

BOSTON SCIENTIFIC CORP
Form 10-Q
May 03, 2017
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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 March 31, 2017

OR

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

Commission File No. 1-11083

BOSTON SCIENTIFIC CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

04-2695240

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

300 BOSTON SCIENTIFIC WAY, MARLBOROUGH, MASSACHUSETTS 01752-1234

(Address of principal executive offices) (zip code)

(508) 683-4000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)

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

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

Class	Shares outstanding as of April 28, 2017
Common Stock, \$0.01 par value	1,369,401,733

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FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

in millions, except per share data	Three Months Ended March 31,	
	2017	2016
Net sales	\$2,160	\$1,964
Cost of products sold	650	573
Gross profit	1,510	1,391
Operating expenses:		
Selling, general and administrative expenses	794	716
Research and development expenses	235	210
Royalty expense	17	19
Amortization expense	143	136
Contingent consideration expense (benefit)	(50)	4
Restructuring charges (credits)	4	3
Litigation-related charges (credits)	3	10
	1,146	1,098
Operating income (loss)	364	293
Other income (expense):		
Interest expense	(57)	(59)
Other, net	(2)	(6)
Income (loss) before income taxes	305	228
Income tax expense (benefit)	15	26
Net income (loss)	\$290	\$202
Net income (loss) per common share — basic	\$0.21	\$0.15
Net income (loss) per common share — assuming dilution	\$0.21	\$0.15
Weighted-average shares outstanding		
Basic	1,365.4	1,350.4
Assuming dilution	1,390.2	1,369.9

See notes to the unaudited condensed consolidated financial statements.

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BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in millions)	Three Months Ended March 31,	
	2017	2016
Net income (loss)	\$290	\$202
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	8	16
Net change in unrealized gains and losses on derivative financial instruments	(55)	(69)
Total other comprehensive income (loss)	(47)	(53)
Total comprehensive income (loss)	\$243	\$149

See notes to the unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of	
	March	December
	31,	31,
	2017	2016
	(Unaudited)	
in millions, except share and per share data		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 156	\$ 196
Trade accounts receivable, net	1,429	1,472
Inventories	971	955
Deferred and prepaid income taxes	65	75
Other current assets	405	541
Total current assets	3,026	3,239
Property, plant and equipment, net	1,652	1,630
Goodwill	6,680	6,678
Other intangible assets, net	5,743	5,883
Other long-term assets	842	666
TOTAL ASSETS	\$ 17,943	\$ 18,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current debt obligations	\$ 5	\$ 64
Accounts payable	376	447
Accrued expenses	2,298	2,312
Other current liabilities	811	764
Total current liabilities	3,490	3,587
Long-term debt	5,509	5,420
Deferred income taxes	19	18
Other long-term liabilities	1,872	2,338
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value - authorized 50,000,000 shares, none issued and outstanding		
Common stock, \$0.01 par value - authorized 2,000,000,000 shares - issued 1,616,648,758 shares as of March 31, 2017 and 1,609,670,817 shares as of December 31, 2016	16	16
Treasury stock, at cost - 247,566,270 shares as of March 31, 2017 and December 31, 2016	(1,717)	(1,717)
Additional paid-in capital	17,015	17,014
Accumulated deficit	(8,215)	(8,581)
Accumulated other comprehensive income (loss), net of tax	(46)	1
Total stockholders' equity	7,053	6,733
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,943	\$ 18,096

See notes to the unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended March 31, 2017 2016	
Cash provided by (used for) operating activities	\$114	\$116
Investing activities:		
Purchases of property, plant and equipment	(112)	(60)
Proceeds on disposals of property, plant and equipment	—	30
Payments for investments, acquisitions of certain technologies and issuances of notes receivable	(28)	(18)
Cash provided by (used for) investing activities	(140)	(48)
Financing activities:		
Payments on long-term borrowings	(250)	—
Payment of contingent consideration amounts previously established in purchase accounting	(18)	(21)
Proceeds from borrowings on credit facilities	1,016	40
Payments on borrowings from credit facilities	(735)	(40)
Cash used to net share settle employee equity awards	(61)	(57)
Proceeds from issuances of shares of common stock	33	27
Cash provided by (used for) financing activities	(15)	(51)
Effect of foreign exchange rates on cash	1	2
Net increase (decrease) in cash and cash equivalents	(40)	19
Cash and cash equivalents at beginning of period	196	319
Cash and cash equivalents at end of period	\$156	\$338
Supplemental Information		
Stock-based compensation expense	\$30	\$28

See notes to the unaudited condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Boston Scientific Corporation have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) 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 only of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the consolidated financial statements and footnotes thereto included in Item 8 of our most recent Annual Report on Form 10-K.

Subsequent Events

We evaluate events occurring after the date of our most recent accompanying unaudited condensed consolidated balance sheets for potential recognition or disclosure in our financial statements. We did not identify any material subsequent events requiring adjustment to our accompanying unaudited condensed consolidated financial statements (recognized subsequent events) for the three months ended March 31, 2017. Those items requiring disclosure (unrecognized subsequent events) in the financial statements have been disclosed accordingly. Refer to Note E – Borrowings and Credit Arrangements and Note I – Commitments and Contingencies for more information.

NOTE B – ACQUISITIONS AND STRATEGIC INVESTMENTS

We did not close any material acquisitions during the first quarter of 2017 or 2016.

Symetis SA

On March 29, 2017, we entered into a definitive agreement to acquire Symetis SA (Symetis) for \$435 million in cash. Symetis is a privately-held Swiss structural heart company focused on minimally-invasive transcatheter aortic valve implantation (TAVI) devices. The transaction is expected to close in the second quarter of 2017, subject to customary closing conditions. Upon completion of the transaction, Symetis will be integrated into our Interventional Cardiology business.

Contingent Consideration

Certain of our acquisitions involve contingent consideration arrangements. Payment of additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels, achieving product development targets and/or obtaining regulatory approvals. In accordance with U.S. GAAP, we recognize a liability equal to the fair value of the contingent payments we expect to make as of the acquisition date. We re-measure this liability each reporting period and record changes in the fair value through a separate line item within our condensed consolidated statements of operations.

We recorded a net benefit related to the changes in fair value of our contingent consideration liabilities of \$50 million during the first quarter of 2017 and net expenses of \$4 million during the first quarter of 2016. We made contingent consideration payments of \$28 million during the first quarter of 2017 and \$63 million during the first quarter of 2016.

Changes in the fair value of our contingent consideration liabilities were as follows (in millions):

Balance as of December 31, 2016	\$204
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Fair value adjustments	(50)
Contingent payments related to prior period acquisitions	(28)
Balance as of March 31, 2017	\$126

As of March 31, 2017, the maximum amount of future contingent consideration (undiscounted) that we could be required to pay was approximately \$1.283 billion.

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Contingent consideration liabilities are remeasured to fair value each reporting period using projected revenues, discount rates, probabilities of payment and projected payment dates. The recurring Level 3 fair value measurements of our contingent consideration liabilities include the following significant unobservable inputs:

Contingent Consideration Liabilities	Fair Value as of March 31, 2017	Valuation Technique	Unobservable Input	Range
R&D and Commercialization-based Milestones	\$45 million	Discounted Cash Flow	Discount Rate Projected Year of Payment	2% - 3% 2017 - 2021
Revenue-based Payments	\$81 million	Discounted Cash Flow	Discount Rate Projected Year of Payment	11% - 15% 2017 - 2026

Increases or decreases in the fair value of our contingent consideration liabilities can result from changes in discount periods and rates, as well as changes in the timing and amount of revenue estimates or in the timing or likelihood of achieving R&D and commercialization-based and revenue-based milestones. Projected contingent payment amounts related to some of our R&D and commercialization-based and revenue-based milestones are discounted back to the current period using a discounted cash flow model. Projected revenues are based on our most recent internal operational budgets and long-range strategic plans. Increases in projected revenues and probabilities of payment may result in higher fair value measurements. Increases in discount rates and the time to payment may result in lower fair value measurements. Increases or decreases in any of those inputs together, or in isolation, may result in a significantly lower or higher fair value measurement.

Strategic Investments

We did not close any material strategic investments during the first quarter of 2017 and 2016.

We account for certain of our strategic investments as equity method investments, in accordance with FASB ASC Topic 323, Investments - Equity Method and Joint Ventures (Topic 323).

The aggregate carrying amount of our strategic investments as of March 31, 2017 and December 31, 2016 were comprised of the following categories:

(in millions)

	As of	
	March 31, 2017	December 31, 2016
Equity method investments	\$266	\$ 265
Cost method investments	34	20
Available-for-sale securities	28	20
Notes receivable	43	42
	\$371	\$ 347

These investments are classified as other long-term assets within our accompanying unaudited condensed consolidated balance sheets, in accordance with U.S. GAAP and our accounting policies. During the three months ended March 31, 2017 and March 31, 2016, the net losses from our strategic investments, presented within the Other, net caption of our condensed consolidated statement of operations were immaterial.

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NOTE C – GOODWILL AND OTHER INTANGIBLE ASSETS

The gross carrying amount of goodwill and other intangible assets and the related accumulated amortization for intangible assets subject to amortization and accumulated write-offs of goodwill as of March 31, 2017 and December 31, 2016 are as follows:

(in millions)	As of			
	March 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization/Write-offs	Gross Carrying Amount	Accumulated Amortization/Write-offs
Amortizable intangible assets				
Technology-related	\$9,123	\$ (4,570)	\$9,123	\$ (4,468)
Patents	516	(372)	529	(374)
Other intangible assets	1,584	(750)	1,583	(722)
	\$11,223	\$ (5,692)	\$11,235	\$ (5,564)
Unamortizable intangible assets				
Goodwill	\$16,580	\$ (9,900)	\$16,578	\$ (9,900)
In-process research and development	92	—	92	—
Technology-related	120	—	120	—