Hillenbrand, Inc.
Form 10-Q
February 01, 2017

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 December 31, 2016

Commission File No. 001-33794

HILLENBRAND, INC.
(Exact name of registrant as specified in its charter)

Indiana	26-1342272
(State of incorporation)	(I.R.S. Employer Identification No.)

One Batesville Boulevard	
Batesville, IN	47006
(Address of principal executive offices)	(Zip Code)

(812) 934-7500
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company 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 ý

The registrant had 63,692,587 shares of common stock, no par value per share, outstanding as of January 27, 2017.

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Hillenbrand, Inc.
Consolidated Statements of Income (Unaudited)
(in millions, except per share data)

	Three Months Ended December 31,	
	2016	2015
Net revenue	$356.1	$351.7
Cost of goods sold	230.1	223.5
Gross profit	126.0	128.2
Operating expenses	82.8	82.1
Amortization expense	7.2	9.8
Interest expense	6.1	5.9
Other (expense) income, net	(1.3)	(0.7)
Income before income taxes	28.6	29.7
Income tax expense	6.7	8.7
Consolidated net income	21.9	21.0
Less: Net income attributable to noncontrolling interests	0.2	1.0
Net income(1)	$21.7	$20.0
Net income(1) — per share of common stock:		
Basic earnings per share	$0.34	$0.32
Diluted earnings per share	$0.34	$0.31
Weighted average shares outstanding (basic)	63.7	63.2
Weighted average shares outstanding (diluted)	64.1	63.8
Cash dividends declared per share	$0.2050	$0.2025

(1) Net income attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.
Consolidated Statements of Comprehensive Income (Unaudited)
(in millions)

	Three Months Ended December 31,	
	2016	2015
Consolidated net income	$21.9	$21.0
Changes in other comprehensive income (loss), net of tax		
Currency translation adjustment	(20.9)	(15.2)
Pension and postretirement (net of tax of $2.5 and $0.4)	4.4	0.7
Change in net unrealized gain (loss) on derivative instruments (net of tax of $0.3 and $—)	0.4	0.6
Total changes in other comprehensive income (loss), net of tax	(16.1)	(13.9)
Consolidated comprehensive income	5.8	7.1
Less: Comprehensive income attributable to noncontrolling interests	0.1	0.9
Comprehensive income (2)	$5.7	$6.2

(2) Comprehensive income attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.
Consolidated Balance Sheets (Unaudited)
(in millions)

	December 31, 2016	September 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$46.6	$52.0
Trade receivables, net	178.9	205.0
Unbilled receivables from long-term manufacturing contracts	138.2	125.8
Inventories	153.9	153.1
Deferred income taxes	—	23.9
Prepaid expenses	19.2	18.2
Other current assets	23.4	22.3
Total current assets	560.2	600.3
Property, plant, and equipment, net	146.0	152.5
Intangible assets, net	519.9	541.5
Goodwill	616.3	634.3
Other assets	35.3	31.1
Total Assets	$1,877.7	$1,959.7
LIABILITIES		
Current Liabilities		
Trade accounts payable	$120.3	$135.7
Liabilities from long-term manufacturing contracts and advances	77.5	78.6
Current portion of long-term debt	16.4	13.8
Accrued compensation	47.6	57.3
Deferred income taxes	—	22.8
Other current liabilities	123.4	125.5
Total current liabilities	385.2	433.7
Long-term debt	637.9	595.1
Accrued pension and postretirement healthcare	139.6	232.7
Deferred income taxes	36.8	22.6
Other long-term liabilities	27.7	29.4
Total Liabilities	1,227.2	1,313.5
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Common stock, no par value (63.8 and 63.7 shares issued, 63.7 and 63.0 shares outstanding)	—	—
Additional paid-in capital	344.1	348.7
Retained earnings	442.1	433.3
Treasury stock (0.1 and 0.7 shares)	(3.9)	(19.9)
Accumulated other comprehensive loss	(145.8)	(129.8)
Hillenbrand Shareholders' Equity	636.5	632.3
Noncontrolling interests	14.0	13.9
Total Shareholders' Equity	650.5	646.2

Total Liabilities and Equity	$1,877.7	$1,959.7

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.
Consolidated Statements of Cash Flow (Unaudited)
(in millions)

	Three Months Ended December 31,	
	2016	2015
Operating Activities		
Consolidated net income	$21.9	$21.0
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	15.0	16.0
Deferred income taxes	11.4	0.5
Share-based compensation	2.6	0.6
Trade accounts receivable and receivables on long-term manufacturing contracts	4.2	34.6
Inventories	(4.7)	(7.6)
Prepaid expenses and other current assets	(3.3)	4.4
Trade accounts payable	(10.3)	(1.6)
Accrued expenses and other current liabilities	4.0	(33.5)
Income taxes payable	(8.8)	(5.0)
Defined benefit plan and postretirement funding	(82.9)	(3.1)
Defined benefit plan and postretirement expense	1.7	3.1
Other, net	0.5	6.3
Net cash (used in) provided by operating activities	(48.7)	35.7
Investing Activities		
Capital expenditures	(4.6)	(6.5)
Proceeds from sales of property, plant, and equipment	—	0.1
Acquisition of business, net of cash acquired	—	(105.7)
Other, net	0.1	—
Net cash used in investing activities	(4.5)	(112.1)
Financing Activities		
Repayments on term loan	(3.4)	(3.4)
Proceeds from revolving credit facilities	182.1	182.3
Repayments on revolving credit facilities	(125.9)	(81.5)
Payments of dividends on common stock	(13.0)	(12.7)
Repurchases of common stock	—	(3.0)
Net proceeds (payments) on stock plans	8.6	(0.8)
Other, net	1.1	0.8
Net cash provided by financing activities	49.5	81.7
Effect of exchange rates on cash and cash equivalents	(1.7)	1.5
Net cash flows	(5.4)	6.8
Cash and cash equivalents:		
At beginning of period	52.0	48.3
At end of period	$46.6	$55.1

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.
Condensed Notes to Consolidated Financial Statements (Unaudited)
(in millions, except share and per share data)

1. Background and Basis of Presentation

Hillenbrand, Inc. (“Hillenbrand”) is a global diversified industrial company with multiple market-leading brands that serve a wide variety of industries across the globe. We strive to provide superior return for our shareholders, exceptional value for our customers, and great professional opportunities for our employees through deployment of the Hillenbrand Operating Model (“HOM”). The HOM is a consistent and repeatable framework designed to produce sustainable and predictable results. The HOM describes our mission, vision, values, and mindset as leaders; applies our management practices in Strategy Management, Segmentation, Lean, Talent Development, and Acquisitions; and prescribes three steps (Understand, Focus and Grow) designed to make our businesses both bigger and better. Our goal is to continue developing Hillenbrand as a world-class global diversified industrial company through the deployment of the HOM. Hillenbrand is composed of two segments: the Process Equipment Group and Batesville®. The Process Equipment Group businesses design, develop, manufacture, and service highly engineered industrial equipment around the world. Batesville is a recognized leader in the North American death care industry. “Hillenbrand,” “the Company,” “we,” “us,” “our,” and similar words refer to Hillenbrand and its subsidiaries.

The accompanying unaudited consolidated financial statements include the accounts of Hillenbrand and its subsidiaries. They also include two minor subsidiaries where the Company’s ownership percentage is less than 100%. The Company’s fiscal year ends on September 30. Unless otherwise stated, references to years relate to fiscal years.

These unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements and therefore do not include all information required in accordance with accounting principles generally accepted in the United States (“GAAP”). The unaudited consolidated financial statements have been prepared on the same basis as, and should be read in conjunction with, the audited consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K for the year ended September 30, 2016, as filed with the SEC. The September 30, 2016 Consolidated Balance Sheet included in this Form 10-Q was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP for a year-end balance sheet included in Form 10-K. In the opinion of management, these financial statements reflect all adjustments necessary to present a fair statement of the Company’s consolidated financial position and the consolidated results of operations and cash flow as of the dates and for the periods presented.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates. Examples of such estimates include, but are not limited to, revenue recognition under the percentage-of-completion method and the establishment of reserves related to customer rebates, doubtful accounts, warranties, early-pay discounts, inventories, income taxes, litigation, self-insurance, and progress toward achievement of performance criteria under incentive compensation programs.

2. Summary of Significant Accounting Policies

The significant accounting policies used in preparing these consolidated financial statements are consistent with the accounting policies described in our Annual Report on Form 10-K for 2016.

Recently Adopted Accounting Standards

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 states that a performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition. ASU 2014-12 became effective and was adopted for our fiscal year beginning October 1, 2016. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 became effective and was adopted for our fiscal year beginning October 1, 2016. The adoption of this standard did not have a significant impact on our consolidated financial statements.

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In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. ASU 2015-01 became effective and was adopted for our fiscal year beginning October 1, 2016. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis. The new standard amends the consolidation guidance in ASC 810 and significantly changes the consolidation analysis required under current generally accepted accounting principles. ASU 2015-02 became effective and was adopted for our fiscal year beginning October 1, 2016. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest. ASU 2015-03 simplifies the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This standard permits an entity to defer and present debt issuance costs related to line-of-credit arrangements as an asset and to subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. These new standards do not affect the recognition and measurement of debt issuance costs. ASU 2015-03 and ASU 2015-15 became effective and were retrospectively adopted for our fiscal year beginning October 1, 2016. The retrospective adoption resulted in $1.2 of debt issuance costs being reclassified from other assets to a reduction of the carrying value of long-term debt as of September 30, 2016.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software. ASU 2015-05 helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. ASU 2015-05 became effective and was adopted for our fiscal year beginning October 1, 2016. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations. ASU 2015-16 simplifies the accounting for adjustments made to provisional amounts. The amendments in ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is also required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 became effective and was adopted for our fiscal year beginning October 1, 2016. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes. ASU 2015-17 requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position in order to simplify the presentation of deferred income taxes. ASU 2015-17 was early adopted for our fiscal year beginning October 1, 2016. The adoption of this standard resulted in a reclassification of $2.7 from current deferred income taxes to non-current deferred income taxes on the Consolidated Balance Sheets as of December 31, 2016. No prior periods were retrospectively adjusted.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires significant disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 will be effective for our fiscal year beginning October 1, 2018, including interim periods within that reporting period, and allows for either full retrospective adoption or modified retrospective adoption, with early adoption permitted on October 1, 2017. We have not yet selected a

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transition method, and we have begun the assessment process and are currently evaluating the impact that ASU 2014-09 will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires lessees to recognize a right of use asset and related lease liability for leases that have terms of more than twelve months. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance, with the classifications based on criteria that are similar to those applied under the current lease guidance, without the explicit bright lines. ASU 2016-02 will be effective for our fiscal year beginning on October 1, 2019, with early adoption permitted. We are currently evaluating the impact that ASU 2016-02 will have on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-17 will be effective for our fiscal year beginning on October 1, 2018, with early adoption permitted. We expect the adoption of ASU 2016-18 to have a financial statement presentation and disclosure impact only.

3. Business Acquisitions

We incurred $0.3 and $1.7 of business acquisition and integration costs during the three months ended December 31, 2016 and 2015 recorded in operating expenses.

Abel

We completed the acquisition of Abel Pumps LP and Abel GmbH & Co. KG and certain of their affiliates (collectively “Abel”) on October 2, 2015 for €95 in cash. We utilized borrowings under our $700.0 revolving credit facility and $180.0 term loan (together, the “Facility”) to fund this acquisition. Based in Büchen, Germany, Abel is a globally-recognized leader in positive displacement pumps. Abel specializes in designing, developing, and manufacturing piston and piston diaphragm pumps as well as pumping solutions and in providing related parts and service. This equipment is sold under the ABEL® Pump Technology brand into the power generation, wastewater treatment, mining, general industry, and marine markets. The results of Abel are reported in our Process Equipment Group segment for the relevant periods.

Based on the final purchase allocation, we recorded goodwill of $36, and acquired identifiable intangible assets of $58, which consisted of $5 of trade names not subject to amortization, $9 of developed technology, $3 of backlog, and $41 of customer relationships. Goodwill is expected to be deductible for tax purposes in Germany. Supplemental proforma information has not been provided as the acquisition did not have a material impact on consolidated results of operations.

Red Valve

On February 1, 2016, we completed the acquisition of Red Valve Company, Inc. (“Red Valve”) for $130.4 in cash, net of certain adjustments. We utilized borrowings under our Facility to fund this acquisition. Based in Carnegie, Pennsylvania, Red Valve is a global leader in highly-engineered valves designed to operate in the harshest municipal and industrial wastewater environments. Its products support mission critical applications in water/wastewater, power and mining, and other general industrial markets. The results of Red Valve are reported in our Process Equipment Group segment for the relevant periods.

Based on the preliminary purchase allocation, we recorded goodwill of $60, and acquired identifiable intangible assets of $61, which consisted of $4 of trade names not subject to amortization, $8 of developed technology, $1 of backlog, and $48 of customer relationships. Goodwill is expected to be deductible for tax purposes. Supplemental proforma information has not been provided as the acquisition did not have a material impact on consolidated results of operations.

Both of these acquisitions continue Hillenbrand's strategy to transform into a world-class global diversified industrial company by increasing our ability to expand into new markets and geographies within the highly attractive flow control space.

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4. Supplemental Balance Sheet Information

	December 31, 2016	September 30, 2016
Trade accounts receivable reserves	$ 20.8	$ 21.0
Accumulated depreciation on property, plant, and equipment	$ 300.7	$ 299.4
Accumulated amortization on intangible assets	$ 178.4	$ 174.2
Inventories:		
Raw materials and components	$ 49.7	$ 51.4
Work in process	54.3	54.0
Finished goods	49.9	47.7
Total inventories	$ 153.9	$ 153.1

5. Intangible Assets and Goodwill

Intangible Assets

Intangible assets are stated at the lower of cost or fair value. With the exception of most trade names, intangible assets are amortized on a straight-line basis over periods ranging from three to 21 years, representing the period over which we expect to receive future economic benefits from these assets. We assess the carrying value of most trade names annually, or more often if events or changes in circumstances indicate there may be impairment.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of December 31, 2016 and September 30, 2016.

	December 31, 2016		September 30, 2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Finite-lived assets:				
Trade names	$0.2	$ (0.1)	$0.2	$ (0.1)
Customer relationships	448.1	(104.0)	459.5	(100.7)
Technology, including patents	75.1	(34.0)	77.9	(33.3)
Software	47.3	(40.0)	47.4	(39.8)
Other	0.4	(0.3)	0.4	(0.3)
	571.1	(178.4)	585.4	(174.2)
Indefinite-lived assets:				
Trade names	127.2	—	130.3	—
Total	$698.3	$ (178.4)	$715.7	$ (174.2)

The net change in intangible assets during the three months ended December 31, 2016 was driven by normal amortization and foreign currency adjustments.

Goodwill

Goodwill is not amortized, but is subject to annual impairment tests. Goodwill has been assigned to reporting units. We assess the carrying value of goodwill annually, or more often if events or changes in circumstances indicate there may be impairment. Impairment testing is performed at a reporting unit level.

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	Process Equipment Group	Batesville	Total
Balance September 30, 2016	$ 626.0	$ 8.3	$634.3
Foreign currency adjustments	(18.0)	—	(18.0)
Balance December 31, 2016	$ 608.0	$ 8.3	$616.3

6. Financing Agreements

	December 31, 2016	September 30, 2016
$700 revolving credit facility (excluding outstanding letters of credit)	$ 245.7	$ 198.5
$180 term loan	158.6	162.0
$150 senior unsecured notes, net of discount (1)	148.6	148.5
$100 Series A Notes (2)	99.6	99.6
Other	1.8	0.3
Total debt	654.3	608.9
Less: current portion	16.4	13.8
Total long-term debt	$ 637.9	$ 595.1

(1) Includes debt issuance costs of $0.7 and $0.8 at December 31, 2016 and September 30, 2016.
(2) Includes debt issuance costs of $0.4 and $0.4 at December 31, 2016 and September 30, 2016.

With respect to the Facility, as of December 31, 2016, we had $9.3 in outstanding letters of credit issued and $445.0 of maximum borrowing capacity. $309.6 of borrowing capacity is immediately available based on our leverage covenant at December 31, 2016, with additional amounts available in the event of a qualifying acquisition. The weighted-average interest rates on borrowings under the revolving credit facility were 1.40% and 1.21% for the three months ended December 31, 2016 and 2015. The weighted average facility fee was 0.23% and 0.18% for the three months ended December 31, 2016 and 2015. The weighted average interest rate on the term loan was 1.94% and 1.46% for the three months ended December 31, 2016 and 2015. We have interest rate swaps on $50.0 of outstanding borrowings under the Facility in order to manage exposure to our variable interest payments.

In the normal course of business, the Process Equipment Group provides to certain customers bank guarantees and other credit arrangements in support of performance, warranty, advance payment, and other contractual obligations. This form of trade finance is customary in the industry and, as a result, we are required to maintain adequate capacity to provide the guarantees. As of December 31, 2016, we had credit arrangements totaling $202.0, under which $106.9 was utilized for this purpose. These arrangements include our €150.0 Syndicated Letter of Guarantee Facility (as amended, the “LG Facility”) and other ancillary credit facilities.

The availability of borrowings or guarantees under the Facility, the LG Facility, and the Private Shelf Agreement, dated as of December 6, 2012 (the “Shelf Agreement”), among the Company, Prudential Investment Management and each Prudential Affiliate (as defined thereunder), governing the 4.60% Series A unsecured notes (the “Series A Notes”), is subject to our ability to meet certain conditions including compliance with covenants, absence of default, and continued accuracy of certain representations and warranties. Financial covenants include a maximum ratio of Indebtedness to EBITDA (as defined in the agreements) of 3.5 to 1.0 and a minimum ratio of EBITDA (as defined in the agreements) to interest expense of 3.5 to 1.0. As of December 31, 2016, we were in compliance with all covenants.

The Facility, senior unsecured notes, Series A Notes, and LG Facility are fully and unconditionally guaranteed by certain of the
Company’s domestic subsidiaries.

We had restricted cash of $0.8 and $0.8 included in other current assets in the Consolidated Balance Sheets at December 31, 2016 and September 30, 2016.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest, which requires that debt issuance costs related a to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted ASU 2015-03 for the three months ended December 31, 2016. As of December 31, 2016 and September 30, 2016, there were $1.1 and$1.2 in debt issuance costs recorded as a reduction in

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the carrying value of the related debt liability under the senior unsecured notes and Series A Notes. The $1.1 in debt issuance costs as of December 31, 2016 will be amortized over the remaining term of the senior unsecured notes and Series A Notes. The retrospective adoption resulted in $1.2 of debt issuance costs being reclassified from other assets to a reduction of the carrying value of long-term debt as of September 30, 2016. The Company also adopted ASU 2015-15, Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, and elected not to reclassify the debt issuance costs related to line-of-credit arrangements for the Facility and LG Facility.

7. Retirement Benefits

Defined Benefit Plans

	U.S. Pension Benefits		Non-U.S. Pension Benefits	
	Three Months Ended December 31,		Three Months Ended December 31,	
	2016	2015	2016	2015
Service costs	$1.0	$1.0	$ 0.4	$ 0.6
Interest costs	2.2	2.4	0.2	0.6
Expected return on plan assets	(3.3)	(2.4)	(0.1)	(0.3)
Amortization of unrecognized prior service costs, net	0.1	0.1	—	—
Amortization of net loss	1.1	0.9	—	0.2
Net pension costs	$1.1	$2.0	$ 0.5	$ 1.1

During the first quarter of 2017, we made an $80.0 contribution to our U.S. defined benefit pension plan (the “Plan”) using cash on hand and funds borrowed from our Facility. Although this action increased Plan assets and reduces expected 2017 pension expense, the majority of the pension expense savings in 2017 from this action is expected to be offset by the additional interest expense on the funds borrowed and certain tax effects from the transaction.

Also during the first quarter of 2017, we began implementing a plan to transition our non-bargaining U.S. employees from a defined benefit-based model to a defined contribution structure over a three-year sunset period. This change caused a remeasurement for the Plan for the affected population. The remeasurement did not cause a material change as the assumptions did not materially differ from the assumptions at September 30, 2016.

Postretirement Healthcare Plans — Net postretirement healthcare costs were $0.1 and $0.1 for the three months ended December 31, 2016 and 2015.

Defined Contribution Plans — Expenses related to our defined contribution plans were $2.6 and $2.3 for the three months ended December 31, 2016 and 2015.

8. Income Taxes

The effective tax rates for the three months ended December 31, 2016 and 2015 were 23.4% and 29.3%. The decrease in the effective tax rate during the three months ended December 31, 2016 was primarily due to the tax benefit recognized on share-based compensation and the favorable geographic mix of pretax income. These favorable items were partially offset by a reduction of the tax benefit from the domestic manufacturer’s deduction that resulted from the funding of our U.S. defined benefit pension plan.

9. Earnings Per Share

The dilutive effects of performance-based stock awards were included in the computation of diluted earnings per share at the level the related performance criteria were met through the respective balance sheet date. At December 31, 2016 and 2015, potential dilutive effects, representing approximately 600,000 and 1,300,000 shares, were excluded from the computation of diluted earnings per share as the related performance criteria were not yet met, although we expect to meet various levels of criteria in the future.

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	Three Months Ended December 31, 2016	2015
Net income(1)	$21.7	$20.0
Weighted average shares outstanding (basic - in millions)	63.7	63.2
Effect of dilutive stock options and other unvested equity awards (in millions)	0.4	0.6
Weighted average shares outstanding (diluted - in millions)	64.1	63.8
Basic earnings per share	$0.34	$0.32
Diluted earnings per share	$0.34	$0.31
Shares with anti-dilutive effect excluded from the computation of diluted earnings per share (in millions)	0.7	0.5

(1) Net income attributable to Hillenbrand

10. Shareholders' Equity

During the three months ended December 31, 2016, we paid approximately $13.0 of cash dividends. In connection with our share-based compensation plans discussed further in Note 12, we also issued approximately 616,000 shares of common stock, of which approximately 526,000 shares were from treasury stock.

11. Other Comprehensive Income (Loss)

	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Total Attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2015	$ (54.4)	$ (52.1)	$ (1.4)	$ (107.9)		
Other comprehensive income before reclassifications						
Before tax amount	—	(15.1)	(0.2)	(15.3)	$ (0.1)	$(15.4)
Tax expense	—	—	0.2	0.2	—	0.2
After tax amount	—	(15.1)	—	(15.1)	(0.1)	(15.2)
Amounts reclassified from accumulated other comprehensive income(1)	0.7	—	0.6	1.3	—	1.3
Net current period other comprehensive income (loss)	0.7	(15.1)	0.6	(13.8)	$ (0.1)	$(13.9)
Balance at December 31, 2015	$ (53.7)	$ (67.2)	$ (0.8)	$ (121.7)		

(1) Amounts are net of tax.

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	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Total Attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2016	$ (67.5)	$ (61.6)	$ (0.7)	$ (129.8)		
Other comprehensive income before reclassifications						
Before tax amount	5.7	(20.8)	0.6	(14.5)	$ (0.1)	$ (14.6)
Tax expense	(2.1)	—	(0.3)	(2.4)	—	(2.4)
After tax amount	3.6	(20.8)	0.3	(16.9)	(0.1)	(17.0)
Amounts reclassified from accumulated other comprehensive income(1)	0.8	—	0.1	0.9	—	0.9
Net current period other comprehensive income (loss)	4.4	(20.8)	0.4	(16.0)	$ (0.1)	$ (16.1)
Balance at December 31, 2016	$ (63.1)	$ (82.4)	$ (0.3)	$ (145.8)		

(1) Amounts are net of tax.

Reclassifications out of Accumulated Other Comprehensive Income include:

	Three Months Ended December 31, 2015			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$ —	$ —	$ 0.5	$ 0.5
Cost of goods sold	0.6	0.1	—	0.7
Operating expenses	0.2	—	—	0.2
Other income (expense), net	—	—	0.3	0.3
Total before tax	$ 0.8	$ 0.1	$ 0.8	$ 1.7
Tax expense				(0.4)
Total reclassifications for the period, net of tax				$ 1.3

	Three Months Ended December 31, 2016			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$ —	$ —	$ 0.1	$ 0.1
Cost of goods sold	0.8	0.1	—	0.9
Operating expenses	0.3	—	—	0.3
Other income (expense), net	—	—	0.1	0.1
Total before tax	$ 1.1	$ 0.1	$ 0.2	$ 1.4
Tax expense				(0.5)
Total reclassifications for the period, net of tax				$ 0.9

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 7).

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12. Share-Based Compensation

	Three Months Ended December 31,	
	2016	2015
Share-based compensation costs	$2.6	$0.6
Less impact of income tax benefit	1.0	0.2
Share-based compensation costs, net of tax	$1.6	$0.4

We have share-based compensation with long-term performance-based metrics that are contingent upon our relative total shareholder return and the creation of shareholder value. Relative total shareholder return is determined by comparing our total shareholder return during a three-year period to the respective total shareholder returns of companies in a designated performance peer group of 16 companies. Creation of shareholder value is measured by the cumulative cash returns and final period net operating profit after tax compared to the established hurdle rate over a three-year period. For the performance-based awards contingent upon the creation of shareholder value, compensation expense is adjusted each quarter based upon actual results to date and any changes to forecasted information on each of the separate grants.

During the three months ended December 31, 2016, we made the following grants:

	Number of Units
Stock options	473,658
Time-based stock awards	35,329
Performance-based stock awards (maximum that can be earned)	299,429

Stock options granted during fiscal 2017 had a weighted-average exercise price of $36.08 and a weighted-average grant date fair value of $8.37. Our time-based stock awards and performance-based stock awards granted during fiscal 2017 had weighted-average grant date fair values of $36.15 and $39.70. Included in the performance-based stock awards granted during 2017 are 156,994 units whose payout level is based upon the Company's relative total shareholder return over the three-year measurement period, as described above. These units will be expensed on a straight-line basis over the measurement period and are not subsequently adjusted after the grant date.

13. Other Income (Expense), Net

	Three Months Ended December 31,	
	2016	2015
Equity in net income (loss) of affiliates	$0.7	$(0.4)
Foreign currency exchange loss, net	(0.8)	(0.1)
Other, net	(1.2)	(0.2)
Other income (expense), net	$(1.3)	$(0.7)

14. Commitments and Contingencies

Like most companies, we are involved from time to time in claims, lawsuits, and government proceedings relating to our operations, including environmental, patent infringement, business practices, commercial transactions, product and general liability, workers' compensation, auto liability, employment, and other matters. The ultimate outcome of these matters cannot be predicted with certainty. An estimated loss from these contingencies is recognized when we believe it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated; however, it is difficult to measure the actual loss that might be incurred related to litigation in many cases. If a loss is not considered probable and/or cannot be reasonably estimated, we are required to make a disclosure if there is at least a reasonable possibility that a significant loss may have been incurred. Legal fees associated with claims and lawsuits are generally expensed as incurred.

Claims other than employment and employment-related matters have deductibles and self-funded retentions up to $0.5 per occurrence or per claim, depending upon the type of coverage and policy period. Outside insurance companies and third-party claims administrators assist in establishing individual claim reserves, and an independent outside actuary provides estimates of

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ultimate projected losses, including incurred but not reported claims, which are used to establish reserves for losses. Claim reserves for employment-related matters are established based upon advice from internal and external counsel and historical settlement information for claims and related fees when such amounts are considered probable of payment.

The recorded amounts represent our best estimate of the costs we will incur in relation to such exposures, but it is possible that actual costs will differ from those estimates.

15. Fair Value Measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are from sources independent of the Company. Unobservable inputs reflect the Company’s assumptions about the factors market participants would use in valuing the asset or liability, developed based upon the best information available in the circumstances. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels:

Level 1:	Inputs are quoted prices in active markets for identical assets or liabilities.
Level 2:	Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.
Level 3:	Inputs are unobservable for the asset or liability.

	Carrying Value at December 31, 2016	Fair Value at December 31, 2016 Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 46.6	$ 46.6	$ —	$ —
Investments in rabbi trust	4.2	4.2	—	—
Derivative instruments	2.0	—	2.0	—
Liabilities:				
$150 senior unsecured notes	149.3	160.5	—	—
Revolving credit facility	245.7	—	245.7	—
Term loan	158.6	—	158.6	—
$100 Series A Notes	100.0	—	104.9	—
Derivative instruments	5.4	—	5.4	—

The fair values of the revolving credit facility and term loan approximated carrying value at December 31, 2016. The fair values of the revolving credit facility, term loan, and Series A Notes are estimated based on internally developed models, using current market interest rate data for similar issues, as there is no active market for our revolving credit facility, term loan, or Series A Notes.

The fair values of the Company’s derivative instruments are based upon pricing models using inputs derived from third-party pricing services or observable market data such as currency spot and forward rates. These values are periodically validated by comparing to third-party broker quotes. The aggregate notional value of these foreign currency derivatives was $202.7 at December 31, 2016. The derivatives are included in other current assets and other current liabilities on the balance sheet.

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16. Segment and Geographical Information

	Three Months Ended December 31,	
	2016	2015
Net revenue		
Process Equipment Group	$221.6	$214.0
Batesville	134.5	137.7
Total	$356.1	$351.7
Adjusted EBITDA		
Process Equipment Group	$32.7	$33.0
Batesville	31.0	31.8
Corporate	(7.3)	(7.0)
Net revenue (1)		
United States	$201.3	$198.9
Germany	104.4	93.4
All other foreign business units	50.4	59.4
Total	$356.1	$351.7

(1) We attribute revenue to a geography based upon the location of the business unit that consummates the external sale.

	December 31, 2016	September 30, 2016
Total assets assigned		
Process Equipment Group	$ 1,640.9	$ 1,694.6
Batesville	205.8	211.8
Corporate	31.0	53.3
Total	$ 1,877.7	$ 1,959.7
Tangible long-lived assets, net		
United States	$ 86.1	$ 89.5
Germany	33.7	35.8
All other foreign business units	26.2	27.2
Total	$ 146.0	$ 152.5

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The following schedule reconciles segment adjusted EBITDA to consolidated net income.

	Three Months Ended December 31,	
	2016	2015
Adjusted EBITDA:		
Process Equipment Group	$32.7	$33.0
Batesville	31.0	31.8
Corporate	(7.3)	(7.0)
Less:		
Interest income	(0.2)	(0.3)
Interest expense	6.1	5.9
Income tax expense	6.7	8.7
Depreciation and amortization	15.0	16.0
Business acquisition and integration	0.3	1.7
Inventory step-up	—	1.4
Restructuring and restructuring related	6.6	3.4
Consolidated net income	$21.9	$21.0

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17. Condensed Consolidating Information

Certain 100% owned subsidiaries of Hillenbrand fully and unconditionally, jointly and severally, agreed to guarantee all of the indebtedness relating to our obligations under our revolving credit facility, term loan, senior unsecured notes, Series A Notes, and LG Facility. The following are the condensed consolidating financial statements, including the guarantors, which present the statements of income, balance sheets, and cash flows of (i) the parent holding company, (ii) the guarantor subsidiaries, (iii) the non-guarantor subsidiaries, and (iv) eliminations necessary to present the information for Hillenbrand on a consolidated basis.

Condensed Consolidating Statements of Income

	Three Months Ended December 31, 2016					Three Months Ended December 31, 2015				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenue	$—	$ 202.7	$ 202.9	$ (49.5)	$ 356.1	$—	$ 197.3	$ 205.2	$ (50.8)	$ 351.7
Cost of goods sold	—	109.2	145.5	(24.6)	230.1	—	102.2	146.7	(25.4)	223.5
Gross profit	—	93.5	57.4	(24.9)	126.0	—	95.1	58.5	(25.4)	128.2
Operating expenses	9.6	58.7	39.4	(24.9)	82.8	7.2	60.1	40.2	(25.4)	82.1
Amortization expense	—	3.4	3.8	—	7.2	—	2.3	7.5	—	9.8
Interest expense	5.4	—	0.7	—	6.1	5.2	—	0.7	—	5.9
Other income (expense), net	—	—	(1.3)	—	(1.3)	0.1	(1.0)	0.2	—	(0.7)
Equity in net income (loss) of subsidiaries	28.8	2.2	—	(31.0)	—	26.4	2.2	—	(28.6)	—
Income (loss) before income taxes	13.8	33.6	12.2	(31.0)	28.6	14.1	33.9	10.3	(28.6)	29.7
Income tax expense (benefit)	(7.9)	11.7	2.9	—	6.7	(5.9)	12.0	2.6	—	8.7
Consolidated net income	21.7	21.9	9.3	(31.0)	21.9	20.0	21.9	7.7	(28.6)	21.0
Less: Net income attributable to noncontrolling interests	—	—	0.2	—	0.2	—	—	1.0	—	1.0
Net income (loss) (1)	$21.7	$ 21.9	$ 9.1	$ (31.0)	$ 21.7	$20.0	$ 21.9	$ 6.7	$ (28.6)	$ 20.0
Consolidated comprehensive income (loss)	$5.7	$ 21.5	$ (11.6)	$ (9.8)	$ 5.8	$6.2	$ 30.8	$ (6.8)	$ (23.1)	