in which the service is performed. An operating segment s performance is evaluated based on its pre-tax operating contribution, or segment income. Segment income is defined as net revenue less cost of revenue, segment selling, general and administrative expenses, segment research and development expenses and an allocation of corporate manufacturing expenses and selling, general and administrative expenses. Segment income does not include amortization of intangibles, stock-based compensation expense and related charges, restructuring and related charges, distressed customer charges, acquisition and integration charges, loss on disposal of subsidiaries, settlement of receivables and related charges, impairment of notes receivable and related charges, goodwill impairment charges, business interruption and impairment charges, net, income (loss) from discontinued operations, gain (loss) on sale of discontinued operations, other expense, interest income, interest expense, income tax expense or adjustment for net income (loss) attributable to noncontrolling interests. Transactions between operating segments are generally recorded at amounts that approximate those at which we would transact with third parties.

The following table sets forth operating segment information (in thousands):

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	Three months ended November 30, 2018	Three months ended November 30, 2017
Net revenue		
EMS	$ 3,503,103	$ 2,862,060
DMS	3,003,172	2,723,472
	$ 6,506,275	$ 5,585,532
Segment income and reconciliation of income before income tax		
EMS	$ 84,095	$ 85,710
DMS	169,565	141,510
Total segment income	$ 253,660	$ 227,220
Reconciling items:		
Amortization of intangibles	(7,646)	(9,979)
Stock-based compensation expense and related charges	(17,249)	(52,745)
Restructuring and related charges	(6,025)	(11,388)
Acquisition and integration charges	(8,890)	
Business interruption and impairment charges, net(1)	2,860	(7,354)
Other expense	(13,550)	(5,882)
Interest income	4,379	3,813
Interest expense	(42,652)	(36,246)
Income before income tax	$ 164,887	$ 107,439

(1) Charges, net of insurance proceeds of $2.9 million and $10.3 million, for the three months ended November 30, 2018 and 2017, respectively, relate to business interruption and asset impairment costs associated with damage from Hurricane Maria, which impacted our operations in Cayey, Puerto Rico.

As of November 30, 2018, the Company operated in 29 countries worldwide. Sales to unaffiliated customers are based on the Company s location that maintains the customer relationship and transacts the external sale.

The following table sets forth, for the periods indicated, foreign source revenue expressed as a percentage of net revenue:

	Three months ended November 30, 2018	Three months ended November 30, 2017
Foreign source revenue	92.7%	92.3%

7. Notes Payable and Long-Term Debt

Notes payable and long-term debt outstanding as of November 30, 2018 and August 31, 2018 are summarized below (in thousands):

	Maturity Date	November 30, 2018	August 31, 2018
5.625% Senior Notes	Dec 15, 2020	$ 398,218	$ 397,995
4.700% Senior Notes	Sep 15, 2022	497,514	497,350
4.900% Senior Notes	Jul 14, 2023	298,875	298,814
3.950% Senior Notes	Jan 12, 2028	494,362	494,208
Borrowings under credit facilities[(1)]	Nov 8, 2022 and Aug 24, 2020		
Borrowings under loans	Nov 8, 2022 and Aug 24, 2020	824,136	830,332
Total notes payable and long-term debt		2,513,105	2,518,699
Less current installments of notes payable and long-term debt		25,193	25,197
Notes payable and long-term debt, less current installments		$ 2,487,912	$ 2,493,502

(1) As of November 30, 2018, the Company has $2.3 billion in available unused borrowing capacity under its revolving credit facilities.

Debt Covenants

Borrowings under the Company s debt agreements are subject to various covenants that limit the Company s ability to: incur additional indebtedness, sell assets, effect mergers and certain transactions, and effect certain transactions with subsidiaries and affiliates. In addition, the revolving credit facilities and the 4.900% Senior Notes contain debt leverage and interest coverage covenants. The Company is also subject to certain covenants requiring the Company to offer to repurchase the 5.625%, 4.700%, 4.900% or 3.950% Senior Notes upon a change of control. As of November 30, 2018 and August 31, 2018, the Company was in compliance with its debt covenants.

Fair Value

The estimated fair values of the Company s publicly traded debt, including the 5.625%, 4.700% and 3.950% Senior Notes, were approximately $410.2 million, $503.7 million and $449.5 million, respectively, as of November 30, 2018. The fair value estimates are based upon observable market data (Level 2 criteria). The estimated fair value of the Company s private debt, the 4.900% Senior Notes, was approximately $299.0 million, as of November 30, 2018. This fair value estimate is based on the Company s indicative borrowing cost derived from discounted cash flows (Level 3 criteria). The carrying amounts of borrowings under credit facilities and under loans approximate fair value as interest rates on these instruments approximate current market rates.

8. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under a foreign asset-backed securitization program, a North American asset-back securitization program and nine uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the three months ended November 30, 2018 and 2017 were not material. The Company does not record a servicing asset or liability on the Condensed Consolidated Balance Sheets as the Company estimates that the fee it receives to service these receivables approximates the fair market compensation to provide the servicing activities.

Transfers of the receivables under the programs are accounted for as sales and, accordingly, net receivables sold under the programs are excluded from accounts receivable on the Condensed Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows. The adoption of ASU 2016-15 described in Note 14, New Accounting Guidance, resulted in a reclassification of cash flows from operating activities to investing activities in the Company s Condensed Consolidated Statement of Cash Flows for cash receipts related to collections on the deferred purchase price receivable on asset-backed securitization transactions. In addition, the beneficial interest of $162.2 million and $747.3 million for the three months ended November 30, 2018 and 2017, respectively, obtained in exchange for securitized receivables are reported as non-cash investing activities.

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Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade accounts receivable under its foreign asset-backed securitization program to a special purpose entity, which in turn sells certain of the receivables to an unaffiliated financial institution and a conduit administered by an unaffiliated financial institution on a monthly basis. Effective October 1, 2018, the foreign asset-backed securitization program terms were amended and the program was extended to September 30, 2021. In connection with this amendment, there is no longer a deferred purchase price receivable for the foreign asset-backed securitization program as the entire purchase price is paid in cash when the receivables are sold.

As of October 1, 2018, approximately $734.2 million of accounts receivable sold under the foreign asset-backed securitization program was exchanged for the outstanding deferred purchase price receivable of $335.5 million. The remaining amount due to the financial institution of $398.7 million was subsequently settled for $25.2 million of cash and $373.5 million of trade accounts receivable sold to the financial institution. The previously sold trade accounts receivable were recorded at fair market value. Prior to the amendment, any portion of the purchase price for the receivables not paid in cash upon the sale occurring was recorded as a deferred purchase price receivable, which was paid from available cash as payments on the receivables were collected.

The special purpose entity in the foreign asset-backed securitization program is a separate bankruptcy-remote entity whose assets would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company is deemed the primary beneficiary of this special purpose entity as the Company has both the power to direct the activities of the entity that most significantly impact the entity s economic performance and the obligation to absorb losses or the right to receive the benefits that could potentially be significant to the entity from the transfer of the trade accounts receivable into the special purpose entity. Accordingly, the special purpose entity associated with the foreign asset-backed securitization program is included in the Company s Condensed Consolidated Financial Statements.

The North American asset-backed securitization program was terminated on October 9, 2018 and as of this date approximately $500.0 million of accounts receivable sold under the program was exchanged for the outstanding deferred purchase price receivable of $300.0 million and $200.0 million of cash. The previously sold trade accounts receivable were recorded at fair market value.

On November 27, 2018, the Company entered into a new North American asset-backed securitization program. The Company continuously sells designated pools of trade accounts receivable under its new North American asset-backed securitization program to a special purpose entity, which in turn sells certain of the receivables to conduits administered by unaffiliated financial institutions on a monthly basis. The special purpose entity in the North American asset-backed securitization program is a wholly-owned subsidiary of the Company and is included in the Company s Condensed Consolidated Financial Statements. There is no longer a deferred purchase price receivable for the North American asset-backed securitization program as the entire purchase price is paid in cash when the receivables are sold. Additionally, certain receivables are pledged as collateral to the unaffiliated financial institution.

Following is a summary of the asset-backed securitization programs and key terms:

	Maximum Amount of Net Cash Proceeds (in millions)[(1)]	**Expiration Date**

North American	$	390.0	November 22, 2021
Foreign	$	400.0	September 30, 2021

(1) Maximum amount available at any one time.

In connection with the asset-backed securitization programs, the Company recognized the following (in millions):

	Three months ended			
	November 30, 2018 (4)		November 30, 2017	
Trade accounts receivable sold	$	750	$	2,392
Cash proceeds received[1]	$	744	$	1,628
Pre-tax losses on sale of receivables[2]	$	6	$	4
Deferred purchase price receivables as of November 30[3]	$		$	760

(1) For the three months ended November 30, 2018 and 2017, the amount represented proceeds from collections reinvested in revolving-period transfers.

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(2) Recorded to other expense within the Condensed Consolidated Statements of Operations.

(3) Recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to their credit quality and short-term maturity the fair values approximated book values. The unobservable inputs consist of estimated credit losses and estimated discount rates, which both have an immaterial impact on the fair value calculations.

(4) Excludes $650.3 million of trade accounts receivable sold, $488.1 million of cash and $13.9 million of net cash received prior to the amendment of the foreign asset-backed securitization program and under the previous North American asset-backed securitization program.

The asset-backed securitization programs require compliance with several covenants. The North American asset-based securitization program covenants include compliance with the interest ratio and debt to EBITDA ratio of the Credit Facility. The foreign asset-backed securitization program covenants include limitations on certain corporate actions such as mergers and consolidations. As of November 30, 2018 and August 31, 2018, the Company was in compliance with all covenants under the asset-backed securitization programs.

Trade Accounts Receivable Sale Programs

The following is a summary of the nine trade accounts receivable sale programs with unaffiliated financial institutions where the Company may elect to sell receivables and the unaffiliated financial institution may elect to purchase, at a discount, on an ongoing basis:

Program	Maximum Amount (in millions)[1]			Type of Facility	Expiration Date
A	$	875.0		Uncommitted	August 31, 2022[2][3]
B	$	150.0		Uncommitted	November 30, 2019[4]
C		800.0	CNY	Uncommitted	February 13, 2019
D	$	100.0		Uncommitted	May 4, 2023[5]
E	$	50.0		Uncommitted	August 25, 2019
F	$	150.0		Uncommitted	