

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 March 31, 2020

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 001-4802

Becton, Dickinson and Company

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of
incorporation or organization)

22-0760120

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

1 Becton Drive, Franklin Lakes, New Jersey 07417-1880

(Address of principal executive offices) (Zip Code)

(201) 847-6800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common stock, par value \$1.00	BDX	New York Stock Exchange
1.000% Notes due December 15, 2022	BDX22A	New York Stock Exchange
1.900% Notes due December 15, 2026	BDX26	New York Stock Exchange
1.401% Notes due May 24, 2023	BDX23A	New York Stock Exchange
3.020% Notes due May 24, 2025	BDX25	New York Stock Exchange
0.174% Notes due June 4, 2021	BDX/21	New York Stock Exchange
0.632% Notes due June 4, 2023	BDX/23A	New York Stock Exchange
1.208% Notes due June 4, 2026	BDX/26A	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
There were 271,776,378 shares of Common Stock, \$1.00 par value, outstanding at March 31, 2020.

BECTON, DICKINSON AND COMPANY
FORM 10-Q
For the quarterly period ended March 31, 2020

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ITEM 1. FINANCIAL STATEMENTS
 BECTON, DICKINSON AND COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 Millions of dollars

	March 31, 2020	September 30, 2019
	(Unaudited)	
Assets		
Current Assets:		
Cash and equivalents	\$ 2,351	\$ 536
Restricted cash	88	54
Short-term investments	6	30
Trade receivables, net	2,160	2,345
Inventories:		
Materials	601	544
Work in process	357	318
Finished products	1,836	1,717
	2,793	2,579
Prepaid expenses and other	1,156	1,119
Total Current Assets	8,555	6,664
Property, Plant and Equipment	11,262	11,128
Less allowances for depreciation and amortization	5,598	5,469
Property, Plant and Equipment, Net	5,664	5,659
Goodwill	23,415	23,376
Developed Technology, Net	10,545	11,054
Customer Relationships, Net	3,261	3,424
Other Intangibles, Net	567	500
Other Assets	1,509	1,088
Total Assets	\$ 53,516	\$ 51,765
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term debt	\$ 4,357	\$ 1,309
Payables, accrued expenses and other current liabilities	4,398	4,345
Total Current Liabilities	8,755	5,655
Long-Term Debt	16,809	18,081
Long-Term Employee Benefit Obligations	1,253	1,272
Deferred Income Taxes and Other Liabilities	5,747	5,676
Commitments and Contingencies (See Note 5)		
Shareholders' Equity		
Preferred stock	2	2
Common stock	347	347
Capital in excess of par value	16,288	16,270
Retained earnings	12,868	12,913
Deferred compensation	23	23
Common stock in treasury - at cost	(6,158)	(6,190)
Accumulated other comprehensive loss	(2,419)	(2,283)
Total Shareholders' Equity	20,951	21,081
Total Liabilities and Shareholders' Equity	\$ 53,516	\$ 51,765

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
Millions of dollars, except per share data
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Revenues	\$ 4,253	\$ 4,195	\$ 8,479	\$ 8,355
Cost of products sold	2,520	2,221	4,766	4,408
Selling and administrative expense	1,025	1,089	2,146	2,161
Research and development expense	264	252	535	510
Acquisitions and other restructurings	75	101	161	191
Other operating expense, net	—	396	—	61
Total Operating Costs and Expenses	3,884	4,059	7,607	7,332
Operating Income	370	136	871	1,024
Interest expense	(134)	(171)	(270)	(342)
Interest income	2	18	3	6
Other (expense) income, net	(38)	20	(11)	30
Income Before Income Taxes	200	3	594	718
Income tax provision (benefit)	17	(17)	134	98
Net Income	183	20	461	619
Preferred stock dividends	(38)	(38)	(76)	(76)
Net income (loss) applicable to common shareholders	\$ 145	\$ (18)	\$ 385	\$ 544
Basic Earnings (Loss) per Share	\$ 0.53	\$ (0.07)	\$ 1.42	\$ 2.02
Diluted Earnings (Loss) per Share	\$ 0.53	\$ (0.07)	\$ 1.40	\$ 1.98
Dividends per Common Share	\$ 0.79	\$ 0.77	\$ 1.58	\$ 1.54

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Millions of dollars
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Net Income	\$ 183	\$ 20	\$ 461	\$ 619
Other Comprehensive (Loss) Income, Net of Tax				
Foreign currency translation adjustments	(125)	76	(99)	42
Defined benefit pension and postretirement plans	17	13	33	28
Cash flow hedges	(109)	(1)	(70)	—
Other Comprehensive (Loss) Income, Net of Tax	(218)	88	(136)	70
Comprehensive (Loss) Income	<u>\$ (35)</u>	<u>\$ 108</u>	<u>\$ 325</u>	<u>\$ 689</u>

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Millions of dollars
(Unaudited)

	Six Months Ended March 31,	
	2020	2019
Operating Activities		
Net income	\$ 461	\$ 619
Adjustments to net income to derive net cash provided by operating activities:		
Depreciation and amortization	1,067	1,126
Share-based compensation	141	152
Deferred income taxes	(136)	(109)
Change in operating assets and liabilities	(258)	(531)
Pension obligation	49	(202)
Gain on sale of business	—	(335)
Product liability-related charge	—	331
Other, net	(128)	(25)
Net Cash Provided by Operating Activities	1,196	1,027
Investing Activities		
Capital expenditures	(395)	(362)
Proceeds from divestitures, net	—	477
Other, net	(147)	(85)
Net Cash (Used for) Provided by Investing Activities	(542)	30
Financing Activities		
Change in credit facility borrowings	210	—
Proceeds from long-term debt and term loans	1,900	—
Payments of debt and term loans	(305)	(905)
Dividends paid	(505)	(491)
Other, net	(90)	(135)
Net Cash Provided by (Used for) Financing Activities	1,210	(1,532)
Effect of exchange rate changes on cash and equivalents and restricted cash	(15)	5
Net increase (decrease) in cash and equivalents and restricted cash	1,849	(469)
Opening Cash and Equivalents and Restricted Cash	590	1,236
Closing Cash and Equivalents and Restricted Cash	\$ 2,439	\$ 767

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of the management of Becton, Dickinson and Company (the "Company" or "BD"), include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and accompanying notes required for a presentation in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2019 Annual Report on Form 10-K. Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Note 2 – Accounting Changes

New Accounting Principle Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued a new lease accounting standard which requires lessees to recognize lease assets and lease liabilities on the balance sheet, as well as requires expanded disclosures regarding leasing arrangements. The Company adopted this standard on October 1, 2019 and elected certain practical expedients permitted under the transition guidance, including a transition method which allows application of the new standard at its adoption date, rather than at the earliest comparative period presented in the financial statements. The Company also elected not to perform any reassessments relative to its expired and existing leases upon its adoption of the new requirements. The Company's adoption of this standard did not materially impact its condensed consolidated financial statements. Additional disclosures regarding the Company's lease arrangements are provided in Note 15.

New Accounting Principles Not Yet Adopted

In June 2016, the FASB issued a new accounting standard which requires earlier recognition of credit losses on loans and other financial instruments held by entities, including trade receivables. The new standard requires entities to measure all expected credit losses for financial assets held at each reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Company is currently evaluating the impact that this new accounting standard will have on its consolidated financial statements upon its adoption on October 1, 2020.

In August 2018, the FASB issued a new accounting standard to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The standard is effective for the Company on October 1, 2020, but early adoption is permitted, including adoption in any interim period. The Company is currently evaluating the impact that this new accounting standard will have on its consolidated financial statements upon its adoption.

Note 3 – Shareholders' Equity

Changes in certain components of shareholders' equity for the first two quarters of fiscal years 2020 and 2019 were as follows:

(Millions of dollars)	Common Stock Issued at Par Value	Capital in Excess of Par Value	Retained Earnings	Deferred Compensation	Treasury Stock	
					Shares (in thousands)	Amount
Balance at September 30, 2019	\$ 347	\$ 16,270	\$ 12,913	\$ 23	(76,260)	\$ (6,190)
Net income	—	—	278	—	—	—
Common dividends (\$0.79 per share)	—	—	(215)	—	—	—
Preferred dividends	—	—	(38)	—	—	—
Common stock issued for share-based compensation and other plans, net	—	(32)	—	1	758	(38)
Share-based compensation	—	82	—	—	—	—
Common stock held in trusts, net (a)	—	—	—	—	(12)	—
Balance at December 31, 2019	\$ 347	\$ 16,320	\$ 12,938	\$ 24	(75,514)	\$ (6,228)
Net income	—	—	183	—	—	—
Common dividends (\$0.79 per share)	—	—	(215)	—	—	—
Preferred dividends	—	—	(38)	—	—	—
Common stock issued for share-based compensation and other plans, net	—	(91)	—	(1)	573	70
Share-based compensation	—	58	—	—	—	—
Common stock held in trusts, net (a)	—	—	—	—	30	—
Balance at March 31, 2020	\$ 347	\$ 16,288	\$ 12,868	\$ 23	(74,911)	\$ (6,158)

(Millions of dollars)	Common Stock Issued at Par Value	Capital in Excess of Par Value	Retained Earnings	Deferred Compensation	Treasury Stock	
					Shares (in thousands)	Amount
Balance at September 30, 2018	\$ 347	\$ 16,179	\$ 12,596	\$ 22	(78,463)	\$ (6,243)
Net income	—	—	599	—	—	—
Common dividends (\$0.77 per share)	—	—	(207)	—	—	—
Preferred dividends	—	—	(38)	—	—	—
Common stock issued for share-based compensation and other plans, net	—	(97)	—	2	851	9
Share-based compensation	—	92	—	—	—	—
Common stock held in trusts, net (a)	—	—	—	—	(12)	—
Effect of change in accounting principles	—	—	68	—	—	—
Balance at December 31, 2018	\$ 347	\$ 16,174	\$ 13,018	\$ 24	(77,624)	\$ (6,235)
Net income	—	—	20	—	—	—
Common dividends (\$0.77 per share)	—	—	(208)	—	—	—
Preferred dividends	—	—	(38)	—	—	—
Common stock issued for share-based compensation and other plans, net	—	(57)	(1)	(1)	618	42
Share-based compensation	—	60	—	—	—	—
Common stock held in trusts, net (a)	—	—	—	—	50	—
Balance at March 31, 2019	\$ 347	\$ 16,177	\$ 12,792	\$ 23	(76,955)	\$ (6,192)

- (a) Common stock held in trusts represents rabbi trusts in connection with deferred compensation under the Company's employee salary and bonus deferral plan and directors' deferral plan.

The components and changes of *Accumulated other comprehensive income (loss)* for the first two quarters of fiscal years 2020 and 2019 were as follows:

(Millions of dollars)	Total	Foreign Currency Translation	Benefit Plans	Cash Flow Hedges
Balance at September 30, 2019	\$ (2,283)	\$ (1,256)	\$ (1,005)	\$ (23)
Other comprehensive income before reclassifications, net of taxes	63	26	—	37
Amounts reclassified into income, net of taxes	19	—	17	2
Balance at December 31, 2019	\$ (2,202)	\$ (1,230)	\$ (988)	\$ 16
Other comprehensive loss before reclassifications, net of taxes	(237)	(125)	—	(111)
Amounts reclassified into income, net of taxes	19	—	17	2
Balance at March 31, 2020	<u>\$ (2,419)</u>	<u>\$ (1,355)</u>	<u>\$ (971)</u>	<u>\$ (93)</u>

(Millions of dollars)	Total	Foreign Currency Translation	Benefit Plans	Cash Flow Hedges
Balance at September 30, 2018	\$ (1,909)	\$ (1,162)	\$ (729)	\$ (17)
Other comprehensive (loss) income before reclassifications, net of taxes	(32)	(35)	3	(1)
Amounts reclassified into income, net of taxes	14	—	13	1
Balance at December 31, 2018	\$ (1,927)	\$ (1,197)	\$ (714)	\$ (16)
Other comprehensive income (loss) before reclassifications, net of taxes	74	76	—	(2)
Amounts reclassified into income, net of taxes	14	—	13	1
Balance at March 31, 2019	<u>\$ (1,839)</u>	<u>\$ (1,121)</u>	<u>\$ (701)</u>	<u>\$ (17)</u>

The amounts of foreign currency translation recognized in other comprehensive income during the three and six months ended March 31, 2020 and 2019 included net gains (losses) relating to net investment hedges. The amounts recognized in other comprehensive income relating to cash flow hedges during the three and six months ended March 31, 2020 related to forward starting interest rate swaps. Additional disclosures regarding the Company's derivatives are provided in Note 12.

Note 4 – Earnings per Share

The weighted average common shares used in the computations of basic and diluted earnings per share (shares in thousands) were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Average common shares outstanding	272,014	269,882	271,555	269,454
Dilutive share equivalents from share-based plans	3,023	—	3,618	4,975
Average common and common equivalent shares outstanding – assuming dilution	<u>275,037</u>	<u>269,882</u>	<u>275,173</u>	<u>274,429</u>
Share equivalents excluded from the diluted shares outstanding calculation because the result would have been antidilutive:				
Mandatory convertible preferred stock	11,685	11,685	11,685	11,685
Share-based plans	—	4,405	—	—

In accordance with the terms of the Company's mandatory convertible preferred stock, on the mandatory conversion date of May 1, 2020, the 2.475 million mandatory convertible preferred shares that were issued in May 2017 in connection with the Company's acquisition of C.R. Bard, Inc. ("Bard") were converted into 11.703 million shares of BD common stock.

Note 5 – Contingencies

Given the uncertain nature of litigation generally, the Company is not able, in all cases, to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which the Company is a party. In accordance with U.S. GAAP, the Company establishes accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). With respect to putative class action lawsuits in the United States and certain of the Canadian lawsuits described below relating to product liability matters, the Company is unable to estimate a range of reasonably possible losses for the following reasons: (i) all or certain of the proceedings are in early stages; (ii) the Company has not received and reviewed complete information regarding all or certain of the plaintiffs and their medical conditions; and/or (iii) there are significant factual issues to be resolved. In addition, there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class. With respect to the civil investigative demand served by the Department of Justice, as discussed below, the Company is unable to estimate a range of reasonably possible losses for the following reasons: (i) all or certain of the proceedings are in early stages; and/or (ii) there are significant factual and legal issues to be resolved.

In view of the uncertainties discussed below, the Company could incur charges in excess of any currently established accruals and, to the extent available, liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on the Company's consolidated results of operations and consolidated cash flows.

Product Liability Matters

The Company believes that certain settlements and judgments, as well as legal defense costs, relating to product liability matters are or may be covered in whole or in part under its product liability insurance policies with a limited number of insurance carriers, or, in some circumstances, indemnification obligations to the Company from other parties, which if disputed, the Company intends to vigorously contest. Amounts recovered under the Company's product liability insurance policies or indemnification arrangements may be less than the stated coverage limits or less than otherwise expected and may not be adequate to cover damages and/or costs relating to claims. In addition, there is no guarantee that insurers or other parties will pay claims or that coverage or indemnity will be otherwise available.

Hernia Product Claims

As of March 31, 2020, the Company is defending approximately 16,815 product liability claims involving the Company's line of hernia repair devices (collectively, the "Hernia Product Claims"). The majority of those claims are currently pending in a coordinated proceeding in Rhode Island State Court, but claims are also pending in other state and/or federal court jurisdictions. In addition, those claims include multiple putative class actions in Canada. Generally, the Hernia Product Claims seek damages for personal injury allegedly resulting from use of the products. From time to time, the Company engages in resolution discussions with plaintiffs' law firms regarding certain of the Hernia Product Claims, but the Company also intends to vigorously defend Hernia Product Claims that do not settle, including through litigation. Trials are scheduled throughout 2020 in various state and/or federal courts, with the first trial currently scheduled for June 2020 in Rhode Island. The Company expects additional trials of Hernia Product Claims to take place over the next 12 months. In August 2018, a new hernia multi-district litigation ("MDL") was ordered to be established in the Southern District of Ohio. The Company cannot give any assurances that the resolution of the Hernia Product Claims that have not settled, including asserted and unasserted claims and the putative class action lawsuits, will not have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity.

Women's Health Product Claims

As of March 31, 2020, the Company is defending approximately 580 product liability claims involving the Company's line of pelvic mesh devices. The majority of those claims are currently pending in various federal court jurisdictions, and a coordinated proceeding in New Jersey State Court, but claims are also pending in other state court jurisdictions. In addition, those claims include putative class actions filed in the United States. Not included in the figures above are approximately 1,005 filed and unfiled claims that have been asserted or threatened against the Company but lack sufficient information to determine whether a pelvic mesh device of the Company is actually at issue.

The claims identified above also include products manufactured by both the Company and two subsidiaries of Medtronic plc (as successor in interest to Covidien plc) ("Medtronic"), each a supplier of the Company. Medtronic has an obligation to defend and indemnify the Company with respect to any product defect liability relating to products its subsidiaries had manufactured. In July 2015, the Company reached an agreement with Medtronic in which Medtronic agreed to take responsibility for pursuing settlement of certain of the Women's Health Product Claims that relate to products distributed by the

Company under supply agreements with Medtronic. In June 2017, the Company amended the agreement with Medtronic to transfer responsibility for settlement of additional Women's Health Product Claims to Medtronic on terms similar to the July 2015 agreement, including with respect to the obligation to make payments to Medtronic towards these potential settlements. As of March 31, 2020, the Company has paid Medtronic \$141 million towards these potential settlements. The Company also may, in its sole discretion, transfer responsibility for settlement of additional Women's Health Product Claims to Medtronic on similar terms. The agreements do not resolve the dispute between the Company and Medtronic with respect to Women's Health Product Claims that do not settle, if any. The foregoing lawsuits, unfiled claims, putative class actions, and other claims, together with claims that have settled or are the subject of agreements or agreements in principle to settle, are referred to collectively as the "Women's Health Product Claims." The Women's Health Product Claims generally seek damages for personal injury allegedly resulting from use of the products.

As of March 31, 2020, the Company has reached agreements or agreements in principle with various plaintiffs' law firms to settle their respective inventories of cases totaling approximately 15,220 of the Women's Health Product Claims. The Company believes that these Women's Health Product Claims are not the subject of Medtronic's indemnification obligation. These settlement agreements and agreements in principle include unfiled and previously unknown claims held by various plaintiffs' law firms, which are not included in the approximate number of lawsuits set forth in the first paragraph of this section. Each agreement is subject to certain conditions, including requirements for participation in the proposed settlements by a certain minimum number of plaintiffs. The Company continues to engage in discussions with other plaintiffs' law firms regarding potential resolution of unsettled Women's Health Product Claims, which may include additional inventory settlements.

Starting in 2014 in the MDL, the court entered certain pre-trial orders requiring trial work up and remand of a significant number of Women's Health Product Claims, including an order entered in the MDL on January 30, 2018, that requires the work up and remand of all remaining unsettled cases (the "WHP Pre-Trial Orders"). The WHP Pre-Trial Orders may result in material additional costs or trial verdicts in future periods in defending Women's Health Product Claims. Trials are anticipated throughout 2020 in state and federal courts. A trial in the New Jersey coordinated proceeding began in March 2018, and in April 2018 a jury entered a verdict against the Company in the total amount of \$68 million (\$33 million compensatory; \$35 million punitive). The Company is in the process of appealing that verdict. The Company expects additional trials of Women's Health Product Claims to take place over the next 12 months, which may potentially include consolidated trials.

During the course of engaging in settlement discussions with plaintiffs' law firms, the Company has learned, and may in future periods learn, additional information regarding these and other unfiled claims, or other lawsuits, which could materially impact the Company's estimate of the number of claims or lawsuits against the Company.

Filter Product Claims

As of March 31, 2020, the Company is defending approximately 1,785 product liability claims involving the Company's line of inferior vena cava filters (collectively, the "Filter Product Claims"). The majority of those claims were previously pending in an MDL in the United States District Court for the District of Arizona, but those MDL claims either have been, or are in the process of being, remanded to various federal jurisdictions. Filter Product Claims are also pending in various state court jurisdictions, including a coordinated proceeding in Arizona State Court. In addition, those claims include putative class actions filed in the United States and Canada. The Filter Product Claims generally seek damages for personal injury allegedly resulting from use of the products. The Company has limited information regarding the nature and quantity of certain of the Filter Product Claims. The Company continues to receive claims and lawsuits and may in future periods learn additional information regarding other unfiled or unknown claims, or other lawsuits, which could materially impact the Company's estimate of the number of claims or lawsuits against the Company. On May 31, 2019, the MDL Court ceased accepting direct filings or transfers into the Filter Product Claims MDL and, as noted above, remands for non-settled cases have begun and are expected to continue over the next three months. Federal and state court trials are scheduled throughout 2020. As of March 31, 2020, the Company entered into settlement agreements and/or settlement agreements in principle for approximately 7,300 cases. On March 30, 2018, a jury in the first MDL trial found the Company liable for negligent failure to warn and entered a verdict in favor of plaintiffs. The jury found the Company was not liable for (a) strict liability design defect; (b) strict liability failure to warn; and (c) negligent design. The Company has appealed that verdict. On June 1, 2018, a jury in the second MDL trial unanimously found in favor of the Company on all claims. On August 17, 2018, the Court entered summary judgment in favor of the Company on all claims in the third MDL trial. On October 5, 2018, a jury in the fourth MDL trial unanimously found in favor of the Company on all claims. The Company expects additional trials of Filter Product Claims may take place over the next 12 months.

In most product liability litigations (like those described above), plaintiffs allege a wide variety of claims, ranging from allegations of serious injury caused by the products to efforts to obtain compensation notwithstanding the absence of any injury. In many of these cases, the Company has not yet received and reviewed complete information regarding the plaintiffs and their

medical conditions and, consequently, is unable to fully evaluate the claims. The Company expects that it will receive and review additional information regarding any remaining unsettled product liability matters.

In connection with the settlement of a prior litigation with certain of the Company's insurance carriers, an agreement with the Company's insurance carriers was reached to reimburse the Company for certain future costs incurred in connection with Filter Product Claims up to an agreed amount. For certain product liability claims or lawsuits, the Company does not maintain or has limited remaining insurance coverage.

Other Legal Matters

Since early 2013, the Company has received subpoenas or Civil Investigative Demands from a number of State Attorneys General seeking information related to the sales and marketing of certain of the Company's products that are the subject of the Hernia Product Claims and the Women's Health Product Claims. The Company is cooperating with these requests. Although the Company has had, and continues to have, discussions with the State Attorneys General with respect to overall potential resolution of this matter, there can be no assurance that a resolution will be reached or what the terms of any such resolution may be.

In July 2017, a civil investigative demand was served by the Department of Justice seeking documents and information relating to an investigation into possible violations of the False Claims Act in connection with the sales and marketing of FloChec® and QuantaFlo™ devices. The Company is cooperating with these requests. Since it is not feasible to predict the outcome of these matters, the Company cannot give any assurances that the resolution of these matters will not have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity.

The Company is a potentially responsible party to a number of federal administrative proceedings in the United States brought under the Comprehensive Environment Response, Compensation and Liability Act, also known as "Superfund," and similar state laws. The affected sites are in varying stages of development. In some instances, the remedy has been completed, while in others, environmental studies are underway or commencing. For several sites, there are other potentially responsible parties that may be jointly or severally liable to pay all or part of cleanup costs. While it is not feasible to predict the outcome of these proceedings, based upon the Company's experience, current information and applicable law, the Company does not expect these proceedings to have a material adverse effect on its financial condition and/or liquidity. However, one or more of the proceedings could be material to the Company's business and/or results of operations.

On February 27, 2020, a putative class action captioned *Kabak v. Becton, Dickinson and Company, et al.*, Civ. No. 2:20-cv-02155 (SRC) (CLW), was filed in the U.S. District Court for the District of New Jersey against the Company and certain of its officers. The complaint, which purports to be brought on behalf of all persons (other than defendants) who purchased or otherwise acquired the Company's common stock from November 5, 2019 through February 5, 2020, asserts claims for purported violations of Sections 10 and 20 of the Securities Exchange Act of 1934 and SEC Rule 10b-5 promulgated thereunder, and seeks, among other things, damages and costs. The complaint alleges that defendants concealed material information regarding Alaris™ infusion pumps, including that (1) certain pumps exhibited software errors, (2) the Company was investing in remediation efforts as opposed to other enhancements and (3) the Company was thus reasonably likely to recall certain pumps and/or experience regulatory delays. These alleged omissions, the complaint asserts, rendered certain public statements about the Company's business, operations and prospects false or misleading, causing investors to purchase stock at an inflated price. The Company believes these claims are without merit and intends to vigorously defend this action.

On April 27, 2020, three putative stockholders, including the named plaintiff in the Kabak complaint, filed motions to be appointed lead plaintiff and for their counsel to be appointed lead counsel pursuant to the Private Securities Litigation Reform Act of 1995. Those motions remain pending.

The Company is also involved both as a plaintiff and a defendant in other legal proceedings and claims that arise in the ordinary course of business. The Company believes that it has meritorious defenses to these suits pending against the Company and is engaged in a vigorous defense of each of these matters.

Litigation Reserves

The Company regularly monitors and evaluates the status of product liability and other legal matters, and may, from time-to-time, engage in settlement and mediation discussions taking into consideration developments in the matters and the risks and uncertainties surrounding litigation. These discussions could result in settlements of one or more of these claims at any time.

In the second and fourth quarters of fiscal year 2019, the Company recorded pre-tax charges to *Other operating expense, net*, of approximately \$331 million and \$582 million, respectively, related to certain of the product liability matters discussed above under the heading "Product Liability Matters," including the related legal defense costs. The Company recorded these charges based on additional information obtained during the second and fourth quarters of fiscal year 2019.

Accruals for the Company's product liability claims which are discussed above, as well as the related legal defense costs, amounted to approximately \$2.3 billion at March 31, 2020 and \$2.5 billion at September 30, 2019. These accruals, which are generally long-term in nature, are largely recorded within *Deferred Income Taxes and Other Liabilities* on the Company's condensed consolidated balance sheets. As of March 31, 2020 and September 30, 2019, the Company had \$87 million and \$53 million, respectively, in qualified settlement funds ("QSFs"), subject to certain settlement conditions, for certain product liability matters. Payments to QSFs are recorded as a component of *Restricted cash*. The Company's expected recoveries related to product liability claims and related legal defense costs were approximately \$117 million and \$150 million at March 31, 2020 and September 30, 2019, respectively. A substantial amount of these expected recoveries at March 31, 2020 and September 30, 2019 related to the Company's agreements with Medtronic related to certain Women's Health Product Claims. The expected recoveries at March 31, 2020 related to the indemnification obligation are not in dispute with respect to claims that Medtronic settles pursuant to the agreements.

Note 6 – Revenues

The Company's policies for recognizing sales have not changed from those described in the Company's 2019 Annual Report on Form 10-K. The Company sells a broad range of medical supplies, devices, laboratory equipment and diagnostic products which are distributed through independent distribution channels and directly by BD through sales representatives. End-users of the Company's products include healthcare institutions, physicians, life science researchers, clinical laboratories, the pharmaceutical industry and the general public.

Measurement of Revenues

The Company's estimate of probable credit losses relating to trade receivables is determined based on historical experience and other specific account data. Amounts are written off against the allowances for doubtful accounts when the Company determines that a customer account is uncollectable. Such amounts are not material to the Company's consolidated financial results.

The Company's gross revenues are subject to a variety of deductions which are recorded in the same period that the underlying revenues are recognized. Such variable consideration includes rebates, sales discounts and sales returns. The impact of variable consideration, including sales discounts and sales returns, is not material to the Company's revenues.

Effects of Revenue Arrangements on Consolidated Balance Sheets

Capitalized contract costs associated with the costs to fulfill contracts for certain products in the Medication Management Solutions organizational unit are immaterial to the Company's condensed consolidated balance sheets. Commissions relating to revenues recognized over a period longer than one year are recorded as assets which are amortized over the period over which the revenues underlying the commissions are recognized. Capitalized contract costs related to such commissions are immaterial to the Company's condensed consolidated balance sheets.

Contract liabilities for unearned revenue that is allocable to performance obligations, such as extended warranty and software maintenance contracts, which are performed over time are immaterial to the Company's consolidated financial results. The Company's liability for product warranties provided under its agreements with customers is not material to its condensed consolidated balance sheets.

Remaining Performance Obligations

The Company's obligations relative to service contracts and pending installations of equipment, primarily in the Company's Medication Management Solutions unit, represent unsatisfied performance obligations of the Company. The revenues under existing contracts with original expected durations of more than one year, which are attributable to products and/or services that have not yet been installed or provided are estimated to be approximately \$1.7 billion at March 31, 2020. The Company expects to recognize the majority of this revenue over the next three years.

Within the Company's Medication Management Solutions, Medication Delivery Solutions, Integrated Diagnostic Solutions, and Biosciences units, some contracts also contain minimum purchase commitments of reagents or other consumables and the future sales of these consumables represent additional unsatisfied performance obligations of the Company. The revenue attributable to the unsatisfied minimum purchase commitment-related performance obligations, for contracts with original expected durations of more than one year, is estimated to be approximately \$2.7 billion at March 31, 2020. This revenue will be recognized over the customer relationship period.

Disaggregation of Revenues

A disaggregation of the Company's revenues by segment, organizational unit and geographic region is provided in Note 7.

Note 7 – Segment Data

The Company's organizational structure is based upon three principal business segments: BD Medical ("Medical"), BD Life Sciences ("Life Sciences") and BD Interventional ("Interventional"). The Company's segments are strategic businesses that are managed separately because each one develops, manufactures and markets distinct products and services. Segment disclosures are on a performance basis consistent with internal management reporting. The Company evaluates performance of its business segments and allocates resources to them primarily based upon segment operating income, which represents revenues reduced by product costs and operating expenses.

Effective October 1, 2019, Life Sciences joined its former Preanalytical Systems and Diagnostic Systems organizational units to create a new Integrated Diagnostic Solutions organizational unit which focuses on driving growth and innovation around integrated specimen management to diagnostic solutions. The Integrated Diagnostic Solutions organizational unit consists of the following principal product lines:

Organizational Unit	Principal Product Lines
Integrated Diagnostic Solutions	Integrated systems for specimen collection; safety-engineered blood collection products and systems; automated blood culturing and tuberculosis culturing systems; molecular testing systems for infectious diseases and women's health; microorganism identification and drug susceptibility systems; liquid-based cytology systems for cervical cancer screening; rapid diagnostic assays for testing of respiratory infections; microbiology laboratory automation and plated media for clinical and industrial applications.

Revenues by segment, organizational unit and geographical areas for the three and six-month periods are detailed below. The Company has no material intersegment revenues.

(Millions of dollars)	Three Months Ended March 31,					
	2020			2019		
	United States	International	Total	United States	International	Total
Medical						
Medication Delivery Solutions (a)	\$ 518	\$ 386	\$ 904	\$ 482	\$ 446	\$ 928
Medication Management Solutions (a)	449	119	568	499	118	617
Diabetes Care	142	137	278	137	133	270
Pharmaceutical Systems	91	309	400	93	273	366
Total segment revenues	\$ 1,200	\$ 951	\$ 2,151	\$ 1,211	\$ 969	\$ 2,180
Life Sciences						
Integrated Diagnostic Solutions						
Preanalytical Systems	\$ 208	\$ 192	\$ 400	\$ 171	\$ 195	\$ 366
Diagnostic Systems	206	228	434	180	209	389
Total Integrated Diagnostic Solutions	413	420	833	350	404	755
Biosciences	108	172	280	120	177	297
Total segment revenues	\$ 522	\$ 591	\$ 1,113	\$ 470	\$ 582	\$ 1,052
Interventional						
Surgery (b)	\$ 249	\$ 63	\$ 312	\$ 242	\$ 66	\$ 308
Peripheral Intervention (b)	242	157	399	225	162	387
Urology and Critical Care (b)	202	76	279	193	75	268
Total segment revenues	\$ 693	\$ 297	\$ 990	\$ 659	\$ 303	\$ 963
Total Company revenues	\$ 2,415	\$ 1,839	\$ 4,253	\$ 2,341	\$ 1,854	\$ 4,195

(a) Prior-period amounts reflect the reclassification of U.S. revenues of \$2 million associated with the movement, effective on October 1, 2019, of certain products from the Medication Delivery Solutions unit to the Medication Management Solutions unit.

- (b) Prior-period amounts reflect the total reclassifications of \$31 million of U.S. revenues and \$13 million of international revenues associated with the movement, effective on October 1, 2019, of certain products from the Surgery unit and the Urology and Critical Care unit to the Peripheral Intervention unit.

(Millions of dollars)	Six Months Ended March 31,					
	2020			2019		
	United States	International	Total	United States	International	Total
Medical						
Medication Delivery Solutions (a)	\$ 1,038	\$ 814	\$ 1,852	\$ 1,000	\$ 883	\$ 1,884
Medication Management Solutions (a)	912	231	1,143	1,007	236	1,242
Diabetes Care	281	266	547	282	261	544
Pharmaceutical Systems	174	525	699	161	485	646
Total segment revenues	\$ 2,404	\$ 1,836	\$ 4,241	\$ 2,450	\$ 1,865	\$ 4,316
Life Sciences						
Integrated Diagnostic Solutions						
Preanalytical Systems	\$ 410	\$ 388	\$ 798	\$ 371	\$ 387	\$ 758
Diagnostic Systems	390	446	835	355	416	771
Total Integrated Diagnostic Solutions	799	834	1,633	726	803	1,529
Biosciences	260	342	603	228	350	579
Total segment revenues	\$ 1,060	\$ 1,176	\$ 2,236	\$ 954	\$ 1,153	\$ 2,108
Interventional						
Surgery (b)	\$ 505	\$ 133	\$ 638	\$ 488	\$ 130	\$ 618
Peripheral Intervention (b)	467	327	794	448	321	769
Urology and Critical Care (b)	409	161	570	388	158	545
Total segment revenues	\$ 1,381	\$ 621	\$ 2,002	\$ 1,323	\$ 609	\$ 1,932
Total Company revenues	\$ 4,845	\$ 3,634	\$ 8,479	\$ 4,728	\$ 3,628	\$ 8,355

- (a) Prior-period amounts reflect the reclassification of U.S. revenues of \$3 million associated with the movement, effective on October 1, 2019, of certain products from the Medication Delivery Solutions unit to the Medication Management Solutions unit.
- (b) Prior-period amounts reflect the total reclassifications of \$63 million of U.S. revenues and \$28 million of international revenues associated with the movement, effective on October 1, 2019, of certain products from the Surgery unit and the Urology and Critical Care unit to the Peripheral Intervention unit.

Segment income for the three and six-month periods was as follows:

(Millions of dollars)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Income Before Income Taxes				
Medical (a) (b)	\$ 443	\$ 599	\$ 1,007	\$ 1,265
Life Sciences (c)	285	293	646	598
Interventional	213	231	455	441
Total Segment Operating Income	941	1,123	2,109	2,303
Acquisitions and other restructurings	(75)	(101)	(161)	(191)
Net interest expense	(132)	(153)	(266)	(336)
Other unallocated items (d)	(534)	(866)	(1,087)	(1,058)
Total Income Before Income Taxes	\$ 200	\$ 3	\$ 594	\$ 718

- (a) The amounts for the three and six months ended March 31, 2020 include a probable estimate of future costs within the Medication Management Solutions unit associated with remediation efforts related to Alaris™ infusion pumps of \$199 million and \$258 million, respectively, which were recorded to *Cost of products sold*. Based on the course of remediation efforts, it is possible that the estimate of future costs could increase over time.
- (b) The amounts for the three and six-month periods in 2019 included \$65 million of estimated remediation costs recorded to *Other operating expense, net* relating to a recall of a product component, which generally pre-dated the Company's acquisition of CareFusion in fiscal year 2015, within the Medication Management Solutions unit's infusion systems platform.
- (c) The amounts for the three and six-month periods in 2020 include a charge of \$39 million recorded to *Cost of products sold* to write down the carrying value of certain intangible assets in the Biosciences unit.
- (d) Primarily comprised of foreign exchange, certain general and administrative expenses and share-based compensation expense. The amounts for the three and six-month periods in 2019 include a pre-tax charge of \$331 million related to certain product liability matters, which is further discussed in Note 5. In addition, the amount for the six months ended March 31, 2019 included the pre-tax gain recognized on the Company's sale of its Advanced Bioprocessing business of approximately \$335 million, which is further discussed in Note 9.

Note 8 – Benefit Plans

The Company has defined benefit pension plans covering certain employees in the United States and certain international locations. The measurement date used for these plans is September 30.

Net pension cost included the following components for the three and six months ended March 31:

(Millions of dollars)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Service cost	\$ 39	\$ 33	\$ 79	\$ 68
Interest cost	21	26	43	54
Expected return on plan assets	(48)	(45)	(97)	(91)
Amortization of prior service credit	(3)	(3)	(7)	(7)
Amortization of loss	25	19	50	39
Net pension cost	\$ 34	\$ 31	\$ 68	\$ 63

The amounts provided above for amortization of prior service credit and amortization of loss represent the reclassifications of prior service credits and net actuarial losses that were recognized in *Accumulated other comprehensive income (loss)* in prior periods. All components of the Company's net periodic pension cost, aside from service cost, are recorded to *Other income (expense), net* on its condensed consolidated statements of income.

Note 9 – Divestiture

In October 2018, the Company completed the sale of its Life Sciences segment's Advanced Bioprocessing business. The Company recognized a pre-tax gain on the sale of approximately \$335 million which was recorded as a component of *Other operating expense, net* in the first quarter of fiscal year 2019.

Note 10 – Business Restructuring Charges

The Company incurred restructuring costs during the six months ended March 31, 2020, in connection with the Company's acquisition of Bard and portfolio rationalization initiatives, which were largely recorded within *Acquisitions and other restructurings*. Restructuring liability activity for the six months ended March 31, 2020 was as follows:

(Millions of dollars)	Employee Termination		Other		Total	
	Bard	Other Initiatives	Bard (a)	Other Initiatives	Bard	Other Initiatives
Balance at September 30, 2019	\$ 22	\$ 31	\$ 1	\$ 3	\$ 23	\$ 34
Charged to expense	6	(2)	23	14	29	12
Cash payments	(12)	(23)	(5)	(12)	(17)	(35)
Non-cash settlements	—	—	(16)	(2)	(16)	(2)
Balance at March 31, 2020	\$ 16	\$ 6	\$ 3	\$ 3	\$ 19	\$ 9

- (a) Largely represents the cost associated with certain pre-acquisition equity awards of Bard which, to encourage post-acquisition employee retention, were converted to BD equity awards with substantially the same terms and conditions as were applicable under such Bard awards immediately prior to the acquisition date.

Note 11 – Intangible Assets

Intangible assets consisted of:

(Millions of dollars)	March 31, 2020		September 30, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Developed technology	\$ 13,985	\$ 3,440	\$ 13,960	\$ 2,906
Customer relationships	4,606	1,345	4,608	1,183
Product rights	106	61	110	60
Trademarks	407	110	407	102
Patents and other	493	315	445	305
Amortized intangible assets	\$ 19,597	\$ 5,271	\$ 19,530	\$ 4,555
Unamortized intangible assets				
Acquired in-process research and development (a)	\$ 46		\$ 1	
Trademarks	2		2	
Unamortized intangible assets	\$ 48		\$ 3	

- (a) The increase in the carrying value of assets in 2020 was attributable to an immaterial acquisition which occurred during the second quarter of fiscal year 2020.

Intangible amortization expense for the three months ended March 31, 2020 and 2019 was \$347 million and \$376 million, respectively. Intangible amortization expense for the six months ended March 31, 2020 and 2019 was \$693 million and \$754 million, respectively.

The following is a reconciliation of goodwill by business segment:

(Millions of dollars)	Medical	Life Sciences	Interventional	Total
Goodwill as of September 30, 2019	\$ 9,989	\$ 772	\$ 12,615	\$ 23,376
Acquisitions (a)	10	58	—	68
Currency translation	(2)	(1)	(26)	(29)
Goodwill as of March 31, 2020	\$ 9,997	\$ 828	\$ 12,589	\$ 23,415

- (a) Represents goodwill recognized relative to certain acquisitions which were not material individually or in the aggregate.

Note 12 – Derivative Instruments and Hedging Activities

The Company uses derivative instruments to mitigate certain exposures. The Company does not enter into derivative financial instruments for trading or speculative purposes. The effects these derivative instruments and hedged items have on financial position, financial performance, and cash flows are provided below.

Foreign Currency Risks and Related Strategies

The Company has foreign currency exposures throughout Europe, Greater Asia, Canada and Latin America. Transactional currency exposures that arise from entering into transactions, generally on an intercompany basis, in non-hyperinflationary countries that are denominated in currencies other than the functional currency are mitigated primarily through the use of forward contracts. In order to mitigate foreign currency exposure relating to its investments in certain foreign subsidiaries, the Company has hedged the currency risk associated with those investments with instruments, such as foreign currency-denominated debt, cross-currency swaps and currency exchange contracts, which are designated as net investment hedges.

Hedges of the transactional foreign exchange exposures resulting primarily from intercompany payables and receivables are undesignated hedges. As such, the gains or losses on these instruments are recognized immediately in income. These gains and losses are largely offset by gains and losses on the underlying hedged items, as well as the hedging costs associated with the derivative instruments. The net amounts recognized in *Other (expense) income, net*, during the three and six months ended March 31, 2020 and 2019 were immaterial to the Company's consolidated financial results. The total notional amounts of the Company's outstanding foreign exchange contracts as of March 31, 2020 and September 30, 2019 were \$1.2 billion and \$2.3 billion, respectively.

Certain of the Company's foreign currency-denominated long-term notes outstanding, which had a total carrying value of \$1.4 billion as of March 31, 2020 and September 30, 2019, were designated as, and were effective as, economic hedges of net investments in certain of the Company's foreign subsidiaries. The Company has entered into cross-currency swaps, all of which are designated and effective as economic hedges of net investments in certain of the Company's foreign subsidiaries. The notional amounts of the cross-currency swaps were \$3.0 billion and \$2.3 billion as of March 31, 2020 and September 30, 2019, respectively.

Net gains or losses relating to the net investment hedges, which are attributable to changes in the foreign currencies to U.S. dollar spot exchange rates, are recorded as accumulated foreign currency translation in *Other comprehensive income (loss)*. Upon the termination of a net investment hedge, any net gain or loss included in *Accumulated other comprehensive income (loss)* relative to the investment hedge remains until the foreign subsidiary investment is disposed of or is substantially liquidated.

Net gains (losses) recorded to *Accumulated other comprehensive income (loss)* relating to the Company's net investment hedges for the three and six-month periods were as follows:

(Millions of dollars)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Foreign currency-denominated debt	\$ 44	\$ (18)	\$ 10	\$ 41
Cross-currency swaps	\$ 193	\$ —	\$ 141	\$ —

Interest Rate Risks and Related Strategies

The Company's policy is to manage interest rate exposure using a mix of fixed and variable rate debt. The Company periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Company exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated as either fair value or cash flow hedges.

For interest rate swaps designated as fair value hedges (i.e., hedges against the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates.

The total notional amount of the Company's outstanding interest rate swaps designated as fair value hedges was \$375 million at March 31, 2020 and September 30, 2019. The outstanding swaps represent fixed-to-floating interest rate swap agreements the Company entered into to convert the interest payments on certain long-term notes from the fixed rate to a floating interest rate based on LIBOR. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt. The amounts recorded during the three and six months ended March 31, 2020 and 2019 for changes in the fair value of these hedges were immaterial to the Company's consolidated financial results.

Changes in the fair value of the interest rate swaps designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk) are recorded in *Other comprehensive income (loss)*. If interest rate derivatives designated as cash flow hedges are terminated, the balance in *Accumulated other comprehensive income (loss)* attributable to those derivatives is reclassified into earnings over the remaining life of the hedged debt. The net realized loss related to terminated interest rate swaps expected to be reclassified and recorded in *Interest expense* within the next 12 months is \$6 million, net of tax.

The total notional amount of the Company's outstanding forward starting interest rate swaps was \$1.5 billion at March 31, 2020 and September 30, 2019. The Company entered into these contracts in the fourth quarter of fiscal year 2019 to mitigate its exposure to interest rate risk. The Company recorded after-tax losses of \$111 million and \$74 million in *Other comprehensive income (loss)* relating to these interest rate hedges during the three and six months ended March 31, 2020, respectively.

Other Risk Exposures

The Company purchases resins, which are oil-based components used in the manufacture of certain products. Significant increases in world oil prices that lead to increases in resin purchase costs could impact future operating results. From time to time, the Company has managed price risks associated with these commodity purchases through commodity derivative forward contracts. The Company had no outstanding commodity derivative forward contracts at March 31, 2020 and the amount outstanding as of September 30, 2019 was immaterial to the Company's consolidated financial results.

Financial Statement Effects

The fair values of derivative instruments outstanding at March 31, 2020 and September 30, 2019 were not material to the Company's consolidated balance sheets.

The amounts reclassified from accumulated other comprehensive income relating to cash flow hedges during the three and six months ended March 31, 2020 and 2019 were not material to the Company's consolidated financial results.

Note 13 – Financial Instruments and Fair Value Measurements

The following reconciles cash and equivalents and restricted cash reported within the Company's consolidated balance sheets at March 31, 2020 and September 30, 2019 to the total of these amounts shown on the Company's consolidated statements of cash flows:

(Millions of dollars)	March 31, 2020	September 30, 2019
Cash and equivalents	\$ 2,351	\$ 536
Restricted cash	88	54
Cash and equivalents and restricted cash	<u>\$ 2,439</u>	<u>\$ 590</u>

Cash equivalents consist of all highly liquid investments with a maturity of three months or less at time of purchase. Restricted cash consists of cash restricted from withdrawal and usage except for certain product liability matters.

The Company's cash and equivalents include institutional money market accounts which permit daily redemption and the fair values of these investments are based upon the quoted prices in active markets provided by the holding financial institutions, which are considered Level 1 inputs in the fair value hierarchy. The fair values of these accounts were \$1.8 billion and \$39 million at March 31, 2020 and September 30, 2019, respectively. The Company's remaining cash and equivalents, excluding restricted cash, were \$516 million and \$497 million at March 31, 2020 and September 30, 2019, respectively.

Short-term investments are held to their maturities and are carried at cost, which approximates fair value. The short-term investments consist of instruments with maturities greater than three months and less than one year.

Long-term debt is recorded at amortized cost. The fair value of long-term debt is measured based upon quoted prices in active markets for similar instruments, which are considered Level 2 inputs in the fair value hierarchy. The fair value of long-term debt was \$17.2 billion and \$19.2 billion at March 31, 2020 and September 30, 2019, respectively. The fair value of the current portion of long-term debt was \$2.4 billion and \$1.3 billion at March 31, 2020 and September 30, 2019, respectively.

All other instruments measured by the Company at fair value, including derivatives and contingent consideration liabilities, are immaterial to the Company's consolidated balance sheets.

Nonrecurring Fair Value Measurements

In the second quarter of fiscal year 2020, the Company recorded a charge to *Cost of products sold* of \$39 million to write down the carrying value of certain intangible assets in the Biosciences unit. The amount recognized in the second quarter of 2020 was recorded to adjust the carrying amount of assets to the assets' fair values, which were estimated, based upon a market participant's perspective, using Level 3 inputs, as values were estimated using the income approach.

Transfers of trade receivables

Over the normal course of its business activities, the Company transfers certain trade receivable assets to third parties under factoring agreements. Per the terms of these agreements, the Company surrenders control over its trade receivables upon transfer. Accordingly, the Company accounts for the transfers as sales of trade receivables by recognizing an increase to *Cash and equivalents* and a decrease to *Trade receivables, net* when proceeds from the transactions are received. The Company's balance of *Trade receivables, net* at March 31, 2020 excludes trade receivables of \$246 million that have been transferred to third parties under factoring arrangements. The costs incurred by the Company in connection with factoring activities were not material to its consolidated financial results. The Company's transfers of trade receivables during the six months ended March 31, 2019 were not material to its consolidated financial results.

Note 14 – Debt

While the Company deemed its liquidity sufficient to fund its operations and meet its obligations, the Company has taken steps, as a precautionary measure, to preserve its financial flexibility in light of the uncertainty in the global markets resulting from the COVID-19 pandemic. In March 2020, the Company entered into a 364-day \$1.4 billion senior unsecured term loan facility and later in March 2020, this agreement was amended to increase the borrowing capacity available under the facility to \$2.0 billion. Borrowings outstanding under the term loan facility were \$1.9 billion at March 31, 2020 and these proceeds are included in the Company's balance of *Cash and equivalents* at March 31, 2020.

In April 2020, the Company entered into a supplement to its existing \$2.25 billion senior unsecured revolving credit facility which increased the revolving commitments available to the Company under revolving credit facility by \$381 million. As such, the Company's senior unsecured revolving credit facility currently provides borrowings of up to \$2.63 billion. Proceeds from this facility are used to fund general corporate needs and borrowings outstanding under the revolving credit facility at March 31, 2020 were \$695 million.

Note 15 – Leases

The Company leases real estate, vehicles and other equipment which are used in the Company's manufacturing, administrative and research and development activities. The Company identifies a contract that contains a lease as one which conveys a right, either explicitly or implicitly, to control the use of an identified asset in exchange for consideration. The Company's lease arrangements are generally classified as operating leases. These arrangements have remaining terms ranging from less than one year to approximately 25 years and the weighted-average remaining lease term of the Company's leases is approximately 7.5 years. An option to renew or terminate the current term of a lease arrangement is included in the lease term if the Company is reasonably certain to exercise that option.

The Company does not recognize a right-of-use asset and lease liability for short-term leases, which have terms of 12 months or less, on its consolidated balance sheet. For the longer-term lease arrangements that are recognized on the Company's consolidated balance sheet, the right-of-use asset and lease liability is initially measured at the commencement date based upon the present value of the lease payments due under the lease. These payments represent the combination of the fixed lease and fixed non-lease components that are due under the arrangement. The costs associated with the Company's short-term leases, as well as variable costs relating to the Company's lease arrangements, are not material to its consolidated financial results.

The implicit interest rates of the Company's lease arrangements are generally not readily determinable and as such, the Company applies an incremental borrowing rate, which is established based upon the information available at the lease commencement date, to determine the present value of lease payments due under an arrangement. The weighted-average incremental borrowing rate that has been applied to measure the Company's lease liabilities is 2.3%.

The Company's lease costs recorded in its consolidated statements of income for the three and six months ended March 31, 2020 were \$32 million and \$65 million, respectively. Cash payments arising from the Company's lease arrangements are reflected on its condensed consolidated statement of cash flows as outflows used for operating activities. The right-of-use assets and lease liabilities recognized on the Company's condensed consolidated balance sheet as of March 31, 2020 were as follows:

(Millions of dollars)	March 31, 2020
Right-of-use assets recorded in <i>Other Assets</i>	\$ 427
Current lease liabilities recorded in <i>Payables, accrued expenses and other current liabilities</i>	\$ 103
Non-current lease liabilities recorded in <i>Deferred Income Taxes and Other Liabilities</i>	\$ 345

The Company's payments due under its operating leases are as follows:

(Millions of dollars)	
Remaining for 2020	\$ 58
2021	102
2022	83
2023	55
2024	36
Thereafter	164
Total payments due	499
Less: imputed interest	50
Total	<u>\$ 448</u>

The Company's future minimum rental commitments on non-cancelable leases at September 30, 2019, as disclosed in the Company's 2019 Annual Report on Form 10-K, were as follows:

(Millions of dollars)	
2020	\$ 122
2021	103
2022	83
2023	57
2024	56
Thereafter	123
Total	<u>\$ 546</u>

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

The following commentary should be read in conjunction with the condensed consolidated financial statements and accompanying notes presented in this report. Within the tables presented throughout this discussion, certain columns may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts.

Company Overview

Becton, Dickinson and Company ("BD") is a global medical technology company engaged in the development, manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by healthcare institutions, physicians, life science researchers, clinical laboratories, the pharmaceutical industry and the general public. The Company's organizational structure is based upon three principal business segments, BD Medical ("Medical"), BD Life Sciences ("Life Sciences") and BD Interventional ("Interventional").

BD's products are manufactured and sold worldwide. Our products are marketed in the United States and internationally through independent distribution channels and directly to end-users by BD and independent sales representatives. We organize our operations outside the United States as follows: Europe; EMA (which includes the Commonwealth of Independent States, the Middle East and Africa); Greater Asia (which includes countries in East Asia, South Asia, Southeast Asia and the Oceania region); Latin America (which includes Mexico, Central America, the Caribbean, and South America); and Canada. We continue to pursue growth opportunities in emerging markets, which include the following geographic regions: Eastern Europe, the Middle East, Africa, Latin America and certain countries within Greater Asia. We are primarily focused on certain countries whose healthcare systems are expanding.

Recent Developments

A novel strain of coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization ("WHO") in March 2020. In efforts to slow the spread of COVID-19, governments around the world have issued travel restrictions as well as recommendations or mandates to avoid large gatherings or to self-quarantine. Such measures have led to a sudden and significant decline in economic activity within a number of countries worldwide. The COVID-19 pandemic has resulted in a decline in elective procedures which has unfavorably impacted our results of operations for the three months ended March 31, 2020. While certain of our organizational units realized positive benefits to revenues from the pandemic for the second quarter, the estimated net impact on total consolidated revenues was an unfavorable impact of \$56 million.

We are deploying our capabilities, expertise and scale to address critical health needs related to COVID-19. A molecular test for the detection of COVID-19 for clinical laboratories is currently available and we are also currently developing a new point-of-care test that can detect antibodies in blood to confirm current or past exposure to COVID-19. We have been adhering to guidance provided by the WHO, as well as by health officials in various countries affected by the COVID-19 pandemic, to protect the health and safety of BD employees while ensuring continued availability of BD's critical medical devices and technologies at this unprecedented time. We have enacted business continuity plans in order to minimize the risk of disruption to our operations and supply chain, and to date, we have not experienced any significant disruption. We have been working closely with governmental officials in an effort to keep our manufacturing facilities (and those of our suppliers) open due to the essential nature of our products.

We continue to generate operating cash flows that are sufficient to meet our short-term liquidity needs. We have taken steps, as a precautionary measure, to preserve our financial flexibility in light of uncertainty in the global markets resulting from the COVID-19 pandemic. Such measures included entering into a \$2.0 billion term loan agreement and increasing the commitments available under our revolving credit facility by \$381 million, as is further discussed in Note 14 in the Notes to Condensed Consolidated Financial Statements. We believe that given our debt ratings and our capital allocation strategy, we would have access to additional short-term and long-term capital should the need arise. We have not observed any impairments of our assets due to the COVID-19 pandemic and the decline in global economic activity.

We have enacted certain cost containment measures to mitigate the unfavorable impact of the COVID-19 pandemic to our future results of operations. Such actions have included travel restrictions, temporary reductions in executive compensation, a temporary suspension of matching contributions to certain voluntary defined contribution and other benefit plans, as well as temporary work reductions for certain manufacturing teams.

Our business is experiencing weakened demand for our products as a result of a significant decline in medical procedures due to government restrictions and healthcare priorities, particularly with respect to hernia and other elective procedures. We are also seeing delays in instrument placements relating to our medical management solutions, including Pyxis™, as well as decreased non-COVID-19 diagnostic testing and specimen collections, which is being partially offset by higher demand for COVID-19 testing. There has also been a decrease in research activity due to laboratory closures and reduced clinical testing.

Accordingly, our future operating performance, particularly in the short-term, will be subject to volatility. The ultimate impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows is dependent on future developments, which are uncertain at this time, including:

- The timing and extent of recovery in the global demand for our products, particularly those sold by our Surgery and Peripheral Interventional units which are used in elective medical procedures;
- The pace at which hospitals resume patient care that is not related to the COVID-19 pandemic;
- The progress of development for our point-of-care test, which was previously discussed above, and the degree to which COVID-19 testing solutions are made available and utilized by governments;
- The timing of when research performed by research laboratories and institutions will resume to normal operations; and
- The degree of pressure that the weaker macroeconomic environment will put on future healthcare utilization.

Further discussion regarding the impacts of the COVID-19 pandemic on our results for the three months ended March 31, 2020 is provided below.

Overview of Financial Results and Financial Condition

For the three months ended March 31, 2020, worldwide revenues of \$4.253 billion increased 1.4% from the prior-year period which reflected volume growth of approximately 2.3%, an unfavorable impact from foreign currency translation of approximately 1.0% and a favorable impact from pricing of approximately 0.1%. We estimate that the COVID-19 pandemic reduced volume growth in the second quarter by approximately 1.4%. Volume growth in the second quarter of fiscal year 2020 reflected the following:

- Medical segment revenues in the second quarter reflected strong growth in the Pharmaceutical Systems. Revenues in the Diabetes Care unit benefited from COVID-19 due to increased orders from retailers and distributors in the United States. Medical segment revenues in the second quarter were unfavorably impacted by declines in the Medication Management Solutions and Medication Delivery Solutions units, as is further discussed below.
- Life Sciences segment revenues in the second quarter reflected growth in the Integrated Diagnostic Solutions unit that was partially offset by declines in the Biosciences unit due to the COVID-19 pandemic and an unfavorable comparison to the prior-year period due to the timing of licensing revenues.
- Interventional segment revenues in the second quarter reflected sales growth in all units. Revenues in the Surgery and Peripheral Intervention units were negatively impacted by the deferral of elective medical procedures as a result of the COVID-19 pandemic.

Second quarter Medical segment revenues were unfavorably impacted by the Medication Management Solutions unit's delay of shipments of Alaris™ infusion pumps pending compliance with certain 510(k) filing requirements of the U.S. Food and Drug Administration ("FDA"), as previously reported. While we continue to make progress on our regulatory filing related to the Alaris™ infusion pumps, due to the COVID-19 pandemic and other factors, we no longer expect to submit the 510(k) to the FDA in the fourth quarter of fiscal year 2020.

We continue to invest in research and development, geographic expansion, and new product development programs to drive further revenue and profit growth. Our ability to sustain our long-term growth will depend on a number of factors, including our ability to expand our core business (including geographical expansion), develop innovative new products, and continue to improve operating efficiency and organizational effectiveness. While the economic environments for the healthcare industry and healthcare utilization in the United States and Europe have been generally stable, destabilization resulting from the COVID-19 pandemic or other factors has adversely impacted our businesses. Our businesses will continue to be impacted by the COVID-19 pandemic throughout its duration and while government measures implemented in response to the pandemic continue to be in place. In emerging markets, the Company's growth is dependent primarily on government funding for healthcare systems. In addition, pricing pressure exists globally which could adversely impact our businesses.

Cash flows from operating activities were \$1.196 billion in the first six months of fiscal year 2020. At March 31, 2020, we had \$2.445 billion in cash and equivalents and short-term investments, including restricted cash. We continued to return value to our shareholders in the form of dividends. During the first six months of fiscal year 2020, we paid cash dividends of \$505 million, including \$430 million paid to common shareholders and \$76 million paid to preferred shareholders.

Each reporting period, we face currency exposure that arises from translating the results of our worldwide operations to the U.S. dollar at exchange rates that fluctuate from the beginning of such period. A stronger U.S. dollar, compared to the prior-year period, resulted in an unfavorable foreign currency translation impact to our revenues during the second quarter of fiscal year 2020. We evaluate our results of operations on both a reported and a foreign currency-neutral basis, which excludes the impact of fluctuations in foreign currency exchange rates. As exchange rates are an important factor in understanding period-to-

period comparisons, we believe the presentation of results on a foreign currency-neutral basis in addition to reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison to prior periods. Foreign currency-neutral ("FXN") information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a foreign currency-neutral basis as one measure to evaluate our performance. We calculate foreign currency-neutral percentages by converting our current-period local currency financial results using the prior-period foreign currency exchange rates and comparing these adjusted amounts to our current-period results. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. generally accepted accounting principles ("GAAP"). Results on a foreign currency-neutral basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with U.S. GAAP.

Results of Operations

Medical Segment

The following summarizes second quarter Medical revenues by organizational unit:

(Millions of dollars)	Three months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
Medication Delivery Solutions (a)	\$ 904	\$ 928	(2.5)%	(1.2)%	(1.3)%
Medication Management Solutions (a)	568	617	(7.9)%	(0.4)%	(7.5)%
Diabetes Care	278	270	2.9 %	(1.3)%	4.2 %
Pharmaceutical Systems	400	366	9.4 %	(2.0)%	11.4 %
Total Medical Revenues	\$ 2,151	\$ 2,180	(1.4)%	(1.1)%	(0.3)%

(a) The presentation of prior-period amounts reflects the reclassification of \$2 million associated with the movement, effective on October 1, 2019, of certain products from the Medication Delivery Solutions unit to the Medication Management Solutions unit.

Second quarter Medical segment revenues reflected strong growth in the Pharmaceutical Systems and Diabetes Care units that was offset by declines in the Medication Management Solutions and Medication Delivery Solutions units. As anticipated, the Medication Management Solutions unit's revenues were unfavorably impacted by the delay of shipments of Alaris™ infusion pumps, as previously discussed above. Also as expected, the Medication Delivery Solutions unit's second quarter revenues in China were unfavorably impacted by a new volume-based procurement process which has been adopted by several of China's provinces. The Medication Delivery Solutions unit's second quarter revenues also reflected an unfavorable impact relating to the COVID-19 pandemic, most notably in China, where healthcare utilization declined significantly. The Diabetes Care unit realized a benefit to second quarter revenues from COVID-19 due to increased orders from retailers and distributors in the United States.

Medical segment total revenues for the six-month period were as follows:

(Millions of dollars)	Six months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
Total Medical Revenues	\$ 4,241	\$ 4,316	(1.7)%	(1.1)%	(0.6)%

Medical segment income for the three and six-month periods is provided below.

(Millions of dollars)	Three months ended March 31,		Six months ended March 31,		
	2020	2019	2020	2019	
Medical segment income	\$ 443	\$ 599	\$ 1,007	\$ 1,265	
<i>Segment income as % of Medical revenues</i>		20.6%	27.5%	23.8%	29.3%

The Medical segment's income in the second quarter was driven by its performance with respect to gross profit margin and operating expenses as discussed in greater detail below:

- Gross profit margin was lower in the second quarter of 2020 as compared with the second quarter of 2019 which primarily reflected a charge to record a probable estimate of future costs associated with incremental remediation efforts relating to Alaris™ infusion pumps, as further discussed below. This unfavorable impact to the Medical segment's gross margin was partially offset by lower manufacturing costs resulting from continuous improvement projects which enhanced the efficiency of our operations and favorable foreign currency translation.
- Selling and administrative expense as a percentage of revenues was slightly lower in the second quarter of 2020 compared with the second quarter of 2019 primarily due to lower expenses resulting from recently enacted cost containment measures.
- Research and development expense as a percentage of revenues was higher in the second quarter of 2020 compared with the second quarter of 2019 primarily due to the timing of project spending.
- The Medical segment's income in the second quarter of 2019 additionally reflected the estimated cumulative costs of a product recall of \$65 million recorded within *Other operating expense, net*. The recall related to a product component, which generally pre-dated our acquisition of CareFusion in fiscal year 2015, within the Medication Management Solutions unit's infusion systems platform.

Life Sciences Segment

The following summarizes second quarter Life Sciences revenues by organizational unit:

(Millions of dollars)	Three months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
Integrated Diagnostic Solutions (a)					
Preanalytical Systems	\$ 400	\$ 366	9.3 %	(1.5)%	10.8 %
Diagnostic Systems	434	389	11.5 %	(1.4)%	12.9 %
Total Integrated Diagnostic Solutions	833	755	10.4 %	(1.5)%	11.9 %
Biosciences	280	297	(5.9)%	(0.9)%	(5.0)%
Total Life Sciences Revenues	\$ 1,113	\$ 1,052	5.8 %	(1.3)%	7.1 %

(a) Effective October 1, 2019, the Preanalytical Systems and Diagnostic Systems units were joined to create the new Integrated Diagnostic Solutions unit. Additional disclosures regarding this change are provided in Note 7 in the Notes to Condensed Consolidated Financial Statements.

The Life Sciences segment's revenues in the second quarter reflected strong sales in the Integrated Diagnostic Solutions unit which were driven by a more severe influenza season in the current year as compared with the prior year's season. Second quarter revenues in the Biosciences unit primarily reflected a decline in instrument installations and reagent sales as a result of the COVID-19 pandemic, as well as an unfavorable comparison to the prior-year period due to the timing of licensing revenues and tenders in emerging markets.

Life Sciences segment total revenues for the six-month period were as follows:

(Millions of dollars)	Six months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
Total Life Sciences Revenues	\$ 2,236	\$ 2,108	6.1%	(1.2)%	7.3%

Life Sciences segment income for the three and six-month periods was as follows:

(Millions of dollars)	Three months ended March 31,		Six months ended March 31,		
	2020	2019	2020	2019	
Life Sciences segment income	\$ 285	\$ 293	\$ 646	\$ 598	
<i>Segment income as % of Life Sciences revenues</i>		25.6%	27.8%	28.9%	28.4%

The Life Sciences segment's income in the second quarter was driven by its performance with respect to gross profit margin and operating expenses as discussed in greater detail below:

- Gross margin in the second quarter of 2020 was lower compared with the second quarter of 2019 which primarily reflected a \$39 million charge to write down the carrying value of certain intangible assets in the Biosciences unit, as well as unfavorable product mix and increased tariffs. These unfavorable impacts to the Life Sciences segment's gross margin were partially offset by favorable impacts from pricing and lower manufacturing costs resulting from continuous improvement projects which enhanced the efficiency of our operations.
- Selling and administrative expense as a percentage of revenues in the second quarter of 2020 was lower compared with the prior-year period primarily due to expense synergies realized from the combination of the Preanalytical Systems and Diagnostic Systems units, as noted above, and lower expenses resulting from recently enacted cost containment measures.
- Research and development expense as a percentage of revenues was lower in the second quarter of 2020 compared with the second quarter of 2019 primarily due to the timing of project spending.

Interventional Segment

The following summarizes second quarter Interventional revenues by organizational unit:

(Millions of dollars)	Three months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
Surgery (a)	\$ 312	\$ 308	1.4%	(0.3)%	1.7%
Peripheral Intervention (a)	399	387	3.1%	(0.9)%	4.0%
Urology and Critical Care (a)	279	268	4.1%	(0.1)%	4.2%
Total Interventional Revenues	\$ 990	\$ 963	2.8%	(0.5)%	3.3%

- (a) The presentation of prior-period amounts reflects the total reclassifications of \$45 million associated with the movement, effective on October 1, 2019, of certain products from the Surgery unit and the Urology and Critical Care unit to the Peripheral Intervention unit.

Second quarter revenues in the Interventional segment reflected strong sales of products in the Peripheral Intervention and Urology and Critical Care units. Revenue growth in the Peripheral Intervention unit was partially offset by lower sales of our drug-coated balloon products as compared to the prior-year period following the previously reported FDA's March 2019 letter to healthcare professionals regarding the use of paclitaxel-coated devices. The extent and duration of the impact from the FDA letter on the Peripheral Intervention unit's future revenues is difficult to predict. Second quarter revenues within the Surgery and Peripheral Intervention units were negatively impacted by decreased demand associated with the deferral of elective medical procedures as a result of the COVID-19 pandemic.

Interventional segment total revenues for the six-month period were as follows:

(Millions of dollars)	Six months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
Total Interventional Revenues	\$ 2,002	\$ 1,932	3.6%	(0.5)%	4.1%

Interventional segment income for the three and six-month periods is provided below.

(Millions of dollars)	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Interventional segment income	\$ 213	\$ 231	\$ 455	\$ 441
Segment income as % of Interventional revenues	21.5%	24.0%	22.7%	22.8%

The Interventional segment's income in the second quarter was driven by its performance with respect to gross profit margin and operating expenses as discussed in greater detail below:

- Gross profit margin was lower in the second quarter of 2020 as compared with the second quarter of 2019 primarily due to the amortization of recently acquired intangible assets, which was partially offset by favorable product mix and favorable foreign currency translation.
- Selling and administrative expense as a percentage of revenues in the second quarter of 2020 was lower compared with the prior-year period primarily due to lower expenses resulting from recently enacted cost containment measures.
- Research and development expense as a percentage of revenues was lower in the second quarter of 2020 compared with the second quarter of 2019 primarily due to the timing of project spending.
- The Interventional segment's lower income in the second quarter of 2020 additionally reflected the expiration in 2019 of a royalty income stream acquired in the C.R. Bard, Inc. ("Bard") transaction.

Geographic Revenues

BD's worldwide second quarter revenues by geography were as follows:

(Millions of dollars)	Three months ended March 31,				
	2020	2019	Total Change	Estimated FX Impact	FXN Change
United States	\$ 2,415	\$ 2,341	3.2 %	— %	3.2%
International	1,839	1,854	(0.8)%	(2.3)%	1.5%
Total Revenues	\$ 4,253	\$ 4,195	1.4 %	(1.0)%	2.4%

U.S. revenue growth in the second quarter of 2020 was largely attributable to sales in the Life Sciences segment's Integrated Diagnostic Solutions unit and sales in the Medical segment's Medication Delivery Solutions unit. Second quarter U.S. revenue growth was unfavorably impacted by results in the Medical segment's Medication Management Solutions unit, as further discussed above.

Second quarter international revenue growth was particularly driven by sales in the Medical segment's Pharmaceutical Systems unit and sales in the Life Sciences segment's Integrated Diagnostic Solutions unit. International revenue growth in the second quarter of 2020 was unfavorably impacted by revenue declines in China for the Medical segment's Medication Delivery Solutions unit, as further discussed above.

Emerging market revenues for the second quarter were \$568 million, compared with \$637 million in the prior year's quarter. Emerging market revenues in the current-year period included an estimated \$19 million unfavorable impact due to foreign currency translation. Second quarter revenues in emerging markets were unfavorably impacted by a decline in healthcare utilization in China as a result of the COVID-19 pandemic. As previously discussed above, revenues in our Medication Delivery Solutions unit were unfavorably impacted by a new volume-based procurement process which has been adopted by several of China's provinces. To date, the impact of these procurement initiatives to our revenues in China has been limited to our Medication Delivery Solutions unit.

Specified Items

Reflected in the financial results for the three and six-month periods of fiscal years 2020 and 2019 were the following specified items:

(Millions of dollars)	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Integration costs (a)	\$ 57	\$ 70	\$ 119	\$ 143
Restructuring costs (a)	18	31	41	72
Transaction costs	—	1	—	2
Purchase accounting adjustments (b)	340	379	688	757
Transaction gain/loss and product-related matters (c)	199	396	258	61
European regulatory initiative-related costs (d)	27	10	44	15
Investment gains/losses and asset impairments (e)	40	—	41	—
Impacts of debt extinguishment	—	1	—	1
Total specified items	680	888	1,191	1,051
Less: tax impact of specified items and tax reform (f)	124	160	146	143
After-tax impact of specified items	\$ 557	\$ 729	\$ 1,045	\$ 908

- (a) Represents integration and restructuring costs which are primarily recorded in *Acquisitions and other restructurings* and are further discussed below.
- (b) Includes amortization and other adjustments related to the purchase accounting for acquisitions impacting identified intangible assets and valuation of fixed assets and debt. BD's amortization expense is primarily recorded in *Cost of products sold*.
- (c) The amounts in the three and six-month periods of fiscal year 2020 included a \$199 million charge recognized by the Medical segment in *Cost of products sold* to record a probable estimate of future costs associated with incremental remediation efforts, as further discussed below. The amount in the six-month period of fiscal year 2020 additionally included a \$59 million charge recognized in the first quarter by the Medical segment in *Cost of products sold* to record estimated remediation costs. The amounts in the prior-year periods included a charge relating to certain product liability matters and the estimated cost of a product recall, as noted above in the discussion regarding the Medical segment's income. These amounts were recorded to *Other operating expense, net*. The amount in the prior-year six-month period also included the pre-tax gain recognized in *Other operating expense, net* on BD's sale of its Advanced Bioprocessing business.
- (d) Represents initial costs required to develop processes and systems to comply with emerging regulations such as the European Union Medical Device Regulation ("EUMDR") and General Data Protection Regulation ("GDPR"). These costs were recorded in *Cost of products sold* and *Research and development expense*.
- (e) The amounts in 2020 primarily represented a charge of \$39 million recorded in *Cost of products sold* to write down the carrying value of certain intangible assets in the Biosciences unit.
- (f) The amount in the six-month period of fiscal year 2019 included additional tax expense, net, of \$20 million relating to new U.S. tax legislation, as further discussed below.

Gross Profit Margin

Gross profit margin for the three and six-month periods of fiscal year 2020 compared with the prior-year periods in fiscal year 2019 reflected the following impacts:

	Three-month period	Six-month period
March 31, 2019 gross profit margin %	47.1 %	47.2 %
Impact of purchase accounting adjustments and other specified items	(5.7)%	(3.3)%
Operating performance	(1.1)%	(0.3)%
Foreign currency translation	0.5 %	0.2 %
March 31, 2020 gross profit margin %	40.8 %	43.8 %

The impacts of purchase accounting adjustments and other specified items include the following:

- The impacts in the three and six-month periods include a charge of \$199 million to record a probable estimate of future costs within the Medication Management Solutions unit associated with incremental remediation efforts related to Alaris™ infusion pumps. Based on the course of our remediation efforts, it is possible that this estimate could increase over time. Any remediation actions will continue to be guided by our proactive commitment to patient safety and we will work closely with our customers to minimize the disruption of patient care.
- The impacts in the three and six-month periods also include a \$39 million charge to write down the carrying value of certain intangible assets in the Biosciences unit.
- The impact in the six-month period additionally includes a \$59 million charge recognized in the first quarter by the Medical segment to record estimated product remediation costs related to the Alaris™ infusion pumps.

Operating performance for the three-month and six-month periods primarily reflected unfavorable product mix, some of which was attributable to the COVID-19 pandemic, and increased tariffs, partially offset by lower manufacturing costs resulting from continuous operations improvement projects and synergy initiatives. For the remainder of fiscal year 2020, the COVID-19 pandemic will place pressure on our gross margin due to declines in sales of products with higher gross margins.

Operating Expenses

A summary of operating expenses for the three and six-month periods of fiscal years 2020 and 2019 is as follows:

	Three months ended March 31,		Increase (decrease) in basis points	Six months ended March 31,		Increase (decrease) in basis points
	2020	2019		2020	2019	
(Millions of dollars)						
Selling and administrative expense	\$ 1,025	\$ 1,089		\$ 2,146	\$ 2,161	
% of revenues	24.1%	25.9%	(180)	25.3%	25.9%	(60)
Research and development expense	\$ 264	\$ 252		\$ 535	\$ 510	
% of revenues	6.2%	6.0%	20	6.3%	6.1%	20
Acquisitions and other restructurings	\$ 75	\$ 101		\$ 161	\$ 191	
Other operating expense, net	\$ —	\$ 396		\$ —	\$ 61	

Selling and administrative expense

The decreases in selling and administrative expense as a percentage of revenues in the current three and six-month periods compared with the prior-year periods primarily reflected a decrease in the deferred compensation plan liability due to market performance. The losses on investment assets result in a favorable impact on expense recorded in *Selling and administrative expense*. Selling and administrative expense as a percentage of revenues in the current-year periods was unfavorably impacted by higher shipping costs. Selling and administrative expense as a percentage of revenues in the current-year periods also reflected our ongoing focus on disciplined spending and the achievement of cost synergies resulting from our acquisition of Bard, as well as a favorable impact from the cost containment measures we have enacted to mitigate the impact of the COVID-19 pandemic on our results of operations.

Research and development expense

Research and development expense as a percentage of revenues in the three and six-month periods was higher compared with the prior-year periods primarily due to higher costs incurred to achieve compliance with emerging regulations, as further discussed above. Spending in both the current and prior-year periods reflected our continued commitment to drive innovation with new products and platforms.

Acquisitions and other restructurings

Costs relating to acquisitions and other restructurings in the three and six-month periods of 2020 and 2019 largely represented integration and restructuring costs incurred due to our acquisition of Bard in the first quarter of fiscal year 2018. For further disclosures regarding restructuring costs, refer to Note 10 in the Notes to Condensed Consolidated Financial Statements.

Other operating expense, net

Other operating expense in the prior-year periods included a charge of approximately \$331 million relating to certain product liability matters as further discussed in Note 5 in the Notes to Condensed Consolidated Financial Statements. The amounts in the period-year periods also included the estimated costs of \$65 million relating to a product recall, as noted above in the discussion regarding the Medical segment's income. The amount in the prior-year six-month period additionally included the pre-tax gain of \$335 million recognized on BD's sale of its Advanced Bioprocessing business in the first quarter of fiscal year 2019.

Nonoperating Income

Net interest expense

The components for the three and six-month periods of fiscal years 2020 and 2019 were as follows:

<u>(Millions of dollars)</u>	<u>Three months ended March 31,</u>		<u>Six months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest expense	\$ (134)	\$ (171)	\$ (270)	\$ (342)
Interest income, net	2	18	3	6
Net interest expense	\$ (132)	\$ (153)	\$ (267)	\$ (336)

Lower interest expense in the current year's three and six-month periods compared with the prior-year periods primarily reflected debt repayments during fiscal year 2019, as well as lower overall interest rates on debt outstanding during the current-year periods as a result of fiscal year 2019 refinancing activities.

Income Taxes

The income tax rates for the three and six-month periods of fiscal years 2020 and 2019 are provided below.

	<u>Three months ended March 31,</u>		<u>Six months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Effective income tax rate	8.5%	(540.4)%	22.5%	13.7%
<i>Impact, in basis points, from specified items and tax reform</i>	<i>(750)</i>	<i>(55,640)</i>	<i>680</i>	<i>10</i>

The effective income tax rates for the three and six-month periods of fiscal year 2020 reflected tax impacts from specified items that were less favorable compared with the benefits associated with specified items recognized in the prior-year periods. The effective income tax rate for the six-month period of fiscal year 2019 reflected the recognition of additional tax expense of \$20 million as a result of U.S. tax legislation that was enacted in December 2017. The effective income tax rate for the six-month period of fiscal year 2019 was favorably impacted by the timing of certain discrete items.

Net Income and Diluted Earnings per Share

Net Income and Diluted Earnings per Share for the three and six-month periods of fiscal years 2020 and 2019 were as follows:

	<u>Three months ended March 31,</u>		<u>Six months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net Income (Millions of dollars)	\$ 183	\$ 20	\$ 461	\$ 619
Diluted Earnings (Loss) per Share	\$ 0.53	\$ (0.07)	\$ 1.40	\$ 1.98
Unfavorable impact-specified items	\$ (2.02)	\$ (2.70)	\$ (3.80)	\$ (3.31)
Dilutive impact of BD shares	\$ —	\$ 0.04	\$ —	\$ —
Favorable (unfavorable) impact-foreign currency translation	\$ 0.01		\$ (0.03)	

The dilutive impact for the three-month period of fiscal year 2019 represented the impact of share equivalents associated with share-based plans that were excluded from the reported diluted shares outstanding calculation because the result would have been antidilutive.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated statements of cash flows:

<u>(Millions of dollars)</u>	<u>Six months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Net cash provided by (used for)		
Operating activities	\$ 1,196	\$ 1,027
Investing activities	\$ (542)	\$ 30
Financing activities	\$ 1,210	\$ (1,532)

Net Cash Flows from Operating Activities

Cash flows from operating activities in the first six months of fiscal year 2020 reflected net income, adjusted by a change in operating assets and liabilities that was a net use of cash. This net use of cash primarily reflected higher levels of inventory and lower levels of accounts payable and accrued expenses, partially offset by lower levels of trade receivables and prepaid expenses.

Cash flows from operating activities in the first six months of fiscal year 2019 reflected net income, adjusted by a change in operating assets and liabilities that was a net use of cash. Cash flows from operating activities in the prior-year period additionally reflected \$200 million of discretionary cash contributions to fund our pension obligation.

Net Cash Flows from Investing Activities

Our investments in capital expenditures are focused on projects that enhance our cost structure and manufacturing capabilities, and support our strategy of geographic expansion with select investments in growing markets. As part of the cost containment measures we have enacted in response to the COVID-19 pandemic, we are currently prioritizing spending for only our most critical capital projects. Net outflows from investing activities in the first six months of fiscal year 2020 included capital expenditure-related outflows of \$395 million, compared with \$362 million in the prior-year period. Net cash flows from investing activities in the first six months of fiscal year 2019 also included proceeds \$477 million from our sale of a business during the period, as further discussed above.

Net Cash Flows from Financing Activities

Net cash from financing activities in the first six months of fiscal years 2020 and 2019 included the following significant cash flows:

<u>(Millions of dollars)</u>	<u>Six months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash inflow (outflow)		
Change in credit facility borrowings	\$ 210	\$ —
Proceeds from long-term debt and term loans	\$ 1,900	\$ —
Payments of debt and term loans	\$ (305)	\$ (905)
Dividends paid	\$ (505)	\$ (491)

Certain measures relating to our total debt were as follows:

(Millions of dollars)	March 31, 2020	September 30, 2019
Total debt	\$ 21,167	\$ 19,390
Short-term debt as a percentage of total debt	20.6%	6.8%
Weighted average cost of total debt	2.7%	2.9%
Total debt as a percentage of total capital*	48.1%	45.6%

* Represents shareholders' equity, net non-current deferred income tax liabilities, and debt.

The increase in the ratio of short-term debt as a percentage of total debt at March 31, 2020 was primarily driven by our reclassification of certain notes from long-term to short-term and by borrowings under a term loan agreement which is further discussed below.

Cash and Short-term Investments

At March 31, 2020, total worldwide cash and short-term investments, including restricted cash, were approximately \$2.445 billion, which were primarily held in the United States.

Financing Facilities

While we deemed our liquidity sufficient to fund our operations and meet our obligations prior to taking these actions, BD has taken steps as a precautionary measure to preserve our financial flexibility in light of the uncertainty in the global markets resulting from the COVID-19 pandemic. We have a five-year senior unsecured revolving credit facility in place which will expire in December 2022. The facility agreement includes a provision that enabled BD, subject to additional commitments made by the lenders, to access up to an additional \$500 million in financing through the facility for a maximum aggregate commitment of \$2.75 billion. In April 2020, we entered into a supplement to the facility agreement which increased the revolving commitments available under the facility by \$381 million. As such, borrowings provided for under the agreement increased from \$2.25 billion to \$2.63 billion. We are also able to issue up to \$100 million in letters of credit under this revolving credit facility. We use proceeds from this facility to fund general corporate needs. Borrowings outstanding under the revolving credit facility at March 31, 2020 were \$695 million.

The agreement for our revolving credit facility and the supplement entered into in April 2020 contained the following financial covenants. We were in compliance with these covenants as of March 31, 2020.

- We are required to maintain an interest expense coverage ratio of not less than 4-to-1 as of the last day of each fiscal quarter.
- We are required to have a leverage coverage ratio of no more than:
 - 6-to-1 from the closing date of the Bard acquisition until and including the first fiscal quarter-end thereafter;
 - 5.75-to-1 for the subsequent four fiscal quarters thereafter;
 - 5.25-to-1 for the subsequent four fiscal quarters thereafter;
 - 4.5-to-1 for the subsequent four fiscal quarters thereafter;
 - 4-to-1 for the subsequent four fiscal quarters thereafter;
 - 3.75-to-1 thereafter.

In March 2020, we entered into a 364-day \$1.4 billion senior unsecured term loan facility and later in March 2020, we amended this agreement to increase the borrowing capacity available under the facility to \$2.0 billion. Borrowings under the term loan facility will primarily be used to supplement our cash position. Borrowings outstanding under the 364-day term loan facility were \$1.9 billion at March 31, 2020. The agreement for our term loan facility and the amendment to the facility contained the following financial covenants. We were in compliance with these covenants as of March 31, 2020.

- We are required to maintain an interest expense coverage ratio of not less than 4-to-1 as of the last day of any fiscal quarter.
- We are required to have a leverage ratio of not greater than:
 - 5.25-to-1 from the effectiveness of the Term Loan Agreement until and including the last day of the fiscal quarter ending March 31, 2020;
 - 4.5-to-1 as of the last day of any fiscal quarter thereafter.

We also have informal lines of credit outside the United States. We may, from time to time, access the commercial paper market and/or sell certain trade receivable assets to third parties as we manage working capital over the normal course of our business

activities. We had no commercial paper borrowings outstanding as of March 31, 2020. Additional disclosures regarding sales of trade receivable assets are provided in Note 13 in the Notes to Condensed Consolidated Financial Statements.

Access to Capital and Credit Ratings

Our corporate credit ratings with the rating agencies Moody's Investor Service and Fitch Ratings at March 31, 2020 were unchanged compared with our ratings at September 30, 2019. In March 2020, Standard & Poor's Ratings Services affirmed our September 30, 2019 ratings and revised the agency's outlook regarding the likely direction of these ratings from Stable to Negative.

Lower corporate debt ratings and downgrades of our corporate credit ratings or other credit ratings may increase our cost of borrowing. We believe that given our debt ratings, our financial management policies, our ability to generate cash flow and the non-cyclical, geographically diversified nature of our businesses, we would have access to additional short-term and long-term capital should the need arise. A rating reflects only the view of a rating agency and is not a recommendation to buy, sell or hold securities. Ratings can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

Concentrations of Credit Risk

We continually evaluate our accounts receivables for potential collection risks, particularly those resulting from sales to government-owned or government-supported healthcare facilities in certain countries, as payment may be dependent upon the financial stability and creditworthiness of those countries' national economies. We continually evaluate all governmental receivables for potential collection risks associated with the availability of government funding and reimbursement practices. We believe the current reserves related to all governmental receivables are adequate and that these receivables will not have a material adverse impact on our financial position or liquidity.

To date, we have not experienced a significant increased risk of collectability of accounts receivables in general as a result of the COVID-19 pandemic. No assurances can be given that the risk of collectability will not increase in the future given the uncertainty around the duration of the pandemic and its economic impact.

Regulatory Matters

In January 2018, BD received a Warning Letter from the U.S. FDA, citing certain alleged violations of quality system regulations and of law with respect to our Preamerical Systems facility in Franklin Lakes, New Jersey. The Warning Letter states that, until BD resolves the outstanding issues covered by the Warning Letter, the FDA will not clear or approve any premarket submissions for Class III devices to which the non-conformances are reasonably related or grant requests for certificates to foreign governments. BD is working closely with the FDA and intends to fully implement corrective actions to address the concerns identified in the Warning Letter. However, BD cannot give any assurances that the FDA will be satisfied with its responses to the Warning Letter or as to the expected date of resolution of matters included in the Warning Letter. While BD does not believe that the issues identified in the Warning Letter will have a material impact on BD's operation, no assurances can be given that the resolution of this matter will not have a material adverse effect on BD's business, results of operations, financial conditions and/or liquidity.

In October 2019, BD entered into a consent order with the Environmental Protection Division of the Georgia Department of Natural Resources ("EPD"), following the filing of a complaint and motion for temporary restraining order by the EPD seeking to enjoin BD from continuing sterilization operations at its Covington, Georgia facility. Under the terms of the consent order, BD voluntarily agreed to a number of operational changes at its Covington and Madison, Georgia facilities designed to further reduce ethylene oxide emissions, including but not limited to operating at a reduced capacity. BD does not believe that the consent order will have a material impact on its operations. Violation of the consent order could subject us to additional restrictions on the sterilization operations at our Covington and Madison facilities. BD has business continuity plans in place to mitigate the impact of any additional restrictions on our operations at these facilities, although it is possible that these plans will not be able to fully offset such impact.

As previously reported, our Alaris™ infusion pump organizational unit is operating under an amended consent decree entered into by CareFusion that includes all infusion pumps manufactured by or for CareFusion 303, Inc., the organizational unit that manufactures and sells Alaris™ infusion pumps in the United States. Following an inspection that began in March 2020 of our Medication Management Systems facility (CareFusion 303, Inc.) in San Diego, California, the FDA issued to BD a Form 483 Notice that contains a number of observations of non-conformance. BD has provided the FDA with its response to the Form 483 and has begun to implement certain corrective actions to address the observations. However, the FDA's review of the items raised in the Form 483 remains ongoing and no assurances can be given regarding further action by the FDA as a result of the observations.

Cautionary Statement Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of the federal securities laws. BD and its representatives may also, from time to time, make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in filings with the Securities and Exchange Commission, press releases, and our reports to shareholders. Forward-looking statements may be identified by the use of words such as “plan,” “expect,” “believe,” “intend,” “will,” “may,” “anticipate,” “estimate” and other words of similar meaning in conjunction with, among other things, discussions of future operations and financial performance (including volume growth, pricing, sales and earnings per share growth, and cash flows) and statements regarding our strategy for growth, future product development, regulatory approvals, competitive position and expenditures. All statements that address our future operating performance or events or developments that we expect or anticipate will occur in the future are forward-looking statements.

Forward-looking statements are, and will be, based on management’s then-current views and assumptions regarding future events, developments and operating performance, and speak only as of their dates. Investors should realize that if underlying assumptions prove inaccurate, or risks or uncertainties materialize, actual results could vary materially from our expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, we undertake no obligation to update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events and developments or otherwise, except as required by applicable law or regulations.

The following are some important factors that could cause our actual results to differ from our expectations in any forward-looking statements. For further discussion of certain of these factors, see Item 1A. Risk Factors in this report and in our 2019 Annual Report on Form 10-K.

- Any negative impact of the COVID-19 pandemic on our business, including, without limitation, decreases in the demand for our products or disruptions to our operations and our supply chain.
- The current weakness in the global economy and financial markets, which could increase the cost of operating our business, weaken demand for our products and services, negatively impact the prices we can charge for our products and services, or impair our ability to produce our products.
- Competitive factors that could adversely affect our operations, including new product introductions and technologies (for example, new forms of drug delivery) by our current or future competitors, consolidation or strategic alliances among healthcare companies, distributors and/or payers of healthcare to improve their competitive position or develop new models for the delivery of healthcare, increased pricing pressure due to the impact of low-cost manufacturers, patents attained by competitors (particularly as patents on our products expire), new entrants into our markets and changes in the practice of medicine.
- Risks relating to our acquisition of Bard, including our ability to successfully combine and integrate the Bard operations in order to obtain the anticipated benefits and costs savings from the transaction, and the significant additional indebtedness we incurred in connection with the financing of the acquisition and the impact it may have on our ability to operate the combined company.
- The adverse financial impact resulting from unfavorable changes in foreign currency exchange rates.
- Regional, national and foreign economic factors, including inflation, deflation, and fluctuations in interest rates, and their potential effect on our operating performance.
- Our ability to achieve our projected level or mix of product sales, as our earnings forecasts are based on projected sales volumes and pricing of many product types, some of which are more profitable than others.
- Changes in reimbursement practices of governments or third-party payers, or adverse decisions relating to our products by such payers, which could reduce demand for our products or the price we can charge for such products.
- Cost containment efforts in the U.S. or in other countries in which we do business, such as alternative payment reform and increased use of competitive bidding and tenders, including, without limitation, any expansion of the volume-based procurement process in China.
- Changes in the domestic and foreign healthcare industry or in medical practices that result in a reduction in procedures using our products or increased pricing pressures, including the continued consolidation among healthcare providers.
- The impact of changes in U.S. federal laws and policy that could affect fiscal and tax policies, healthcare, and international trade, including import and export regulation and international trade agreements. In particular, tariffs or other trade barriers imposed by the U.S. or other countries could adversely impact our supply chain costs or otherwise adversely impact our results of operations.

- Increases in operating costs, including fluctuations in the cost and availability of oil-based resins and other raw materials, as well as certain components, used in our products, the ability to maintain favorable supplier arrangements and relationships (particularly with respect to sole-source suppliers), and the potential adverse effects of any disruption in the availability of such items.
- Security breaches of our information technology systems or our products, which could impair our ability to conduct business, result in the loss of BD trade secrets or otherwise compromise sensitive information of BD or its customers, suppliers and other business partners, or of customers' patients, or result in product efficacy or safety concerns for certain of our products, and result in actions by regulatory bodies or civil litigation.
- Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, successfully complete clinical trials, obtain regulatory approvals in the United States and abroad, obtain intellectual property protection for our products, obtain coverage and adequate reimbursement for new products, or gain and maintain market approval of products, as well as the possibility of infringement claims by competitors with respect to patents or other intellectual property rights, all of which can preclude or delay commercialization of a product. Delays in obtaining necessary approvals or clearances from United States Food and Drug Administration ("FDA") or other regulatory agencies or changes in the regulatory process may also delay product launches and increase development costs.
- The impact of business combinations or divestitures, including any volatility in earnings relating to acquisition-related costs, and our ability to successfully integrate any business we may acquire.
- Our ability to penetrate or expand our operations in emerging markets, which depends on local economic and political conditions, and how well we are able to make necessary infrastructure enhancements to production facilities and distribution networks.
- Conditions in international markets, including social and political conditions, civil unrest, terrorist activity, governmental changes, restrictions on the ability to transfer capital across borders, tariffs and other protectionist measures, difficulties in protecting and enforcing our intellectual property rights and governmental expropriation of assets. This includes the possible impact of the United Kingdom's exit from the European Union ("EU"), which has created uncertainties affecting our business operations in the United Kingdom and the EU, and possibly other countries. Our international operations also increase our compliance risks, including risks under the Foreign Corrupt Practices Act and other anti-corruption laws, as well as regulatory and privacy laws.
- Deficit reduction efforts or other actions that reduce the availability of government funding for healthcare and research, which could weaken demand for our products and result in additional pricing pressures, as well as create potential collection risks associated with such sales.
- Fluctuations in university or U.S. and international governmental funding and policies for life sciences research.
- Fluctuations in the demand for products we sell to pharmaceutical companies that are used to manufacture, or are sold with, the products of such companies, as a result of funding constraints, consolidation or otherwise.
- The effects of weather, regulatory or other events that adversely impact our supply chain, including our ability to manufacture our products (particularly where production of a product line or sterilization operations are concentrated in one or more plants), source materials or components or services from suppliers (including sole-source suppliers) that are needed for such manufacturing (including sterilization), or provide products to our customers, including events that impact key distributors.
- Natural disasters (including pandemics), war, terrorism, labor disruptions and international conflicts that could cause significant economic disruption and political and social instability, resulting in decreased demand for our products, adversely affect our manufacturing and distribution capabilities, or cause interruptions in our supply chain.
- Pending and potential future litigation or other proceedings asserting, and/or subpoenas seeking information with respect to, alleged violations of law (including in connection with federal and/or state healthcare programs (such as Medicare or Medicaid) and/or sales and marketing practices (such as investigative subpoenas and the civil investigative demands received by BD and Bard)), antitrust claims, product liability (which may involve lawsuits seeking class action status or seeking to establish multi-district litigation proceedings, including claims relating to our hernia repair implant products, surgical continence products for women and vena cava filter products), claims with respect to environmental matters, and patent infringement, and the availability or collectability of insurance relating to any such claims.
- New or changing laws and regulations affecting our domestic and foreign operations, or changes in enforcement practices, including laws relating to trade, monetary and fiscal policies, taxation (including tax reforms that could adversely impact multinational corporations), sales practices, environmental protection, price controls, and licensing

and regulatory requirements for new products and products in the postmarketing phase. In particular, the U.S. and other countries may impose new requirements regarding registration, labeling or prohibited materials that may require us to re-register products already on the market or otherwise impact our ability to market our products. Environmental laws, particularly with respect to the emission of greenhouse gases, are also becoming more stringent throughout the world, which may increase our costs of operations or necessitate changes in our manufacturing plants or processes or those of our suppliers, or result in liability to BD.

- Product efficacy or safety concerns regarding our products resulting in product holds or recalls, regulatory action on the part of the FDA or foreign counterparts (including restrictions on future product clearances and civil penalties), declining sales and product liability claims, and damage to our reputation. As a result of the CareFusion acquisition, we are operating under a consent decree with the FDA relating to our U.S. infusion pump business. The consent decree authorizes the FDA, in the event of any violations in the future, to order us to cease manufacturing and distributing products, recall products or take other actions, and we may be required to pay significant monetary damages if we fail to comply with any provision of the consent decree. Also, in 2019, the FDA letter to healthcare professionals regarding the use of paclitaxel-coated devices in the treatment of peripheral artery disease resulted in decreased sales of BD's drug-coated balloons. While we have changed the labeling on our products as required by the FDA and continue to work with the FDA on patient data, the extent and duration of the impact from the FDA letter, and the likelihood of FDA approval of new drug-coated devices, is difficult to predict.
- The effect of adverse media exposure or other publicity regarding BD's business or operations, including the effect on BD's reputation or demand for its products.
- The effect of market fluctuations on the value of assets in BD's pension plans and on actuarial interest rate and asset return assumptions, which could require BD to make additional contributions to the plans or increase our pension plan expense.
- Our ability to obtain the anticipated benefits of restructuring programs, if any, that we may undertake.
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the Securities and Exchange Commission.

The foregoing list sets forth many, but not all, of the factors that could impact our ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information reported since the end of the fiscal year ended September 30, 2019.

Item 4. Controls and Procedures

An evaluation was carried out by BD's management, with the participation of BD's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of BD's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2020. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were, as of the end of the period covered by this report, effective and designed to ensure that material information relating to BD and its consolidated subsidiaries would be made known to them by others within these entities.

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2020 identified in connection with the above-referenced evaluation that have materially affected, or are reasonably likely to materially affect, BD's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved, both as a plaintiff and a defendant, in various legal proceedings which arise in the ordinary course of business, including product liability and environmental matters as set forth in our 2019 Annual Report on Form 10-K, and in Note 5 of the Notes to Condensed Consolidated Financial Statements in this report, which is incorporated herein by reference. Since December 31, 2019, there have been no material developments with respect to the legal proceedings in which we are involved, except as provided below.

Other Legal Matters

On February 27, 2020, a putative class action captioned Kabak v. Becton, Dickinson and Company, et al., Civ. No. 2:20-cv-02155 (SRC) (CLW), was filed in the U.S. District Court for the District of New Jersey against the Company and certain of its officers. The complaint, which purports to be brought on behalf of all persons (other than defendants) who purchased or otherwise acquired the Company's common stock from November 5, 2019 through February 5, 2020, asserts claims for purported violations of Sections 10 and 20 of the Securities Exchange Act of 1934 and SEC Rule 10b-5 promulgated thereunder, and seeks, among other things, damages and costs. The complaint alleges that defendants concealed material information regarding AlarisTM infusion pumps, including that (1) certain pumps exhibited software errors, (2) the Company was investing in remediation efforts as opposed to other enhancements and (3) the Company was thus reasonably likely to recall certain pumps and/or experience regulatory delays. These alleged omissions, the complaint asserts, rendered certain public statements about the Company's business, operations and prospects false or misleading, causing investors to purchase stock at an inflated price. The Company believes these claims are without merit and intends to vigorously defend this action.

On April 27, 2020, three putative stockholders, including the named plaintiff in the Kabak complaint, filed motions to be appointed lead plaintiff and for their counsel to be appointed lead counsel pursuant to the Private Securities Litigation Reform Act of 1995. Those motions remain pending.

Item 1A. Risk Factors

There were no material changes during the period covered by this report in the risk factors previously disclosed in Part I, Item 1A, of our 2019 Annual Report on Form 10-K, except as set forth below.

We are subject to risks associated with public health threats, including the ongoing COVID-19 pandemic.

We are subject to risks associated with public health threats, including the COVID-19 pandemic. The outbreak of COVID-19 and actions taken by governments and the private sector to slow the spread of the virus have resulted in a global economic slowdown, and have caused healthcare systems to divert resources to managing the pandemic. As a result, we have experienced significant reductions in the demand for certain of our products, particularly due to the decline in elective medical procedures, which negatively impacted our revenues in the second quarter of fiscal year 2020. As the pandemic continues, we expect to continue to experience weakened demand for these products as a result of the reduction in elective and non-essential procedures, lower utilization of routine testing and related specimen collection, reduced capital spend by customers and reduced demand from research laboratories. While we have seen increases in demand for certain product lines during the pandemic, this increased demand may not be sufficient to offset the revenue declines in other areas. We also expect pressure on our margins due to lost sales of products with gross margins that are higher than the company average. Safety measures taken by governments to slow the spread of the virus or determinations that our or our suppliers' facilities are not essential businesses could also result in closures or other restrictions that significantly disrupt our operations or those of distributors or suppliers in our supply chain. In addition, while we undertook certain financing activities as a precautionary measure during this economic slowdown, no assurance can be given that we will be able to access capital markets in the future without incurring significant costs and expense. The scope and duration of the outbreak, the pace at which government restrictions will be lifted or whether additional actions may be taken to contain the virus, the speed and extent to which global markets and utilization rates for our products recover from the disruptions caused by the pandemic, and the impact of these factors on our business, will depend on future developments that are highly uncertain and cannot be predicted with confidence.

To the extent COVID-19 adversely affects our operations and global economic conditions more generally, it may also have the effect of heightening many of the other risks described in the "Risk Factors" section included in our 2019 Annual Report on Form 10-K for the year ended September 30, 2019.

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

The table below sets forth certain information regarding our purchases of common stock of BD during the quarter ended March 31, 2020.

Issuer Purchases of Equity Securities

For the three months ended March 31, 2020	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
January 1 – 31, 2020	1,229	\$ 279.21	—	7,857,742
February 1 – 29, 2020	376	256.87	—	7,857,742
March 1 – 31, 2020	—	—	—	7,857,742
Total	1,605	\$ 273.98	—	7,857,742

(1) Consists of 1,605 shares purchased during the quarter in open market transactions by the trust relating to BD's Deferred Compensation and Retirement Benefit Restoration Plan and 1996 Directors' Deferral Plan.

(2) Represents shares available under a repurchase program authorized by the Board of Directors on September 24, 2013 for 10 million shares, for which there is no expiration date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- [10.1](#) 364-Day Term Loan Agreement, dated as of March 20, 2020, among Becton, Dickinson and Company, the banks named therein and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 23, 2020).
- [10.2](#) First Amendment to 364-Day Term Loan Agreement and Joinder Agreement, dated as of March 27, 2020, among Becton, Dickinson and Company, the banks named therein and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on April 2, 2020).
- [10.3](#) Joinder Agreement, dated as of March 31, 2020, among Becton, Dickinson and Company, the bank named therein and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on April 2, 2020).
- [31](#) Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to SEC Rule 13a - 14(a).
- [32](#) Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to Rule 13a - 14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
- 101 The following materials from this report, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Becton, Dickinson and Company

(Registrant)

Dated: May 7, 2020

/s/ Christopher Reidy

Christopher Reidy

Executive Vice President, Chief Financial Officer and Chief
Administrative Officer

(Principal Financial Officer)

/s/ Thomas J. Spoerel

Thomas J. Spoerel

Vice President, Controller and Chief Accounting Officer

(Principal Accounting Officer)

CERTIFICATIONS

I, Thomas E. Polen, certify that:

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

Date: May 7, 2020

/s/ Thomas E. Polen

Thomas E. Polen

Chief Executive Officer and President

I, Christopher R. Reidy, certify that:

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

Date: May 7, 2020

/s/ Christopher R. Reidy

Christopher R. Reidy

Executive Vice President, Chief Financial Officer and Chief
Administrative Officer

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q of Becton, Dickinson and Company for the quarter ended March 31, 2020 (the "Report") for the purpose of complying with Rule 13a – 14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Thomas E. Polen, the Chief Executive Officer of Becton, Dickinson and Company, certify that:

1. such Report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Becton, Dickinson and Company.

May 7, 2020

/s/ Thomas E. Polen

Name: Thomas E. Polen

Chief Executive Officer

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q of Becton, Dickinson and Company for the quarter ended March 31, 2020 (the "Report") for the purpose of complying with Rule 13a – 14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Christopher R. Reidy, the Chief Financial Officer of Becton, Dickinson and Company, certify that:

1. such Report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Becton, Dickinson and Company.

May 7, 2020

/s/ Christopher R. Reidy

Name: Christopher R. Reidy

Chief Financial Officer