DIEBOLD NIXDORF, Inc
Form 10-Q
November 08, 2018

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

Form 10-Q

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

For the quarterly period ended September 30, 2018

OR

o 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 1-4879

Diebold Nixdorf, Incorporated
(Exact name of registrant as specified in its charter)

Ohio	34-0183970
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
5995 Mayfair Road, PO Box 3077, North Canton, Ohio	44720-8077
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (330) 490-4000

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

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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	x	Accelerated filer	o	Non-accelerated filer (Do not check if a smaller reporting company)	o
Smaller reporting company	o	Emerging growth company	o		

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. o

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

Number of shares of common stock outstanding as of October 31, 2018 was 76,124,266.

DIEBOLD NIXDORF, INCORPORATED AND SUBSIDIARIES
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Part I – Financial Information
Item 1: Financial Statements
DIEBOLD NIXDORF, INCORPORATED AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in millions, except share and per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 304.4	$ 535.2
Restricted cash	139.3	8.0
Short-term investments	5.0	81.4
Trade receivables, less allowances for doubtful accounts of $55.3 and $71.7, respectively	818.1	830.1
Inventories	846.5	728.9
Prepaid expenses	60.4	65.7
Income taxes	66.5	73.4
Other current assets	201.4	177.6
Total current assets	2,441.6	2,500.3
Securities and other investments	24.1	96.8
Property, plant and equipment, net of accumulated depreciation and amortization of $441.0 and $418.8, respectively	320.8	364.5
Goodwill	883.3	1,117.1
Deferred income taxes	256.2	293.8
Customer relationships, net	559.7	633.3
Other intangible assets, net	111.9	140.5
Other assets	100.2	95.8
Total assets	$ 4,697.8	$ 5,242.1
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Current liabilities		
Notes payable	$ 52.7	$ 66.7
Accounts payable	554.7	562.2
Deferred revenue	365.3	437.5
Payroll and other benefits liabilities	173.8	198.9
Other current liabilities	433.1	531.4
Total current liabilities	1,579.6	1,796.7
Long-term debt	2,337.0	1,787.1
Pensions, post-retirement and other benefits	260.7	266.4
Deferred income taxes	240.7	287.1
Other liabilities	102.9	111.3
Commitments and contingencies		
Redeemable noncontrolling interests	154.2	492.1
Equity		
Diebold Nixdorf, Incorporated shareholders' equity		
Preferred shares, no par value, 1,000,000 authorized shares, none issued	—	—
Common shares, $1.25 par value, 125,000,000 authorized shares, 91,267,246 and 90,524,360 issued shares, 76,115,029 and 75,558,544 outstanding shares, respectively	114.1	113.2
Additional capital	743.6	721.5

Retained earnings (accumulated deficit)	(3.2)	393.6
Treasury shares, at cost (15,152,217 and 14,965,816 shares, respectively)	(570.4)	(567.4)
Accumulated other comprehensive loss	(291.5)	(196.3)
Total Diebold Nixdorf, Incorporated shareholders' equity	(7.4)	464.6
Noncontrolling interests	30.1	36.8
Total equity	22.7	501.4
Total liabilities, redeemable noncontrolling interests and equity	$ 4,697.8	$ 5,242.1

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD NIXDORF, INCORPORATED AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited)
(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net sales				
Services	$583.9	$605.8	$1,769.6	$1,759.3
Products	414.6	397.0	1,156.4	1,262.2
Software	120.5	119.9	362.8	337.9
	1,119.0	1,122.7	3,288.8	3,359.4
Cost of sales				
Services	451.6	470.7	1,377.5	1,362.1
Products	347.9	328.0	958.2	1,042.5
Software	91.2	84.0	265.4	236.5
	890.7	882.7	2,601.1	2,641.1
Gross profit	228.3	240.0	687.7	718.3
Selling and administrative expense	216.2	208.8	663.9	692.6
Research, development and engineering expense	36.6	34.2	118.9	114.4
Impairment of assets	109.3	—	199.3	3.1
(Gain) loss on sale of assets, net	0.1	5.6	(6.8)	(2.5)
	362.2	248.6	975.3	807.6
Operating profit (loss)	(133.9)	(8.6)	(287.6)	(89.3)
Other income (expense)				
Interest income	2.2	4.3	7.6	15.8
Interest expense	(45.2)	(27.7)	(99.6)	(90.7)
Foreign exchange gain (loss), net	2.2	3.2	(2.3)	(4.5)
Miscellaneous, net	1.8	(1.5)	0.9	1.7
Income (loss) before taxes	(172.9)	(30.3)	(381.0)	(167.0)
Income tax expense (benefit)	45.8	(0.9)	35.6	(60.5)
Net income (loss)	(218.7)	(29.4)	(416.6)	(106.5)
Net income (loss) attributable to noncontrolling interests	(6.1)	6.6	6.6	20.2
Net income (loss) attributable to Diebold Nixdorf, Incorporated	$(212.6)	$(36.0)	$(423.2)	$(126.7)
Basic weighted-average shares outstanding	76.1	75.5	76.0	75.4
Diluted weighted-average shares outstanding	76.1	75.5	76.0	75.4
Net income (loss) attributable to Diebold Nixdorf, Incorporated				
Basic earnings (loss) per share	$(2.79)	$(0.48)	$(5.57)	$(1.68)
Diluted earnings (loss) per share	$(2.79)	$(0.48)	$(5.57)	$(1.68)
Dividends declared and paid per common share	$—	$0.10	$0.10	$0.30

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD NIXDORF, INCORPORATED AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited)
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$(218.7)	$(29.4)	$(416.6)	$(106.5)
Other comprehensive income (loss), net of tax				
Adoption of accounting standard	—	—	(29.0)	—
Translation adjustment	(19.7)	15.8	(82.8)	145.0
Foreign currency hedges (net of tax of $(0.5), $1.2, $(1.6) and $(0.2), respectively)	2.1	(2.4)	8.0	1.0
Interest rate hedges				
Net gain (loss) recognized in other comprehensive income (net of tax of $(0.2), $(0.1), $(1.3) and $(0.6), respectively)	(0.5)	0.3	2.3	1.8
Reclassification adjustment for amounts recognized in net income	1.0	—	2.1	(0.4)
	0.5	0.3	4.4	1.4
Pension and other post-retirement benefits				
Net actuarial gain (loss) amortization (net of tax of $1.0, $(0.5), $0.8 and $0.5, respectively)	(2.0)	1.0	1.6	(2.0)
Other comprehensive income (loss), net of tax	(19.1)	14.7	(97.8)	145.4
Comprehensive income (loss)	(237.8)	(14.7)	(514.4)	38.9
Less: comprehensive income (loss) attributable to noncontrolling interests	(7.4)	8.4	3.5	23.7
Comprehensive income (loss) attributable to Diebold Nixdorf, Incorporated	$(230.4)	$(23.1)	$(517.9)	$15.2

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD NIXDORF, INCORPORATED AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in millions)

	Nine Months Ended September 30, 2018	2017
Cash flow from operating activities		
Net income (loss)	$(416.6)	$(106.5)
Adjustments to reconcile net income (loss) to cash flow used by operating activities:		
Depreciation and amortization	194.7	185.4
Share-based compensation	27.2	23.1
Gain on sale of assets, net	(6.8)	(2.5)
Impairment of assets	199.3	3.1
Deferred income taxes	(52.8)	(36.3)
Other	(2.7)	(1.4)
Changes in certain assets and liabilities, net of the effects of acquisitions		
Trade receivables	(20.6)	(57.5)
Inventories	(142.9)	(45.8)
Accounts payable	7.4	10.0
Income taxes	6.8	(46.8)
Prepaid and other current assets	(32.5)	(42.0)
Deferred revenue	(60.9)	(43.3)
Restructuring payments	(37.9)	(57.8)
Warranty liability	(28.3)	(25.0)
Certain other assets and liabilities	(5.5)	8.0
Net cash provided (used) by operating activities	(372.1)	(235.3)
Cash flow from investing activities		
Capital expenditures	(40.5)	(41.7)
Payment for acquisitions	(5.9)	(5.6)
Proceeds from maturities of short-term investments	275.0	249.5
Payments for purchases of short-term investments	(126.5)	(260.7)
Proceeds from sale of assets	10.8	14.6
Increase in certain other assets	(22.8)	(26.9)
Net cash provided (used) by investing activities	90.1	(70.8)
Cash flow from financing activities		
Dividends paid	(7.7)	(22.9)
Debt issuance costs	(38.9)	(1.1)
Revolving credit facility (repayments) borrowings, net	185.0	120.0
Other debt borrowings	706.0	381.0
Other debt repayments	(306.7)	(433.5)
Distributions and payments to noncontrolling interest holders	(337.8)	(16.3)
Issuance of common shares	—	0.3
Repurchase of common shares	(3.0)	(4.8)
Net cash provided (used) by financing activities	196.9	22.7
Effect of exchange rate changes on cash and cash equivalents	(14.4)	19.3
Increase (decrease) in cash, cash equivalents and restricted cash	(99.5)	(264.1)
Cash, cash equivalents and restricted cash at the beginning of the period	543.2	652.7

Cash, cash equivalents and restricted cash at the end of the period	$443.7	$388.6

See accompanying notes to condensed consolidated financial statements.

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Diebold Nixdorf, Incorporated and its subsidiaries (collectively, the Company) have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States (U.S. GAAP); however, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Company’s annual report on Form 10-K for the year ended December 31, 2017. In addition, some of the Company’s statements in this quarterly report on Form 10-Q may involve risks and uncertainties that could significantly impact expected future results. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of results to be expected for the full year.

Error Correction and Reclassification

During the third quarter of 2018, the Company identified an error in prior periods presented for repairable service parts inventory balances. Prior-period amounts of inventory, product cost of sales, income tax expense, other current liabilities and retained earnings have been adjusted. Management determined that the correction of the error was not material to each prior period. This correction was recorded within the Company's operations in the Americas Banking reporting segment. As a result of applying the correction retrospectively, previously reported service cost of sales for the three and nine months ended September 30, 2017 increased by $1.0 and $3.0, respectively, and previously reported net income and basic and diluted earnings per share decreased by $0.6 and $0.01 and $1.9 and $0.02, respectively. The decrease in the inventory balance and the aggregated amount of the correction reflected in other current liabilities and retained earnings as of December 31, 2017 was $8.1. There was no impact of the correction on previously reported cash flows from operations for the prior period.

In connection with recent changes in the Company's leadership, beginning with the second quarter of 2018, the Company's reportable operating segments are be based on the following solutions: Eurasia Banking, Americas Banking and Retail. As a result, the Company reclassified comparative periods for consistency.

The Company has reclassified the presentation of certain prior-year information to conform to the current presentation. The Company included finance lease receivables of $14.9 and $14.4 in other assets as of September 30, 2018 and December 31, 2017, respectively, in the condensed consolidated balance sheets. The Company reclassified $8.0 from other current assets to restricted cash as of December 31, 2017 in the condensed consolidated balance sheets and was included in cash, cash equivalents and restricted cash as of September 30, 2017 in the condensed consolidated statements of cash flows.

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DIEBOLD NIXDORF, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of September 30, 2018
Notes to Condensed Consolidated Financial Statements (continued)
(unaudited)
(in millions, except per share amounts)

Recently Adopted Accounting Guidance

Standards Adopted	Description	Effective Date
Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers	The standard replaced the most recent previously existing revenue recognition guidance in U.S. GAAP and required additional financial statement disclosures. The standard requires revenue to be recognized when the Company expects to be entitled in exchange for the transfer of promised goods or services to customers. The standard was adopted using a modified retrospective approach to open contracts as of the effective date, January 1, 2018. The standard is intended to reduce potential for diversity in practice at initial application and reducing the cost and complexity of applying Topic 606 both at transition and prospectively. As a result of the adoption, the cumulative increase to the Company's retained earnings at January 1, 2018 was $4.6.	January 1, 2018
ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	The standard was issued to address the net presentation of the components of net benefit cost. The standard requires that service cost be presented in the same line item as other current employee compensation costs and that the remaining components of net benefit cost be presented in a separate line item outside of any subtotal for income from operations. The adoption of this update did not have a material impact on the financial statements of the Company.	January 1, 2018
ASU 2017-12, Derivatives and Hedging: Target Improvements to Accounting for Hedging Activities	The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. For existing hedges as of the date of the adoption, the Company eliminated a minimal amount of ineffectiveness by means of a cumulative-effect adjustment to accumulated other comprehensive income (AOCI) with a corresponding adjustment to retained earnings. As a result of the standard, $(0.4) and $2.4 was included in net sales for the three and nine months ended September 30, 2018, respectively, and $(0.7) and $(0.6) in cost of sales for the three and nine months ended September 30, 2018, respectively.	Early adopted January 1, 2018
ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The standard allows for reclassification of stranded tax effects on items resulting from the U.S. Tax Cuts and Jobs Act (the Tax Act) from AOCI to retained earnings. Tax effects unrelated to the Tax Act are released from AOCI using either the specific identification approach or the portfolio approach based on the nature of the underlying item. As a result of the adoption, during the first quarter of 2018, the Company recorded an adjustment to retained earnings resulting in a increase of $29.0, with a corresponding decrease to AOCI due to the reduction in the corporate tax rate.	Early adopted January 1, 2018

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The standard simplifies the measurement of goodwill by eliminating step 2 from the goodwill impairment test. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The adoption of this update did not have an impact on the financial statements of the Company and only simplifies the procedure for the goodwill impairment test.	Early adopted January 1, 2018

(in millions, except per share amounts)

Recently Issued Accounting Guidance

Standards Pending Adoption	Description	Effective/Adoption Date	Anticipated Impact
ASU 2016-02, Leases	The standard requires that a lessee recognize on its balance sheet right-of-use assets and corresponding liabilities resulting from leasing transactions, as well as additional financial statement disclosures. Currently, U.S. GAAP only requires balance sheet recognition for leases classified as capital leases. The provisions of this update apply to substantially all leased assets.	January 1, 2019	The Company is currently evaluating the impact the standard will have on its financial information and related disclosures. The standard requires a modified retrospective transition method with the option to elect a package of practical expedients, which the Company anticipates utilizing and will continue to evaluate. The Company anticipates a material balance sheet gross-up for the right-of-use assets and corresponding liabilities, with no anticipated impact to debt covenants.
ASU 2018-13, Fair Value Measurement (Topic 820) -Disclosure Framework -Changes to the Disclosure Requirements for Fair Value Measurement	The standard is is designed to improve the effectiveness of disclosures by removing, modifying and adding disclosures related to fair value measurements.	January 1, 2020	The Company is currently assessing the impact this ASU will have on its consolidated financial statements. The ASU allows for early adoption in any interim period after issuance of the update.
ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs pursuant to SEC Staff Accounting Bulleting No. 118	This guidance amends SEC paragraphs in Topic 740, Income Taxes, to reflect SAB 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Act in the period of enactment.	January 1, 2021	This guidance also includes amendments to the XBRL Taxonomy. For public business entities, the amendments in ASU 2018-05 are effective for fiscal years ending after December 15, 2020 and early

			adoption is permitted. The Company does not expect adoption of this guidance to have a significant impact on its condensed consolidated financial statements.
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General Subtopic 715-20 - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	The standard is designed to improve the effectiveness of disclosures by removing and adding disclosures related to defined benefit plans.	January 1, 2021	The Company is currently assessing the impact this ASU will have on its condensed consolidated financial statements. The ASU allows for early adoption in any year end after issuance of the update.

Note 2: Revenue

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The amount of consideration can vary depending on discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items contained in the contract with the customer of which generally these variable consideration components represent less than one percent of revenues. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The Company's payment terms vary depending on the individual contracts and are generally fixed fee. The Company recognizes advance payments and billings in excess of revenue recognized as deferred revenue. In certain contracts where services are provided prior to billing, the Company recognizes a contract asset within trade receivables and other current assets.

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

The Company recognizes shipping and handling fees billed when products are shipped or delivered to a customer and includes such amounts in net sales. Although infrequent, shipping and handling associated with outbound freight after control over a product has transferred to a customer is not a separate performance obligation, rather is accounted for as a fulfillment cost. Third-party freight payments are recorded in cost of sales.

The Company includes a warranty in connection with certain contracts with customers, which are not considered to be separate performance obligations. The Company provides its customers a manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. For additional information on product warranty refer to note 9. The Company also has extended warranty and service contracts available for its customers, which are recognized as separate performance obligations. Revenue is recognized on these contracts ratably as the Company has a stand-ready obligation to provide services when or as needed by the customer. This input method is the most accurate assessment of progress toward completion the Company can apply.

Nature of goods and services

The following is a description of principal solutions offered within the Company's two main industry segments that generate the Company's revenue. For more detailed information about reportable operating segments, see note 20.

The Company provides its banking customers product-related services which include proactive monitoring and rapid resolution of incidents through remote service capabilities or an on-site visit. First and second line maintenance, preventive maintenance and on-demand services keep the distributed assets of the Company's customers up and running through a standardized incident management process. Managed services and outsourcing consists of the end-to-end business processes, solution management, upgrades and transaction processing. The Company also provides a full array of cash management services, which optimizes the availability and cost of physical currency across the enterprise through efficient forecasting, inventory and replenishment processes.

Banking and retail services may be sold separately or in bundled packages. The typical contract length for service is generally one year and is billed and paid in advance except for installations, among others.

The Company's hardware-agnostic software applications facilitate millions of transactions via automated teller machines (ATMs), point of sale (POS) terminals, kiosks, and other self-service devices. The Company provides its banking customers front-end applications for consumer connection points and back-end platforms that manage channel transactions, operations and integration. For its retail customers, the Company provides a comprehensive, modular solution capable of enabling the most advanced omnichannel retail use cases. The Company's platform software is installed within bank and retail data centers to facilitate omnichannel transactions, endpoint monitoring, remote asset management, customer marketing, merchandise management and analytics. These offerings include highly configurable, application program interface (API) enabled software that automates legacy banking transactions across channels.

The Company’s software solution includes its professional services team, who provides systems integration, customization, consulting and project management. The Company’s advisory services team collaborates with its customers to help define optimal user experience, improve business processes, refine existing staffing models and deploy technology to meet branch and store automation objectives.

Software licenses and professional services may be sold separately or in bundled packages. Software licenses when bundled with professional services, where the service is modifying the intellectual property (IP), is non-distinct from the professional service. The consideration (including any discounts) is allocated between distinct obligations in a bundle based on their stand-alone selling prices. For items that are not sold separately, the Company estimates stand-alone selling prices using the cost plus expected margin approach or in the case of the software license the residual approach may be used.

The Company considered ASC 606-10-32-34(c)(2), which provides the criteria that "the entity has not yet established a price for that good or service, and the good or service has not previously been sold on a standalone basis (that is, the selling price is uncertain)." The Company considers software as capable of being distinct, although it generally is not distinct in the context of the contract. Since the Company generally does not sell its software on a stand-alone basis there is limited history to accurately establish a stand-alone selling price. The Company does not have an established standalone selling price for its software.

Additionally, the Company considers the customization of the intellectual property significant since the professional services integrate the commercial solution with the customer's existing infrastructure. Although the services are capable of being distinct, they are not distinct within the context of the contract. The Company concluded this fully integrated commercial solution is inseparable since its customers generally only benefit from the combined output, which includes both the intellectual property and the professional services. The percentage of the Company's consolidated net sales recognized from integration and customization of software represented approximately one percent for the three and nine months ended September 30, 2018 and 2017.

The Company’s software licenses are functional in nature (the IP has significant stand-alone functionality); as such, the revenue recognition of distinct software license sales is at the point in time that the customer obtains control of the rights granted by the license. Revenue from professional services are recognized over time, because the customer simultaneously receives and consumes the benefits of the Company’s performance as the services are performed or when the Company’s performance creates an asset with no alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Generally revenue will be recognized using an input measure, typically costs incurred.

Products for banking customers consist of cash recyclers and dispensers, intelligent deposit terminals, teller automation tools and kiosk technologies, as well as physical security solutions. The retail product portfolio includes modular, integrated and mobile POS and self-checkout (SCO) terminals that meet evolving automation and omnichannel requirements of consumers. Supplementing the POS system is a broad range of peripherals, including printers, scales and mobile scanners, as well as the cash management portfolio which offers a wide range of banknote and coin processing systems. Also in the portfolio, the Company provides self-checkout terminals and ordering kiosks which facilitate an efficient and user-friendly purchasing experience. The Company’s hybrid product line can alternate from an attended operator to self-checkout with the press of a button as traffic conditions warrant throughout the business day.

For bundled packages, the Company accounts for individual services separately if they are distinct. A distinct service is separately identifiable from other items in the bundled package if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate services or distinct obligations in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the products or services. For items that are not sold separately, the Company estimates stand-alone selling prices using the cost plus expected margin approach. Revenue on service contracts is recognized ratably over time, generally using an input measure, as the customer simultaneously receives and consumes the benefits of the Company’s performance as the services are performed. In some circumstances, when global service supply chain services are not included in a term contract and rather billed as they occur, revenue on these billed work services are recognized at a point in time as transfer of control occurs. Product revenue is recognized at the point in time that the customer obtains control of the product, which could be upon delivery or upon completion of installation services, depending on contract terms.

The Company considered ASC 606-10-32-34 during its assessment of standalone selling price for its software licenses sold, noting observable prices are not generally available due to high variability and customization related to its software and service solutions. The Company considered current market trends, geography, competitors and the effects of customization when concluding that observable prices were not available. The observed prices are highly variable due to the varying levels of customization of software solutions that help define optimal user experience, improve business processes, refine existing staffing models and deploy technology to meet branch and store automation objectives. Due to the nature and level of customization that is included in the Company's software and service solutions, there is no expected cost plus margin approach available for the software component of the bundled packages. Margins can vary based on the customer, retail or banking solution and level of customization, which could include software solutions, as mentioned above, that help define optimal user experience, improve business processes, refine existing staffing models and deploy technology to meet branch and store automation objectives. The Company's software licenses do not have clear identifiable fulfillment costs so the expected cost plus margin approach is not practical. The Company considered these factors when assessing the market assessment approach and the expected cost plus margin approach and concluded the residual approach was appropriate.

The Company allocates price between products and software net sales when hardware is sold. Hardware sales include operating system software that is required for the hardware to function. The Company generally allocates revenue using the residual method for software included in hardware sales.

(in millions, except per share amounts)

The Company evaluates on a contract by contract basis software license sales that are standalone and software license sales that are accounted for under the residual method, but does not aggregate such sales. Software net sales using the residual approach represented approximately two percent of the Company's total consolidated net sales for the three and nine months ended September 30, 2018 and 2017.

Disaggregation of revenue

For additional information related to revenue disaggregation by reportable segment, refer to note 20.

The following table presents information regarding the Company’s revenue by geographic region:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Eurasia Banking				
Services	$229.8	$240.2	$702.2	$699.8
Products	152.0	167.5	451.7	527.0
Software	52.5	53.4	153.0	145.8
Total Eurasia Banking	434.3	461.1	1,306.9	1,372.6
Americas Banking				
Services	237.2	245.8	706.7	729.7
Products	118.0	106.2	292.3	323.1
Software	27.3	24.7	87.8	75.9
Total Banking Americas	382.5	376.7	1,086.8	1,128.7
Retail				
Services	116.9	119.8	360.7	329.8
Products	144.6	123.3	412.4	412.1
Software	40.7	41.8	122.0	116.2
Total Retail	302.2	284.9	895.1	858.1
Total net sales	$1,119.0	$1,122.7	$3,288.8	$3,359.4

In the following table, revenue is disaggregated by timing of revenue recognition:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Timing of revenue recognition	2018	2017	2018	2017
Products transferred at a point in time	39%	37%	37%	39%

Products and services transferred over time	61%	63%	63%	61%
Net sales	100%	100%	100%	100%

Contract balances

The following table provides 2018 information about receivables and deferred revenue, which represent contract liabilities from contracts with customers:

Contract balance information	Trade Receivable	Contract liabilities
Balance at January 1	$ 830.1	$ 437.5
Balance at September 30	$ 818.1	$ 365.3

Contract assets are minimal for the periods presented. The amount of revenue recognized in 2018 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of variable consideration and contract modifications was de minimis. There have been $9.7 and $11.5 during the three months ended September 30, 2018 and 2017, respectively, and $20.6 and $26.3 during the nine months ended September 30, 2018 and 2017, respectively, of impairment losses recognized as bad debt related to receivables or contract assets arising from the Company's contracts with customers.

As of January 1, 2018, the Company had $437.5 of unrecognized deferred revenue constituting the remaining performance obligations that are either unsatisfied (or partially unsatisfied). In 2018, the Company recognized revenue of $241.4 related to the Company's deferred revenue balance at January 1, 2018.

Contract assets are the rights to consideration in exchange for goods or services that the Company has transferred to a customer when that right is conditional on something other than the passage of time. Contract assets of the Company primarily relate to the Company's rights to consideration for goods shipped and services provided but not contractually billable at the reporting date.

The contract assets are reclassified into the receivables balance when the rights to receive payment become unconditional. Contract liabilities are recorded for any services billed to customers and not yet recognizable if the contract period has commenced or for the amount collected from customers in advance of the contract period commencing. In addition, contract liabilities are recorded as advanced payments for products and other deliverables that are billed to and collected from customers prior to revenue being recognizable.

Transaction price and variable consideration

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. This consideration can include fixed and variable amounts and is determined at contract inception and updated each reporting period for any changes in circumstances. The transaction price also considers variable consideration, time value of money and the measurement of any non-cash consideration, all of which are estimated at contract inception and updated at each reporting date for any changes in circumstances. Once the variable consideration is identified, the Company estimates the amount of the variable consideration to include in the transaction price by using one of two methods, expected value (probability weighted methodology) or most likely amount (when there are only two possible outcomes). The Company chooses the method expected to better predict the amount of consideration to which it will be entitled and applies the method consistently to similar contracts. Generally, the Company applies the expected value method when assessing variable consideration including returns and refunds.

The Company also applies the ‘as invoiced’ practical expedient in paragraph 606-10-55-18 related to performance obligations satisfied over time, which permits the Company to recognize revenue in the amount to which it has a right to invoice the customer if that amount corresponds directly with the value to the customer of the Company’s performance completed to date. Service revenues that are recognized ratably are primarily contracts that include first and second line maintenance. Service revenues that are recognized using input measures include primarily preventative maintenance. The ‘as invoiced’ practical expedient relates to the on-demand service revenue which is generally not under contract.

Transaction price allocated to the remaining performance obligations

As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $2,900. The Company expects to recognize revenue on the remaining performance obligations over the next twelve months. The Company enters into service agreements with cancellable terms after a certain period without penalty. Unsatisfied obligations reflect only the obligation during the initial term. The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Company also applies the ‘as invoiced’ practical expedient in paragraph 606-10-55-18 related to performance obligations satisfied over time which permits the Company to recognize revenue in the amount to which it has a right to invoice the customer if that amount corresponds directly with the value to the customer of the Company’s performance completed to date. Service revenues that are recognized ratably are primarily contracts that include first and second line maintenance. Service revenues that are recognized using input measures include primarily preventative maintenance. The ‘as invoiced’ practical expedient relates to the on-demand service revenue, which is generally not under contract.

Cost to obtain and cost to fulfill a contract

The Company has minimal cost to obtain or fulfill contracts for customers for the periods presented. The Company pays commissions to the sales force based on multiple factors including but not limited to order entry, revenue recognition and portfolio growth. These incremental commission fees paid to the sales force meet the criteria to be considered a cost to obtain a contract, as they are directly attributable to a contract, incremental and management expects the fees are recoverable. The Company applies the practical expedient and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. The costs that are not capitalized are included in cost of sales. The costs related to contracts with greater than a one-year term are immaterial and continue to be recognized in cost of sales.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales. The Company has minimal cost for shipping and handling costs for the periods presented.

Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

The Company adopted Topic 606, Revenue from Contracts with Customers, with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company applied Topic 606 using the cumulative effect method - i.e., by recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. The Company applied the practical expedient related to assessment of contract modifications, whereby the Company is essentially allowed to use hindsight when assessing the effect of a modification and accounting for the modified contract as if it existed from the beginning of the original contract.

The details of the significant changes and quantitative impact of the changes are set out below.

Professional service contracts

Previously, the Company recognized revenue for professional services contracts either on a milestone method or completed contract basis. Under Topic 606, the Company recognizes revenue when control transfers to a customer. As professional services can be highly customized for each customer, there is no alternative use for the services. When there is an enforceable right to payment for service completed combined with no alternative use of the services, the services meet criteria for over time revenue recognition. Revenue is recognized as the services are provided and as the customer benefits from the service. Revenue is recognized progressively based on the costs incurred method. When the professional services are not highly customized as in basic software installation services, customers do not take control of the services until they are completed. Therefore, the Company continues to recognize revenue for such contracts when the services are completed and customers formally accept them.

In certain circumstances, a contract with a customer that contains a software arrangement may include provisions for customer acceptance. In these cases, when or as the performance obligation is satisfied, the Company recognizes revenue and records a contract asset until customer acceptance is received. Once customer acceptance is received, the contract asset is reclassified to accounts receivable. As of September 30, 3018, contract assets related to these arrangements are minimal. In situations where the performance obligation has not been met and the Company has not received customer acceptance, no revenue is recognized.

Customer acceptance provisions by their nature require the customer to approve that the Company satisfied its performance obligation and are generally standard throughout our contracts with customers.

If an instance arises where the Company would recognize revenue prior to customer acceptance, which occurs primarily when the Company provides bundled software and professional services, it is the Company's policy, pursuant to ASC 606, when or as the performance obligation is satisfied, to recognize revenue and record a contract asset or reduce deferred revenue, as applicable, until customer acceptance is received. Once customer acceptance is received, the contract asset is reclassified to trade receivables, net. In these circumstances, the Company would consider ASC 606-10-55-86 and -87 and conclude that although a standard method to transferring the software and services is not met, the standard terms of the customer acceptance provisions and favorable history of customer acceptances support revenue recognition prior to customer acceptance. The Company also would only recognize revenue prior to customer acceptance only if there were no remaining inputs related to performance obligation. These instances are currently immaterial. For certain contracts that contain customer acceptance clauses, such as customized software arrangements, the revenue is recognized pursuant to ASC 606-25 25-27(c) since the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

(in millions, except per share amounts)

Impacts on financial statements

The following tables summarize the impacts of adopting Topic 606 on the Company's condensed consolidated financial statements as of and for the period ended September 30, 2018 as if the Company continued to follow its accounting policies under the previous revenue recognition guidance.

	Impact of changes in accounting policy for the nine months ended September 30, 2018 (unaudited)		
	As Reported	Adjustments	Balances without adoption of Topic 606
Trade receivables, less allowances for doubtful accounts of $55.3 and $71.7, respectively	$818.1	$ (5.4)	$812.7
Inventories	$846.5	$ 25.2	$871.7
Deferred revenue	$365.3	$ 30.1	$395.4
Deferred income taxes	$240.7	$ (0.9)	$239.8
Retained earnings (accumulated deficit)	$(3.2)	$ (9.4)	$(12.6)

The impact to net sales and cost of sales would have been decreases of $5.2 and $6.5, respectively, for the three months ended September 30, 2018 and $19.0 and $15.1, respectively, for the nine months ended September 30, 2018. The impact after tax was $0.9 and $(2.7) for the three and nine months ended September 30, 2018, respectively, and was primarily a result of timing of deferred revenue related to products and software for certain amounts being recognized that would have previously been deferred, and certain amounts being deferred that would have previously been recognized.

Note 3: Earnings (Loss) Per Share

Basic earnings (loss) per share is based on the weighted-average number of common shares outstanding. Diluted earnings (loss) per share includes the dilutive effect of potential common shares outstanding. Under the two-class method of computing earnings (loss) per share, non-vested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company’s participating securities include restricted stock units (RSUs), director deferred shares and shares that were vested but deferred by employees. The Company calculated basic and diluted earnings (loss) per share under both the treasury stock method and the two-class method. For the three and nine months ended September 30, 2018 and 2017, there were no differences in the earnings (loss) per share amounts calculated under the two methods. Accordingly, the treasury stock method is disclosed below.

(in millions, except per share amounts)

The following table represents amounts used in computing earnings (loss) per share and the effect on the weighted-average number of shares of dilutive potential common shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator				
Income (loss) used in basic and diluted earnings (loss) per share				
Net income (loss)	$(218.7)	$(29.4)	$(416.6)	$(106.5)
Net income (loss) attributable to noncontrolling interests	(6.1)	6.6	6.6	20.2
Net income (loss) attributable to Diebold Nixdorf, Incorporated	$(212.6)	$(36.0)	$(423.2)	$(126.7)
Denominator				
Weighted-average number of common shares used in basic earnings (loss) per share	76.1	75.5	76.0	75.4
Weighted-average number of shares used in diluted earnings (loss) per share [(1)]	76.1	75.5	76.0	75.4
Net income (loss) attributable to Diebold Nixdorf, Incorporated				
Basic earnings (loss) per share	$(2.79)	$(0.48)	$(5.57)	$(1.68)
Diluted earnings (loss) per share	$(2.79)	$(0.48)	$(5.57)	$(1.68)
Anti-dilutive shares				
Anti-dilutive shares not used in calculating diluted weighted-average shares	4.7	2.8	4.6	2.6

(1) Incremental shares of 0.7 and 0.8 shares for the three months ended September 30, 2018 and 2017, respectively, and 0.8 and 0.7 shares for the nine months ended September 30, 2018 and 2017, respectively, would have been included in the weighted-average number of shares used in diluted earnings (loss) per share used in the computation of diluted earnings (loss) per share because their effects are dilutive.

In May 2018, the Company announced its decision to reallocate future dividend funds towards debt reduction and other capital resource needs.

Note 4: Share-Based Compensation

The Company’s share-based compensation payments to employees are recognized based on their grant-date fair values during the period in which the employee is required to provide services in exchange for the award. Share-based compensation is primarily recognized as a component of selling and administrative expense. Total share-based compensation expense was $6.9 and $8.1 for the three months ended September 30, 2018 and 2017, respectively, and was $27.2 and $23.1 for the nine months ended September 30, 2018 and 2017, respectively.

(in millions, except per share amounts)

Options outstanding and exercisable as of September 30, 2018 are included under the Company's 1991 Equity and Performance Incentive Plan (as Amended and Restated as of February 12, 2014) (the 1991 Plan) and the Company's 2017 Equity and Performance Incentive Plan (the 2017 Plan). In conjunction with the appointment of the Chief Executive Officer on February 21, 2018, the board approved the grant of options, performance share units and RSUs outside of the the 2017 Plan. Changes during the nine months ended September 30, 2018 were as follows:

	Number of Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value [1]
Outstanding at January 1, 2018	2.3	$ 29.68		
Expired or forfeited	(0.2)	$ 29.89		
Granted	0.5	$ 17.53		
Outstanding at September 30, 2018	2.6	$ 27.16	7	$ —
Options exercisable September 30, 2018	1.5	$ 30.44	6	$ —
Options vested and expected to vest[2] at September 30, 2018	2.5	$ 27.34	7	$ —

(1) The aggregate intrinsic value (the difference between the closing price of the Company's common shares on the last trading day of the third quarter of 2018 and the exercise price, multiplied by the number of "in-the-money" options) that would have been received by the option holders had all option holders exercised their options on September 30, 2018. The amount of aggregate intrinsic value will change based on the fair market value of the Company's common shares.

(2) The options expected to vest are the result of applying the pre-vesting forfeiture rate assumption to total outstanding non-vested options.

The following table summarizes information on non-vested RSUs and performance shares relating to employees and non-employee directors for the nine months ended September 30, 2018:

	Number of Shares	Weighted-Average Grant-Date Fair Value
RSUs:		
Non-vested at January 1, 2018	1.3	$ 27.76
Forfeited	(0.2)	$ 22.17
Vested	(0.7)	$ 28.80
Granted	1.3	$ 17.71
Non-vested at September 30, 2018	1.7	$ 20.30
Performance Shares:		
Non-vested at January 1, 2018	2.5	$ 31.37
Forfeited	(0.9)	$ 29.07
Vested	(0.2)	$ 32.38
Granted	1.6	$ 22.65
Non-vested at September 30, 2018	3.0	$ 26.88

Performance shares are granted to employees and vest based on the achievement of certain performance objectives, as determined by the board of directors each year. Each performance share earned entitles the holder to one common share of the Company. The Company's performance shares include performance objectives that are assessed after a three-year period as well as performance objectives that are assessed annually over a three-year period. No shares are vested unless certain performance threshold objectives are met.

As of September 30, 2018, there were 0.1 non-employee director deferred shares vested and outstanding.

On April 25, 2018, the Company's shareholders approved amendments to the 2017 Plan, which provide for an additional 1.2 common shares available for award. The 2017 Plan is expected to attract and retain directors, officers and employees of the Company by providing incentives and rewards for performance.

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Note 5: Income Taxes

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings for certain foreign subsidiaries and creates new taxes on certain foreign sourced earnings. The Company applied the guidance in SAB 118 when accounting for the enactment date effects of the Tax Act. As of September 30, 2018, the Company has not completed the accounting for all the tax effects of the Tax Act. However, upon further analysis of certain aspects of the Tax Act and refinements to the Company’s calculations, the Company has increased the provisional estimate relating to deemed repatriation transition tax (transition tax) by $46.8. This increase in the provisional estimate has been included as a discrete item in the interim period ended September 30, 2018. The Company will continue to refine the provision estimate over the one-year measurement period ending December 31, 2018 which will include the period in which the Company filed its U.S. Corporation Income Tax Return. The final impacts of the Tax Act may differ materially as additional guidance and information becomes available and the U.S. federal tax filing, including transition tax, is complete.

The effective tax rate on the loss before taxes was (26.5) percent for the three months ended September 30, 2018 and (9.3) percent for the nine months ended September 30, 2018. The expense on the loss for the three months ended and nine months ended was primarily due to a goodwill impairment charge, the impacts of the Tax Act and the higher interest expense burden resulting from the debt restructuring. More specifically, the expense on the loss reflects refinement of the transition tax, the impacts related to global intangible low-taxed income (GILTI) and the business interest deduction limitation which, as a result of the Company’s debt restructuring activities during the quarter, required a full valuation allowance on the current year nondeductible business interest expense. In addition, the benefit on the losses for the nine months is reduced by the goodwill impairment charge, which for tax purposes is primarily nondeductible, of $109.3 and $90.0 incurred in the third and second quarter, respectively. The effective tax rate could vary in future periods based on the Company’s earnings before taxes and clarification around the Tax Act. The effective tax rate on the loss before taxes was 3.0 percent for the three months ended September 30, 2017 and 36.2 percent for the nine months ended September 30, 2017. The tax for the three months ended September 30, 2017 reflects an unfavorable adjustment relating to year-to-date changes in the Company’s valuation allowance as well as higher than anticipated losses incurred in jurisdictions with a full valuation allowance throughout the period. During the three and nine months ended September 30, 2017, the overall reduction in the tax benefit was offset by the repatriation of foreign earnings and the associated recognition of foreign tax credits as well as favorable discrete items associated with the release of uncertain tax positions due to the expiration of the statute of limitations and reductions in the Company’s deferred tax liability relating to undistributed foreign subsidiary earnings.

Note 6: Inventories

Major classes of inventories are summarized as follows:

	September 30, 2018	December 31, 2017
Finished goods	$ 387.8	$ 301.9
Service parts	251.5	262.5
Raw materials and work in process	207.2	164.5
Total inventories	$ 846.5	$ 728.9

As a result of applying the correction of repairable service parts inventory retrospectively, a decrease in the inventory balance of $8.1 was reflected in the December 31, 2017 service parts balance previously reported.

The increase in finished goods inventory was primarily attributable to increased inventory in Germany and Mexico to satisfy various customer projects. Raw materials and work in process inventory increased primarily due to a build up of inventory in the U.S. to satisfy a recent large retail customer and certain supply chain issues.

Note 7: Investments

The Company’s investments, primarily in Brazil, consist of certificates of deposit that are classified as available-for-sale and stated at fair value based upon quoted market prices. Unrealized gains and losses are recorded in AOCI. Realized gains and losses are recognized in investment income and are determined using the specific identification method. There were no realized gains from the sale of securities or proceeds from the sale of available-for-sale securities for the three and nine months ended September 30, 2018 and 2017.

The Company’s investments subject to fair value measurement consist of the following:

	Cost Basis	Unrealized Gain	Fair Value
As of September 30, 2018			
Short-term investments			
Certificates of deposit	$ 5.0	$ —	