

Edgar Filing: Express Scripts Holding Co. - Form 10-Q

Express Scripts Holding Co.  
Form 10-Q  
July 25, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016.

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: 1-35490

EXPRESS SCRIPTS HOLDING COMPANY  
(Exact name of registrant as specified in its charter)

Delaware 45-2884094  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

One Express Way, St. Louis, MO 63121  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (314) 996-0900

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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Common stock outstanding as of June 30, 2016: 630,219,000 Shares

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## EXPRESS SCRIPTS HOLDING COMPANY

## Unaudited Consolidated Balance Sheet

| (in millions)  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Assets   |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$ 1,324.4       | \$ 3,186.3           |
| Receivables, net   | 7,373.6          | 6,721.3              |
| Inventories  | 1,715.7          | 2,023.1              |
| Prepaid expenses and other current assets  | 200.8            | 128.8                |
| Total current assets   | 10,614.5         | 12,059.5             |
| Property and equipment, net  | 1,249.1          | 1,291.3              |
| Goodwill   | 29,278.6         | 29,277.3             |
| Other intangible assets, net   | 9,562.8          | 10,469.7             |
| Other assets   | 153.6            | 145.5                |
| Total assets   | \$50,858.6       | \$ 53,243.3          |
| Liabilities and stockholders' equity   |                  |                      |
| Current liabilities:   |                  |                      |
| Claims and rebates payable   | \$8,635.9        | \$ 9,397.7           |
| Accounts payable   | 4,197.3          | 3,451.8              |
| Accrued expenses   | 2,162.4          | 2,659.4              |
| Current maturities of long-term debt   | 4,140.9          | 1,646.4              |
| Total current liabilities  | 19,136.5         | 17,155.3             |
| Long-term debt   | 11,842.6         | 13,946.3             |
| Deferred taxes   | 3,857.1          | 4,069.8              |
| Other liabilities  | 611.6            | 691.4                |
| Total liabilities  | 35,447.8         | 35,862.8             |
| Commitments and contingencies (Note 8)   |                  |                      |
| Stockholders' equity:  |                  |                      |
| Preferred stock, 15.0 shares authorized, \$0.01 par value per share; no shares issued and outstanding  | —                | —                    |
| Common stock, 2,985.0 shares authorized, \$0.01 par value; shares issued: 856.4 and 854.5, respectively; shares outstanding: 630.2 and 676.9, respectively | 8.6              | 8.5                  |
| Additional paid-in capital   | 22,567.2         | 22,204.7             |
| Accumulated other comprehensive loss   | (7.9             | ) (14.0              |
| Retained earnings  | 9,643.6          | 8,396.8              |
|  | 32,211.5         | 30,596.0             |
| Common stock in treasury at cost, 226.2 and 177.6 shares, respectively   | (16,808.4        | ) (13,223.2          |
| Total Express Scripts stockholders' equity   | 15,403.1         | 17,372.8             |
| Non-controlling interest   | 7.7              | 7.7                  |
| Total stockholders' equity   | 15,410.8         | 17,380.5             |
| Total liabilities and stockholders' equity   | \$50,858.6       | \$ 53,243.3          |

See accompanying Notes to Unaudited Consolidated Financial Statements



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Unaudited Consolidated Statement of Operations

| (in millions, except per share data)                                    | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,           |            | June 30,         |            |
|   | 2016               | 2015       | 2016             | 2015       |
| Revenues <sup>(1)</sup>   | \$25,222.3         | \$25,454.2 | \$50,014.1       | \$50,353.8 |
| Cost of revenues <sup>(1)</sup>   | 23,061.1           | 23,323.0   | 46,005.9         | 46,388.6   |
| Gross profit  | 2,161.2            | 2,131.2    | 4,008.2          | 3,965.2    |
| Selling, general and administrative                                     | 904.9              | 998.5      | 1,811.1          | 2,005.9    |
| Operating income  | 1,256.3            | 1,132.7    | 2,197.1          | 1,959.3    |
| Other (expense) income:   |                    |            |                  |            |
| Interest income and other   | 10.3               | 6.0        | 19.1             | 11.3       |
| Interest expense and other  | (136.8)            | (132.3)    | (275.4)          | (248.7)    |
|   | (126.5)            | (126.3)    | (256.3)          | (237.4)    |
| Income before income taxes  | 1,129.8            | 1,006.4    | 1,940.8          | 1,721.9    |
| Provision for income taxes  | 402.7              | 400.3      | 681.5            | 668.7      |
| Net income  | 727.1              | 606.1      | 1,259.3          | 1,053.2    |
| Less: Net income attributable to non-controlling interest               | 6.4                | 6.0        | 12.5             | 12.0       |
| Net income attributable to Express Scripts                              | \$720.7            | \$600.1    | \$1,246.8        | \$1,041.2  |
| Weighted-average number of common shares outstanding during the period: |                    |            |                  |            |
| Basic   | 631.3              | 675.4      | 638.1            | 701.7      |
| Diluted   | 635.7              | 681.4      | 642.7            | 708.3      |
| Earnings per share:   |                    |            |                  |            |
| Basic   | \$1.14             | \$0.89     | \$1.95           | \$1.48     |
| Diluted   | \$1.13             | \$0.88     | \$1.94           | \$1.47     |

Includes retail pharmacy co-payments of \$2,136.4 million and \$2,322.4 million for the three months ended June 30, 2016 and 2015, respectively, and \$4,677.4 million and \$4,956.7 million for the six months ended June 30, 2016 and 2015, respectively.

See accompanying Notes to Unaudited Consolidated Financial Statements

EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Statement of Comprehensive Income

| (in millions)   | Three Months Ended |         | Six Months Ended |           |
|---|--------------------|---------|------------------|-----------|
|   | June 30,           |         | June 30,         |           |
|   | 2016               | 2015    | 2016             | 2015      |
| Net income  | \$727.1            | \$606.1 | \$1,259.3        | \$1,053.2 |
| Other comprehensive income (loss):                                  |                    |         |                  |           |
| Foreign currency translation adjustment                             | (0.2 )             | 2.5     | 6.1              | (5.5 )    |
| Comprehensive income  | 726.9              | 608.6   | 1,265.4          | 1,047.7   |
| Less: Comprehensive income attributable to non-controlling interest | 6.4                | 6.0     | 12.5             | 12.0      |
| Comprehensive income attributable to Express Scripts                | \$720.5            | \$602.6 | \$1,252.9        | \$1,035.7 |

See accompanying Notes to Unaudited Consolidated Financial Statements

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## EXPRESS SCRIPTS HOLDING COMPANY

## Unaudited Consolidated Statement of Changes in Stockholders' Equity

| (in millions)  | Number<br>of Shares |                 | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Treasury<br>Stock | Non-controlling<br>Interest | Total      |
|--|---------------------|-----------------|----------------------------------|---|----------------------|-------------------|-----------------------------|------------|
|  | Common<br>Stock     | Common<br>Stock |                                  |   |                      |                   |                             |            |
| Balance at December 31, 2015                                       | 854.5               | \$8.5           | \$22,204.7                       | \$ (14.0 )                                    | \$8,396.8            | \$(13,223.2)      | \$ 7.7                      | \$17,380.5 |
| Net income   | —                   | —               | —                                | —   | 1,246.8              | —                 | 12.5                        | 1,259.3    |
| Other comprehensive income   | —                   | —               | —                                | 6.1   | —                    | —                 | —                           | 6.1        |
| Treasury stock acquired  | —                   | —               | 265.0                            | —   | —                    | (3,585.2 )        | —                           | (3,320.2 ) |
| Changes in stockholders' equity<br>related to employee stock plans | 1.9                 | 0.1             | 97.5                             | —   | —                    | —                 | —                           | 97.6       |
| Distributions to non-controlling<br>interest                       | —                   | —               | —                                | —   | —                    | —                 | (12.5 )                     | (12.5 )    |
| Balance at June 30, 2016   | 856.4               | \$8.6           | \$22,567.2                       | \$ (7.9 )                                     | \$9,643.6            | \$(16,808.4)      | \$ 7.7                      | \$15,410.8 |

See accompanying Notes to Unaudited Consolidated Financial Statements



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## EXPRESS SCRIPTS HOLDING COMPANY

## Unaudited Consolidated Statement of Cash Flows

Six Months Ended June 30,

| (in millions)   | 2016       |   | 2015       |   |
|---|------------|---|------------|---|
| Cash flows from operating activities:   |            |   |            |   |
| Net income  | \$ 1,259.3 |   | \$ 1,053.2 |   |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |   |            |   |
| Depreciation and amortization   | 1,073.5    |   | 1,144.9    |   |
| Deferred income taxes   | (212.3)    | ) | (194.0)    | ) |
| Employee stock-based compensation expense   | 54.7       |   | 54.4       |   |
| Other, net  | (4.5)      | ) | (40.0)     | ) |
| Changes in operating assets and liabilities:                                      |            |   |            |   |
| Accounts receivable   | (670.6)    | ) | (544.9)    | ) |
| Inventories   | 307.4      |   | 463.1      |   |
| Other current and noncurrent assets   | (74.5)     | ) | (123.8)    | ) |
| Claims and rebates payable  | (761.8)    | ) | (274.6)    | ) |
| Accounts payable  | 751.1      |   | 207.9      |   |
| Accrued expenses  | (452.6)    |   |            |   |