



**A LETTER FROM
PRESIDENT AND CEO
JOHN P. GROETELAARS**

To our Shareholders, Associates and Customers

2019 was an extraordinary year for our company.

We made substantial progress across our Strategic Priorities, reshaping our portfolio for long-term success.

We accelerated topline growth, with revenue from new products of more than \$450 million and the benefit from acquisitions.

We made progress stabilizing our international business and positioning Hillrom for sustained growth in key regions, especially China.

And perhaps most visibly, we launched an energizing new global brand – Hillrom – and our vision of Advancing Connected Care™.

Our financial results for fiscal 2019 demonstrate the success of these efforts, and I am pleased to share this overview of our 2019 financial results and long-range plan objectives.

2019 Financial Highlights

REVENUE GROWTH

Worldwide revenue of \$2.91 billion in 2019 increased 3 percent, or 4 percent on a constant currency basis. Hillrom's core revenue* grew 7 percent for the year, and excluding acquisitions, core revenue grew 6 percent.

ADJUSTED EARNINGS GROWTH

For fiscal 2019, Hillrom reported GAAP earnings of \$2.25 per diluted share. On a comparable basis under ASC 606 (the accounting standard Hillrom adopted on a modified retrospective basis beginning with our fiscal first quarter of 2019), full-year adjusted earnings of \$5.08 per diluted share advanced 9 percent over the prior-year period.

OPERATING CASH FLOW

We generated significant operating cash flow of \$401 million for the year, returning \$177 million to shareholders in the form of dividends and share repurchases, and raised our quarterly dividend for the ninth consecutive year.

\$2.91 BILLION
WORLDWIDE REVENUE

\$5.08
ADJUSTED EARNINGS PER SHARE

\$450 MILLION
NEW PRODUCT REVENUE

\$401 MILLION
OPERATING CASH FLOW

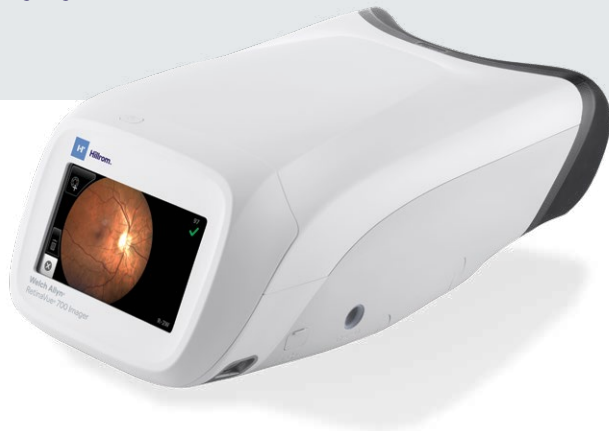


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*Core revenue excludes foreign currency, divestitures and non-strategic assets the company has exited.

2019 Highlights and Achievements

Supporting the company's strategies and financial performance were several achievements aimed at advancing Hillrom's innovation, transforming the portfolio and delivering sustainable value to shareholders. Highlights include:



Introducing the new Welch Allyn® RetinaVue® 700 Imager, a handheld retinal camera that enables remote ophthalmologists to diagnose diabetic retinopathy in patients with diabetes during routine primary care office visits. This next-generation device is a simpler, faster and more cost-effective way to help customers achieve patient compliance with eye exams and detect the vision-threatening disease earlier.

Defining a new standard of care with the commercial launch and integration of the EarlySense® continuous, contact-free heart rate and respiratory rate sensing and analytical technology into Hillrom's Centrella® Smart+ bed platform. EarlySense technology alerts clinicians to potential patient deterioration events much earlier than traditional monitoring methods, enabling health teams to intervene more quickly and effectively.

Driving Hillrom's vision of Advancing Connected Care™ with the acquisition of Voalte, a pioneer and leader in real-time, mobile healthcare communications that simplify communication and improve workflows and outcomes across healthcare systems. The combination strengthens Hillrom's connected solutions, including smart hospital beds, vital signs monitors, and its evolving digital offering to help care teams deliver better care to patients.



Investing in innovation, connectivity and data to bring advanced, actionable point-of-care data and solutions to caregivers and healthcare provider organizations. The company's future digital offerings, using Microsoft® Azure®, are intended to analyze real-time sensing data from medical devices and historical medical record information, and communicate potential patient risk and hospital protocol actions directly to caregivers, in real-time, at the point of care.

Expanding the respiratory health portfolio with the acquisition of Breathe Technologies, Inc., a developer and manufacturer of a patented wearable, non-invasive ventilation technology that supports improved patient mobility in a broad range of reimbursable conditions including COPD, interstitial lung disease, restrictive thoracic disorder and post-lung-transplant rehab.

Completing the sale of the company's surgical consumable products, including Bard-Parker® scalpels and blades, and a variety of other operating room accessories. The sale underscores the company's strategic focus on Advancing Connected Care™ in high-growth, high-margin categories where Hillrom can demonstrate leadership.

Unleashing untapped potential in emerging markets with targeted investments to drive accelerated top-line growth.

Launching a global digital and business transformation through a multi-year investment to modernize and transform the way we do business, improve customer service and experience, as well as drive future operating efficiencies and incremental savings.

Our Purpose-Driven Culture

We are gratified by external recognition in 2019 of our efforts to build and strengthen a culture of diversity, inclusion and belonging, including gold status on the American Heart Association's Workplace Index, Ecovadis Gold Award for Sustainability, Women's Forum of New York Corporate Champion, Great Place to Work® Awards in France and Mexico, the Dave Thomas Foundation for Adoption 2019 100 Best Adoption Friendly Workplaces, and recognition from Newsweek as one of its 2020 Most Responsible Companies.



Looking Ahead

Financial Expectations

LONG-RANGE OUTLOOK – 2020-2022

Based on strong performance and execution of its previous long-range plan, Hillrom expects reported revenue growth of approximately 4 percent on a compound annual basis through 2022 at constant currency rates. The company expects core revenue growth of approximately 5 percent on a compound annual basis through 2022.

The company's focus on operating efficiencies and disciplined cost management has resulted in significant improvement in its margin profile over the last few years. We are committed to driving long-term margin expansion as a result of ongoing new product momentum, enhanced emerging market penetration, value creation from recent business development activity, and business optimization savings, while selectively investing in key strategic growth initiatives to sustain long-term top-line growth.

As a result of strong operational performance, Hillrom expects to grow adjusted earnings per share at least 10 percent on a compound annual basis through 2022, or at least 12 percent when excluding the impact of the 2019 divestiture of surgical consumables.



We also expect to generate cumulative operating cash flow of approximately \$1.4 billion and cumulative free cash flow of more than \$1 billion over the next three years.



We remain committed to driving accelerated core revenue growth, double-digit adjusted earnings per share growth, and significant operating cash flow through 2022, while investing to position our company for continued success. This compelling outlook reflects continued strength and momentum across our diversified business, operational execution and financial discipline as we create sustainable, long-term value and deliver on our vision of Advancing Connected Care™.

Conclusion

I am very proud of our financial and operational accomplishments, and the dedication demonstrated by our 10,000 employees, each one of whom is focused on our mission of enhancing outcomes for patients and caregivers. We have the privilege and responsibility to work in an environment exemplified by diversity and inclusion where every employee feels a sense of belonging, which leads to delivery of strong financial results and breakthrough innovation.



As we continue Hillrom's transformation, we enter 2020 with confidence in our ability to deliver core revenue growth acceleration, margin expansion and enhanced profitability. Our vision of Advancing Connected Care™ is translating into financial success for our company and our shareholders, and our energy behind achieving that vision is boundless.

John P. Groetelaars
President and Chief Executive Officer
January 2020

RECONCILIATION OF GAAP TO OPERATING INCOME

	Year Ended September 30, 2019 ¹					Year Ended September 30, 2018 ²				
	Gross Margin	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Gross Margin	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS
GAAP Basis	49.0%	10.9%	\$208.6	\$56.4	\$2.25	49.0%	10.2%	\$197.2	(\$55.2)	\$3.73
Adjustments:										
Acquisition and integration costs	0.3%	0.9%	28.1	5.3	0.34	—%	0.3%	8.1	2.2	0.09
Acquisition-related intangible asset amortization	—%	4.2%	122.4	28.6	1.38	—%	3.8%	106.9	28.2	1.16
Field corrective actions	0.2%	0.2%	5.6	1.4	0.06	—%	—%	—	—	—
Regulatory compliance costs	—%	0.5%	15.3	3.6	0.17	—%	0.1%	4.5	1.2	0.04
Litigation settlements and expenses	—%	0.1%	2.0	0.5	0.02	—%	0.2%	5.8	1.5	0.06
Special charges	—%	1.0%	28.4	6.9	0.32	—%	2.7%	77.6	21.1	0.84
Tax law and method changes	—%	—%	—	(4.8)	0.07	—%	—%	0.1	78.8	(1.16)
Debt refinancing costs	—%	—%	4.0	0.9	0.05	—%	—%	—	—	—
(Gain) loss on disposition of businesses	—%	—%	15.9	(12.4)	0.42	—%	—%	(1.0)	—	(0.01)
Adjusted Basis	49.0%	17.8%	\$430.3	\$86.4	\$5.08	49.0%	17.3%	\$399.2	\$77.8	\$4.75

¹ Reported under ASC 606. ² Reported under ASC 605.



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

FORM 10-K

(Mark One) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2019

OR Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____
Commission File No. 1-6651



HILL-ROM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of incorporation or organization)

35-1160484
(I.R.S. Employer Identification No.)

130 E. Randolph St.
(Address of principal executive offices)

Suite 1000 Chicago IL

60601
(Zip Code)

Registrant's telephone number, including area code: (312) 819-7200
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, without par value	HRC	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the registrant's voting common equity, held by non-affiliates of the registrant, was approximately \$7.1 billion, based on the closing sales price of \$105.86 per share as of March 29, 2019 (the last business day of the registrant's most recently completed second fiscal quarter). There is no non-voting common equity held by non-affiliates.

The registrant had 66,762,085 shares of its common stock, without par value, outstanding as of November 11, 2019.

Documents incorporated by reference.

Certain portions of the registrant's definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on February 26, 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K.

HILL-ROM HOLDINGS, INC.

Annual Report on Form 10-K

For the Fiscal Year Ended September 30, 2019

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, with respect to general economic conditions, our financial condition, results of operations, cash flows and business and our expectations or beliefs concerning future events, including the demand for our products, the ability to operate our manufacturing sites at full capacity, future supplies of raw materials for our operations, product launches, share repurchases, international market conditions, expectations regarding our liquidity, our capital spending, plans for future acquisitions and divestitures, and our operating plans. These forward-looking statements can generally be identified by phrases such as we or our management “expects,” “anticipates,” “believes,” “estimates,” “intends,” “plans to,” “ought,” “could,” “will,” “should,” “likely,” “appears,” “projects,” “forecasts,” “outlook” or other similar words or phrases. There are inherent risks and uncertainties in any forward-looking statements. We caution readers not to place undue reliance on any forward-looking statements. All statements that address our future operating performance or events or developments that we expect or anticipate will occur in the future are forward-looking statements.

Our forward-looking statements are based on management’s expectations and beliefs as of the time this Form 10-K is filed with the Securities and Exchange Commission in the United States (“SEC”) or, with respect to any document incorporated by reference, as of the time such document was prepared. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially due to various factors. These factors include those described in Part I, Item 1A “Risk Factors” of this Form 10-K. Except as required by applicable law or regulations, we undertake no obligation to update, amend or clarify any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or any other developments or changes.

Item 1. BUSINESS

General

Hill-Rom Holdings, Inc. (the “Company,” “Hillrom,” “we,” “us,” or “our”) was incorporated on August 7, 1969, in the State of Indiana and is headquartered in Chicago, Illinois. We are a global medical technology leader whose approximately 10,000 employees have a single purpose: enhancing outcomes for patients and their caregivers by Advancing Connected Care™. Around the world, our innovations touch over 7 million patients each day. Our products and services help enable earlier diagnosis and treatment, optimize surgical efficiency and accelerate patient recovery while simplifying clinical communication and shifting care closer to home. We make these outcomes possible through connected smart beds, patient lifts, patient assessment and monitoring technologies, caregiver collaboration tools, respiratory health devices, advanced equipment for the surgical space and more, delivering actionable, real-time insights at the point of care.

Segment Information

We disclose segment information that is consistent with the way in which management operates and views the business. Our operating structure contains the following reportable segments:

- **Patient Support Systems** – globally provides our med-surg and specialty bed systems and surfaces, safe patient handling equipment and mobility solutions, as well as our care communications platform that delivers software and information technologies to improve care and deliver actionable insight to caregivers and patients.
- **Front Line Care** – globally provides patient monitoring and diagnostic technologies, including a diversified portfolio of physical assessment tools that help diagnose, treat and manage a wide variety of illnesses and diseases, including a portfolio of vision care and respiratory health devices.
- **Surgical Solutions** – globally provides products that improve safety and efficiency in the surgical space, including tables, lights, pendants, positioning devices and other accessories.

Net revenue, segment profitability and other measures of segment reporting for each reportable segment are set forth in Note 14 of our Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K.

Products and Services

Patient Support Systems. Our innovative patient support systems include a variety of specialty frames and surfaces (such as medical surgical (“med-surg”) beds, intensive care unit beds, and bariatric patient beds), patient mobility solutions (such as lifts and other devices used to safely move patients), non-invasive therapeutic products and surfaces, and our information technologies and software solutions. These patient support systems are sold globally and can be designed for use in high, mid, and low acuity settings, depending on the specific design options, and are built to advance mobility, reduce patient falls and caregiver injuries, improve caregiver efficiency and prevent and care for pressure injuries. In addition, we also sell equipment service contracts for our capital equipment, primarily in the United States. Approximately 51%, 50% and 52% of our revenue in fiscal 2019, 2018 and 2017 was derived from this segment.

Front Line Care. Our Front Line Care products include our patient monitoring and diagnostics products from Welch Allyn and our respiratory health products. Our patient monitoring and diagnostics products from Welch Allyn include products in each of the following four categories: patient exam and diagnostics, patient monitoring, diagnostic cardiology and vision screening and diagnostics. Our respiratory health products include the Vest[®] System, VitalCough[®] System, MetaNeb[®] System, Monarch[®] System and Life2000[®] System. These products are designed to assist patients in the mobilization of retained blockages that, if not removed, may lead to increased rates of respiratory infection, hospitalization, and reduced lung function. Front Line Care products are sold globally within multiple care settings including primary care, acute care, extended care and home care (primarily respiratory health products). Approximately 34%, 34%, and 32% of our revenue in fiscal 2019, 2018 and 2017 were derived from products within this segment.

Surgical Solutions. Our Surgical Solutions products include tables, lights, and pendants utilized within the surgical setting. We also offer a range of positioning devices for use in shoulder, hip, spinal and lithotomy surgeries as well as platform-neutral positioning accessories for nearly every model of operating room table. Approximately 15%, 16%, and 16% of our revenue in fiscal 2019, 2018 and 2017 were derived from products within this segment.

We have extensive distribution capabilities and broad reach across all health care settings. We primarily operate in the following channels: (1) sales and rentals of products to acute and extended care facilities worldwide through both a direct sales force and distributors; (2) sales and rentals of products directly to patients in the home; and (3) sales into primary care facilities (primarily Welch Allyn products) through distributors. Through our network of 166 North American and 43 international service centers, and approximately 2,000 service professionals, we provide technical support and services and rapidly deliver our products to customers as-needed, providing our customers flexibility to purchase or rent select products. This extensive network is critical to serving our customers and securing contracts with Group Purchasing Organizations (“GPOs”) and Integrated Delivery Networks (“IDNs”).

No single customer represents more than 10% of our revenue.

Raw Materials

Principal materials used in our products for each business segment include carbon steel, aluminum, stainless steel, wood and laminates, petroleum-based products, such as foams and plastics, and other materials, substantially all of which are available from multiple sources. Motors and electronic controls for electrically operated beds and certain other components are purchased from one or more manufacturers.

Prices fluctuate for raw materials and sub-assemblies used in our products based on a number of factors beyond our control. Specifically, the fluctuating prices of certain raw materials, including metals, fuel, plastics and electronic components as well as the impact from incremental China tariff had a direct effect on our profitability. Although we generally have not engaged in hedging transactions with respect to raw material purchases, we have effectively mitigated a portion of the cost pressure through improved operational efficiencies and enhanced supplier management.

Most of our contracts with hospital GPOs and other customers for the sale of products in North America permit us to institute annual list price increases, although we may not always be able to raise prices sufficiently to offset all raw material cost inflation.

Competition

Across our business, we compete on the basis of clinical expertise and resulting product clinical utility and ability to produce favorable outcomes, as well as value, quality, customer service, innovation and breadth of product offerings. We evaluate our competition based on our segments.

The following table displays our significant competitors with respect to each segment:

Segments	Competitors	
Patient Support Systems	ArjoHuntleigh Ascom Holding LINET spol. s.r.o. Paramount Rauland, a Division of AMETEK, Inc.	Sizewise Stieglmeyer Stryker Corporation Vocera
Front Line Care	Electromed, Inc. Exergen Corporation GE Healthcare Heine Optotechnik International Biophysics Corporation Keeler Instruments, Inc. Midmark Corporation	Mindray Medical International OMRON Healthcare, Inc. Philips Resmed Riester Schiller AG
Surgical Solutions	Action Medical Draeger Maquet, a Division of Getinge AB MizuhoOSI	Skytron Steris Stryker Corporation

Additionally, we compete with a large number of smaller and regional manufacturers.

Regulatory Matters

FDA Regulation

We design, manufacture, install and distribute medical devices that are regulated by the U.S. Food and Drug Administration (“FDA”) and similar agencies in other countries. The regulations and standards of these agencies evolve over time and require us to make changes in our manufacturing processes and quality systems to remain in compliance. The FDA’s Quality System regulations and the regulatory equivalents internationally set forth standards for our product design and manufacturing processes, require the maintenance of certain records and provide for inspections of our facilities. From time to time, the FDA performs routine inspections of our facilities and may inform us of certain deficiencies in our processes or facilities. In addition, there are certain state and local government requirements that must be complied with in the manufacturing and marketing of our products. See Item 1A. Risk Factors for additional information.

Environmental

We are subject to a variety of federal, state, local and foreign environmental laws and regulations relating to environmental and health and safety concerns, including the handling, storage, discharge and disposal of hazardous materials used in, or derived from, our manufacturing processes. When necessary, we provide reserves in our financial statements for environmental matters. We do not expect the remediation costs for any environmental issues in which we are currently involved to exceed \$1.0 million.

Health Care Regulations

In March 2010, comprehensive health care reform legislation in the United States was signed into law through the passage of the Patient Protection and Affordable Health Care Act and the Health Care and Education Reconciliation Act. The health care industry continues to undergo significant change, both in response to this law and in response to other legislative and regulatory actions. In addition to health care reform, Medicare, Medicaid and managed care organizations, such as health maintenance organizations and preferred provider organizations, traditional indemnity insurers and third-party administrators are under increasing pressure to control costs and limit utilization, while improving quality and health care outcomes. These objectives are being advanced through a variety of reform initiatives including, but not limited to, accountable care organizations, value-based purchasing, bundling initiatives and competitive bidding programs. We are also subject to a number of other regulations around the world related to the sale and distribution of health care products. The potential impact of these regulations to our business is discussed further in Item 1A. Risk Factors and Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-K.

Product Development

We pursue development of new products and product improvements internally. We maintain professional working relationships with various medical professionals who assist in product research and development. New and improved products play a critical role in our sales growth. We continue to place emphasis on the development of proprietary products and product improvements to complement and expand our existing product lines. Our significant research and development activities are located in Acton, Massachusetts; Batesville, Indiana; Cary, North Carolina; Irvine, California; Milwaukee, Wisconsin; Sarasota, Florida; Skaneateles Falls, New York; Bologna, Italy; Pluvigner, France; Singapore; and Saalfeld and Puchheim, Germany.

Research and development is expensed as incurred. Research and development expense in fiscal 2019, 2018 and 2017 was \$139.5 million, \$135.6 million and \$133.7 million.

In addition, certain software development technology costs for software to be sold or licensed to customers are capitalized as intangibles and are amortized over a period of three to five years once the software is ready for its intended use. The amounts capitalized in fiscal 2019, 2018 and 2017 were approximately \$8.0 million, \$2.4 million and \$2.3 million.

Patents, Trademarks and Trade Names

We own, and may license from others, a number of patents on our products and manufacturing processes, but we do not believe any single patent or related group of patents is of material significance to any business segment or our business as a whole. We also own a number of trademarks, trade names and service marks relating to our products and services. Except for the marks “HillromTM”, “Hill-Rom[®]” and “Welch Allyn[®]”, we do not believe any single trademark, trade name or service mark is of material significance to any business segment or our business as a whole.

Foreign Operations

Information about our foreign operations is set forth in tables relating to geographic information in Note 14 of our Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K.

Employees

As of September 30, 2019, we had approximately 10,000 employees worldwide. Approximately 8% of our employees in the United States (including contingent workers) work under collective bargaining agreements. We have not experienced a work stoppage in the United States in over 40 years, and we believe that our employee relations are satisfactory. The two collective bargaining agreements at our primary U.S. manufacturing facility expire in January 2021 and January 2022, respectively. We are also subject to various collective bargaining arrangements and/or national trade union agreements outside the United States. Approximately 51% of our employees outside the United States (including contingent workers) work under such arrangements. Refer to Item 1A. Risk Factors in this Form 10-K for additional information about our employees.

Executive Officers

The following sets forth certain information regarding our executive officers. The term of office for each executive officer expires on the date his or her successor is chosen and qualified. No director or executive officer has a “family relationship” with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer and any other person pursuant to which the executive officer was selected.

John P. Groetelaars, 53, was elected President and Chief Executive Officer of Hillrom, effective May 2018. Previously, Mr. Groetelaars was Executive Vice President and President of Becton, Dickinson and Company’s (“BD”) Interventional Segment. Prior to the BD acquisition of C.R. Bard, Mr. Groetelaars was Group President at Bard, which he had joined in 2008. He previously held positions of increasing responsibility with Boston Scientific Corporation, Guidant Corporation and Eli Lilly.

Barbara W. Bodem, 51, was elected Senior Vice President and Chief Financial Officer, effective December 2018. Before joining Hillrom, she served as Senior Vice President, Finance at Mallinckrodt. Previously, she served in a variety of senior finance roles for Hospira, Inc. and Eli Lilly, including serving as CFO of Lilly Oncology.

Amy Dodrill, 46, was elected Senior Vice President and President, Surgical Solutions, effective June 2019. She had previously served as Vice President of our U.S. Surgical Solutions sales operations and prior to that, as an area vice president in our Patient Support Systems business since joining Hillrom in October 2011. Before joining Hillrom, she held several senior leadership roles at DynaVox Systems LLC and GE Healthcare.

Andreas G. Frank, 43, was elected Senior Vice President and President, Front Line Care, effective December 2018. He previously served as Chief Transformation Officer and Senior Vice President Corporate Development and Strategy, since joining Hillrom in October 2011. Before joining Hillrom, he was Director, Corporate Development at Danaher Corporation. Previously, he worked in the Corporate Finance and Strategy practice at the consulting firm McKinsey & Company.

Paul Johnson, 54, was elected as Senior Vice President and President of Patient Support Systems, effective November 2016. He had previously served as President, PSS North America, since joining Hillrom in February 2013. Before joining Hillrom, he held various commercial leadership positions at Life Technologies and GE Healthcare.

Mary Kay Ladone, 53, was elected Senior Vice President, Corporate Development, Strategy and Investor Relations, effective December 2018. She previously served as Vice President, Investor Relations, since joining Hill-Rom in July 2016. Before joining Hillrom, she served as Senior Vice President, Investor Relations, of Baxalta Incorporated. Previously, she served in a variety of senior finance, business development and investor relations roles for Baxter International.

Kenneth Meyers, 57, was elected Senior Vice President and Chief Human Resources Officer, effective September 2015. Before joining Hillrom, he was Senior Vice President and Chief Human Resources Officer at Hospira, Inc. Previously, he was a partner at Mercer / Oliver Wyman Consulting. Prior to Mercer / Oliver Wyman, he served as Senior Vice President, Human Resources, for Starbucks International.

Deborah M. Rasin, 53, was elected Senior Vice President, Chief Legal Officer and Secretary, effective January 2016. Before joining Hillrom, she was General Counsel for Dentsply International Inc. Previously, she served as General Counsel at Samsonite Corporation and as a senior attorney at General Motors.

Richard M. Wagner, 51, was elected Vice President, Controller and Chief Accounting Officer, effective May 2018. Before joining Hillrom, he was Vice President, Finance at Cree, Inc. and prior to that role, he served as Vice President, Corporate Controller at Dentsply Sirona, Inc.

Availability of Reports and Other Information

Our website is www.hillrom.com. We make available on this website, free of charge, access to our annual, quarterly and current reports and other documents we file with, or furnish to, the SEC as soon as practicable after such reports or documents are filed or furnished. We also make available on our website position specifications for the Chairperson, members of the Board of Directors (“Board”) and the Chief Executive Officer, our Global Code of Conduct (and any amendments or waivers), the Corporate Governance Standards of our Board and the charters of each of the standing committees of the Board. All of these documents are also available to shareholders in print upon request.

Item 1A. RISK FACTORS

Our business involves risks. The following information about these risks should be considered carefully together with the other information contained herein. The risks described below are not the only risks faced by Hillrom. Additional risks not currently known or considered immaterial also might result in adverse effects on our business. Any of these risks could have a material adverse impact on our business, financial condition, or future results. The order in which these factors appear should not be construed to indicate their relative importance or priority.

We face significant uncertainty in our industry due to government health care reform, medical device tax provisions in healthcare reform laws, changes in Medicare, Medicaid and other governmental medical program reimbursements, and we cannot predict how these reforms will impact our operating results.

In March 2010, the U.S. Congress adopted and President Obama signed into law comprehensive health care reform legislation through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872) (collectively, “the Healthcare Reform Act”). The Healthcare Reform Act imposes on medical device manufacturers, such as Hillrom, a 2.3% excise tax on U.S. sales of certain medical devices. While the excise tax has been suspended until the end of 2019, absent further legislative action, it will be reinstated in 2020, which could have an adverse impact on our business, results of operations and cash flows. Further, we cannot predict with certainty what additional health care initiatives, if any, will be implemented at the federal or state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us. Globally, managed care organizations, such as Medicare and Medicaid in the United States, are facing increasing pressure to both control health care utilization and to limit reimbursement. Changes in reimbursement programs or their regulations, including retroactive and prospective rate and coverage criteria changes, competitive bidding for certain products and services, and other changes intended to reduce expenditures (domestically or internationally), could adversely affect the portions of our businesses that are dependent on third-party reimbursement or direct governmental payments. Moreover, to the extent that our customers experience reimbursement pressure resulting in lower revenue for them, their demand for our products and services might decrease. The impact of the above mentioned items could have a material adverse impact on our business, results of operations and cash flows.

Failure by us or our suppliers to comply with FDA regulations and similar foreign regulations applicable to the products we design, manufacture, install or distribute could expose us to enforcement actions or other adverse consequences.

We design, manufacture, install and distribute medical devices that are regulated by the FDA and similar agencies in other countries. Failure to comply with applicable regulations could result in future product recalls, injunctions preventing the shipment of products or other enforcement actions that could have a material adverse effect on our revenue and profitability. Additionally, certain of our suppliers are subject to FDA regulations. The failure of these suppliers to comply with regulations could adversely affect us as regulatory actions taken by the FDA against those manufacturers can result in product shortages, recalls or modifications. We are also subject to the European Medical Device Regulation, which was adopted by the European Union (“EU”) as a common legal framework for all EU member states. These regulations require companies that wish to manufacture and distribute medical devices in EU member states to meet certain quality system and safety requirements and ongoing product monitoring responsibilities, and obtain a “CE” marking (i.e., a mandatory conformity marking for certain products sold within the European Economic Area) for their products. Various penalties exist for non-compliance with the laws implementing the European Medical Device Regulations which if incurred, could have a material adverse impact on our business, results of operations and cash flows.

We could be subject to substantial fines or damages and possible exclusion from participation in federal or state health care programs if we fail to comply with the laws and regulations applicable to our business.

We are subject to stringent laws and regulations at both the federal and state levels governing the participation of durable medical equipment suppliers in federal and state health care programs. From time to time, the government seeks additional information related to our claims submissions, and in some instances government contractors perform audits of payments made to us under Medicare, Medicaid, and other federal health care programs. On occasion, these reviews identify overpayments for which we submit refunds. At other times, our own internal audits identify the need to refund payments. We believe the frequency and intensity of government audits and review processes has intensified and we expect this will continue in the future, due to increased resources allocated to these activities at both the federal and state Medicaid level, and greater sophistication in data review techniques.

If we are considered to have violated these laws and regulations, we could be subject to substantial fines, damages, possible exclusion from participation in federal health care programs such as Medicare and Medicaid and possible recoupment of any overpayments related to such violations. While we believe that our practices materially comply with applicable state and federal requirements, the requirements might be interpreted in a manner inconsistent with our interpretation. Failure to comply with applicable laws and regulations, even if inadvertent, could have a material adverse impact on our business.

We operate in a highly competitive industry that is subject to the risk of declining demand and pricing pressures, which could adversely affect our operating results.

Demand for our products and services depends in large part on overall demand in the health care market. Additionally, with the health care market’s increased focus on hospital asset and resource efficiency as well as reimbursement constraints, spending for some of our products could decline over time. Further, the competitive pressures in our industry could cause us to lose market share unless we increase our commercial investments or reduce our prices, which could adversely impact our operating results.

The nature of this highly competitive marketplace demands that we successfully introduce new products into the market in a cost effective manner (more fully detailed below). These factors, along with possible legislative developments and others, might result in significant shifts in market share among the industry's major participants, including us. Accordingly, if we are unable to effectively differentiate ourselves from our competitors in terms of both new products and diversification of our product portfolio through business acquisitions, then our market share, sales and profitability could be adversely impacted through lower volume or decreased prices.

We have a substantial amount of indebtedness. This level of indebtedness could adversely affect our ability to raise additional capital to fund operations, our flexibility in operating our business and our ability to react to changes in the economy or our industry.

As of September 30, 2019, we had \$2,443.5 million of indebtedness outstanding net of certain issuance costs. As a result of this debt, we have significant demands on our cash resources. The level of debt could, among other things:

- require us to dedicate a large portion of our cash flow from operations to the servicing and repayment of our debt, thereby reducing funds available for working capital, capital expenditures, research and development expenditures and other general corporate requirements;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures, research and development expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in its business and the industry in which we operate;
- restrict our ability to make strategic acquisitions or dispositions or to maximize business opportunities;
- place us at a disadvantage compared to competitors that have less debt;
- adversely affect our credit rating, with the result that the cost of servicing our indebtedness might increase;
- adversely affect the market price of our common stock;
- limit our ability to apply proceeds from an offering or asset sale to purposes other than the servicing and repayment of debt; and
- cause us to fail to meet payment obligations or otherwise default under our debt, which will give our lenders the right to accelerate the indebtedness and exercise other rights and remedies against us.

In addition to the indebtedness we had outstanding as of September 30, 2019, we might incur substantial additional indebtedness in the future, which could cause the related risks to intensify. We may refinance all or a portion of our indebtedness on or before their respective maturities. We cannot provide assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. The terms of any additional debt might give the holders rights, preferences, and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of any new debt might also impose additional and more stringent restrictions on our operations than are currently in place. If we are unable to refinance our debt, we might default under the terms of our indebtedness, which could lead to an acceleration of the required repayment of the outstanding balance. We do not expect that we could repay all of our outstanding indebtedness if the repayment of such indebtedness was accelerated.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Senior Secured Credit Facilities will be at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Assuming all loans under the Senior Secured Credit Facilities were fully drawn, each quarter point change in interest rates, excluding the effects of any interest rate swap agreements, would result in a \$6.0 million change in annual interest expense on our indebtedness under the Senior Secured Credit Facilities. In the future, we may enter into additional interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

Our future financial performance will depend in part on the successful introduction of new products into the marketplace on a cost-effective basis.

Our future financial performance will depend in part on our ability to influence, anticipate, identify and respond to changing consumer preferences and needs. We can provide no assurances that our new products will achieve commercial acceptance in the marketplace. We might not correctly anticipate or identify trends in customer preferences or needs, or might identify them later than competitors do. In addition, difficulties in manufacturing or in obtaining regulatory approvals might delay or prohibit

introduction of new products into the marketplace. Further, we might not be able to develop and produce new products at a cost that allows us to meet our goals for profitability. We may not be able to obtain patent protection on our new products or be able to defend our intellectual property rights globally. Warranty claims and service costs relating to our new products might be greater than anticipated, and we might be required to devote significant resources to address any quality issues associated with our new products, which could reduce the resources available for further new product development and other matters. In addition, the introduction of new products might also cause customers to defer purchases of existing products.

Failure to successfully introduce new products on a cost-effective basis, or delays in customer purchasing decisions related to the evaluation of new products, could cause us to lose market share and could materially adversely affect our business, financial condition, results of operations and cash flow.

Adverse developments in general domestic and worldwide economic conditions and instability and disruption of credit markets could have an adverse effect on our operating results, financial condition, or liquidity.

We are subject to risks arising from adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of domestic and international credit markets. The credit and capital markets could experience extreme volatility and disruption which could lead to periods of recessionary conditions and depressed levels of consumer and commercial spending. These recessionary conditions could cause customers to reduce, modify, delay or cancel plans to purchase our products and services. If our customers reduce investments in capital expenditures or utilize their limited capital funds to invest in products that we do not offer, it could negatively impact our operating results. Moreover, even if our revenue remains constant, our profitability could decline if there is a shift to sales of product mix or geographic locations with less favorable margins. If worldwide economic conditions worsen, we would expect our customers to scrutinize costs resulting from pressures on operating margin due to rising supply costs, reduced investment income and philanthropic giving, increased interest expense, reimbursement pressure, reduced elective health care spending and uncompensated care.

We might not be able to grow or achieve expected cost savings or profitability if we are unable to successfully acquire and integrate, or form business relationships with, other companies.

We have in the past, and expect in the future, to grow our business through mergers, acquisitions and other similar business arrangements. We might not be able to identify suitable acquisition candidates or business relationships, negotiate acceptable terms or receive necessary financing on acceptable terms for such acquisitions or relationships. Additionally, we might become responsible for liabilities associated with businesses that we acquire to the extent they are not covered by indemnification from the sellers or by insurance. Even if we can consummate acquisitions, such acquisitions could be dilutive to earnings and might not be successfully integrated to fully realize the expected benefits. Our integration efforts might also divert management and other resources from other important matters, and we could experience delays or unusual expenses in the integration process, including intangible asset impairments, which could result in significant charges in our Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K. Moreover, the margins for these companies might differ from our historical gross and operating margins resulting in a material adverse effect on our results of operations.

Failure to comply with regulations due to our contracts with U.S. government entities could adversely affect our business and results of operations.

Our business contracts with U.S. government entities are subject to specific rules, regulations and approvals applicable to government contractors. U.S. government agencies often reserve the right to conduct audits and investigations of our business practices to assure our compliance with these requirements. Our failure to comply with these or other laws and regulations could result in contract terminations, suspension or debarment from contracting with the U.S. federal government, civil fines and damages and criminal prosecution. In addition, changes in procurement policies, budget considerations, unexpected U.S. developments, such as changes in the funding or structure of Department of Veterans Affairs or other government agencies to which we sell our products and services, might adversely affect sales to U.S. government entities.

The assets in our pension plans are subject to market disruptions. In addition, our pension plans are underfunded.

Our primary pension plan invests in a variety of equity and debt securities subject to market risks. In addition, our pension plans are underfunded by \$69.8 million based on our projected benefit obligation and fair value of plan assets as of September 30, 2019. Market volatility and disruption could cause declines in asset values or fluctuations in assumptions used to value our liability and expenses. If this occurs, we might need to make additional pension plan contributions and our pension expense in future years might increase.

Our business is significantly dependent on major contracts with GPOs, IDNs, and certain other distributors and purchasers.

A majority of our U.S. hospital sales and rentals are made pursuant to contracts with hospital GPOs. At any given time, we are typically at various stages of responding to bids, negotiating and renewing expiring GPO agreements. Failure to be included in certain of these agreements could have a material adverse effect on our business, including product sales and service and rental revenue.

Our participation in such programs often requires increased discounting or restrictions on our ability to raise prices, and failure to participate or to be selected for participation in such programs might result in a reduction of sales to the member hospitals. In addition, the industry is showing an increased focus on contracting directly with health systems or IDNs (which typically represent influential members and owners of GPOs). IDNs and health systems often make key purchasing decisions and have influence over the GPO's contract decisions, and often request additional discounts or other enhancements. Further, certain other distributors and purchasers have similar processes to the GPOs and IDNs and failure to be included in agreements with these other purchasers could have a material adverse effect on our business.

Increased prices for, or unavailability of, raw materials or sub-assemblies used in our products could adversely affect profitability or revenue. In particular, our results of operations could be adversely affected by high prices for metals, fuel, plastics and other petroleum-based products, and the impact of U.S. and foreign legislation, regulations and trade agreements relating to the materials we import. We also procure several raw materials and sub-assemblies from single suppliers.

Our profitability is affected by the prices and availability of the raw materials and sub-assemblies used in the manufacture of our products. These prices might fluctuate based on many factors beyond our control, including, but not limited to, changes in supply and demand, general economic conditions, labor costs, fuel related delivery costs, competition, and currency exchange rates. Our business is also subject to risks associated with U.S. and foreign legislation, regulations and trade agreements relating to the materials we import, including quotas, duties, tariffs or taxes, and other charges or restrictions on imports, which could adversely affect our operations and our ability to import materials used in our products at current or increased levels. We cannot predict whether additional U.S. and foreign customs quotas, duties (including antidumping or countervailing duties), tariffs, taxes or other charges or restrictions, requirements as to where raw materials must be purchased, additional workplace regulations or other restrictions on our imports will be imposed in the future or adversely modified, or what effect such actions would have on our costs of operations. Future quotas, duties or tariffs may have a material adverse effect on our business, financial condition, results of operations or cash flows. Future trade agreements could also provide our competitors with an advantage over us, or increase our costs, either of which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Significant increases in the cost of raw materials or sub-assemblies that cannot be recovered through increases in the prices of our products could adversely affect our results of operations. There can be no assurance that the marketplace will support higher prices or that such prices and productivity gains will fully offset any commodity cost increases in the future. We generally have not engaged in hedging transactions with respect to raw material purchases but do enter into fixed price supply contracts at times. Future decisions not to engage in hedging transactions or ineffective hedging transactions might result in increased cost volatility, potentially adversely impacting our profitability.

Our dependency upon regular deliveries of supplies from certain suppliers means that interruptions or stoppages in such deliveries could adversely affect our operations until arrangements with alternate suppliers could be made. Several of the raw materials and sub-assemblies used in the manufacture of our products currently are procured only from a single source. If any of these sole-source suppliers were unable or unwilling to deliver these materials for an extended time, we might not be able to manufacture one or more products and our business could suffer. We might not be able to find acceptable alternatives, and any such alternatives could result in increased costs. Difficulties in the credit markets could adversely affect our suppliers' access to capital and therefore their ability to continue to provide an adequate supply of the materials we use in our products.

The majority of our products are manufactured at a single facility or location, and the material damage or loss of, or partial or complete labor-related work stoppage at, one or more of these facilities or locations could prevent us from manufacturing some of the various products we sell.

We manufacture the majority of our products in a single facility or location. If an event (including any weather or natural disaster) occurred that resulted in material damage or loss of, or partial or complete labor-related work stoppage at, one or more of these manufacturing facilities or we lacked sufficient labor to fully operate the facility, we might be unable to transfer the manufacture of the relevant products to another facility or location in a cost-effective or timely manner, if at all. This potential inability to transfer production could occur for several reasons, including but not limited to a lack of necessary relevant manufacturing capability

at another facility, or the regulatory requirements of the FDA or other governmental regulatory bodies. Such an event could materially negatively impact our financial condition, results of operations and cash flows.

Our international sales and operations are subject to risks and uncertainties that vary by country and which could have a material adverse effect on our business and/or results of operations. Compliance with international laws and regulations, import and export limitations, trade agreements, anti-corruption laws, and exchange controls may be difficult, burdensome and expensive.

International sales represent a significant percent of our total sales in fiscal 2019. We anticipate that international sales will continue to represent a significant portion of our total sales in the future. In addition, we have multiple manufacturing facilities and third-party suppliers that are located outside of the United States. As a result, our international sales, as well as our sales in the United States, of products produced or sourced internationally, are subject to risks and uncertainties that can vary by country, such as political instability, economic conditions, foreign currency exchange rate fluctuations, changes in tax laws, regulatory and reimbursement programs and policies, and the protection of intellectual property rights. In addition, our collections of international receivables are subject to economic pressures and the actions of some governmental authorities who have initiated various austerity measures to control health care and other governmental spending.

We are subject to compliance with various laws and regulations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar anti-bribery laws in other jurisdictions, which generally prohibit companies and their intermediaries from making bribes or other improper payments to officials for the purpose of obtaining or retaining business. We are also subject to limitations on trade with persons in sanctioned countries. Our exposure to international markets increases the inherent risks of encountering such issues. While our employees, distributors and agents are required to comply with these laws and regulations, no assurance can be given that our training and internal policies and procedures will always protect us from violations of these laws, despite our commitment to legal compliance and corporate ethics. The failure to comply with these laws and regulations could subject us to severe fines and penalties that could have a material impact on our financial condition, results of operations and cash flows.

Unfavorable outcomes related to uncertain tax positions could result in significant tax liabilities.

We have recorded tax benefits related to various uncertain tax positions taken or expected to be taken in a tax return. While we believe our positions are appropriate, the U.S. Internal Revenue Service (“IRS”), state or foreign tax authorities could disagree with our positions, which could result in a significant tax payment.

We are involved on an ongoing basis in claims, lawsuits and governmental proceedings relating to our operations, as well as product liability or other liability claims that could expose us to adverse judgments or could adversely affect the sales of our products.

We are involved in the design, manufacture and sale of health care products, which face an inherent risk of exposure to product liability claims if our products are alleged to have caused injury or are found to be unsuitable for their intended use. Amongst other claims, we are, from time to time, a party to claims and lawsuits alleging that our products have caused injury or death or are otherwise unsuitable. It is possible that we will receive adverse judgments in such lawsuits, and any such adverse judgments could be material. Although we carry insurance with respect to such matters, this insurance is subject to varying deductibles and self-insured retentions and might not be adequate to cover the full amount of any particular claim. In addition, any such claims could negatively impact the sales of products that are the subject of such claims or other products.

We might not be able to attract, retain and develop key personnel.

Our future performance depends in significant part upon the continued service of our executive officers and other key personnel. The loss of the services of one or more of our executive officers or other key employees could have a material adverse effect on our business, prospects, financial condition and results of operations. Our success also depends on our continuing ability to attract, retain and develop highly qualified personnel, and as competition for such personnel is intense, there can be no assurance that we can do so in the future.

A portion of our workforce is unionized, and we could face labor disruptions that would interfere with our operations.

Approximately 8% of our employees in the United States (including contingent workers) work under collective bargaining agreements. Approximately 51% of our employees outside the United States (including contingent workers) work under various collective bargaining arrangements and/or national trade union agreements. Although we have not recently experienced any significant work stoppages as a result of labor disagreements, we cannot ensure that such a stoppage will not occur in the future. The two collective bargaining agreements at our primary U.S. manufacturing facility expire in January 2021 and January 2022,

respectively. Our inability to negotiate satisfactory new agreements or a labor disturbance at one of our principal facilities could have a material adverse effect on our operations.

We might not be successful in achieving expected operating efficiencies and sustaining or improving operating expense reductions, and might experience business disruptions and adverse tax consequences associated with restructuring, realignment and cost reduction activities.

Over the past few years, we have initiated several restructuring, realignment and cost reduction initiatives. While we expect to realize efficiencies from these actions, these activities might not produce the full efficiency and cost reduction benefits we expect. Further, such benefits might be realized later than expected, and the ongoing costs of implementing these measures might be greater than anticipated. If these measures are not successful or sustainable, we might undertake additional realignment and cost reduction efforts, which could result in future charges. Moreover, our ability to achieve our other strategic goals and business plans might be adversely affected and we could experience business disruptions with customers and elsewhere if our restructuring and realignment efforts and our cost reduction activities prove ineffective. These actions, the resulting costs, and potential delays or potential lower than anticipated benefits might also impact our foreign tax positions and might require us to record tax reserves against certain deferred tax assets in our international business.

We are increasingly dependent on the consistent functioning of our information technology and cybersecurity systems along with our information technology dependent product portfolios. If we are exposed to any intrusions, disruptions, corruption, or destruction, or if we fail to maintain the integrity of our systems or products, or the privacy of our data, our business and our reputation could be materially adversely affected.

We are increasingly dependent on consistent functioning of our information technology and cybersecurity systems for our infrastructure and products. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards, integration of acquisitions, and the increasing need to protect patient, customer and supplier information. For example, the new EU-wide General Data Protection Regulation (“GDPR”), which became applicable on May 25, 2018 (and replaced the previous data protection laws of each EU member state), imposes more stringent data protection requirements and provides for greater penalties for noncompliance. Our products include technologies that support connectivity and decision support infrastructure, which could be subject to intrusion, disruption or corruption and could impact the quality of care patients receive or the confidentiality of patient information. In addition, third parties might attempt to hack into our products or systems and might obtain proprietary information. If we fail to maintain or protect our information technology and cybersecurity systems and information technology dependent products effectively, we could lose existing customers or suppliers, have difficulty attracting new customers or suppliers, have problems that adversely impact internal controls, have difficulty preventing, detecting and controlling fraud, have disputes with customers and suppliers, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences. Any significant breakdown, intrusion, interruption, corruption, or destruction of these systems, as well as any data breaches, could have a material adverse effect on our business.

We might be adversely affected by new regulations relating to conflict minerals.

The SEC has adopted rules regarding disclosure for public companies whose products contain conflict minerals (commonly referred to as tin, tantalum, tungsten and gold) that originate from the Democratic Republic of the Congo (“DRC”) and/or adjoining countries. The implementation of these requirements could adversely affect the sourcing, availability and pricing of materials used in the manufacturing of our products. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. Since our supply chain is complex and multilayered, we might be unable to ascertain with sufficient certainty the origins for these minerals despite our due diligence procedures, which in turn might harm our reputation. We might also face difficulties in satisfying customers who might require that our products be certified as DRC conflict free, which could harm our relationships with these customers and/or lead to a loss of revenue. These requirements also could have the effect of limiting the pool of suppliers from which we source these minerals, and we might be unable to obtain conflict-free minerals at prices similar to the past, which could increase our costs and adversely affect our manufacturing operations and our profitability.

The rationalization and transformation of our Enterprise Resource Planning (“ERP”) software solutions and other information technology systems could result in significant disruptions to our operations.

We are in the process of rationalizing and transforming our ERP software solutions and other complementary information technology systems, which is expected to be completed over the next several years. The implementation of these solutions and systems is highly dependent on the coordination of numerous software and system providers and internal business teams. We

could experience changes in our operational processes and internal controls, which in turn could require significant capital investments and change management, including recruiting and training of qualified personnel. The interdependence of these solutions and systems is key to the successful completion of the initiatives. The failure of any one solution or system could have a significant impact on our business processes and information systems, including loss or corruption of data, delayed shipments, decreases in productivity as our personnel and third-party providers implement and become familiar with new systems, increased costs and lost revenues, which could have an adverse effect on our overall information technology infrastructure and as a result, could have an adverse impact on our business, results of operations and cash flows.

Difficulties in implementing new or upgraded information systems or system failures could also result in significant disruptions to our business, the incurrence of unanticipated expenses and the diversion of management's attention from key strategic initiatives and could have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

Our stock price and trading volume has been, and may continue to be, volatile from time to time and we may experience continued fluctuations in the future that could negatively impact the value of our outstanding shares.

The market for our common stock has, from time to time, experienced significant price and volume fluctuations that may have been unrelated to our operating performance. We believe that a variety of factors could cause the price of our common stock to fluctuate, perhaps substantially, including:

- new, or changes in, analyst recommendations, guidelines or studies that could affect the use of our products;
- announcements and rumors of developments related to our business, including changes in reimbursement rates or regulatory requirements, proposed and completed acquisitions, or the industry in which we compete;
- published studies and reports relating to our products and markets in which we participate;
- quarterly fluctuations in our actual or anticipated operating results;
- general conditions in the U.S. or worldwide economy;
- our stock repurchase program;
- announcements of technological innovations;
- new products or product enhancements by us or our competitors;
- developments in patents or other intellectual property rights and litigation;
- developments in relationships with our customers and suppliers;
- the implementation of health care reform legislation and the adoption of additional reform legislation in the future; and
- the ability to or extent of integrating our acquisitions.

Any such fluctuations in the future could adversely affect the market price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

We have not received any comments from the staff of the SEC regarding our periodic or current reports that remain unresolved.

Item 2. PROPERTIES

The principal properties used in our operations are listed below. All facilities are suitable for their intended purpose, are being efficiently utilized and are believed to provide adequate capacity to meet demand for the next several years.

<u>Location</u>	<u>Description and Primary Use</u>	<u>Owned/Leased</u>
Acton, MA	Light manufacturing, development and distribution of health care products; Office administration	Leased
Batesville, IN	Manufacturing, development and distribution of health care products; Office administration	Owned
Cary, NC	Development of health care products; Office administration	Leased
Charleston, SC	Light manufacturing and distribution of health care products; Office administration	Leased
Chicago, IL	Corporate headquarters; Office administration	Leased
Irvine, CA	Manufacturing, development and distribution of health care products; Office administration	Leased
Milwaukee, WI	Manufacturing, development and distribution of health care products; Office administration	Owned
Sarasota, FL	Development and distribution of health care products; Office administration	Leased
St. Paul, MN	Office administration and distribution of health care products; Service center	Leased
Skaneateles Falls, NY	Manufacturing, development and distribution of health care products; Office administration	Owned
Suzhou, China	Manufacturing of health care products	Leased
Taicang, China	Light manufacturing and distribution of health care products	Leased
Pluvigner, France	Manufacturing, development and distribution of health care products; Office administration	Owned
Puchheim, Germany	Development of health care products; Office administration	Owned/Leased
Saalfeld, Germany	Manufacturing, development and distribution of health care products; Office administration	Owned
Navan, County Meath, Ireland	Office administration	Owned
Bologna, Italy	Manufacturing, development of health care products; Office administration	Leased
Tijuana, Mexico	Manufacturing and distribution of health care products; Office administration	Leased
Monterrey, Mexico	Manufacturing of health care products; Office administration	Owned
Amsterdam, Netherlands	Office administration	Leased
Singapore	Development of health care products; Office administration	Leased
Luleå, Sweden	Manufacturing and distribution of health care products; Office administration	Owned

In addition to the foregoing, we lease a number of warehouse distribution centers, service centers, sales offices and other facilities throughout the United States, Australia, Canada, Western Europe, Mexico, Middle East, the Far East, and Latin America.

Item 3. LEGAL PROCEEDINGS

See Note 16 of our Consolidated Financial Statements included under Part II, in Item 8 of this Form 10-K for information regarding legal proceedings in which we are involved.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Shareholders

Our common stock is traded on the New York Stock Exchange under the ticker symbol HRC. As of November 11, 2019, there were approximately 74,600 shareholders of record.

Dividends

The declaration and payment of cash dividends is at the sole discretion of our Board and depends upon many factors, including our financial condition, earnings potential, capital requirements, alternative uses of cash, covenants associated with debt obligations, legal requirements, and other factors considered relevant by our Board. We have paid cash dividends on our common stock every quarter since our initial public offering in 1971. We intend to continue to pay quarterly cash dividends comparable to those paid in the periods covered by the Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs ²
July 1, 2019 - July 31, 2019	2,295	\$ 105.58	—	\$ 89.7
August 1, 2019 - August 31, 2019	401,065	\$ 105.41	400,000	\$ 47.5
September 1, 2019 - September 30, 2019	901	\$ 105.26	—	\$ 217.5
Total	404,261		400,000	

¹ Shares purchased in the quarter ended September 30, 2019 were in connection with employee payroll tax withholding for restricted stock distributions and shares purchased of our common stock in the open market under our share repurchase program.

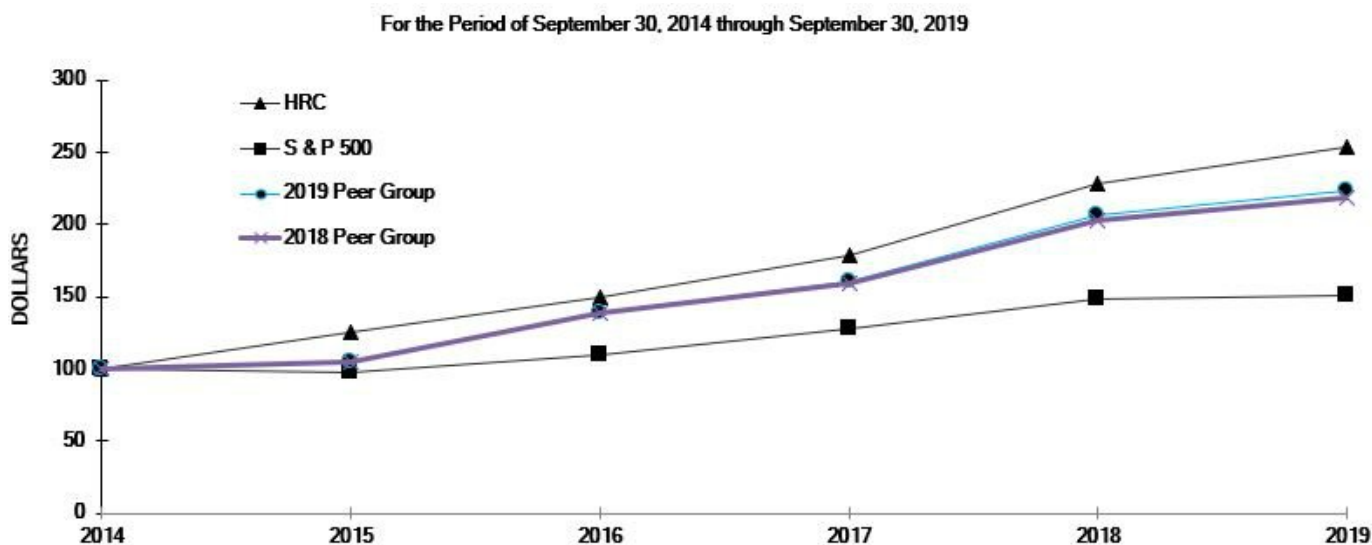
² In September 2019, the Board approved an additional \$170.0 million for share repurchases. The below table reflects the date of Board approval, the authorized dollar value of the shares to be repurchased under each approval and the availability to repurchase as of September 30, 2019. There is no expiration date or plans to terminate this program in the future.

Board Approval Date	Authorized Dollar Value	Dollar Value of Shares Purchased Prior to Fiscal 2019	Dollar Value of Shares Purchased in Fiscal 2019	Availability to Purchase as of September 30, 2019
September 2013	\$ 190.0	\$ 175.3	\$ 14.7	\$ —
November 2017	150.0	—	102.5	47.5
September 2019	170.0	—	—	170.0
Totals	\$ 510.0	\$ 175.3	\$ 117.2	\$ 217.5

Stock Performance Graph

The following graph compares the return on our common stock with that of Standard & Poor’s 500 Stock Index (“S&P 500”) and our peer groups* for each of the last five fiscal years ended September 30. Because the composition of our current peer group (the “2019 Peer Group”) has changed since the date of our Annual Report on Form 10-K for fiscal 2018, we have included the data for the 2019 Peer Group as well as for our prior year’s peer group (the “2018 Peer Group”) in the graph below. The changes reflected in the 2019 Peer Group were made in order to more closely align with the peer group used in our most recent compensation study done for executive compensation purposes. The graph assumes that the value of the investment in our common stock, the S&P 500, our 2019 Peer Group and our 2018 Peer Group was \$100 on October 1, 2014 and that all dividends were reinvested.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
HRC	\$ 100	\$ 125	\$ 150	\$ 179	\$ 228	\$ 254
S&P 500	100	97	110	128	148	151
2018 Peer Group	100	105	138	160	203	218
2019 Peer Group	100	105	139	161	207	223



* For purposes of the Stock Performance Graph above, our 2019 Peer Group is comprised of: Agilent Technologies, Inc., Bio-Rad Laboratories, Inc., Bruker Corporation, The Cooper Companies, Inc., Dentsply Sirona, Inc., Edwards Lifesciences Corporation, Halyard Health, Inc., Hologic, Inc., Intuitive Surgical, Inc., Mednax, Inc., Patterson Companies, Inc., PerkinElmer, Inc., Quest Diagnostics Incorporated, ResMed, Inc., Steris plc, Teleflex Incorporated, Varian Medical Systems, Inc., Waters Corporation and West Pharmaceutical Services, Inc.

Our 2018 Peer Group was comprised of: Agilent Technologies, Inc., Bio-Rad Laboratories, Inc., Bruker Corporation, C.R. Bard, Inc., The Cooper Companies, Inc., Dentsply Sirona, Inc., Edwards Lifesciences Corporation, Halyard Health, Inc., Hologic, Inc., Intuitive Surgical, Inc., Mednax, Inc., Patterson Companies, Inc., PerkinElmer, Inc., Quest Diagnostics Incorporated, Steris plc, Teleflex Incorporated, Varian Medical Systems, Inc. and Waters Corporation.

Certain other information required by this item will be contained under the caption “Equity Compensation Plan Information” in our definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on February 26, 2020, and such information is incorporated herein by reference.

PART II**Item 6. SELECTED FINANCIAL DATA**

The following table presents our selected consolidated financial data for each of the last five fiscal years ended September 30. Refer to Note 3 of our Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K for disclosure of business combinations for each of the last three fiscal years. Also see Note 15 of our Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K for selected unaudited quarterly financial information for each of the last two fiscal years.

<i>(In millions, except per share data)</i>	2019	2018	2017	2016	2015
Net revenue	\$ 2,907.3	\$ 2,848.0	\$ 2,743.7	\$ 2,655.2	\$ 1,988.2
Net income	152.2	252.4	132.3	122.8	46.8
Net income attributable to common shareholders	152.2	252.4	133.6	124.1	47.7
Net income attributable to common shareholders per basic share	2.28	3.81	2.04	1.90	0.83
Net income attributable to common shareholders per diluted share	2.25	3.73	1.99	1.86	0.82
Total assets	4,919.0	4,360.0	4,528.7	4,262.4	4,457.6
Long-term obligations	1,783.1	1,790.4	2,120.4	1,938.4	2,175.2
Cash flows from operating activities	401.4	395.2	311.1	281.2	213.8
Capital expenditures	73.4	89.5	97.5	83.3	121.3
Cash flows from investing activities	(249.0)	(82.4)	(389.4)	(97.7)	(1,756.4)
Cash flows from financing activities	304.7	(356.6)	70.6	(141.9)	1,642.7
Cash dividends per basic share	0.8300	0.7800	0.7100	0.6700	0.6325

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Hill-Rom Holdings, Inc. (“we,” “us,” or “our”) is a global medical technology leader whose approximately 10,000 employees have a single purpose: enhancing outcomes for patients and their caregivers by Advancing Connected Care™. Around the world, our innovations touch over 7 million patients each day. Our products and services help enable earlier diagnosis and treatment, optimize surgical efficiency and accelerate patient recovery while simplifying clinical communication and shifting care closer to home. We make these outcomes possible through connected smart beds, patient lifts, patient assessment and monitoring technologies, caregiver collaboration tools, respiratory health devices, advanced equipment for the surgical space and more, delivering actionable, real-time insights at the point of care.

Industry Trends

We believe the following trends will impact the global health care industry in the future.

Demand for Health Care Services. Patient and provider demand for health care products and services is expected to continue to grow over the long-term as a result of many factors, including an aging population, longer life expectancies and an increasing number of chronic patients across all care settings, including hospitals, extended care facilities and in the home. However, health care providers will also be under continued pressure to improve efficiency and control costs.

Emerging Markets Health Care Access. While industry growth rates in more mature geographic regions such as western and northern Europe and Japan have moderated, the relative spending on health care is expanding in many other geographic markets. We expect long-term increasing demand for medical technologies as a result. New hospital construction and hospital refurbishments are expected in regions such as Latin America, the Middle East and many parts of Asia.

Provider Consolidation. Economic considerations, competition and other factors have led to ongoing consolidation of customers and the centralization of purchasing decision-making. We believe this has positively influenced the criteria customers use to evaluate our value proposition for various product and service offerings.

Digital Transformation. Health care will undergo a digital transformation through all types of connected devices and decision support tools including telemedicine, sensors, wearables, artificial intelligence and predictive analytics. As a result, utilizing connected devices to generate meaningful and real-time information about patients and products has become critical to providing quality health care, maximizing clinical insights, enabling earlier intervention, enhancing patient experience and driving efficiencies across the health care continuum.

Economic and Clinical Value. We believe an increasing emphasis is being placed within hospitals to assure quality of care through increased accountability and public transparency. A focus on “value-based care” and “pay for performance” places greater emphasis on improved patient outcomes and the reduction of adverse events including pressure injuries, ventilator associated pneumonia, patient falls and sepsis. Hospitals may experience reduced reimbursement for hospital-acquired adverse events, creating a stronger connection between these adverse events and hospital revenue levels. Therefore, we believe that health care providers will seek to do business with partners that can demonstrate improved clinical, and consequently, economic outcomes.

Lower Cost Care Settings. Growing pressure on health care costs are resulting in a migration of care from the acute care hospital into lower cost care settings. We believe that this trend increases the demand for more solutions to care for these patients, many of whom are medically complex, in lower acuity settings, including improved medical technologies, monitoring communication tools and information technologies.

Strategic Priorities

We believe we have aligned our strategic priorities to accommodate the evolving global health care landscape.

Advancing category leadership with differentiated solutions and innovation. Health care systems today are challenged to treat the rising incidence of complex diseases and conditions while reducing costs, increasing efficiency and improving patient outcomes. We are well positioned to meet demand for innovative, differentiated solutions that drive a clear value proposition for customers. We are executing on a strong pipeline of impactful medical technologies, communication tools and information technologies to build on our category leadership and provide caregivers the products and solutions needed to enhance patient care and outcomes.

Expanding internationally and penetrating emerging markets. International markets continue to expand access to health care for their growing populations, presenting significant opportunity to expand our presence with our differentiated solutions. By focusing on product categories and innovations with the highest growth potential, coupled with our ‘One Hillrom’ approach to enhance our strong global channel and footprint, we will continue to enhance our international presence, penetrate emerging markets, and drive accelerated growth.

Transforming the portfolio with select business development and optimization initiatives. Business development has played an important role in our transformation in the last several years, by strengthening and diversifying the portfolio. We will continue to pursue opportunities that complement and build on our core business, while generating attractive financial returns. We have enhanced our growth prospects by divesting non-strategic assets and redirecting resources toward higher-growth, higher-margin opportunities. We will continue to evaluate opportunities that further optimize our business portfolio.

Driving operational execution and strong financial performance. Investing to support future growth is key to our success, while maintaining strong financial discipline and operational performance. We are executing on a variety of initiatives to drive operating efficiencies, including consolidation of our manufacturing footprint, lowering sourcing costs, improving productivity, and optimizing business processes. Savings generated from these actions will provide flexibility to reinvest in strategic priorities to drive growth, including continued innovation to drive category leadership and investments to further our international presence, particularly in emerging markets.

Use of Non-GAAP Financial Measures

The accompanying Consolidated Financial Statements, including the related notes, are presented in accordance with accounting principles generally accepted in the United States (“GAAP”). In addition to the results reported in accordance with GAAP, we routinely provide gross margin, operating margin, income tax expense and earnings per diluted share results on an adjusted basis because we believe these measures contribute to an understanding of our financial performance, provide additional analytical tools to understand our results from core operations and reveal underlying operating trends. These measures exclude strategic developments, acquisition and integration costs and related fair value adjustments, gains and losses associated with disposals of businesses or significant product lines, regulatory costs related to updating existing product registrations to comply with the European Medical Device Regulations, Special charges as described in Note 10 of our Consolidated Financial Statements under Part II, in Item 8 of this Form 10-K, the transitional impacts of the U.S. Tax Cuts and Jobs Act (the “Tax Act”), change in tax accounting methods, and other tax law changes as described in Note 11 of our Consolidated Financial Statements under Part II, in Item 8 of this Form 10-K, expenses associated with these tax items, the impacts of significant litigation matters or other unusual events. We also exclude expenses associated with the amortization of purchased intangible assets. These adjustments are made to allow investors to evaluate and understand operating trends excluding their impact on operating income and earnings per diluted share.

Management uses these measures internally for planning, forecasting and evaluating the performance of the business. Investors should consider these non-GAAP measures in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP.

In addition, we present certain results on a constant currency basis, which compares results between periods as if foreign currency exchange rates had remained consistent period-over-period. We monitor sales performance on an adjusted basis, which eliminates the positive or negative effects that result from translating international sales into U.S. dollars. We calculate constant currency by applying the foreign currency exchange rate for the prior period to the local currency results for the current period. We believe that evaluating growth in net revenue on a constant currency basis provides an additional and meaningful assessment to both management and investors.

Results of Operations

Fiscal Year Ended September 30, 2019 Compared to Fiscal Year Ended September 30, 2018

In this section, we provide an overview of our results of operations. We disclose segment information that is consistent with the way in which management operates and views the business. Our operating structure contains the following reportable segments:

- **Patient Support Systems** – globally provides our med-surg and specialty bed systems and surfaces, safe patient handling equipment and mobility solutions, as well as our care communications platform that delivers software and information technologies to improve care and deliver actionable insight to caregivers and patients.

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- **Front Line Care** – globally provides patient monitoring and diagnostic technologies, including a diversified portfolio of physical assessment tools that help diagnose, treat and manage a wide variety of illnesses and diseases, including a portfolio of vision care and respiratory health devices.
- **Surgical Solutions** – globally provides products that improve safety and efficiency in the surgical space, including tables, lights, pendants, positioning devices and other accessories.

Net Revenue

(In millions)	Year Ended September 30		Change As Reported	Constant Currency	U.S.	OUS	
					Change As Reported	Change As Reported	Constant Currency
	2019	2018			Change As Reported	Change As Reported	Constant Currency
Revenue:							
Product sales and service	\$ 2,615.0	\$ 2,469.6	5.9 %	7.3 %	11.2 %	(4.4)%	(0.3)%
Rental revenue	292.3	378.4	(22.8)%	(22.2)%	(24.5)%	(9.6)%	(5.0)%
Total net revenue	<u>\$ 2,907.3</u>	<u>\$ 2,848.0</u>	2.1 %	3.4 %	5.1 %	(4.6)%	(0.5)%
Revenue:							
Patient Support Systems	\$ 1,490.5	\$ 1,429.5	4.3 %	5.4 %	7.6 %	(5.2)%	(0.8)%
Front Line Care	978.1	960.2	1.9 %	2.9 %	3.0 %	(0.9)%	2.8 %
Surgical Solutions	438.7	458.3	(4.3)%	(2.0)%	(0.1)%	(8.2)%	(3.8)%
Total net revenue	<u>\$ 2,907.3</u>	<u>\$ 2,848.0</u>	2.1 %	3.4 %	5.1 %	(4.6)%	(0.5)%

OUS - Outside of the United States

The following table reflects sales growth data for the fiscal 2019, excluding the impacts of the adoption of ASC 606, compared to fiscal 2018 to supplement our discussion and analysis of net revenue for revenue streams and reportable segments:

(In millions)	Year Ended September 30		Change	Constant Currency	U.S.	OUS	
					Change	Change	Constant Currency
	Adjusted 2019	2018			Change	Constant Currency	Change
Revenue:							
Product sales and service	\$ 2,502.8	\$ 2,469.6	1.3 %	2.7 %	4.3 %	(4.4)%	(0.3)%
Rental revenue	389.3	378.4	2.9 %	3.4 %	4.5 %	(9.6)%	5.0 %
Total net revenue	<u>\$ 2,892.1</u>	<u>\$ 2,848.0</u>	1.5 %	2.8 %	4.4 %	(4.7)%	(0.5)%
Revenue:							
Patient Support Systems	\$ 1,477.0	\$ 1,429.5	3.3 %	4.5 %	6.4 %	(5.3)%	(0.9)%
Front Line Care	976.4	960.2	1.7 %	2.7 %	2.7 %	(0.9)%	2.7 %
Surgical Solutions	438.7	458.3	(4.3)%	(2.0)%	(0.1)%	(8.2)%	(3.8)%
Total net revenue	<u>\$ 2,892.1</u>	<u>\$ 2,848.0</u>	1.5 %	2.8 %	4.4 %	(4.7)%	(0.5)%

Impact of ASC 606

See Note 1, Summary of Significant Accounting Policies and Note 2, Revenue Recognition, of our Consolidated Financial Statements in this Form 10-K for additional information on the impact of adoption of ASC 606 as of October 1, 2018.

Product sales and service revenue increased under ASC 606 by \$112.2 million. This increase was primarily due to the accelerated recognition and reclassification from Rental revenue of \$95.3 million for Front Line Care where it was determined for respiratory health products, there were no on-going performance obligations after delivery of the product to the customer, whereas previously this revenue was recognized over the period the Company was reimbursed by third parties. It also reflects an additional \$13.5

million for Patient Support Systems due to the changes in the timing of revenue recognition based on when the performance obligation related to certain products was determined to be satisfied.

Rental revenue decreased under ASC 606 by \$97.0 million. This decrease was primarily due to the reclassification to Product sales and service revenue of \$95.3 million for Front Line Care as described above.

Business Segment Revenue

Excluding the impact of adopting ASC 606, revenue increased 1.5% on a reported basis, or 2.8% on a constant currency basis, in fiscal 2019, primarily due to the following:

Patient Support Systems revenue increased 3.3% on a reported basis and 4.5% on a constant currency basis in fiscal 2019 compared to 2018. The increase was driven by strong growth in med-surg frames and care communications platform in the United States, as well as incremental revenue from our Voalte acquisition, which contributed approximately 1% of Patient Support Systems revenue in fiscal 2019. Growth in the United States was partially offset by the divestiture of our third-party rental business in fiscal 2018 which contributed \$12.2 million of Patient Support Systems revenue in fiscal 2018 and lower international revenue, specifically in Canada related to large capital projects that occurred in fiscal 2018. Revenue in fiscal 2019 does not reflect approximately \$5.3 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred revenue related to the Voalte acquisition.

Front Line Care revenue increased 1.7% on a reported basis and 2.7% on a constant currency basis in fiscal 2019 compared to 2018 primarily due to strong growth in our respiratory health products from a full year of revenue related to new products launched in fiscal 2018, partially offset primarily by declines in our cardiology products.

Surgical Solutions revenue decreased 4.3% on a reported basis and 2.0% on a constant currency basis in fiscal 2019 compared to 2018, primarily due to the sale of the surgical consumable products business in August 2019 and lower revenue in our international original equipment manufacturer (“OEM”) product lines and due to larger projects in fiscal 2018 in the Middle East, partially offset by sales growth in surgical tables in the United States.

Gross Profit

(In millions)

	Year Ended September 30	
	2019	2018
Gross Profit		
Product sales and service	\$ 1,284.3	\$ 1,195.5
<i>Percent of Related Net Revenue</i>	49.1%	48.4%
Rental	140.7	198.7
<i>Percent of Related Net Revenue</i>	48.1%	52.5%
Total Gross Profit	\$ 1,425.0	\$ 1,394.2
<i>Percent of Total Net Revenue</i>	49.0%	49.0%

Product sales and service gross profit increased by \$88.8 million or 7.4% in fiscal 2019 compared to 2018. Over half of the increase was the result of the adoption of ASC 606 (Note 2), which includes the reclassification of revenues and costs from Rental to Product sales and service for respiratory health products and recognition timing changes for the care communication platform sales. The remaining increase is due to new product growth in respiratory health and Patient Support Systems, including the acquisition of Voalte, and operational efficiencies, partially offset by voluntary field corrective action costs and the disposition of our consumable surgical products business in August 2019.

Rental gross profit decreased by \$58.0 million or 29.2% in fiscal 2019 compared to 2018. A majority of the decrease was the result of the adoption of ASC 606 (Note 2), which includes reclassification of the respiratory health products as described above. The remaining decrease is primarily related to the disposition of our third-party rental business in fiscal 2018.

Operating Expenses

(In millions)

	Year Ended September 30	
	2019	2018
Research and development expenses	\$ 139.5	\$ 135.6
<i>Percent of Total Net Revenue</i>	<i>4.8%</i>	<i>4.8%</i>
Selling and administrative expenses	\$ 941.0	\$ 891.6
<i>Percent of Total Net Revenue</i>	<i>32.4%</i>	<i>31.3%</i>

Research and development expenses increased in fiscal 2019 compared to 2018 due to continued investment in new products. As a percentage of revenue, research and development expenses remained consistent.

As a percentage of total net revenue, selling and administrative expenses increased in the fiscal 2019 compared to 2018. Selling and administrative expenses in fiscal 2019 include acquisition-related intangible asset amortization, acquisition and integration costs, litigation-related costs and costs related to regulatory compliance costs totaling \$159.9 million. Selling and administrative expenses in fiscal 2018 include acquisition-related intangible asset amortization, acquisition and integration costs, litigation-related costs and regulatory compliance costs totaling \$125.4 million. Excluding these items, selling and administrative expenses remained flat as a percentage of net revenue.

Special Charges and Other

(In millions)

	Year Ended September 30	
	2019	2018
Special charges	\$ 28.4	\$ 77.6
Interest expense	\$ (89.6)	\$ (95.0)
Loss on extinguishment of debt	(3.3)	—
Investment income (expense) and other, net	(14.6)	2.8

In connection with various organizational changes to improve our business alignment and cost structure, we recognized special charges of \$28.4 million and \$77.6 million in fiscal 2019 and 2018. These charges relate to the initiatives described in Note 10 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Interest expense was lower in fiscal 2019 compared to 2018 mainly due to a decrease in long-term debt outstanding compared to 2018 and the impact of our cross-currency swaps entered into in July 2018. See Note 7 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Loss on extinguishment of debt relates to refinancing of the then-existing senior secured credit facilities maturing in 2021 (the “Prior Senior Secured Credit Facilities”) in August 2019. See Note 6 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Investment income (expense) and other, net in fiscal 2019 primarily included the loss we recorded related to the disposition of our surgical consumable products business. See Note 3 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Income Tax Expense

The effective tax rate was 27.0% for fiscal 2019 compared to (28.0)% for fiscal 2018. The increase was primarily due to tax benefits recorded in 2018 related to the Tax Act. See Note 11 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

The adjusted effective tax rate for fiscal 2019 was 20.1% compared to 19.5% for fiscal 2018. The higher adjusted tax rate in fiscal 2019 is primarily due to less excess tax benefits on deductible stock compensation and the 2018 impacts of the Tax Act, including

unfavorable impacts of global intangible low-taxed income (“GILTI”), offset by favorable impacts of foreign-derived intangible income (“FDII”) and a reduction in the U.S. federal corporate tax rate.

Earnings per Share

Diluted earnings per share decreased from \$3.73 in fiscal 2018 to \$2.25 in 2019 primarily due to the one-time tax benefit recorded in fiscal 2018 related to the Tax Act, the loss on the disposition of our consumable surgical products business, and the related tax expense incurred from organizational changes executed to facilitate the disposition.

Business Segment Divisional Income

(In millions)

	Year Ended September 30		Change As Reported
	2019	2018	
Divisional income:			
Patient Support Systems	\$ 292.5	\$ 281.3	4.0%
Front Line Care	267.7	253.0	5.8%
Surgical Solutions	61.2	53.1	15.3%

Divisional income is defined in Note 14 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Patient Support Systems divisional income increased 4.0% in fiscal 2019 compared to 2018 primarily due to revenue growth in the United States, and lower operating expenses as a percentage of revenue.

Front Line Care divisional income increased 5.8% in fiscal 2019 compared to 2018 as a result of revenue growth and higher margins from new products.

Surgical Solutions divisional income increased 15.3% in fiscal 2019 compared to 2018 as a result of revenue growth from operating tables, and lower operating expenses as a percentage of revenue.

GAAP and Adjusted Earnings

Operating margin, income before income taxes, income tax expense, and earnings attributable to common shareholders per diluted share are summarized in the table below. Management uses non-GAAP measures internally for planning, forecasting and evaluating the performance of the business. Investors should consider these measures in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Income tax expense is computed by applying a blended statutory tax rate on the jurisdictional mix of the respective before tax adjustment.

Year Ended September 30

(In millions)	2019				2018			
	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS
GAAP Basis	10.9%	\$ 208.6	\$ 56.4	\$ 2.25	10.2%	\$ 197.2	\$ (55.2)	\$ 3.73
Adjustments:								
Acquisition and integration costs and related fair value adjustments ¹	0.9%	28.1	5.3	0.34	0.3%	8.1	2.2	0.09
Acquisition-related intangible asset amortization ²	4.2%	122.4	28.6	1.38	3.8%	106.9	28.2	1.16
Field corrective actions ³	0.2%	5.6	1.4	0.06	—%	—	—	—
Regulatory compliance costs ⁴	0.5%	15.3	3.6	0.17	0.1%	4.5	1.2	0.04
Litigation settlements and expenses ⁵	0.1%	2.0	0.5	0.02	0.2%	5.8	1.5	0.06
Special charges ⁶	1.0%	28.4	6.9	0.32	2.7%	77.6	21.1	0.84
Tax law and method changes ⁷	—%	—	(4.8)	0.07	—%	0.1	78.8	(1.16)
Debt refinancing costs ⁸	—%	4.0	0.9	0.05	—%	—	—	—
Loss on disposition of businesses ⁹	—%	15.9	(12.4)	0.42	—%	(1.0)	—	(0.01)
Adjusted Basis	17.8%	\$ 430.3	\$ 86.4	\$ 5.08	17.3%	\$ 399.2	\$ 77.8	\$ 4.75

¹ Acquisition and integration costs and related fair value adjustments include legal and professional fees, temporary labor, consulting and other costs related to the closing and integration of acquired businesses, including purchase accounting adjustments for deferred revenue and other items, and contingent consideration. In fiscal 2019, related fair value adjustments of \$8.5 million represent purchase accounting adjustments for deferred revenue and contingent consideration associated with our business combinations in Note 3 of our Consolidated Financial Statements in Item 8 of this Form 10-K. In fiscal 2019, the adjustments to deferred revenue are included in Gross profit and the remaining acquisition and integration costs are included in Selling and administrative expenses.

² Acquisition-related intangible asset amortization relates to the amortization of intangible assets acquired associated with our business combinations. These costs are included in Selling and administrative expenses.

³ Field corrective action costs relate to costs incurred to address broad-based product performance matters outside of normal warranty provisions. These costs are included in Cost of goods sold.

⁴ Regulatory compliance costs relate to updating existing product registrations to comply with the European Medical Device Regulations. These costs are included in Selling and administrative expenses.

⁵ Litigation settlements and expenses are the aggregate charges, costs or recoveries associated with litigation settlements. These costs are included in Selling and administrative expenses.

⁶ Special charges represent a variety of costs associated with restructuring actions, including severance and related benefits, lease termination fees, asset write-downs and temporary labor on shutdown of operations. It also includes costs related to a global information technology transformation, including rationalizing and transforming our enterprise resource planning software solutions and other complementary information technology systems.

⁷ Tax law and method changes relate to tax expenses and related unrecognized tax benefits due to the Tax Cuts and Jobs Act enacted in the United States in December 2017.

⁸ Debt refinancing costs are expenses related to the refinancing of the senior credit facilities and the costs incurred between the issuance and redemption of our Senior Notes due 2027 and 2023, respectively. In fiscal 2019, debt refinancing costs include \$0.7 million related to duplicative interest costs related to the issuance and redemption of our Senior Notes due 2027 and 2023 and \$3.3 million primarily related to the debt issuance costs previously capitalized for the 2021 TLA Facility. See Note 6 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

⁹ Loss on disposition of businesses relates to losses recorded in Investment income and other, net resulting from business dispositions. A tax expense was incurred from organizational changes executed to facilitate the disposition of our consumable surgical products business in fiscal 2019.

Fiscal Year Ended September 30, 2018 Compared to Fiscal Year Ended September 30, 2017

Net Revenue

(In millions)

	Year Ended September 30		Change As Reported	Constant Currency	U.S.	OUS	
	2018	2017			Change As Reported	Change As Reported	Constant Currency
	Revenue:						
Product sales and service	\$ 2,469.6	\$ 2,358.1	4.7 %	3.2 %	4.9 %	4.3 %	(0.1)%
Rental revenue	378.4	385.6	(1.9)%	(2.6)%	(2.2)%	0.9 %	(5.3)%
Total net revenue	<u>\$ 2,848.0</u>	<u>\$ 2,743.7</u>	3.8 %	2.4 %	3.6 %	4.1 %	(0.3)%

Revenue:							
Patient Support Systems	\$ 1,429.5	\$ 1,423.9	0.4 %	(0.7)%	1.4 %	(2.4)%	(6.6)%
Front Line Care	960.2	885.3	8.5 %	7.4 %	7.7 %	10.4 %	6.8 %
Surgical Solutions	458.3	434.5	5.5 %	2.4 %	2.5 %	8.5 %	2.4 %
Total net revenue	<u>\$ 2,848.0</u>	<u>\$ 2,743.7</u>	3.8 %	2.4 %	3.6 %	4.1 %	(0.3)%

Net revenue increased 3.8% on a reported basis and 2.4% on a constant currency basis in fiscal 2018 compared to 2017 driven by growth in the United States.

Product sales and service revenue increased 4.7% on a reported basis and 3.2% on a constant currency basis in fiscal 2018 compared to 2017, primarily due to the benefit from the acquisition of Mortara in February 2017 and growth across the portfolio in the United States. This growth was partially offset by declines in OUS driven primarily by divestitures in our Patient Support Systems portfolio.

Rental revenue decreased 1.9% on a reported basis or 2.6% on a constant currency basis in fiscal 2018, primarily due to the divestiture of our third-party rental business.

Business Segment Revenue

Patient Support Systems revenue increased 0.4% on a reported basis and decreased 0.7% on a constant currency basis in fiscal 2018 compared to 2017. The change was driven by strong growth in hospital bed systems, care communications platform and patient handling equipment, offset by lower revenue from businesses we divested.

Front Line Care revenue increased 8.5% on a reported basis and 7.4% on a constant currency basis in fiscal 2018 compared to 2017, due to the benefit from our Mortara acquisition in fiscal 2017 and strong growth across the Welch Allyn portfolio and new products launched in respiratory health.

Surgical Solutions revenue increased 5.5% on a reported basis and 2.4% on a constant currency basis in fiscal 2018 compared to 2017, mainly due to solid growth from new products in the United States, the Middle East and European regions.

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Gross Profit

(In millions)

	Year Ended September 30	
	2018	2017
Gross Profit		
Product sales and service	\$ 1,195.5	\$ 1,122.3
Percent of Related Net Revenue	48.4%	47.6%
Rental	\$ 198.7	\$ 198.3
Percent of Related Net Revenue	52.5%	51.4%
Total Gross Profit	\$ 1,394.2	\$ 1,320.6
Percent of Total Net Revenue	49.0%	48.1%

Product sales and service gross margin increased 80 basis points in fiscal 2018 primarily due to the accretive margin impact of new product revenues, the acquisition of Mortara, positive impact from the divestiture of lower margin businesses, and supply chain cost improvements. For fiscal 2017, gross margin included an inventory step-up of \$4.8 million in cost of goods sold related to the Mortara acquisition.

Rental gross margin increased 110 basis points in fiscal 2018 compared to 2017 due to product mix and cost improvements in our fleet and field service infrastructure, as well as the divestiture of our third-party rental business.

Operating Expenses

(In millions)

	Year Ended September 30	
	2018	2017
Research and development expenses	\$ 135.6	\$ 133.7
Percent of Total Net Revenue	4.8%	4.9%
Selling and administrative expenses	\$ 891.5	\$ 876.1
Percent of Total Net Revenue	31.3%	31.9%

Research and development expenses increased in fiscal 2018 compared to 2017. As a percentage of net revenue, research and development expenses remained relatively flat year over year.

As a percentage of total net revenue, selling and administrative expenses decreased in the fiscal 2018 compared to 2017. Selling and administrative expenses include \$125.4 million in fiscal 2018 and \$132.7 million in fiscal 2017 of acquisition-related intangible asset amortization, acquisition and integration costs and significant litigation related costs. Excluding these items, selling and administrative expenses decreased 0.2% as a percentage of net revenue due to lower spending levels as disciplined cost management and integration savings more than offset targeted investments to facilitate long-term growth.

Special Charges and Other

(In millions)

	Year Ended September 30	
	2018	2017
Special charges	\$ 77.6	\$ 37.4
Interest expense	\$ (95.0)	\$ (88.9)
Investment income and other, net	\$ 2.7	\$ (1.5)

In connection with various organizational changes to improve our business alignment and cost structure, we recognized special charges of \$77.6 million and \$37.4 million in fiscal 2018 and 2017. These charges relate to the initiatives described in Note 10 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Interest expense was higher in fiscal 2018 compared to 2017 mainly due to the interest expense on our private offering of \$300.0 million of senior unsecured notes in connection with the Mortara acquisition in February 2017, as well as slightly higher interest rates on our floating rate debt. See Note 6 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Income Tax Expense

The effective tax rate for fiscal 2018 was (28.0)% compared to 27.7% for 2017. The effective tax rate for fiscal 2018 is lower than fiscal 2017 due primarily to new tax legislation in the United States as more fully described in Note 11 of our Consolidated Financial Statements in Item 8 of this Form 10-K. The new law included a lower corporate tax rate, a significant benefit from the reduction of net deferred tax liabilities and a one-time transition tax. Fiscal 2018 also includes tax benefits of \$16.1 million related to the adoption of Accounting Standards Update (“ASU”) 2016-09, *Compensation - Stock Compensation (Topic 718)*, *Improvements to Employee Share-Based Payment Accounting* in fiscal 2017, and a \$9.2 million benefit from the change in tax accounting method resulting in a reduction in U.S. tax for prior year currency exchange losses. In fiscal 2017, the tax rate was favorably impacted by tax benefits including \$8.9 million related to the adoption of ASU 2016-09, partially offset by expense related to the revaluation of French deferred tax assets due to the enactment of a lower corporate income tax rate in France. Fiscal 2017 also included the unfavorable impact of the non-deductible loss related to the agreement to sell our Völker business.

The adjusted effective tax rate for fiscal 2018 was 19.5% compared to 27.6% for fiscal 2017. The lower adjusted tax rate in fiscal 2018 is due primarily to the reduction in the U.S. federal corporate tax rate from the Tax Act legislation as described more fully in Note 11 of our Consolidated Financial Statements in Item 8 of this Form 10-K coupled with higher tax benefits from the adoption of ASU 2016-09.

Earnings per Share

Diluted earnings per share increased from \$1.99 to \$3.73 in fiscal 2018 primarily due to incremental tax benefits primarily due to the Tax Act as disclosed in Note 11 of our Consolidated Financial Statements in Item 8 of this Form 10-K, as well as operational improvements.

Business Segment Divisional Income

(In millions)

	Year Ended September 30		Change As Reported
	2018	2017	
Divisional income:			
Patient Support Systems	\$ 281.3	\$ 249.6	12.7%
Front Line Care	253.0	231.8	9.1%
Surgical Solutions	53.1	42.5	24.9%

Divisional income is defined in Note 14 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Patient Support Systems divisional income increased 12.7% in fiscal 2018 primarily due to lower operating expenses and operational improvements.

Front Line Care divisional income increased 9.1% in fiscal 2018 compared to 2017 as a result of revenue growth and higher margins from improved product mix including new product launches.

Surgical Solutions divisional income increased 24.9% in fiscal 2018 compared to 2017 primarily due to revenue growth and higher margins from operational cost improvements.

GAAP and Adjusted Earnings

Operating margin, income before income taxes, income tax expense, and earnings attributable to common shareholders per diluted share are summarized in the table below. Management uses non-GAAP measures internally for planning, forecasting, and evaluating the performance of the business. Investors should consider these measures in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Income tax expense is computed by applying a blended statutory tax rate on the jurisdictional mix of the respective before tax adjustment.

(In millions)

	Year Ended September 30							
	2018				2017			
	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS
GAAP Basis	10.2%	\$ 197.2	\$ (55.2)	\$ 3.73	10.0 %	\$ 183.0	\$ 50.7	\$ 1.99
Adjustments:								
Acquisition and integration costs ¹	0.3%	8.1	2.2	0.09	0.8 %	23.5	9.7	0.21
Acquisition-related intangible asset amortization ²	3.8%	106.9	28.2	1.16	4.0 %	108.4	34.2	1.10
Field corrective actions ³	—	—	—	—	— %	—	(0.2)	—
Regulatory compliance costs ⁴	0.1%	4.5	1.2	0.04	— %	—	—	—
Litigation settlements and expenses ⁵	0.2%	5.8	1.5	0.06	(0.3)%	5.7	2.1	0.05
Special charges ⁶	2.7%	77.6	21.1	0.84	1.8 %	37.4	4.8	0.49
Tax law and method changes and related costs ⁷	—%	0.1	78.8	(1.16)	— %	—	(2.2)	0.03
Gain on disposition of business ⁸	—%	(1.0)	—	(0.01)	— %	(1.0)	(0.4)	(0.01)
Adjusted Basis	17.3%	\$ 399.2	\$ 77.8	\$ 4.75	16.3 %	\$ 357.0	\$ 98.7	\$ 3.86

¹ Acquisition and integration costs include legal and professional fees, temporary labor, consulting and other costs related to the closing and integration of acquired businesses. These costs are included in Selling and administrative expenses.

² Acquisition-related intangible asset amortization relates to the amortization of intangible assets acquired associated with our business combinations. These costs are included in Selling and administrative expenses.

³ Field corrective action costs relate to costs incurred to address broad-based product performance matters outside of normal warranty provisions. These costs are included in Cost of goods sold.

⁴ Regulatory compliance costs relate to updating existing product registrations to comply with the European Medical Device Regulations. These costs are included in Selling and administrative expenses.

⁵ Litigation settlements and expenses are the aggregate charges, costs or recoveries associated with litigation settlements. These costs are included in Selling and administrative expenses.

⁶ Special charges represent a variety of costs associated with restructuring actions, including severance and related benefits, lease termination fees, asset write-downs and temporary labor on shutdown of operations. Fiscal 2017 includes favorable litigation settlement of \$15.1 million which was recognized as Special charges in our Statements of Consolidated Income. Refer to Note 10 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

⁷ Tax law and method changes relate to tax expenses and costs incurred due to the Tax Cuts and Jobs Act enacted in the United States in December 2017.

⁸ Gain on disposition of business relates to losses recorded to Investment income and other, net resulting from business dispositions.

Liquidity and Capital Resources

<i>(In millions)</i>	Year Ended September 30		
	2019	2018	2017
Cash Flows Provided By (Used In):			
Operating activities	\$ 401.4	\$ 395.2	\$ 311.1
Investing activities	(249.0)	(82.4)	(389.4)
Financing activities	304.7	(356.6)	70.6
Effect of exchange rate changes on cash	(6.3)	(5.0)	7.3
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	<u>\$ 450.8</u>	<u>\$ (48.8)</u>	<u>\$ (0.4)</u>

Net cash flows from operating activities and selected borrowings represented our primary sources of funds for growth of the business, including capital expenditures and acquisitions. Our financing agreements contain certain restrictions relating to dividend payments, the making of restricted payments, and the incurrence of additional secured and unsecured indebtedness. None of our financing agreements contain any credit rating triggers which would increase or decrease our cost of borrowings. Credit rating changes can, however, impact the cost of borrowings and any potential future borrowings under any new financing agreements.

Operating Activities

Cash provided by operating activities remained relatively consistent in fiscal 2019 compared to fiscal 2018, increasing \$6.2 million primarily due to higher operating profit and working capital improvements.

Cash provided by operating activities increased \$84.1 million in fiscal 2018 compared to fiscal 2017 due primarily to higher net income, adjusted for non-cash items including the impact of the Tax Act legislation as described in Note 11 of our Consolidated Financial Statements in Item 8 of this Form 10-K, the conveyance of certain third-party rental assets as described in Note 3 of our Consolidated Financial Statements in Item 8 of this Form 10-K, depreciation, amortization and stock compensation expense, along with working capital activities.

Investing Activities

Cash used in investing activities was \$249.0 million in fiscal 2019, primarily driven by our acquisition of Voalte for consideration of \$175.8 million, net of cash acquired, and our acquisition of Breathe consideration for \$127.6 million, net of cash acquired, as described in Note 3 of our Consolidated Financial Statements in Item 8 of this Form 10-K. Additionally, there were capital expenditures of \$73.4 million in fiscal 2019. We also acquired non-marketable equity securities of \$26.6 million as described in Note 5, as well as the right to use patented technology and certain related assets from a supplier in our Front Line Care segment of \$17.1 million, as described in Note 3. These uses of cash were offset by net proceeds of \$166.6 million from the sale of certain of our surgical consumable products and related assets, as described in Note 3 of our Consolidated Financial Statements in Item 8 of this Form 10-K. In fiscal 2018, cash used in investing activities was \$82.4 million, primarily consisting of capital expenditures.

Cash used in investing activities decreased \$307.0 million in fiscal 2018 compared to fiscal 2017, primarily due to our acquisition of Mortara in fiscal 2017. In fiscal 2018, cash used in investing activities consisted mainly of capital expenditures that were consistent with fiscal 2017.

Financing Activities

Cash provided by financing activities was \$304.7 million in fiscal 2019, primarily driven by the refinancing activities described in Note 6, including \$419.7 million of net proceeds from the issuance of senior unsecured notes and additional other borrowings, offset by repurchases of our common stock of \$117.2 million executed under the ongoing program as described in Note 13 of our Consolidated Financial Statements in Item 8 of this Form 10-K as well as dividend payments of \$55.4 million.

Cash used in financing activities was \$356.6 million in fiscal 2018 compared to cash provided by financing activities of \$70.6 million in fiscal 2017. This change was primarily due to net debt repayments in fiscal 2018 coupled with borrowings in fiscal 2017 for the Mortara acquisition. See Note 6 of our Consolidated Financial Statements for information on our financing agreements.

Our debt-to-capital ratio was 60.8%, 55.0% and 62.8% as of September 30, 2019, 2018 and 2017.

Other Liquidity Matters

Our cash balances and cash flows generated from operations may be used to fund strategic investments, business acquisitions, working capital needs, investments in technology, marketing and share repurchases. We believe that our cash balances and cash flows generated from operations, along with amounts available under our financing agreements, will be sufficient to fund operations, working capital needs, capital expenditure requirements, and financing obligations for at least the next 12 months from the date of this filing. However, disruption and volatility in the credit markets could impede our access to capital. Our \$1,200.0 million revolving credit facility is with a syndicate of banks, which we believe reduces our exposure to any one institution and would still leave us with significant borrowing capacity in the event that any one of the institutions within the group is unable to comply with the terms of our agreement.

In fiscal 2019, we completed the acquisition of Voalte for total aggregate consideration of \$181.0 million, comprised of \$175.8 million cash and \$5.2 million of contingent consideration measured at fair value as of the acquisition date. The purchase price is subject to certain post-closing adjustments. Contingent consideration is payable of up to \$15.0 million based upon the achievement of certain commercial milestones.

In fiscal 2019, we completed the acquisition of Breathe Technologies, Inc. (“Breathe”) for total aggregate cash consideration of \$127.6 million. The purchase price is subject to certain post-closing adjustments.

In fiscal 2019, we completed a disposition to sell certain of our surgical consumable products and related assets for a purchase price of \$166.6 million, which is net of cash and working capital adjustments. We recorded a pre-tax loss on this disposition of \$15.9 million, including transaction costs of \$4.0 million.

Over the long term, we intend to continue to pursue inorganic growth in certain areas of our business, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted.

In September 2019, the Board approved an additional \$170.0 million for share repurchases. The below table reflects the date of Board approval, the authorized dollar value of the shares to be repurchased under each approval and the availability to repurchase as of September 30, 2019. There is no expiration date or plans to terminate this program in the future. The timing and amount of share repurchases, if any, will be determined based on market conditions, limitations under our financing agreements, share price and other factors.

<u>Board Approval Date</u>	<u>Authorized Dollar Value</u>	<u>Dollar Value of Shares Purchased Prior to Fiscal 2019</u>	<u>Dollar Value of Shares Purchased in Fiscal 2019</u>	<u>Availability to Purchase as of September 30, 2019</u>
September 2013	\$ 190.0	\$ 175.3	\$ 14.7	\$ —
November 2017	150.0	—	102.5	47.5
September 2019	170.0	—	—	170.0
Totals	\$ 510.0	\$ 175.3	\$ 117.2	\$ 217.5

Our primary pension plan invests in a variety of equity and debt securities. As of September 30, 2019, our latest measurement date, our pension plans were underfunded by \$69.8 million. In fiscal 2019, we contributed cash of \$9.0 million to our defined benefit retirement plans, of which \$8.0 million was a voluntary contribution to our U.S. defined benefit retirement plan.

In August 2019, we entered into a senior credit agreement (the “New Credit Agreement”) for purposes of refinancing the Prior Senior Secured Credit Facilities. The Prior Senior Secured Credit Facilities consisted of a senior secured term loan facility (“2021 TLA Facility”) with an original principal amount of \$1,462.5 million and a Senior Secured Revolving Credit Facility (“2021 Revolving Credit Facility”) providing borrowing capacity of up to \$700.0 million, both maturing in September 2021.

The New Credit Agreement consists of two facilities as follows:

- \$1,000.0 million senior secured Term Loan A facility, maturing in August 2024 (“2024 TLA Facility”)
- Revolving Credit Facility, providing borrowing capacity of up to \$1,200.0 million, maturing in August 2024 (“2024 Revolving Credit Facility”)

In conjunction with the refinancing of the Prior Senior Secured Credit Facilities, we recorded \$3.3 million in Loss on extinguishment of debt primarily related to the debt issuance costs previously capitalized for the 2021 TLA Facility in fiscal 2019.

In September 2019, we issued senior unsecured notes of \$425.0 million maturing September 2027 that bear interest at a fixed rate of 4.375% annually and capitalized debt issuance costs of \$6.3 million. On October 7, 2019, we used the net proceeds from the offering of these notes, together with funds borrowed from the 2024 Revolving Credit Facility, to redeem all of our previously outstanding senior unsecured 5.75% notes due September 2023 (the “2023 Notes”) and pay the prepayment premium of \$12.2 million. The 30-day notice required to redeem the 2023 Notes was filed on September 7, 2019 and, as a result, the outstanding liability of \$421.6 million as of September 30, 2019 has been classified as current within short-term borrowings. In October 2019, we recorded a loss on extinguishment of debt of \$15.6 million, which was comprised of a \$12.2 million prepayment premium and \$3.4 million of debt issuance costs previously capitalized.

In addition to the discussion of our financing agreements detailed in Note 6 of our Consolidated Financial Statements and our retirement and postretirement benefit plans detailed in Note 8 of our Consolidated Financial Statements, we intend to continue to pay quarterly cash dividends comparable to those paid in the periods covered by these financial statements. However, the declaration and payment of dividends will be subject to the sole discretion of our Board and will depend upon many factors, including our financial condition, earnings, capital requirements, covenants associated with debt obligations, legal requirements and other factors considered relevant by our Board.

Following the enactment of the Tax Act, we repatriated \$105.2 million of our cash and cash equivalents from outside the United States in fiscal 2018, and paid related foreign withholding tax of \$0.5 million. These repatriated funds were used to pay down our Term Loan A facility (see Note 6 of our Consolidated Financial Statements). In fiscal 2019, we repatriated \$10.2 million of our cash and cash equivalents from outside the United States that was previously taxed, and paid no related foreign withholding tax. These repatriated funds were used for working capital purposes. As of September 30, 2019, approximately 66.6% of our cash and cash equivalents, excluding restricted cash, were held by our foreign subsidiaries.

With regard to our non-U.S. subsidiaries, it is our practice and intention to reinvest the earnings in those businesses to fund capital expenditures and other operating cash needs. Because the undistributed earnings of non-U.S. subsidiaries are considered to be permanently reinvested, no U.S. deferred income taxes or foreign withholding taxes have been provided on earnings subsequent to the enactment of the Tax Act. Future repatriations of cash and cash equivalents, if any, held by our foreign subsidiaries will generally not be subject to U.S. federal tax if earned prior to the enactment of the Tax Act. As we evaluate the impact of the Tax Act and the future cash needs of our global operations, we may revise the amount of foreign earnings generated prior to the enactment of the Tax Act considered to be permanently reinvested in our foreign subsidiaries. We believe that cash on hand and cash generated from U.S. operations, along with amounts available under our financing agreements, will be sufficient to fund U.S. operations, working capital needs, capital expenditure requirements and financing obligations.

The U.S. Internal Revenue Service and Treasury Department continue to release proposed guidance with respect to the Tax Act. We continue to evaluate what impact, if any, each piece of guidance may have on our related tax positions and our effective tax rate if, and when, such guidance is finalized.

Credit Ratings

In fiscal 2019, Standard and Poor’s Rating Services and Moody’s Investor Service issued credit ratings for Hillrom of BB+ and Ba2, respectively, with stable outlooks.

Other Uses of Cash

We expect capital spending in fiscal 2020 to be approximately \$100.0 million. Capital spending will be monitored and controlled as the year progresses.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Contractual Obligations, Contingent Liabilities and Commitments

To give a clear picture of matters potentially impacting our liquidity position, the following table outlines our contractual obligations as of September 30, 2019:

<i>(In millions)</i>	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Contractual Obligations					
Long-term debt obligations	\$ 2,458.8	\$ 660.5	\$ 0.2	\$ 1,043.5	\$ 754.6
Interest payments relating to long-term debt ¹	358.3	65.2	115.1	104.4	73.6
Operating lease obligations	94.9	25.7	37.1	17.5	14.6
Pension and postretirement health care benefit funding ²	22.7	2.6	4.7	4.6	10.8
Purchase obligations ³	241.0	206.0	35.0	—	—
Other long-term liabilities ⁴	50.7	—	19.9	19.9	10.9
Total contractual cash obligations	\$ 3,226.4	\$ 960.0	\$ 212.0	\$ 1,189.9	\$ 864.5

¹ Interest payments on our long-term debt are projected based on the contractual rates of outstanding debt securities.

² Excludes our master defined benefit retirement plan in the United States because we are not required to make any further contributions in fiscal 2020.

³ Purchase obligations represent contractual obligations under various take-or-pay arrangements executed in the normal course of business. These commitments represent future purchases in line with expected usage to obtain favorable pricing. Also included are obligations arising from purchase orders for which we have made firm commitments. As a result, we believe that the purchase obligations portion of our contractual obligations is substantially those obligations for which we are certain to pay, regardless of future facts and circumstances. We expect to fund purchase obligations with operating cash flows and current cash balances.

⁴ Other long-term liabilities include deferred compensation arrangements, self-insurance reserves and other various liabilities.

We also had commercial commitments related to standby letters of credit as of September 30, 2019 of \$7.2 million.

In addition to the contractual obligations and commercial commitments disclosed above, we also have a variety of other agreements related to the procurement of materials and services and other commitments. Many of these agreements are long-term supply agreements, some of which are exclusive supply or complete requirements-based contracts. We are not committed under these agreements to accept or pay for requirements which are not needed to meet production needs. Also, we have an additional \$9.6 million of Other long-term liabilities as of September 30, 2019, which represent uncertain tax positions for which it is not possible to determine in which future period the tax liability might be settled.

In conjunction with our acquisition and divestiture activities, we have entered into certain guarantees and indemnifications of performance, as well as, non-competition agreements for varying periods of time. Potential losses under the indemnifications are generally limited to a portion of the original transaction price, or to other lesser specific dollar amounts for certain provisions. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have an adverse impact on our financial condition and results of operations.

We are also subject to potential losses from adverse litigation results that are not included in our self-insurance or other reserves, because such potential losses are not quantifiable at this time and may never occur.

Critical Accounting Policies and Estimates

Our accounting policies, including those described below, require us to make significant estimates and assumptions using information available at the time the estimates are made. Such estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenue and expenses. If future experience differs significantly from these estimates and assumptions, results of operations and financial condition could be affected. Our most critical accounting policies are described below.

Revenue Recognition

Revenue is recognized as performance obligations are satisfied, either at a point in time or over time, driven by the nature of the obligation that is contracted to be provided to our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Certain of our contracts have multiple performance obligations. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

The majority of our capital equipment revenue is recognized at a point in time, primarily based on the transfer of title, except in circumstances where we are also required to install the equipment, for which revenue is recognized upon customer acceptance of the installation. Performance obligations involving the provision of services and revenue from rental usage of our products are recognized over the time period specified in the contractual arrangement with the customer. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation.

Revenue is presented net of several types of variable consideration including rebates, discounts and product returns, which are estimated at the time of sale generally using the expected value method, although the most likely amount method is also used for certain types of variable consideration. These estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns.

Certain costs associated with obtaining a contract, which primarily comprise sales commissions earned by Company personnel, are capitalized until such time as the related performance obligations are completed and the related revenue is recognized.

Contract liabilities arise as a result of cash received from customers at inception of contracts or where the timing of billing for services precedes satisfaction of our performance obligations. Such remaining performance obligations represent the portion of the contract price for which work has not been performed and are primarily related to our installation and service contracts.

Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between us and our customers, including but not limited to sales taxes, use taxes and value added taxes, are excluded from revenue and cost.

Revenue and Accounts Receivable Reserves

For product sales, we record reserves resulting in a reduction of revenue for contractual discounts, as well as price concessions and product returns. Likewise, rental revenue reserves, reflecting contractual and other routine billing adjustments, are recorded as a reduction of revenue. Reserves for revenue are estimated based upon historical rates for revenue adjustments.

Provisions for doubtful accounts are recorded as a component of operating expense and represent our best estimate of the amount of probable credit losses and collection risk in our existing accounts receivable. Receivables are generally reviewed for collectability based on historical collection experience for each receivable type and are also reviewed individually for collectability. Account balances are charged against the allowance when we believe it is probable the receivable will not be recovered. We do not have any off-balance sheet credit exposure related to our customers.

If circumstances change, such as higher than expected payment defaults, claims denials, changes in our business composition or processes, adverse changes in general economic conditions, instability or disruption of credit markets, or an unexpected material adverse change in a major customer's or payer's ability to meet its obligations, our estimates of the realizability of trade receivables could be reduced by a material amount.

Liabilities for Loss Contingencies Related to Legal Matters

We are involved on an ongoing basis in claims, investigations and legal matters relating to our operations, including patent infringement, business practices, commercial transactions and other matters. The ultimate outcome of these actions 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 claims, investigations and legal matters. The ultimate outcome of these actions could have a material adverse effect on our financial condition, results of operations and cash flow.

We are also involved in other possible claims, including product and general liability, workers' compensation, auto liability and employment related matters. Refer to Note 16 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

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 could differ from those estimates.

Business Combinations, Goodwill and Intangible Assets

Assets acquired and liabilities assumed in an acquired business are recorded at their estimated fair values on the date of acquisition. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if the purchase price exceeds the estimated net fair value or as a bargain purchase gain on the income statement if the purchase price is less than the estimated net fair value. Determining the fair value of assets acquired and liabilities assumed requires management's judgment, often utilizes independent valuation experts and involves the use of significant estimates and assumptions with respect to the timing and amounts of future cash inflows and outflows, discount rates, market prices and asset lives, among other items. The judgments made in the determination of the estimated fair value assigned to the assets acquired and liabilities assumed, as well as the estimated useful life of each asset and the duration of each liability, could significantly impact the financial statements in periods after acquisition, such as through depreciation and amortization expense. The allocation of the purchase price may be modified up to one year after the acquisition date as more information is obtained about the fair value of assets acquired and liabilities assumed. Fair values of acquired developed technology and customer relationships are estimated using the income approach. Management applies significant judgment in estimating the fair value of intangible assets acquired, which involved the use of significant estimates and assumptions with respect to the revenue growth rates, the obsolescence factors (specific to developed technology), the customer attrition rates (specific to customer relationships), and the discount rates. Changes in these judgments or estimates can have a material impact on the valuation of the respective assets and liabilities acquired and our results of operations.

We perform an impairment assessment on goodwill and other indefinite-lived intangibles annually in the third fiscal quarter, or whenever events or changes in circumstances indicate that the fair value of a reporting unit or indefinite-lived intangible may be below its carrying value. These events or conditions include, but are not limited to, a significant adverse change in the business environment; regulatory environment or legal factors; a current period operating or cash flow loss combined with a history of such losses or a projection of continuing losses; a substantial decline in market capitalization of our stock; or a sale or disposition of a significant portion of a reporting unit.

The goodwill and indefinite-lived intangible asset impairment assessments require either evaluating qualitative factors or performing a quantitative assessment to determine if the carrying value is more likely than not in excess of its fair value. Examples of qualitative factors that are considered include the results and changes to assumptions used in the most recent quantitative impairment test, current and long-range projected financial results, changes in the strategic outlook or organizational structure of the reporting units or business unit for the indefinite-lived asset and industry macro-economic factors. The long-range financial forecasts of the reporting units, which are based upon management's long-term view of our markets and are used by senior management and the Board to evaluate operating performance, are compared to the forecasts used in the prior year analysis to determine if management expectations for the business have changed. Management changes in strategic outlook or organizational structure represent internally driven strategic or organizational changes that could have a material impact on our results of operations or product offerings. Industry, market changes and macroeconomic indicators represent our view on changes outside of the Company that could have a material impact on our results of operations, product offerings or future cash flow forecasts. In the event we were to determine that a reporting unit's or indefinite-lived intangible's carrying value would more likely than not exceed its fair value, quantitative testing would be performed comparing carrying values to estimated fair values. Changes in management intentions, market conditions, operating performance and other similar circumstances could affect the assumptions used in this qualitative impairment test.

Quantitative testing involves a two-step process. The first step, used to identify potential impairment, is a comparison of each reporting unit's estimated fair value to its carrying value, including goodwill.

In determining the estimated fair value of the reporting units when performing a quantitative analysis, we consider both the market approach and the income approach. Under the market approach, we utilize the guideline company method, which involves calculating valuation multiples based on operating data from comparable publicly traded companies. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows utilizing a market-based discount rate determined separately for each reporting unit. To determine the estimated fair values of our reporting units, the Company uses assumptions and estimates including the determination of guideline companies and market multiples, projected sales, projected gross margins and discount rates.

If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of the impairment. The second step requires us to calculate an implied fair value of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess.

Quantitative testing of indefinite-lived intangibles consists of a comparison of the fair value of the indefinite-lived intangible asset to its carrying value. We estimate the fair value of indefinite-lived intangibles using the relief-from-royalty method. The fair value derived is measured as the discounted cash flow savings realized from owning such trade names and not being required to pay a royalty for their use. Assumptions utilized in the determination of fair value include projected sales, discount rates and royalty rates. An impairment charge is recorded for the amount the carrying value exceeds the estimated fair value of the indefinite-lived intangible.

There are inherent uncertainties related to each of the above listed assumptions and inputs, and our judgment in applying them. Changes in the assumptions used in our goodwill and indefinite-lived intangible assets could result in impairment charges that could be material to our Consolidated Financial Statements in any given period.

Retirement Benefit Plans

We sponsor retirement and postretirement benefit plans covering certain employees. Expense recognized in relation to these defined benefit retirement and postretirement health care plans is based upon actuarial valuations and inherent in those valuations are key assumptions including discount and mortality rates, and where applicable, expected returns on assets, projected future salary rates and projected health care cost trends. The discount rates used in the valuation of our defined benefit pension and postretirement plans are evaluated annually based on current market conditions. In setting these rates we utilize long-term bond indices and yield curves as a preliminary indication of interest rate movements, and then make adjustments to the respective indices to reflect differences in the terms of the bonds covered under the indices in comparison to the projected outflow of our obligations. Our overall expected long-term rate of return on pension assets is based on historical and expected future returns, which are inflation adjusted and weighted for the expected return for each component of the investment portfolio. Our rate of assumed compensation increase is also based on our specific historical trends wage adjustments.

Changes in retirement and postretirement benefit expense and the recognized obligations may occur in the future as a result of a number of factors, including changes to any of these assumptions. Our expected rate of return on pension plan assets was 5.5% for fiscal 2019, 6.0% for fiscal 2018 and 5.8% for fiscal 2017. As of September 30, 2019, we had pension plan assets of \$310.6 million. A 25 basis point increase in the expected rate of return on pension plan assets reduces annual pension expense by approximately \$0.7 million. Differences between actual and projected investment returns, especially in periods of significant market volatility, can also impact estimates of required pension contributions. The discount rate for our defined benefit pension plans obligation was 3.2% in 2019, 4.2% in fiscal 2018 and 3.9% in fiscal 2017. The discount rate for our postretirement obligations may vary up to 100 basis points from that of our retirement obligations. For each 50 basis point change in the discount rate, the impact to annual pension expense ranges from an increase of \$1.9 million to a decrease of \$1.7 million, while the impact to our postretirement health care expense would be insignificant. Impacts from assumption changes could be positive or negative depending on the direction of the change in rates.

Income Taxes

We compute our deferred income taxes using an asset and liability approach to reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. We have a variety of deferred tax assets in numerous tax jurisdictions. These deferred tax assets are subject to periodic assessment as to recoverability and if it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies are considered.

We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances. As of September 30, 2019, we had \$45.0 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to certain foreign deferred tax attributes and state tax credit carryforwards as it is more likely than not that some portion or all of these tax attributes will not be realized.

We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

We also have on-going audits in various stages of completion with the IRS and several state and foreign jurisdictions, one or more of which may conclude within the next 12 months. Such settlements could involve some or all of the following: the payment of additional taxes and penalties, the adjustment of certain deferred taxes and/or the recognition of previously unrecognized tax benefits. The resolution of these matters, in combination with the expiration of certain statutes of limitations in various jurisdictions, make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition of up to \$7.3 million in the next 12 months, excluding interest.

The U.S. Internal Revenue Service and Treasury Department continue to release proposed guidance with respect to the Tax Act. We continue to evaluate what impact, if any, each piece of guidance may have on our related tax positions and our effective tax rate if, and when, such guidance is finalized.

Guarantees

We routinely grant limited warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year, however, certain components and products have substantially longer warranty periods. We recognize a reserve with respect to these obligations at the time of product sale, with subsequent warranty claims recorded directly against the reserve. The amount of the warranty reserve is determined based on historical trend experience for the covered products. For more significant warranty-related matters which might require a field corrective action, separate reserves are established when such events are identified and the cost of correction can be reasonably estimated.

Inventory

We review the net realizable value of inventory on an ongoing basis, considering factors such as the quantity of inventory, the risk of obsolescence, and anticipated sales. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be sold at prices in excess of current carrying costs. These estimates are based on historical experience and expected future trends. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write down inventory values and record an adjustment to cost of net revenue.

Recently Issued Accounting Guidance

For a summary of recently issued accounting guidance applicable to us, see Note 1 of our Consolidated Financial Statements included in Item 8 of this Form 10-K.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including fluctuations in interest rates, collection risk associated with our accounts and notes receivable portfolio and variability in currency exchange rates. We have established policies, procedures, and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are subject to variability in foreign currency exchange rates due to our international operations. Exposure to this variability is periodically managed primarily through the use of natural hedges, whereby funding obligations and assets are both managed in the local currency. From time-to-time, we enter into currency exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific and projected transactions. We operate this program pursuant to documented corporate risk management policies and do not enter into derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an appropriate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies. The maximum length of time over which we hedge transaction exposures is generally 15 months. Derivative gains and losses, initially reported as a component of Accumulated other comprehensive income (loss), are reclassified to earnings in the period when the transaction affects earnings.

Refer to Note 7 and Note 8 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional discussions about our derivative agreements and our pension plan assets. We may need to make additional pension plan contributions and our pension expense in future years may increase if market volatility and disruption causes declines in asset values and low interest rates result in a high pension obligation. Investment strategies and policies are set by the plan's fiduciaries. Long-term strategic investment objectives utilize a diversified mix of equity and fixed income securities to preserve the funded status of the trusts and balance

risk and return. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and monitoring asset allocations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Hill-Rom Holdings, Inc. ("we" or "our"). Our internal control over financial reporting is a process designed, under the supervision of our principal executive, principal financial and principal accounting officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes policies and procedures that:

- 1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States and that our receipts and expenditures are being made only in accordance with authorizations of our management and our Board of Directors; and
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our Consolidated Financial Statements.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2019 using criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on these criteria, management concluded that we maintained effective internal control over financial reporting as of September 30, 2019.

The effectiveness of our internal control over financial reporting as of September 30, 2019 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, who also audited our Consolidated Financial Statements, as stated in their report included herein.

/s/ John P. Groetelaars

John P. Groetelaars
President and Chief Executive Officer

/s/ Barbara W. Bodem

Barbara W. Bodem
Senior Vice President and Chief Financial Officer

/s/ Richard M. Wagner

Richard M. Wagner
Vice President, Controller and Chief Accounting Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Hill-Rom Holdings, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Hill-Rom Holdings, Inc. and its subsidiaries (the “Company”) as of September 30, 2019 and 2018, and the related consolidated statements of income, comprehensive income (loss), shareholders’ equity and cash flows for each of the three years in the period ended September 30, 2019, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended September 30, 2019 listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in fiscal 2019.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill and Indefinite-Lived Intangible Asset Impairment Assessments - Certain Reporting Units in the Front Line Care and Surgical Solutions Reportable Segments and the Welch Allyn Trade Name

As described in Notes 1 and 4 to the consolidated financial statements, the Company's consolidated goodwill and indefinite-lived intangible asset balances as of September 30, 2019 were \$1,800.9 million and \$437.4 million, respectively. The goodwill associated with the Front Line Care and the Surgical Solutions reportable segments as of September 30, 2019 was \$1,424.7 million and \$208.5 million, respectively. The Welch Allyn trade name asset balance was \$434.0 million as of September 30, 2019. As disclosed by management, an impairment assessment is performed on goodwill and other indefinite-lived intangible assets annually in the third fiscal quarter, or whenever events or changes in circumstances indicate that the fair value of a reporting unit or indefinite-lived intangible asset may be below its carrying value. To determine the estimated fair values of the Company's reporting units, management considers both the market and income valuation approaches, which require management to develop assumptions and estimates including the determination of guideline companies and market multiples, projected sales, projected gross margins and discount rates. As disclosed by management, the fair value of the trade name indefinite-lived intangible asset is estimated using the relief-from-royalty valuation method. The fair value derived is measured as the discounted cash flow savings realized from owning such trade name and not being required to pay a royalty for its use. Assumptions utilized by management in the determination of fair value of the trade name include projected sales, discount rates and royalty rate.

The principal considerations for our determination that performing procedures relating to the goodwill and indefinite-lived asset impairment assessments of certain reporting units comprising the Front Line Care and the Surgical Solutions reportable segments and the Welch Allyn trade name is a critical audit matter are that there was significant judgment by management when developing the fair value measurements of the reporting units and the trade name. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's cash flow projections and significant assumptions, including the determination of guideline companies and market multiples, projected sales, projected gross margins, discount rates, and the royalty rate. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill and indefinite-lived asset impairment assessments, including controls over the valuation of the Company's reporting units and trade name and controls over the development of the assumptions related to the valuation of the reporting unit and trade name, including determination of guideline companies and market multiples, projected sales, projected gross margins, discount rates and the royalty rate. These procedures also included, among others, testing management's process for developing the fair value estimates; evaluating the appropriateness of the guideline company method, and the discounted cash flow and relief-from-royalty valuation models; testing the completeness, accuracy, and relevance of underlying data used; and evaluating the significant assumptions used by management, including the determination of guideline companies and market multiples, projected sales, projected gross margins, discount rates and the royalty rate. Evaluating management's assumptions related to projected sales and projected gross margins involved evaluating whether the assumptions utilized were reasonable considering (i) the current and past performance of the business, (ii) the consistency with external market and

industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in evaluating the Company's discounted cash flow models and certain significant assumptions, including the determination of guideline companies, market multiples, discount rates, and the royalty rate.

Valuation of Acquired Intangible Assets - Developed Technology and Customer Relationships

As described in Notes 1 and 3 to the consolidated financial statements, during 2019 the Company recorded \$160.6 million of intangible assets acquired in connection with the Voalte, Inc. ("Voalte") and Breathe Technologies, Inc. ("Breathe") business combinations. Intangible assets recorded by the Company in connection with 2019 acquisitions primarily included developed technology related to Voalte and Breathe ("developed technology") of \$111.0 million and customer relationships related to Voalte ("customer relationships") of \$29.0 million. As disclosed by management, fair values of the acquired developed technology and customer relationships are estimated using the income valuation approach. Management applied significant judgment in estimating the fair value of intangible assets acquired, which involved the use of significant estimates and assumptions with respect to the revenue growth rates, the obsolescence factors, the customer attrition rate, and the discount rates.

The principal considerations for our determination that performing procedures relating to the valuation of the acquired developed technology and customer relationships intangible assets is a critical audit matter are that there was a significant amount of judgment by management when developing the fair values of the acquired developed technology and customer relationships intangible assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating the significant assumptions relating to management's estimates, including revenue growth rates, obsolescence factors, customer attrition rate, and discount rates. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of the acquired developed technology and customer relationships intangible assets, including controls over development of the assumptions used in the valuation of the acquired developed technology and customer relationships, including revenue growth rates, obsolescence factors, customer attrition rate, and discount rates. These procedures also included, among others, (i) reading the purchase agreements, (ii) testing management's process for estimating the fair value of acquired developed technology and customer relationships intangible assets, and (iii) testing management's assumptions relating to revenue growth rates, obsolescence factors, customer attrition rate, and discount rates used to estimate the fair value of the acquired developed technology and customer relationships. Testing management's process included evaluating the appropriateness of the valuation methods and the reasonableness of significant assumptions, including the revenue growth rates, obsolescence factors, customer attrition rate, and discount rates. Evaluating the reasonableness of the revenue growth rates involved considering the past performance of the acquired businesses, as well as economic and industry forecasts. Evaluating the reasonableness of the customer attrition rate involved testing the completeness, accuracy and relevance of underlying data used. Professionals with specialized skill and knowledge were used to assist in evaluating the Company's discounted cash flow model and certain significant assumptions, including the obsolescence factors, customer attrition rate, and the discount rates.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana
November 15, 2019

We have served as the Company's auditor since 1985.

Hill-Rom Holdings, Inc. and Subsidiaries

STATEMENTS OF CONSOLIDATED INCOME

(In millions, except per share data)

	Year Ended September 30		
	2019	2018	2017
Net Revenue			
Product sales and service	\$ 2,615.0	\$ 2,469.6	\$ 2,358.1
Rental revenue	292.3	378.4	385.6
Total net revenue	<u>2,907.3</u>	<u>2,848.0</u>	<u>2,743.7</u>
Cost of Net Revenue			
Cost of goods sold	1,330.7	1,274.1	1,235.8
Rental expenses	151.6	179.7	187.3
Total cost of net revenue	<u>1,482.3</u>	<u>1,453.8</u>	<u>1,423.1</u>
Gross Profit	<u>1,425.0</u>	<u>1,394.2</u>	<u>1,320.6</u>
Research and development expenses	139.5	135.6	133.7
Selling and administrative expenses	941.0	891.6	874.5
Special charges	28.4	77.6	37.4
Operating Profit	<u>316.1</u>	<u>289.4</u>	<u>275.0</u>
Interest expense	(89.6)	(95.0)	(88.9)
Loss on extinguishment of debt	(3.3)	—	—
Investment income (expense) and other, net	(14.6)	2.8	(3.1)
Income Before Income Taxes	<u>208.6</u>	<u>197.2</u>	<u>183.0</u>
Income tax expense (benefit)	56.4	(55.2)	50.7
Net Income	<u>152.2</u>	<u>252.4</u>	<u>132.3</u>
Less: Net loss attributable to noncontrolling interests	—	—	(1.3)
Net Income Attributable to Common Shareholders	<u>\$ 152.2</u>	<u>\$ 252.4</u>	<u>\$ 133.6</u>
Net Income Attributable to Common Shareholders per Basic Common Share	<u>\$ 2.28</u>	<u>\$ 3.81</u>	<u>\$ 2.04</u>
Net Income Attributable to Common Shareholders per Diluted Common Share	<u>\$ 2.25</u>	<u>\$ 3.73</u>	<u>\$ 1.99</u>
Average Basic Common Shares Outstanding (in thousands)	<u>66,772</u>	<u>66,234</u>	<u>65,599</u>
Average Diluted Common Shares Outstanding (in thousands)	<u>67,660</u>	<u>67,612</u>	<u>67,225</u>

See Notes to Consolidated Financial Statements.

Hill-Rom Holdings, Inc. and Subsidiaries

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(In millions)

	Year Ended September 30		
	2019	2018	2017
Net Income	\$ 152.2	\$ 252.4	\$ 132.3
Other Comprehensive Income (Loss), net of tax:			
Derivative instruments and hedges	(10.4)	12.5	7.4
Foreign currency translation adjustment	(40.1)	(24.0)	33.9
Change in pension and postretirement defined benefit plans	(13.6)	8.5	17.8
Total Other Comprehensive Income (Loss), net of tax	(64.1)	(3.0)	59.1
Total Comprehensive Income	88.1	249.4	191.4
Less: Comprehensive loss attributable to noncontrolling interests	—	—	(1.3)
Total Comprehensive Income Attributable to Common Shareholders	\$ 88.1	\$ 249.4	\$ 192.7

See Notes to Consolidated Financial Statements.

Hill-Rom Holdings, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 214.1	\$ 183.0
Restricted cash	419.7	—
Trade accounts receivable, net of allowances of \$20.6 in 2019 and \$21.8 in 2018	653.3	580.7
Inventories, net of reserves	269.6	291.7
Other current assets	106.7	100.2
Total current assets	<u>1,663.4</u>	<u>1,155.6</u>
Property, plant and equipment	829.6	915.0
Less accumulated depreciation	(532.8)	(586.7)
Property, plant and equipment, net	<u>296.8</u>	<u>328.3</u>
Intangible assets:		
Goodwill	1,800.9	1,738.3
Other intangible assets and software, net	1,033.5	1,027.7
Deferred income taxes	33.1	35.0
Other assets	91.3	75.1
Total Assets	<u>\$ 4,919.0</u>	<u>\$ 4,360.0</u>
LIABILITIES		
Current Liabilities		
Trade accounts payable	\$ 197.6	\$ 177.3
Short-term borrowings	660.4	182.5
Accrued compensation	130.4	132.5
Accrued product warranties	29.7	20.5
Accrued rebates	47.7	42.5
Deferred revenue	107.3	40.0
Other current liabilities	95.2	67.1
Total current liabilities	<u>1,268.3</u>	<u>662.4</u>
Long-term debt	1,783.1	1,790.4
Accrued pension and postretirement benefits	80.8	69.3
Deferred income taxes	143.0	181.3
Other long-term liabilities	70.5	40.4
Total Liabilities	<u>3,345.7</u>	<u>2,743.8</u>
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital Stock:		
Preferred stock - without par value:		
Authorized - 1,000,000 shares; none issued or outstanding		
Common stock - without par value:		
Authorized - 199,000,000		
Issued - 88,457,634 shares in 2019 and 2018; Outstanding - 66,625,011 shares in 2019 and 67,256,112 shares in 2018		
	4.4	4.4
Additional paid-in capital	637.4	602.9
Retained earnings	1,967.4	1,876.2
Accumulated other comprehensive loss	(182.5)	(113.0)
Treasury stock, common shares at cost: 21,832,623 in 2019 and 21,201,522 in 2018	(853.4)	(754.3)
Total Shareholders' Equity	<u>1,573.3</u>	<u>1,616.2</u>
Total Liabilities and Shareholders' Equity	<u>\$ 4,919.0</u>	<u>\$ 4,360.0</u>

See Notes to Consolidated Financial Statements.

Hill-Rom Holdings, Inc. and Subsidiaries
STATEMENTS OF CONSOLIDATED CASH FLOWS
(In millions)

	Year Ended September 30		
	2019	2018	2017
Operating Activities			
Net income	\$ 152.2	\$ 252.4	\$ 132.3
Adjustments to reconcile net income to net cash, cash equivalents and restricted cash provided by operating activities:			
Depreciation and amortization of property, plant, equipment and software	72.4	89.6	95.2
Acquisition-related intangible asset amortization	122.4	106.9	108.4
Amortization of debt discounts and issuance costs	7.1	7.4	7.2
Loss on extinguishment of debt	3.0	—	—
Benefit for deferred income taxes	(18.8)	(84.8)	(32.8)
Loss on disposal of property, equipment leased to others, intangible assets and impairments	3.4	2.7	24.7
(Gain) loss on disposition of businesses	15.9	23.0	(1.0)
Stock compensation	34.4	28.1	23.0
Other, net	17.6	12.9	10.2
Change in assets and liabilities excluding cash, cash equivalents, restricted cash, acquisitions and dispositions:			
Trade accounts receivable	(62.3)	(7.7)	(45.8)
Inventories	(0.9)	(18.7)	(22.2)
Other current assets	15.7	(29.4)	15.0
Trade accounts payable	13.2	12.5	21.6
Accrued expenses and other current liabilities	29.5	(1.0)	(32.3)
Other assets and liabilities	(3.4)	1.3	7.6
Net cash, cash equivalents and restricted cash provided by operating activities	<u>401.4</u>	<u>395.2</u>	<u>311.1</u>
Investing Activities			
Purchases of property, plant, equipment and software	(73.4)	(89.5)	(97.5)
Proceeds on sale of property and equipment	2.9	4.2	15.1
Payment for acquisition of businesses, net of cash acquired	(303.4)	—	(311.4)
Payment for acquisition of intangible assets	(17.1)	—	—
Payments for acquisitions of investments	(26.6)	—	—
Proceeds on sale of business	166.6	1.0	5.8
Other, net	2.0	1.9	(1.4)
Net cash, cash equivalents and restricted cash used in investing activities	<u>(249.0)</u>	<u>(82.4)</u>	<u>(389.4)</u>
Financing Activities			
Proceeds from borrowings on long-term debt	1,000.0	1.0	300.0
Payments of long-term debt	(1,038.5)	(351.0)	(73.2)
Borrowings on Revolving Credit Facility	420.0	75.0	180.0
Payments on Revolving Credit Facility	(340.0)	(165.0)	(325.8)
Borrowings on Securitization Facility	5.5	71.6	124.5
Payments on Securitization Facility	(5.5)	(40.7)	(45.4)
Borrowings on Note Securitization Facility	68.9	122.4	—
Payments on Note Securitization Facility	(62.7)	(50.0)	—
Proceeds from issuance of senior unsecured notes	425.0	—	—
Payment of debt issuance costs	(12.7)	(0.4)	(5.1)
Payments of cash dividends	(55.4)	(51.8)	(46.6)
Proceeds on exercise of stock options	14.5	40.0	17.8
Proceeds from employees in stock purchase program	7.5	6.4	5.0
Stock repurchases for stock award withholding obligations	(4.7)	(14.1)	(10.6)
Stock repurchases in the open market	(117.2)	—	(50.0)
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	<u>304.7</u>	<u>(356.6)</u>	<u>70.6</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(6.3)	(5.0)	7.3
Net Cash Flows	450.8	(48.8)	(0.4)
Cash, Cash Equivalents and Restricted Cash:			
At beginning of period	183.0	231.8	232.2
At end of period	<u>\$ 633.8</u>	<u>\$ 183.0</u>	<u>\$ 231.8</u>
Supplemental cash flow information:			
Cash paid for income taxes	\$ 54.4	\$ 44.8	\$ 70.4
Cash paid for interest	\$ 91.8	\$ 90.4	\$ 81.3
Non-cash investing and financing activities:			
Treasury stock issued under stock compensation plans	\$ 22.7	\$ 56.6	\$ 37.5

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(In millions, except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity Attributable to Common Shareholders	Noncontrolling Interests	Total
	Shares Issued	Amount							
Balance as of September 30, 2016	88,457,634	\$ 4.4	\$ 575.9	\$ 1,589.7	\$ (169.1)	\$ (773.7)	\$ 1,227.2	\$ 8.7	\$ 1,235.9
Net income attributable to common shareholders	—	—	—	133.6	—	—	133.6	(1.3)	132.3
Other comprehensive income (loss), net of tax of (\$14.6)	—	—	—	—	59.1	—	59.1	—	59.1
Dividends (\$0.71 per common share)	—	—	0.5	(47.1)	—	—	(46.6)	—	(46.6)
Stock repurchases for stock award withholding obligations	—	—	—	—	—	(10.6)	(10.6)	—	(10.6)
Stock repurchases in the open market	—	—	—	—	—	(50.0)	(50.0)	—	(50.0)
Stock compensation on equity-classified awards	—	—	22.5	—	—	—	22.5	—	22.5
Stock option exercises	—	—	(1.4)	—	—	19.2	17.8	—	17.8
Distribution of stock awards	—	—	(15.1)	—	—	15.5	0.4	—	0.4
Shares issued under employee stock purchase plan	—	—	2.8	—	—	2.8	5.6	—	5.6
Adoption of ASU 2016-09	—	—	(0.8)	—	—	—	(0.8)	—	(0.8)
Balance as of September 30, 2017	88,457,634	4.4	584.4	1,676.2	(110.0)	(796.8)	1,358.2	7.4	1,365.6
Net income	—	—	—	252.4	—	—	252.4	—	252.4
VIE activity	—	—	—	—	—	—	—	(7.4)	(7.4)
Other comprehensive income (loss), net of tax of (\$5.9)	—	—	—	—	(3.0)	—	(3.0)	—	(3.0)
Dividends (\$0.78 per common share)	—	—	0.6	(52.4)	—	—	(51.8)	—	(51.8)
Stock repurchases for stock award withholding obligations	—	—	—	—	—	(14.1)	(14.1)	—	(14.1)
Stock compensation on equity-classified awards	—	—	27.4	—	—	—	27.4	—	27.4
Stock option exercises	—	—	3.6	—	—	36.4	40.0	—	40.0
Distribution of stock awards	—	—	(17.3)	—	—	17.3	—	—	—
Shares issued under employee stock purchase plan	—	—	4.2	—	—	2.9	7.1	—	7.1
Balance as of September 30, 2018	88,457,634	4.4	602.9	1,876.2	(113.0)	(754.3)	1,616.2	—	1,616.2
Cumulative effect of ASC 606 adoption, net of tax of \$4.8	—	—	—	(4.9)	—	—	(4.9)	—	(4.9)
Cumulative effect of ASU 2016-16 adoption, net of tax of \$0.2	—	—	—	(5.6)	—	—	(5.6)	—	(5.6)
Reclassification due to ASU 2018-02 adoption	—	—	—	5.4	(5.4)	—	—	—	—
Net income	—	—	—	152.2	—	—	152.2	—	152.2
Other comprehensive income (loss), net of tax of \$7.0	—	—	—	—	(64.1)	—	(64.1)	—	(64.1)
Dividends (\$0.83 per common share)	—	—	0.5	(55.9)	—	—	(55.4)	—	(55.4)
Stock repurchases for stock award withholding obligations	—	—	—	—	—	(4.7)	(4.7)	—	(4.7)
Stock repurchases in the open market	—	—	—	—	—	(117.2)	(117.2)	—	(117.2)
Stock compensation on equity-classified awards	—	—	33.9	—	—	—	33.9	—	33.9
Stock option exercises	—	—	2.6	—	—	11.9	14.5	—	14.5
Distribution of stock awards	—	—	(7.7)	—	—	7.7	—	—	—
Shares issued under employee stock purchase plan	—	—	5.2	—	—	3.2	8.4	—	8.4
Balance as of September 30, 2019	88,457,634	\$ 4.4	\$ 637.4	\$ 1,967.4	\$ (182.5)	\$ (853.4)	\$ 1,573.3	\$ —	\$ 1,573.3

See Notes to Consolidated Financial Statements.

Hill-Rom Holdings, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Hill-Rom Holdings, Inc. (the “Company,” “Hillrom,” “we,” “us,” or “our”) was incorporated on August 7, 1969 in the State of Indiana and is headquartered in Chicago, Illinois. We are a global medical technology leader whose approximately 10,000 employees have a single purpose: enhancing outcomes for patients and their caregivers by Advancing Connected Care™. Around the world, our innovations touch over 7 million patients each day. Our products and services help enable earlier diagnosis and treatment, optimize surgical efficiency and accelerate patient recovery while simplifying clinical communication and shifting care closer to home. We make these outcomes possible through connected smart beds, patient lifts, patient assessment and monitoring technologies, caregiver collaboration tools, respiratory health devices, advanced equipment for the surgical space and more, delivering actionable, real-time insights at the point of care.

Basis of Presentation and Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hill-Rom and its wholly-owned subsidiaries. In addition, we also consolidate variable interest entities (“VIEs”) where Hill-Rom is considered to have a controlling financial interest. Intercompany accounts and transactions have been eliminated in consolidation, including the intercompany transactions with consolidated VIEs. Where our ownership interest is less than 100%, the noncontrolling interests are reported in our Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense in the period. Actual results could differ from those estimates. Examples of such estimates include, but are not limited to, our accounts receivable reserves (Note 1), accrued warranties (Note 1), the impairment of intangibles and goodwill (Note 4), use of the spot yield curve approach for pension expense (Note 8), income taxes (Note 1 and Note 11) and commitments and contingencies (Note 16).

Cash and Cash Equivalents

We consider investments in marketable securities and other highly liquid instruments with a maturity of three months or less at date of purchase to be cash equivalents. All of our marketable securities may be freely traded.

Restricted Cash

Restricted cash consists of amounts held in a trust account to redeem all of our previously outstanding senior unsecured 5.75% notes due September 2023. The restricted cash was used to redeem these senior notes on October 7, 2019. See Note 6 for additional information.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest, unless the transaction is an installment sale with extended payment terms. Provisions for doubtful accounts are recorded as a component of operating expense and represent our best estimate of the amount of probable credit losses and collection risk in our existing accounts receivable. Receivables are generally reviewed for collectability based on historical collection experience for each receivable type and are also reviewed individually for collectability. Account balances are charged against the allowance when we believe it is probable the receivable will not be recovered. We do not have any off-balance sheet credit exposure related to our customers.

Within rental revenue, domestic third-party payers’ reimbursement process requires extensive documentation, which has had the effect of slowing both the billing and cash collection cycles relative to the rest of the business, and therefore, increasing total accounts receivable. Because of the extensive documentation required and the requirement to settle a claim with the primary payer

prior to billing the secondary and/or patient portion of the claim, the collection period for a claim in a portion of our business may, in some cases, be extended.

We generally hold our trade accounts receivable until they are paid. Certain long-term receivables are occasionally sold to third parties; however, any recognized gain or loss on such sales has historically not been material.

Inventories

Inventories are valued at lower of cost or market. Inventory costs are determined by the last-in, first-out (“LIFO”) method for approximately 30% and 23% of our inventories as of September 30, 2019 and 2018. Costs for other inventories have been determined principally by the first-in, first-out (“FIFO”) method.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated over the estimated useful life of the assets using principally the straight-line method. Ranges of estimated useful lives are as follows:

	Useful Life
Land improvements	6 - 15 years
Buildings and building equipment	10 - 40 years
Machinery and equipment	3 - 10 years
Equipment leased to others	2 - 10 years

When property, plant and equipment is retired from service or otherwise disposed of, the cost and related amount of depreciation or amortization are eliminated from the asset and accumulated depreciation accounts. The difference, if any, between the net asset value and the proceeds on sale are charged or credited to income.

Fair Value Measurements

Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: Financial instruments with unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.
- Level 2: Financial instruments with observable inputs other than those included in Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Financial instruments with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Unobservable inputs reflect our own assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include our own data.

We record cash and cash equivalents, as disclosed on our Consolidated Balance Sheets, as Level 1 instruments and certain other investments and derivatives as Level 2 instruments as they are not actively quoted. Except for the adoption of revised disclosure guidance related to investments held by our pension plan as discussed in Note 8, there have been no significant changes in our classification among assets and liabilities. Refer to Note 6 for disclosure of our debt instrument fair values.

Warranties and Guarantees

We routinely grant limited warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year; however, certain components and products have substantially longer warranty periods. We recognize a reserve with respect to these obligations at the time of product sale, with subsequent warranty claims recorded directly against the reserve. The amount of the warranty reserve is determined based on historical trend experience for the covered products. For more significant warranty-related matters, which might require a field corrective action, separate reserves are established when such events are identified and the cost of correction can be reasonably estimated.

In the normal course of business, we enter into various other guarantees and indemnities in our relationships with suppliers, service providers, customers, business partners and others. Examples of these arrangements would include guarantees of product performance, indemnifications to service providers and indemnifications of our actions to business partners. These guarantees and indemnifications have not historically had a material impact on our financial condition or results of operations, nor do we expect them to although indemnifications associated with our actions generally have no dollar limitations.

In conjunction with our acquisition and divestiture activities, we have entered into select guarantees and indemnifications of performance with respect to the fulfillment of our commitments under applicable purchase and sale agreements. The arrangements generally indemnify the buyer or seller for damages associated with breach of contract, inaccuracies in representations and warranties surviving the closing date and satisfaction of liabilities and commitments retained under the applicable contract. With respect to divestitures, we also routinely enter into non-competition agreements for varying periods of time. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have an adverse impact on our Consolidated Financial Statements.

Accrued Rebates

We provide rebates and sales incentives to certain customer groups and distributors. We also have arrangements where we provide rebates to certain distributors that sell to end-user customers at prices determined under a contract between us and the end-user customer. Provisions for rebates are recorded as a reduction in net revenue when revenue is recognized.

Retirement Plans

We sponsor retirement and postretirement benefit plans covering certain employees. Expense recognized in relation to these defined benefit retirement and postretirement health care plans is based upon actuarial valuations and inherent in those valuations are key assumptions including discount and mortality rates, and where applicable, expected returns on assets, projected future salary rates and projected health care cost trends. The discount rates used in the valuation of our defined benefit pension and postretirement plans are evaluated annually based on current market conditions. In setting these rates we utilize long-term bond indices and yield curves as a preliminary indication of interest rate movements, and then make adjustments to the respective indices to reflect differences in the terms of the bonds covered under the indices in comparison to the projected outflow of our obligations. Our overall expected long-term rate of return on pension assets is based on historical and expected future returns, which are inflation adjusted and weighted for the expected return for each component of the investment portfolio. Our rate of assumed compensation increase is also based on our specific historical trends wage adjustments.

We account for our defined benefit pension and other postretirement plans by recognizing the funded status of a benefit plan in the balance sheet. We also recognize in Accumulated other comprehensive income (loss) certain gains and losses that arose in the period. See Note 8 for key assumptions and further discussion related to our pension and postretirement plans.

Environmental Liabilities

Expenditures that relate to an existing environmental condition caused by past operations, and which do not contribute to future revenue generation, are expensed. A reserve is established when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These reserves are determined without consideration of possible loss recoveries from third parties.

Specific costs included in environmental expense and reserves include site assessment, development of a remediation plan, clean-up costs, post-remediation expenditures, monitoring, fines, penalties and legal fees. Reserve amounts represent the expected undiscounted future cash outflows associated with such plans and actions.

Self Insurance

We are generally self-insured up to certain stop-loss limits for certain employee health benefits, including medical, drug and dental. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims and outside actuarial analysis, which are based on historical information along with certain assumptions about future events. Such estimated reserves are classified as Other current liabilities and Other long-term liabilities in the Consolidated Balance Sheets. Refer to Note 16 for additional information.

Treasury Stock

Treasury stock consists of our common shares that have been issued, but subsequently reacquired. We account for treasury stock purchases under the cost method. When these shares are reissued, we use an average-cost method to determine cost. Proceeds in excess of cost are credited to additional paid-in capital.

Revenue Recognition — Sales and Rentals

Revenue is recognized as performance obligations are satisfied, either at a point in time or over time, driven by the nature of the obligation that is contracted to be provided to our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Certain of our contracts have multiple performance obligations. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

The majority of our capital equipment revenue is recognized at a point in time, primarily based on the transfer of title, except in circumstances where we are also required to install the equipment, for which revenue is recognized upon customer acceptance of the installation. Performance obligations involving the provision of services and revenue from rental usage of our products are recognized over the time period specified in the contractual arrangement with the customer. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation.

Revenue is presented net of several types of variable consideration including rebates, discounts and product returns, which are estimated at the time of sale generally using the expected value method, although the most likely amount method is also used for certain types of variable consideration. These estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns.

Certain costs associated with obtaining a contract, which primarily comprise sales commissions earned by Company personnel, are capitalized until such time as the related performance obligations are completed and the related revenue is recognized.

Contract liabilities arise as a result of cash received from customers at inception of contracts or where the timing of billing for services precedes satisfaction of our performance obligations. Such remaining performance obligations represent the portion of the contract price for which work has not been performed and are primarily related to our installation and service contracts.

Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between us and our customers, including but not limited to sales taxes, use taxes and value added taxes, are excluded from revenue and cost.

Cost of Net Revenue

Cost of goods sold for product sales consists primarily of purchased material costs, fixed manufacturing expense, variable direct labor, overhead costs and costs associated with the distribution and delivery of products to our customers. Rental expenses consist of costs associated directly with rental revenue, including depreciation, maintenance, logistics and service center facility and personnel costs.

Research and Development Costs

Research and development costs are expensed as incurred. In addition, certain costs for software development technology held for sale are capitalized as intangibles and are amortized over a period of three to five years once the software is ready for its intended use.

Comprehensive Income

We include the after-tax effect of unrealized gains or losses on our available-for-sale securities, interest and foreign currency hedges, foreign currency translation adjustments and pension or other defined benefit postretirement plans' actuarial gains or losses and prior service costs or credits in Accumulated other comprehensive income (loss). See Note 9 of our Consolidated Financial Statements for further details.

Foreign Currency

The functional currency of foreign operations is generally the local currency in the country of domicile. Assets and liabilities of foreign operations are primarily translated into U.S. dollars at year-end rates of exchange and the income statements are translated at the average rates of exchange prevailing in the year. Adjustments resulting from translation of the financial statements of foreign operations into U.S. dollars are excluded from the determination of net income, but included as a component of Accumulated other comprehensive income (loss). Foreign currency gains and losses resulting from foreign currency transactions are included in our results of operations and are not material. Foreign currency movements on items designated as net investment hedges were recorded in Accumulated other comprehensive income (loss).

Stock-Based Compensation

We account for stock-based compensation under fair value provisions. Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. In order to determine the fair value of stock options on the date of grant, we utilize a Binomial model. In order to determine the fair value of other performance-based stock awards on the date of grant, we utilize a Monte Carlo model. Inherent in this model are assumptions related to a volatility factor, expected life, risk-free interest rate, dividend yield and expected forfeitures. The risk-free interest rate is based on factual data derived from public sources. The volatility factor, expected life, dividend yield and expected forfeiture assumptions require judgment utilizing historical information, peer data and future expectations. Restricted stock units (“RSUs”) are measured based on the fair market price of our common stock on the date of grant, as reported by the New York Stock Exchange, multiplied by the number of units granted. See Note 12 for further details.

Income Taxes

Hillrom and its eligible subsidiaries file a consolidated U.S. income tax return. Foreign operations file income tax returns in a number of jurisdictions. We have a variety of deferred tax assets in numerous tax jurisdictions which are computed using an asset and liability approach to reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. These deferred tax assets are subject to periodic assessment as to recoverability. If it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies are considered.

As of September 30, 2019, we had valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to certain foreign deferred tax attributes that are not expected to be utilized. The valuation allowance total was not significantly impacted by the Tax Cuts and Jobs Act (the “Tax Act”) enacted in the United States in December 2017. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit. See Note 11 for further details.

Derivative Instruments and Hedging Activity

We use derivative financial instruments to manage the economic impact of fluctuations in currency exchange and interest rates. Derivative financial instruments related to currency exchange rates include forward purchase and sale agreements which generally have terms no greater than 15 months. Additionally, interest rate swaps and cross-currency interest rate swaps are sometimes used to convert some or all of our long-term debt to either a fixed or variable rate.

Derivative financial instruments are recognized in the Consolidated Balance Sheets as either assets or liabilities and are measured at fair value. Changes in the fair value of derivatives are recorded each period in the Statement of Consolidated Income or the Statement of Consolidated Comprehensive Income, depending on whether a derivative is designated and considered effective as part of a hedge transaction, and if it is, the type of hedge transaction. The Company's derivatives are considered to be highly effective under hedge accounting principles. The Company does not hold or issue derivative financial instruments for speculative purposes. As a result of being effective, gains and losses on derivative instruments reported in Accumulated other comprehensive income (loss) are subsequently included in the Statement of Consolidated Income in the periods in which earnings are affected by the hedged item. These activities have not had a material effect on our Consolidated Financial Statements for the periods presented herein.

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (“ASC 606”), which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted the new standard in the first quarter of fiscal 2019 using the modified retrospective approach. See Note 2 for additional information on the impacts of ASC 606 on our Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments (Topic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard requires equity securities to be measured at fair value with changes in fair value recognized through net income and eliminated the cost method for equity securities without readily determinable fair values. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard issued six technical corrections and improvements to clarify guidance in ASU 2016-01, which primarily impacted the accounting for equity investments, financial liabilities under fair value option, and the presentation and disclosure requirements of financial instruments. We adopted ASU 2016-01 and ASU 2018-03 prospectively in the first quarter of fiscal 2019 and the new updates did not have a material impact on our Consolidated Financial Statements. We applied the practicability election within this standard under which our investments in equities that are not recorded under the consolidation or equity method of accounting guidance are valued at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of the standard is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The standard addresses specific issues including debt prepayment and extinguishment costs, settlement of zero-coupon debt, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and certain life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and the application of the predominance principle in separately identifiable cash flows. We adopted ASU 2016-15 in the first quarter of fiscal 2019 using a retrospective transition method and elected to continue to use the nature of distribution approach for distributions received from equity method investees. The impact of the adoption of ASU 2016-15 did not have a material impact on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*. This standard requires immediate recognition of the income tax consequences of intercompany asset transfers other than inventory. We adopted ASU 2016-16 in the first quarter of fiscal 2019 using the modified retrospective approach with a cumulative effect adjustment directly to retained earnings. The cumulative effect of applying ASU 2016-16 was an adjustment to decrease prepaid taxes by \$5.8 million and increase deferred tax assets by \$0.2 million with a corresponding decrease to the opening balance of Retained earnings of \$5.6 million.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard requires that companies include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. We retrospectively adopted ASU 2016-18 in the first quarter of fiscal 2019, resulting in no change to our historical Statements of Consolidated Cash Flows. We have included restricted cash with cash and cash equivalents accordingly in our Statement of Consolidated Cash Flows for the fiscal year ended September 30, 2019.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This standard provides clarification on the definition of a business and provides guidance on whether transactions should be recorded as acquisitions (or disposals) of assets or businesses. We adopted ASU 2017-01 in the first quarter of fiscal 2019. ASU 2017-01 did not have a material impact on our Consolidated Financial Statements.

In February 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires employers to include only the service cost component of net periodic pension cost in operating expenses, together with other employee compensation costs. The other components of net periodic pension cost, including interest cost, expected return on plan assets, amortization of prior service cost and settlement and curtailment effects, are to be included in non-operating expenses. The amendment allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. We adopted ASU 2017-07 in the first quarter of fiscal 2019 and applied the practical expedient upon adoption. ASU 2017-07 did not have a material impact on our Consolidated Financial Statements. As a result of the adoption of ASU 2017-07, we reclassified \$(0.1) million for

fiscal 2018 and \$1.6 million for fiscal 2017 from Selling and administrative expenses to Investment income (expense) and other, net. See Note 8 for additional information on our retirement and postretirement plans.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*. The standard allows entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings. We adopted ASU 2018-02 in the first quarter of fiscal 2019. As a result of the adoption of ASU 2018-02, we reclassified \$5.4 million from Accumulated other comprehensive income (loss) to Retained earnings. We applied the individual item approach for releasing income tax effects from Accumulated other comprehensive income (loss).

Recently Issued Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and has subsequently issued related amendments, collectively referred to as “ASC 842”. ASC 842 is effective for our first quarter of fiscal 2020. The objective of this guidance is to increase transparency and comparability among organizations through recognizing leased assets, called right-of-use assets, and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. As a lessee, the new standard requires us to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas under previous GAAP only finance lease liabilities (referred to as capital leases) were recognized in the balance sheet. In addition, the definition of a lease has been revised, which may result in changes to the classification of an arrangement as a lease. Under the new standard, an arrangement that conveys the right to control the use of an identified asset by obtaining substantially all of its economic benefits and directing how it is used is a lease, whereas the previous definition focuses on the ability to control the use of the asset or to obtain its output. Quantitative and qualitative disclosures related to the amount, timing and judgments of an entity’s accounting for leases and the related cash flows are expanded. Disclosure requirements apply to both lessees and lessors, whereas previous disclosures related only to lessees. The recognition, measurement, and presentation of revenues, expenses and cash flows arising from a lease have not significantly changed from previous GAAP.

The impact of adopting the new standard on rental revenue and related rental expenses in Gross Profit in the Statements of Consolidated Income is not expected to be significant. Rental usage of our products is provided as an alternative to product sales and is primarily short-term in nature. These arrangements provide customers with our products during periods of peak demand and often for specialty purposes.

The new standard provides a number of transition practical expedients, which the Company has elected to adopt, including:

- a “package of three” expedients that must be taken together and allow entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases, and
- an election of the optional transition method, allowing us to record a cumulative effect adjustment to retained earnings in the period of adoption with no restatement of prior periods.

The Company has assessed the lease standard and is executing an implementation plan in preparation for adoption. Currently, management estimates the right-of-use asset and related lease obligation that will be recorded in fiscal 2020 to be between \$70.0 million to \$90.0 million on the Company’s Consolidated Balance Sheets.

The impact of adopting the new standard on retained earnings as of October 1, 2019 is not expected to be significant.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) - Measurement of Credit Losses of Financial Instruments* and has subsequently issued related amendments, collectively referred to as “Topic 326”. Topic 326 requires entities to measure credit losses for financial assets measured at amortized cost based on expected losses rather than incurred losses. For available-for-sale debt securities with unrealized losses, entities will be required to recognize credit losses through an allowance for credit losses. Topic 326 is effective for our first quarter of fiscal 2021 and requires a modified retrospective transition method. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This standard eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit’s carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. ASU 2017-04 is effective for our first quarter of fiscal 2021 and requires a prospective transition method. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The purpose of the standard is to improve the overall usefulness of fair

value disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU 2018-13 is effective for our first quarter of fiscal 2021 and requires the application of the prospective method of transition (for only the most recent interim or annual period presented in the initial fiscal year of adoption) to the new disclosure requirements for (1) changes in unrealized gains and losses included in other comprehensive income and (2) the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 also requires prospective application to any modifications to disclosures made because of the change to the requirements for the narrative description of measurement uncertainty. The effects of all other amendments made by ASU 2018-13 must be applied retrospectively to all periods presented. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The purpose of the standard is to improve the overall usefulness of defined benefit pension and other postretirement plan disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU 2018-14 is effective for our fourth quarter of fiscal 2021 and requires a retrospective transition method. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for our first quarter of fiscal 2021 and allows a retrospective or a prospective transition method to all implementation costs incurred after the date of adoption. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. The purpose of the standard is to allow the use of the OIS rate based on the SOFR for hedge accounting purposes, which allows entities to designate changes in the fair values of fixed-rate financial assets or liabilities attributable to the OIS rate as the hedged risk. ASU 2018-16 is effective for our first quarter of fiscal 2020 and requires a prospective application. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. The purpose of the standard is to (1) clarify that transactions between participants in a collaborative agreement should be accounted for under Topic 606 and (2) add unit-of-account guidance in Topic 808 to align with Topic 606. ASU 2018-18 is effective for our first quarter of fiscal 2020 and must be applied retrospectively to the first quarter of fiscal 2019, the date of initial application of Topic 606. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company’s consolidated financial statements upon adoption.

Note 2. Revenue Recognition

On October 1, 2018, we adopted ASC 606 using the modified retrospective method for contracts that were not completed as of the adoption date. The cumulative effect of initially applying ASC 606 was an adjustment to decrease the opening balance of Retained earnings by \$4.9 million, which is net of a \$4.8 million tax effect, as of October 1, 2018. As a result of adopting ASC 606 using the modified retrospective method, we are not required to restate our financial statements retrospectively and therefore, prior period amounts are not adjusted and continue to be reported in accordance with our historical revenue recognition policies.

Consistent with prior practice, revenue is presented in the Consolidated Statements of Income net of sales discounts and allowances, GPO fees, price concessions, rebates and customer returns for product sales and rental revenue reserves.

Prior to our adoption of ASC 606, we recognized revenue when the following criteria were met: evidence of an arrangement existed; delivery had occurred; the selling price was fixed or determinable and collection was considered probable. Following our adoption of ASC 606, we recognize revenue when we satisfy a performance obligation by transferring a promised good or service to a customer, as defined by the customer contract.

We elected to use the significant financing practical expedient under which the impacts of financing are considered immaterial if the duration of the financing is one year or less. Customer payments are due at various times up to 90 days from the date of invoice, though in some countries and for certain customer types, credit terms are longer based on local industry practices.

Revenue related to certain products within our Patient Support Systems segment is required to be recognized later under ASC 606 than it was historically due to the determination that the performance obligation was a fully installed system. Historically, this obligation was disaggregated into multiple elements and a portion of the revenue was recognized upon delivery of hardware and software and the remainder when installation was complete. As a result of the deferral of the recognition of revenue, adoption date adjustments were required to be recorded related to deferred contract costs and equipment and other costs, which are reported in Other current assets and Other assets in the Consolidated Balance Sheets. Additionally, cash received from customers at inception of open contracts or billings that preceded satisfaction of remaining performance obligations are recorded as Deferred revenue in Other current liabilities and Other long-term liabilities in the Consolidated Balance Sheets.

Revenue related to certain products within our Front Line Care segment is required to be accelerated under ASC 606 compared to historical practice. This outcome is attributable to the conclusion that we have no on-going performance obligation after delivery of the product to the customer, whereas previously this revenue was recognized over the period the Company was reimbursed by third parties. As a result of the accelerated recognition of revenue, adoption date adjustments were required to be recorded to Trade accounts receivable, net of allowances and to derecognize assets previously recorded.

The cumulative effect of the changes made in the Consolidated Balance Sheets at October 1, 2018 for the adoption of ASC 606, is as follows:

Impacted Consolidated Balance Sheet Items	September 30, 2018 As Reported	Impacts of ASC 606 Adoption	October 1, 2018 After 606 Adoption
ASSETS			
Trade accounts receivable, net of allowances	\$ 580.7	\$ 29.1	\$ 609.8
Other current assets	100.2	21.8	122.0
Property, plant and equipment, net	328.3	(5.6)	322.7
Deferred income taxes	35.0	5.6	40.6
Other assets	75.1	3.4	78.5
LIABILITIES			
Deferred revenue	40.0	47.5	87.5
Other current liabilities	67.1	0.8	67.9
Other long-term liabilities	40.4	10.9	51.3
SHAREHOLDERS' EQUITY			
Retained earnings	1,876.2	(4.9)	1,871.3

The impacts of ASC 606 in fiscal 2019 on our Consolidated Statement of Income are shown below.

Impacted Consolidated Statement of Income Items	Year Ended September 30, 2019		
	As Reported	Impacts of ASC 606	Balances without ASC 606
Product sales and service net revenue ¹	\$ 2,615.0	\$ 112.2	\$ 2,502.8
Rental net revenue ¹	292.3	(97.0)	389.3
Cost of goods sold ²	1,330.7	26.4	1,304.3
Rental expenses ²	151.6	(21.7)	173.3
Income tax expense (benefit)	56.4	2.2	54.2
Net income	152.2	8.3	143.9

¹ The impacts of ASC 606 include \$95.3 million related to revenue previously classified as Rental revenue that has been reclassified to Product sales and service revenue as a result of the adoption of ASC 606 in fiscal 2019.

² The impacts of ASC 606 include \$21.1 million related to cost of goods sold previously classified as Rental expenses that has been reclassified to Cost of goods sold as a result of the adoption of ASC 606 in fiscal 2019.

Within our Patient Support Systems segment, the adoption of ASC 606 impacted equipment and other costs, which are reported in Other current assets, Other assets, and deferred revenue, which is reported in Deferred revenue and Other long-term liabilities.

Within our Front Line Care segment, the adoption of ASC 606 impacted the reported amount in Trade accounts receivable, net of allowances, resulting in the derecognition of assets previously recorded.

The impacts of the adoption of ASC 606 as of September 30, 2019, including the cumulative effects of the change, on our Consolidated Balance Sheet are shown below.

Impacted Consolidated Balance Sheet Items	September 30, 2019		
	As Reported	Impacts of ASC 606	Balances without ASC 606
ASSETS			
Trade accounts receivable, net of allowances	\$ 653.3	\$ 30.8	\$ 622.5
Other current assets ¹	106.7	13.6	93.1
Property, plant and equipment, net	296.8	(6.1)	302.9
Deferred income taxes	33.1	5.6	27.5
Other assets ¹	91.3	2.6	88.7
LIABILITIES			
Deferred revenue	107.3	31.8	75.5
Other current liabilities	95.2	0.7	94.5
Other long-term liabilities	70.5	8.5	62.0
SHAREHOLDERS' EQUITY			
Retained earnings	1,967.4	3.4	1,964.0

¹ Includes \$11.9 million and \$2.6 million of equipment and other costs in Other current assets and Other assets directly related to certain contract performance obligations not completed in our Patient Support Systems segment. These costs are subsequently expensed to Cost of goods sold commensurate with the timing of revenue recognition, which is generally 12 to 24 months.

Deferred Contract Costs

Consistent with prior practice, deferred contract costs represent commissions paid upon receipt of a purchase order for certain products in our Patient Support Systems segment. These commissions are subsequently expensed to Selling and administrative expenses commensurate with the timing of revenue recognition, which is generally 12 to 24 months. As of September 30, 2019, we had \$10.0 million of deferred contract costs recorded within Other current assets and Other assets. In fiscal 2019, we amortized \$14.7 million of deferred contract costs, which are classified within Selling and administrative expenses in the Consolidated Statements of Income.

Disaggregation of Revenue

The impact of the adoption of ASC 606 in fiscal 2019 is provided below.

Recognition of revenue related to certain products within our Patient Support Systems segment has been deferred under ASC 606 due to the determination that the performance obligation is not fulfilled until the system is fully installed.

Recognition of revenue related to certain products within our Front Line Care segment has been accelerated under ASC 606 due to the determination that the performance obligation is satisfied upon product delivery to the customer. Previously, this revenue was recognized over the period that the Company was reimbursed by third parties.

	Year Ended September 30, 2019		
	As Reported	Impacts of ASC 606	Balances without ASC 606
Net revenue - United States:			
Patient Support Systems	\$ 1,135.0	\$ 13.1	\$ 1,121.9
Front Line Care	700.6	1.7	698.9
Surgical Solutions	221.2	—	221.2
Total net revenue - United States	<u>\$ 2,056.8</u>	<u>\$ 14.8</u>	<u>\$ 2,042.0</u>
Net revenue - Outside of the United States (“OUS”):			
Patient Support Systems	\$ 355.5	\$ 0.4	\$ 355.1
Front Line Care	277.5	—	277.5
Surgical Solutions	217.5	—	217.5
Total net revenue - OUS	<u>\$ 850.5</u>	<u>\$ 0.4</u>	<u>\$ 850.1</u>
Net revenue:			
Patient Support Systems	\$ 1,490.5	\$ 13.5	\$ 1,477.0
Front Line Care	978.1	1.7	976.4
Surgical Solutions	438.7	—	438.7
Total net revenue	<u>\$ 2,907.3</u>	<u>\$ 15.2</u>	<u>\$ 2,892.1</u>

Contract Balances

The nature of our products and services does not give rise to contract assets as we typically do not have instances where a right to payment for goods and services already transferred to a customer exists that is conditional on something other than the passage of time.

The following summarizes contract liability activity in fiscal 2019. The contract liability balance as of September 30, 2019 represents the transaction price allocated to the remaining performance obligations.

	Contract Liabilities
Balance as of September 30, 2018	\$ 47.8
Revenue deferred due to ASC 606 initial adoption	58.4
Deferred revenue acquired	10.7
New revenue deferrals	282.1
Revenue recognized upon satisfaction of performance obligations	(273.2)
Balance as of September 30, 2019	<u>\$ 125.8</u>

These contract liabilities are recorded in Deferred revenue and Other long-term liabilities. We expect to satisfy the majority of the remaining performance obligations and recognize revenue related to installation and service contracts within 12 to 24 months.

Note 3. Business Combinations

Acquisitions

Breathe Technologies, Inc.

On September 3, 2019, we acquired all of the outstanding equity interests of Breathe, a developer and manufacturer of a patented wearable, non-invasive ventilation technology that supports improved patient mobility, for total aggregate cash consideration of \$127.6 million. The purchase price is subject to certain post-closing adjustments. The transaction was financed through borrowings from the 2024 Revolving Credit Facility (Note 6).

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The results of Breathe are included in the Front Line Care segment of our Consolidated Financial Statements since the date of acquisition. The impact to reported revenue and net income in fiscal 2019 was not significant.

The following table summarizes the preliminary estimate of the fair value of assets acquired and liabilities assumed at the date of the Breathe acquisition. The fair value of assets acquired and liabilities assumed are still considered to be preliminary, however we do not expect further adjustments to be significant.

	Amount
Trade accounts receivable, net of allowances	\$ 0.3
Inventories	6.3
Other current assets	0.1
Property, plant and equipment	2.1
Goodwill	60.2
Trade name	4.0
Customer relationships	0.4
Developed technology	56.0
Other assets	0.2
Trade accounts payable	(0.5)
Other current liabilities	(1.6)
Deferred income taxes	0.9
Other long-term liabilities	(0.8)
Total purchase price, net of cash acquired	<u>\$ 127.6</u>

Goodwill in connection with the Breathe acquisition of \$60.2 million was recognized at the acquisition date related to the excess of the purchase price over the estimated fair value of the assets acquired and the liabilities, reflecting the value associated with enhancing synergies, accelerating our leadership in respiratory health products. The goodwill was allocated entirely to our Front Line Care segment, which is not deductible for tax purposes in the United States.

The estimated useful lives of the acquired intangible assets are 2 years for trade name, 11 years for customer relationships and 8 years for developed technology.

In fiscal 2019, we recognized \$6.4 million of acquisition and integration costs in Selling and administrative expenses and \$1.7 million in Special charges related to this acquisition.

Voalte, Inc.

On April 1, 2019, we acquired all of the outstanding equity interests of Voalte, a clinical communications software company located in the United States, for total aggregate consideration of \$181.0 million, comprised of \$175.8 million cash and \$5.2 million of contingent consideration measured at fair value as of the acquisition date. The purchase price is subject to certain post-closing adjustments. Additionally, contingent consideration is payable of up to \$15.0 million based upon the achievement of certain commercial milestones. The transaction was financed through borrowings from the 2021 Revolving Credit Facility (Note 6).

The results of Voalte are included in the Patient Support Systems segment of our Consolidated Financial Statements since the date of acquisition. The impact to reported revenue and net income in fiscal 2019 was not significant.

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The following table summarizes the preliminary estimate of the fair value of assets acquired and liabilities assumed at the date of the Voalte acquisition. The fair value of assets acquired and liabilities assumed are still considered to be preliminary, however we do not expect further adjustments to be significant.

	Amount
Trade accounts receivable, net of allowances	\$ 5.8
Inventories	0.1
Other current assets	2.7
Property, plant and equipment	0.2
Goodwill	98.4
Non-competition agreements	2.7
Trade name	13.5
Customer relationships	29.0
Developed technology	55.0
Trade accounts payable	(1.7)
Deferred revenue	(10.7)
Other current liabilities	(4.1)
Deferred income taxes	(9.9)
Total purchase price, net of cash acquired	<u>\$ 181.0</u>

Goodwill in connection with the Voalte acquisition of \$98.4 million was recognized at the acquisition date related to the excess of the purchase price over the estimated fair value of the assets acquired and the liabilities, reflecting the value associated with enhancing synergies, accelerating our leadership in care communications platform and advancing our digital and mobile communications platform and capabilities. The goodwill was allocated entirely to our Patient Support Systems segment, which is not deductible for tax purposes in the United States.

The estimated useful lives of the acquired intangible assets are 5 years for non-competition agreements and between 8 and 12 years for trade name, customer relationships and developed technology.

We recognized \$12.1 million of acquisition and integration costs, including \$3.2 million related to contingent consideration, in fiscal 2019 in Selling and administrative expenses related to this acquisition.

Pro-forma Financial Information - 2019 Acquisitions

Net income on an unaudited pro-forma basis, as if the Breathe and Voalte acquisitions had been consummated at the beginning of fiscal 2018 is \$161.6 million and \$208.6 million for fiscal 2019 and fiscal 2018, respectively. The impact to our net revenue on an unaudited pro-forma basis would not have been significant.

The unaudited pro-forma information was calculated after applying our accounting policies and adjusting Breathe and Voalte's results to reflect purchase accounting adjustments. The unaudited pro-forma financial information is not necessarily indicative of results of operations that would have been achieved had the acquisition events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

Mortara Instrument

On February 14, 2017, we completed the acquisition of Mortara Instrument, Inc. ("Mortara") for consideration of \$330.0 million in cash (\$311.2 million, net of cash acquired), primarily financed through a private offering of \$300.0 million of senior unsecured notes (Note 6). Mortara provides a portfolio of diagnostic cardiology devices designed to serve the full continuum of clinical care, from acute care to primary care and clinical research organizations.

The results of Mortara are included in the Consolidated Financial Statements since the date of acquisition. The impact to our fiscal 2017 net revenue and net income was not significant. The impact to our net revenue and net income on an unaudited proforma basis, as if the Mortara acquisition had been consummated at the beginning of fiscal 2016, would not have been significant.

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The following summarizes the fair value of assets acquired and liabilities assumed at the date of the Mortara acquisition. The results are considered final.

	Amount
Trade receivables	\$ 16.4
Inventory	21.5
Other current assets	2.8
Property, plant and equipment	18.2
Goodwill	165.5
Trade name	15.8
Customer relationships	37.9
Developed technology	52.3
Other noncurrent assets	4.8
Current liabilities	(22.8)
Noncurrent liabilities	(1.2)
Total purchase price, net of cash acquired	<u>\$ 311.2</u>

Goodwill in connection with the Mortara acquisition was allocated entirely to our Front Line Care segment. A majority of the goodwill is attributed to the acquired U.S. operations which is deductible for tax purposes.

The estimated useful lives of the acquired intangible assets are 7 years for trade name, 8 years for customer relationships and 7 years for developed technology.

Asset Acquisition

On October 1, 2018, we acquired the right to use patented technology and certain related assets from a supplier to our Front Line Care segment. We paid \$17.1 million of cash and committed to guaranteed minimum future royalty payments of \$22.0 million, which is presented in Other intangible assets and software, net and is being amortized over the 7-year term of the agreement.

Dispositions

On August 2, 2019, we completed a disposition to sell certain of our surgical consumable products and related assets for a purchase price of \$166.6 million, which is net of cash and working capital adjustments. We recorded a pre-tax loss on this disposition of \$15.9 million in Investment income (expense) and other, net, including transaction costs of \$4.0 million. This disposition did not have a major effect on the Company's operations or financial results, and, therefore, has not been reported as a discontinued operation.

In fiscal 2018, we conveyed certain net assets related to our third-party rental business that was part of our Patient Support Systems segment, which was comprised of purchased moveable medical equipment that could be rented to customers, to Universal Hospital Services, Inc. ("UHS") in exchange for UHS's agreement to dismiss its previously disclosed litigation against us ("Settlement Agreement"). As a result, we recorded a loss of \$24.5 million in Special charges, which included \$20.9 million related to the non-cash loss reserve for the assets conveyed, and other Settlement Agreement related costs of approximately \$3.6 million. The transaction closed in fiscal 2018.

In fiscal 2017, we sold our Völker business that was part of our Patient Support Systems segment. We recorded a loss of \$25.4 million, relating mainly to non-cash write-downs of long-lived assets and working capital associated with the Völker brand portfolio, and transaction related costs of approximately \$3.0 million in Special charges. In fiscal 2018, we recorded a gain of \$1.0 million attributable to the final working capital settlement associated with the Völker transaction.

In fiscal 2017, we sold our Architectural Products business that was part of our Patient Support Systems segment for \$4.5 million in cash proceeds and recorded a gain in Investment income and other, net that was not significant.

Note 4. Goodwill and Indefinite-Lived Intangible Assets

Goodwill

The following summarizes goodwill activity by reportable segment:

	Patient Support Systems	Front Line Care	Surgical Solutions	Total
Balances as of September 30, 2017				
Goodwill	\$ 545.0	\$ 1,375.6	\$ 311.8	\$ 2,232.4
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net as of September 30, 2017	72.2	1,375.6	311.8	1,759.6
Changes in Goodwill in the period:				
Goodwill related to acquisitions	—	0.8	—	0.8
Deconsolidation of VIE	—	—	(13.2)	(13.2)
Currency translation effect	(0.6)	(5.8)	(2.5)	(8.9)
Balances as of September 30, 2018				
Goodwill	544.4	1,370.6	296.1	2,211.1
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net as of September 30, 2018	71.6	1,370.6	296.1	1,738.3
Changes in Goodwill in the period:				
Goodwill related to acquisitions	98.4	60.2	—	158.6
Goodwill related to disposition	—	—	(81.7)	(81.7)
Currency translation effect	(2.3)	(6.1)	(5.9)	(14.3)
Balances as of September 30, 2019				
Goodwill	640.5	1,424.7	208.5	2,273.7
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net as of September 30, 2019	\$ 167.7	\$ 1,424.7	\$ 208.5	\$ 1,800.9

In fiscal 2018, the Company deconsolidated a VIE as a result of no longer having a controlling financial interest in the entity upon the termination of an exclusive distribution agreement. The portion of this entity's assets, including goodwill, liabilities and operating results that are not attributable to the Company are excluded from our Consolidated Financial Statements as of the effective date of the termination. The impact of this transaction was not significant to our Consolidated Financial Statements.

We acquired Breathe and Voalte in fiscal 2019. All goodwill associated with Breathe was assigned to our Front Line Care segment and all goodwill associated Voalte was assigned to our Patient Support Systems segment. Refer to Note 3 for additional information regarding these acquisitions.

In fiscal 2019, we completed a disposition to sell certain of our surgical consumable products and related assets. All goodwill associated with this disposition was included in our Surgical Solutions segment. Refer to Note 3 for additional information regarding this disposition.

The majority of our goodwill is not deductible for income tax purposes.

As discussed in Note 14, we operate in three reportable business segments. Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded and is reallocated as necessary based on the composition of reporting units over time. Once goodwill is assigned to reporting units, it no longer retains

its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Testing goodwill for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluation of goodwill performed in the third quarter of fiscal 2019 did not result in any impairment.

Intangible Assets

Intangible assets are stated at cost and consist predominantly of software, patents, acquired technology, trademarks, trade names and acquired customer relationship assets. With the exception of certain indefinite-lived trademarks and trade names, our intangible assets are amortized on a straight-line basis over periods generally ranging from 1 to 20 years.

Many of our intangible assets are not deductible for income tax purposes. A summary of intangible assets and the related accumulated amortization follows:

	September 30			
	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer relationships	658.1	333.8	723.5	299.5
Trademarks and trade names	488.9	24.0	506.0	22.4
Developed technology	278.6	79.5	138.7	58.6
Software	176.5	143.0	167.1	139.0
Other	28.4	16.7	25.2	13.3
Total	\$ 1,630.5	\$ 597.0	\$ 1,560.5	\$ 532.8

Other intangible assets presented in the table above is primarily comprised of patents, non-competition agreements and intellectual property rights.

The carrying value of the Welch Allyn indefinite-lived trade name was \$434.0 million as of September 30, 2019 and 2018. Amortization expense in fiscal 2019, 2018 and 2017 was \$132.7 million, \$117.9 million and \$121.6 million. Amortization expense for all other intangibles is expected to approximate the following for each of the next five fiscal years and thereafter:

	Amount
2020	\$ 116.7
2021	107.7
2022	91.5
2023	74.4
2024	63.0
2025 and beyond	142.5

Software consists mainly of capitalized costs associated with internal use software, including applicable costs associated with the implementation and upgrade of our enterprise resource planning systems. In addition, software includes capitalized development costs for software products to be sold. Capitalized software costs are amortized on a straight-line basis over periods ranging from three to ten years. Software amortization expense was \$10.3 million, \$11.1 million and \$12.8 million in fiscal 2019, 2018 and 2017 and is included primarily in Selling and administrative expenses.

We have indefinite-lived intangible assets representing primarily the Welch Allyn trade name with a carrying value of \$437.4 million as of September 30, 2019. Testing indefinite-lived intangible assets for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of an indefinite-lived intangible asset below its carrying amount. The annual evaluation of indefinite-lived intangible assets performed in the third quarter of fiscal 2019 did not result in any impairment.

Note 5. Supplementary Financial Statement Information

Research and Development Costs

Research and development costs were \$139.5 million, \$135.6 million and \$133.7 million in fiscal 2019, 2018 and 2017.

Costs for software development technology held for sale capitalized as intangibles as of September 30, 2019 and 2018 were approximately \$8.0 million and \$2.4 million.

Inventories

Inventories consist of the following:

	September 30	
	2019	2018
Finished products	\$ 120.5	\$ 139.7
Work in process	42.4	44.8
Raw materials	106.7	107.2
Total	<u>\$ 269.6</u>	<u>\$ 291.7</u>

Costs for inventories costs are determined principally by the FIFO method of inventory accounting, which approximates current cost. However, the LIFO method is used for certain inventories comprising approximately 30% and 23% of our total inventories as of September 30, 2019 and 2018. If the FIFO method of inventory accounting had been used for all inventories, they would have been approximately \$0.3 million and \$0.6 million higher than reported as of September 30, 2019 and 2018.

Property, Plant and Equipment

Total depreciation expense in fiscal 2019, 2018 and 2017 was \$62.1 million, \$78.6 million and \$82.0 million. The major components of property, plant and equipment and the related accumulated depreciation were as follows:

	September 30			
	2019		2018	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 16.7	\$ 3.9	\$ 18.4	\$ 3.7
Buildings and building equipment	199.7	91.1	209.0	89.6
Machinery and equipment	397.0	285.2	410.9	288.1
Equipment leased to others	216.2	152.6	276.7	205.3
Total	<u>\$ 829.6</u>	<u>\$ 532.8</u>	<u>\$ 915.0</u>	<u>\$ 586.7</u>

Investments

In the first quarter of fiscal 2019, we acquired \$26.6 million of non-marketable equity securities that are valued at cost. There has not been any impairment of the historical cost of our investments in non-marketable equity securities.

Warranties and Guarantees

A rollforward of changes in our warranty reserve is as follows:

	2019	2018	2017
Balance as of October 1	\$ 20.5	\$ 25.5	\$ 27.5
Provision for warranties in the period	23.0	10.8	13.9
Warranty reserves acquired	0.2	—	1.5
Warranty reserves assumed ¹	2.8	—	—
Warranty claims incurred in the period	(16.8)	(15.8)	(17.4)
Balance as of September 30	<u>\$ 29.7</u>	<u>\$ 20.5</u>	<u>\$ 25.5</u>

¹ As a result of the asset acquisition in our Front Line Care segment discussed in Note 3.

Note 6. Financing Agreements

Total debt consists of the following:

	September 30, 2019	September 30, 2018
Current portion of long-term debt (including the Senior unsecured 5.75% notes due on September 1, 2023)	\$ 471.7	\$ 0.1
Securitization Facility	110.0	110.0
Note Securitization Facility	78.7	72.4
Total Short-term borrowings	<u>\$ 660.4</u>	<u>\$ 182.5</u>
Revolving credit facility, matures August 2024	\$ 80.0	\$ —
Senior secured Term Loan A, long-term-portion, matures August 2024	944.0	1,029.7
Senior unsecured 5.75% notes due on September 1, 2023	—	420.8
Senior unsecured 5.00% notes due on February 15, 2025	296.9	296.4
Senior unsecured 4.375% notes due on September 15, 2027	418.7	—
Unsecured 7.00% debentures due on February 15, 2024	13.5	13.6
Unsecured 6.75% debentures due on December 15, 2027	29.7	29.5
Other	0.3	0.4
Total Long-term debt	<u>1,783.1</u>	<u>1,790.4</u>
Total debt	<u>\$ 2,443.5</u>	<u>\$ 1,972.9</u>

In May 2019, we renewed our 364-day accounts receivable securitization facility (the “Securitization Facility”) with certain financial institutions for borrowings up to \$110.0 million. We also renewed our 364-day note securitization facility for borrowings up to \$90.0 million (the “Note Securitization Facility”) in May 2019. Under the terms of each of the Securitization Facility and Note Securitization Facility, certain of our accounts receivable secure the amounts borrowed and cannot be used to pay our other debts or liabilities. The amount of permissible borrowings outstanding is determined based on the amount of qualifying accounts receivable at any point in time. As of September 30, 2019, \$110.0 million and \$78.7 million was borrowed under the Securitization Facility and Note Securitization Facility, respectively. Borrowings outstanding under the Securitization Facility and Note Securitization Facility bear interest at the London Interbank Offered Rate (“LIBOR”) plus the applicable margin of 0.8% and 1.0% and are included as a component of Short-term borrowings, while the accounts receivable securing these obligations remain as a component of Trade accounts receivable, net of allowances, in our Consolidated Balance Sheets. In addition, the agreements governing the Securitization Facility and Note Securitization Facility contain various customary affirmative and negative covenants, and customary default and termination provisions. As of September 30, 2019, we were in compliance with these covenants.

In August 2019, we entered into a senior credit agreement (the “New Credit Agreement”) for purposes of refinancing our then-existing senior secured credit facilities maturing in 2021 (the “Prior Senior Secured Credit Facilities”). The Prior Senior Secured Credit Facilities consisted of a senior secured term loan facility (“2021 TLA Facility”) with an original principal amount of \$1,462.5 million and a Senior Secured Revolving Credit Facility (“2021 Revolving Credit Facility”) providing borrowing capacity of up to \$700.0 million, both maturing in September 2021. In fiscal 2019, we paid the outstanding balance of \$1,038.4 million on the 2021 TLA Facility. We capitalized debt issuance costs of \$2.5 million in connection with the 2024 TLA Facility and \$3.7 million in connection with the 2024 Revolving Credit Facility.

In conjunction with the refinancing of the Prior Senior Secured Credit Facilities, we recorded \$3.3 million in Loss on extinguishment of debt primarily related to the debt issuance costs previously capitalized for the 2021 TLA Facility in fiscal 2019.

The New Credit Agreement consists of two facilities as follows:

- \$1,000.0 million senior secured Term Loan A facility, maturing in August 2024 (“2024 TLA Facility”)
- Revolving Credit Facility, providing borrowing capacity of up to \$1,200.0 million, maturing in August 2024 (“2024 Revolving Credit Facility”)

The 2024 TLA Facility and 2024 Revolving Credit Facility bear interest at variable rates which currently approximate 3.4%. These interest rates are based primarily on LIBOR, but under certain conditions could also be based on the U.S. Federal Funds Rate or the U.S. Prime Rate, at our option. We are able to voluntarily prepay outstanding loans under the TLA Facility at any time. In fiscal 2019, we made no payments on the 2024 TLA Facility. In fiscal 2018, we made payments of \$350.9 million on the 2021 TLA Facility, including the required minimum \$146.3 million.

The following table summarizes the maturities of the 2024 TLA Facility for fiscal 2020 through 2024:

	Amount
2020	\$ 50.0
2021	50.0
2022	50.0
2023	75.0
2024	775.0

As of September 30, 2019, there were \$80.0 million outstanding borrowings on the 2024 Revolving Credit Facility, and available borrowing capacity was \$1,112.8 million after giving effect to \$7.2 million of outstanding standby letters of credit. The availability of borrowings under our Revolving Credit Facility is subject to our ability at the time of borrowing to meet certain specified conditions, including compliance with covenants contained in the Senior Credit Agreement.

The facilities provided by the New Credit Agreement are held with a syndicate of banks, which includes approximately 13 institutions. Our general corporate assets, with exceptions, including those of certain of our subsidiaries, collateralize these obligations. The New Credit Agreement contains financial covenants which specify a maximum secured net leverage ratio and a minimum interest coverage ratio, which are defined in the New Credit Agreement. These financial covenants are measured at the end of each quarter. For the fiscal 2019 and thereafter, the required maximum secured net leverage ratio is 3.00x and the required minimum interest coverage ratio is 4.00x. We were in compliance with all financial covenants under our financing agreements as of September 30, 2019.

In September 2019, we issued senior unsecured notes of \$425.0 million maturing September 2027 that bear interest at a fixed rate of 4.375% annually and capitalized debt issuance costs of \$6.3 million. On October 7, 2019, we used the net proceeds from the offering of these notes, together with funds borrowed from the 2024 Revolving Credit Facility, to redeem all of our previously outstanding senior unsecured 5.75% notes due September 2023 (the “2023 Notes”) and pay the prepayment premium of \$12.2 million. The 30-day notice required to redeem the 2023 Notes was filed on September 7, 2019 and, as a result, the outstanding liability of \$421.6 million as of September 30, 2019 has been classified as current within short-term borrowings. In October 2019, we recorded a loss on extinguishment of debt of \$15.6 million, which was comprised of a \$12.2 million prepayment premium and \$3.4 million of debt issuance costs previously capitalized.

In February 2017, we entered into \$300.0 million of senior unsecured notes maturing February 2025 for purposes of financing the Mortara acquisition. These notes bear interest at a fixed rate of 5.00% annually. Collectively, the 4.375% and 5.00% notes are referred to herein as “Senior Notes.” The Senior Notes were issued at par in private placement offerings and are not registered securities on any public market. We are not required to make any mandatory redemption or sinking fund payments with respect to the Senior Notes, other than in certain circumstances such as a change in control or material sale of assets. We may redeem the 4.375% and 5.00% notes prior to maturity, but doing so would require payment of a premium on any amounts redeemed, the amount of which varies based on the timing of the redemption. The indentures governing the Senior Notes contain certain covenants which impose limitations on the amount of dividends we may pay and the amount of common shares we may repurchase in the open market, but we do not expect these covenants to affect our current dividend policy or open share repurchase program. The terms of these indentures also impose certain restrictions on the amount and type of additional indebtedness we may obtain in the future, as well as the types of liens and guarantees we may provide.

The fair value of our debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The book values of our variable rate short-term debt instruments and 2024 Revolving Credit Facility approximate fair value.

The estimated fair values of our long-term debt instruments are described in the table below:

	September 30, 2019	September 30, 2018
Senior secured Term Loan A	\$ 918.2	\$ 991.9
Senior unsecured 5.75% notes due on September 1, 2023	—	437.3
Senior unsecured 5.00% notes due on February 14, 2025	312.4	294.0
Senior unsecured 4.375% notes due on September 15, 2027	435.4	—
Unsecured debentures	48.1	42.9
Total	<u>\$ 1,714.1</u>	<u>\$ 1,766.1</u>

The estimated fair values of our long-term unsecured debentures were based on observable inputs such as quoted prices in markets that are not active. The estimated fair values of our term loans and the Senior Notes were based on quoted prices for similar liabilities. These fair value measurements were classified as Level 2, as described in Note 1.

Note 7. Derivative Instruments and Hedging Activity

We are exposed to various market risks, including fluctuations in interest rates and variability in foreign currency exchange rates. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. We employ cash flow hedges, net investment hedges, and other nondesignated derivative instruments to manage these risks.

Cash Flow Hedges

We are exposed to market risk from fluctuations in interest rates, which we sometimes manage through the use of interest rate swaps that are designated as cash flow hedges. As of September 30, 2019, we had five interest rate swap agreements, with an aggregate notional amount of \$750.0 million to hedge the variability of cash flows associated with a portion of the variable interest rate payments on outstanding borrowings. As of September 30, 2019, these swaps were in a net liability position with an aggregate fair value of \$6.8 million, of which \$0.9 million were classified as Other assets and \$7.7 million were classified as Other current liabilities. As of September 30, 2018, these swaps were in a net asset position with an aggregate fair value of \$24.8 million, all of which were classified as Other assets. We classify fair value measurements on our interest rate swaps as Level 2, as described in Note 1.

We are subject to variability in foreign currency exchange rates due to our international operations. Exposure to this variability is periodically managed primarily through the use of natural hedges, whereby funding obligations and assets are both managed in the local currency. From time-to-time, we enter into currency exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific and projected transactions. We operate this program pursuant to documented corporate risk management policies and do not enter into derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an appropriate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies. Our currency risk consists primarily of foreign currency denominated firm commitments and projected foreign currency denominated intercompany and third-party transactions. As of September 30, 2019, the notional amount of open foreign exchange contracts was \$6.7 million. These contracts were in a net asset position reported in Other current assets with a fair value of \$0.2 million. As of September 30, 2018, the notional amount of open foreign exchange contracts was \$5.5 million. These contracts were in a net asset position reported in Other current assets with a fair value of \$0.1 million. The maximum length of time over which we hedge transaction exposures is generally 15 months. Derivative gains and losses, initially reported as a component of Accumulated other comprehensive income (loss), are reclassified to earnings in the period when the transaction affects earnings.

Net Investment Hedges

In July 2018, we entered into two cross-currency swap agreements, with an aggregate notional amount of \$198.3 million to hedge the variability of U.S. dollar-Euro exchange rates through July 2023. These cross-currency swaps are designated as net investment hedges of subsidiaries using Euro as their functional currency. We entered into these cross-currency swaps to mitigate changes in

net assets due to changes in U.S. dollar-Euro spot exchange rates. As of September 30, 2019, these swaps were in a net asset position with an aggregate fair value of \$16.9 million which was classified as Other assets. As of September 30, 2018, these swaps were in a net liability position with an aggregate fair value of \$1.2 million which was classified as Other current liabilities.

We classify fair value measurements on our cross-currency swaps as Level 2, as described in Note 1. We assess hedge effectiveness under the spot-to-spot method and record changes in fair value attributable to the translation of foreign currencies through Accumulated other comprehensive income (loss). We amortize the impact of all other changes in fair value of the derivative through Interest expense, which was income of \$5.2 million for the year ended September 30, 2019 and income of \$0.9 million for the year ended September 30, 2018.

Undesignated Derivative Instruments

We use forward contracts to mitigate the foreign exchange revaluation risk associated with recorded monetary assets and liabilities that are denominated in a non-functional currency. These derivative instruments are not formally designated as hedges and the terms of these instruments generally do not exceed one month. As of September 30, 2019, we had forward contracts not designated as hedges with aggregate notional amounts of \$76.7 million. All derivative instruments were designated as hedges as of September 30, 2018. During the year ended September 30, 2019, we recognized unrealized losses of \$0.2 million and losses of \$2.9 million in Investment income (expense) and other, net related to these forward contracts not designated as hedges. During the year ended September 30, 2018, we recognized losses of \$0.9 million in Investment income (expense) and other, net.

Note 8. Retirement and Postretirement Benefit Plans

Our retirement plans consist of defined benefit plans, postretirement health care plans and defined contribution savings plans. Plans cover certain employees both in and outside of the United States.

Retirement Plans

We sponsor five defined benefit retirement plans. Those plans include a master defined benefit retirement plan in the United States, a nonqualified supplemental executive defined benefit retirement plan, and three defined benefit retirement plans covering employees in Germany and France. Benefits for such plans are based primarily on years of service and the employee’s level of compensation in specific periods of employment. We contribute funds to trusts as necessary to provide for current service and for any unfunded projected future benefit obligation over a reasonable period of time. All plans have a measurement date of September 30.

Effect on Operations

The following table details the components of net pension expense for our defined benefit retirement plans:

	Year Ended September 30			Consolidated Statements of Income Item
	2019	2018	2017	
Service cost	\$ 1.8	\$ 1.6	\$ 2.0	Cost of goods sold
Service cost	2.7	3.2	3.8	Selling and administrative expenses
Interest cost	12.5	11.0	9.9	Investment income (expense) and other, net
Expected return on plan assets	(14.8)	(15.7)	(14.6)	Investment income (expense) and other, net
Amortization of unrecognized prior service cost, net	0.1	0.1	0.2	Investment income (expense) and other, net
Amortization of net loss	2.4	4.5	6.1	Investment income (expense) and other, net
Net periodic benefit cost	4.7	4.7	7.4	
Special termination benefits	—	—	0.1	
Net pension expense	\$ 4.7	\$ 4.7	\$ 7.5	

Obligations and Funded Status

The change in benefit obligations, plan assets and funded status, along with amounts recognized in the Consolidated Balance Sheets for our defined benefit retirement plans were as follows:

	Year Ended September 30	
	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 334.6	\$ 345.8
Service cost	4.5	4.8
Interest cost	12.5	11.0
Actuarial (gain) loss	43.4	(13.8)
Benefits paid	(13.3)	(12.8)
Acquisitions	—	0.1
Exchange rate (gain) loss	(1.3)	(0.5)
Benefit obligation at end of year	<u>380.4</u>	<u>334.6</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	279.8	284.4
Actual return on plan assets	35.1	7.1
Employer contributions	9.0	1.1
Benefits paid	(13.3)	(12.8)
Fair value of plan assets at end of year	<u>310.6</u>	<u>279.8</u>
Funded status and net amounts recognized	<u>\$ (69.8)</u>	<u>\$ (54.8)</u>
Amounts recorded in the Consolidated Balance Sheets:		
Accrued pension benefits, current portion	\$ (1.2)	\$ (1.1)
Accrued pension benefits, long-term	(68.6)	(53.7)
Net amount recognized	<u>\$ (69.8)</u>	<u>\$ (54.8)</u>

In addition to the amounts above, net actuarial losses of \$70.6 million and prior service costs of \$0.4 million, less the tax effect of \$17.2 million are included as components of Accumulated other comprehensive income (loss) as of September 30, 2019. In addition to the amounts above, net actuarial losses of \$50.2 million and prior service costs of \$0.5 million, less the tax effect of \$20.2 million are included as components of Accumulated other comprehensive income (loss) as of September 30, 2018. The estimated net actuarial loss and prior service cost for our defined benefit retirement plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$6.1 million and \$0.1 million, respectively.

Accumulated Benefit Obligation

The accumulated benefit obligation for all defined benefit pension plans was \$362.9 million and \$316.1 million as of September 30, 2019 and 2018, respectively. Selected information for our plans, including plans with accumulated benefit obligations exceeding plan assets, was as follows:

	September 30, 2019			September 30, 2018		
	PBO	ABO	Plan Assets	PBO	ABO	Plan Assets
Master plan	\$ 353.4	\$ 338.0	\$ 310.5	\$ 309.5	\$ 292.7	\$ 279.6
International plans	21.7	19.6	0.1	20.5	18.8	0.2
Supplemental executive plan	5.3	5.3	—	4.6	4.6	—
	<u>\$ 380.4</u>	<u>\$ 362.9</u>	<u>\$ 310.6</u>	<u>\$ 334.6</u>	<u>\$ 316.1</u>	<u>\$ 279.8</u>

Actuarial Assumptions

The weighted average assumptions used in accounting for our domestic pension plans were as follows:

	2019	2018	2017
Weighted average assumptions to determine benefit obligations at the measurement date:			
Discount rate for obligation	3.2%	4.2%	3.9%
Rate of compensation increase	2.6%	3.0%	3.0%
Weighted average assumptions to determine benefit cost for the year:			
Discount rate for expense	4.2%	3.9%	3.7%
Expected rate of return on plan assets	5.5%	6.0%	5.8%
Rate of compensation increase	3.0%	3.0%	3.0%

The discount rates used in the valuation of our defined benefit pension plans are evaluated annually based on current market conditions. In setting these rates, we utilize long-term bond indices and yield curves as a preliminary indication of interest rate movements, and then make adjustments to the respective indices to reflect differences in the terms of the bonds covered under the indices in comparison to the projected outflow of our pension obligations. The overall expected long-term rate of return is based on historical and expected future returns, which are inflation adjusted and weighted for the expected return for each component of the investment portfolio, as well as taking into consideration economic and capital market conditions. The rate of assumed compensation increase is also based on our specific historical trends of past wage adjustments. The weighted average discount rate assumptions used for our international plans are lower than our domestic plan assumptions and do not significantly affect the consolidated net benefit obligation or net periodic benefit cost balances.

Plan Assets

The weighted average asset allocations of our master defined benefit retirement plan as of September 30, 2019 and 2018, by asset category, along with target allocations, are as follows:

	2019 Target Allocation	2018 Target Allocation	2019 Actual Allocation	2018 Actual Allocation
Equity securities	31%-37%	31%-37%	32%	35%
Fixed income securities	63%-69%	63%-69%	68%	65%
Total			<u>100%</u>	<u>100%</u>

We have a Plan Committee that sets investment guidelines with the assistance of an external consultant. These guidelines are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Plan Committee also oversees the investment allocation process and monitors asset performance. As pension liabilities are long-term in nature, we employ a long-term total return approach to maximize the long-term rate of return on plan assets for a prudent level of risk. Target allocations are guidelines, not limitations, and plan fiduciaries may occasionally approve allocations above or below a target range or elect to rebalance the portfolio within the targeted range.

The investment portfolio contains a diversified portfolio of fixed income securities and equities. Securities are also diversified in terms of domestic and international securities, short-term and long-term securities, growth and value styles, large cap and small cap stocks. The primary investment strategy is a dynamic target allocation method that periodically rebalances among various investment categories depending on the current funded positions. This program is designed to actively move from return-seeking investments (such as equities) toward liability-hedging investments (such as long-duration fixed income) as funding levels improve.

Trust assets are invested subject to the following policy restrictions: short-term securities must be rated A2/P2 or higher; all fixed-income securities shall have a credit quality rating “BBB” or higher; and investments in equities in any one company may not exceed 10% of the equity portfolio.

Fair Value Measurements of Plan Assets

Cash as part of plan assets was \$4.2 million and \$4.0 million as of September 30, 2019 and 2018, respectively, and was classified as a Level 1 financial instrument.

The following table summarizes these assets by category:

	September 30, 2019	September 30, 2018
Equities		
U.S. companies	\$ 49.6	\$ 50.0
International companies	50.2	46.4
Fixed income securities	206.6	179.4
Total plan assets at fair value, excluding cash	\$ 306.4	\$ 275.8

These investments are commingled funds and/or collective trusts valued using the net asset value (“NAV”) unit price provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund.

Cash Flows

Our U.S. master defined benefit plan is funded in excess of 87%, as measured under the requirements of the Pension Protection Act of 2006, and therefore we expect that the plan will not be subject to the “at risk” funding requirements of this legislation.

In fiscal 2019 and 2018, we contributed cash of \$9.0 million and \$1.1 million to our defined benefit retirement plans, of which \$8.0 million was a voluntary contribution to our U.S. defined benefit retirement plan. We will not be required to contribute to our master defined benefit retirement plan in fiscal 2020 due to the current funding level; however, minimal contributions will be required for our unfunded plans.

Estimated Future Benefit Payments

The benefit payments, which are expected to be funded through plan assets and company contributions and reflect expected future service, are expected to be paid as follows:

	Pension Benefits
2020	\$ 14.6
2021	15.2
2022	15.9
2023	16.7
2024	17.6
2025-2029	98.1

Defined Contribution Savings Plans

We have defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security in retirement by providing employees with an incentive to make regular savings. Our contributions to the plans are based on eligibility and employee contributions. Expense under these plans was \$29.0 million in fiscal 2019. In fiscal 2018 and 2017, the expense was \$28.4 million and \$26.8 million.

Postretirement Health Care Plans

In addition to defined benefit retirement plans, we also offer two postretirement health care plans in the United States that provide health care benefits to qualified retirees and their dependents. The plans are closed to new participants and include retiree cost sharing provisions and generally extends retiree coverage for medical and prescription benefits beyond the COBRA continuation period to the date of Medicare eligibility. These plans have a measurement date of September 30.

The expense related to postretirement health care plans has not been significant in fiscal 2019, 2018 or 2017. The change in the accumulated postretirement benefit obligation was as follows:

	Year Ended September 30	
	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 17.0	\$ 19.4
Service cost	0.3	0.3
Interest cost	0.5	0.6
Actuarial gain	(4.1)	(2.4)
Benefits paid	(1.3)	(1.2)
Retiree contributions	0.3	0.3
Benefit obligation at end of year	<u>\$ 12.7</u>	<u>\$ 17.0</u>
Amounts recorded in the Consolidated Balance Sheets:		
Accrued benefits obligation, current portion	\$ 1.3	\$ 1.6
Accrued benefits obligation, long-term	11.4	15.4
Net amount recognized	<u>\$ 12.7</u>	<u>\$ 17.0</u>

In addition to the amounts above, net actuarial gains of \$11.9 million and prior service credits of \$0.6 million, less the tax effect of \$2.4 million are included as components of Accumulated other comprehensive income (loss) as of September 30, 2019. Net actuarial gains of \$8.7 million and prior service credits of \$0.8 million, less the tax effect of \$3.0 million are included as components of Accumulated other comprehensive income (loss) as of September 30, 2018.

The estimated net actuarial gain and prior service benefit for our postretirement health care plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$1.4 million and \$0.2 million.

The discount rate used to determine the net periodic benefit cost for the postretirement health care plans for fiscal 2019, 2018 and 2017 was 4.0%, 3.3% and 3.0%. The discount rate used to determine the benefit obligation as of September 30, 2019 was 3.0%. In fiscal 2018, the discount rate was 4.0%. In fiscal 2017, the discount rate was 3.3%. As of September 30, 2019, the health care cost trend rates for the plans were generally assumed to be in the ranges of 6.7% to 7.4%, trending down to a rate of 4.5% over the long-term.

A one-percentage-point increase/decrease in the assumed health care cost trend rates as of September 30, 2019 would cause an increase/decrease in service and interest costs of less than \$0.1 million, along with an increase/decrease in the benefit obligation of \$0.7 million.

We fund the postretirement health care plans as benefits are paid and current plan benefits are expected to require contributions of approximately \$1.3 million in fiscal 2020 and approximately \$1.0 million per fiscal year thereafter.

Note 9. Other Comprehensive Income

The following table represents the changes in Other comprehensive income (loss) by component in fiscal 2019:

	Year Ended September 30, 2019				
	Other comprehensive income (loss)				
	Prior to reclassification	Reclassification from	Pre- tax	Tax effect	Net of tax
Derivative instruments and hedges ¹ :					
Foreign exchange forward contracts	\$ (0.6)	\$ 0.6	\$ —	\$ —	\$ —
Interest rate swaps	(24.8)	(6.8)	(31.6)	7.3	(24.3)
Cross-currency swaps	18.0	—	18.0	(4.1)	13.9
Derivative instruments and hedges total	(7.4)	(6.2)	(13.6)	3.2	(10.4)
Foreign currency translation adjustment	(40.1)	—	(40.1)	—	(40.1)
Change in pension and postretirement defined benefit plans	(19.4)	2.0	(17.4)	3.8	(13.6)
Total	\$ (66.9)	\$ (4.2)	\$ (71.1)	\$ 7.0	\$ (64.1)

¹ See Note 7 for information regarding our hedging strategies.

The following table represents the changes in Accumulated other comprehensive income (loss) by component in fiscal 2019:

	Accumulated other comprehensive income (loss)			
	Balances as of September 30, 2018	Impacts of ASU 2018-02 Adoption as of October 1, 2018	Net activity for the Year Ended September 30, 2019	Balances as of September 30, 2019 ¹
Derivative instruments designated as hedges:				
Foreign exchange forward contracts	\$ 0.2	\$ —	\$ —	\$ 0.2
Interest rate swaps	18.3	0.8	(24.3)	(5.2)
Cross-currency swaps	(1.7)	—	13.9	12.2
Derivative instruments designated as hedges total	16.8	0.8	(10.4)	7.2
Foreign currency translation adjustment	(105.3)	—	(40.1)	(145.4)
Change in pension and postretirement defined benefit plans	(24.5)	(6.2)	(13.6)	(44.3)
Total	\$ (113.0)	\$ (5.4)	\$ (64.1)	\$ (182.5)

¹ The estimated net amount of gains and losses that are reported in Accumulated other comprehensive loss as of September 30, 2019 that is expected to be reclassified into earnings within the next 12 months is \$0.7 million.

The following tables represent the changes in Accumulated other comprehensive income (loss) by component in fiscal 2018 and 2017:

Year Ended September 30, 2018

	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Derivative instruments and hedges ¹ :								
Foreign exchange forward contracts	\$ 0.4	\$ 0.3	\$ 0.7	\$ (0.1)	\$ 0.6	\$ (0.4)	\$ 0.6	\$ 0.2
Interest rate swaps	22.8	(5.3)	17.5	(3.9)	13.6	4.7	13.6	18.3
Cross-currency swaps	(2.2)	—	(2.2)	0.5	(1.7)	—	(1.7)	(1.7)
Derivative instruments and hedges total	21.0	(5.0)	16.0	(3.5)	12.5	4.3	12.5	16.8
Foreign currency translation adjustment	(24.0)	—	(24.0)	—	(24.0)	(81.3)	(24.0)	(105.3)
Change in pension and postretirement defined benefit plans	7.9	3.0	10.9	(2.4)	8.5	(33.0)	8.5	(24.5)
Total	\$ 4.9	\$ (2.0)	\$ 2.9	\$ (5.9)	\$ (3.0)	\$ (110.0)	\$ (3.0)	\$ (113.0)

Year Ended September 30, 2017

	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Derivative instruments and hedges ¹ :								
Foreign exchange forward contracts	\$ (0.4)	\$ (0.2)	\$ (0.6)	\$ 0.1	\$ (0.5)	\$ 0.1	\$ (0.5)	\$ (0.4)
Interest rate swaps	13.1	(0.7)	12.4	(4.5)	7.9	(3.2)	7.9	4.7
Derivative instruments and hedges total	12.7	(0.9)	11.8	(4.4)	7.4	(3.1)	7.4	4.3
Foreign currency translation adjustment	32.9	1.0	33.9	—	33.9	(115.2)	33.9	(81.3)
Change in pension and postretirement defined benefit plans	22.1	5.9	28.0	(10.2)	17.8	(50.8)	17.8	(33.0)
Total	\$ 67.7	\$ 6.0	\$ 73.7	\$ (14.6)	\$ 59.1	\$ (169.1)	\$ 59.1	\$ (110.0)

The following table represents the items reclassified out of Accumulated other comprehensive income (loss) and the related tax effects in fiscal 2019, 2018 and 2017:

	Year Ended September 30								
	2019			2018			2017		
	Amount reclassified	Tax effect ⁵	Net of tax	Amount reclassified	Tax effect	Net of tax	Amount reclassified	Tax effect	Net of tax
Derivative instruments and hedges:									
Foreign exchange forward contracts ¹	\$ 0.6	\$ (0.2)	\$ 0.4	\$ 0.3	\$ —	\$ 0.3	\$ (0.2)	\$ —	\$ (0.2)
Interest rate swaps ²	(6.8)	1.6	(5.2)	(5.3)	1.2	(4.1)	(0.7)	0.3	(0.4)
Derivative instruments and hedges total	\$ (6.2)	\$ 1.4	\$ (4.8)	\$ (5.0)	\$ 1.2	\$ (3.8)	\$ (0.9)	\$ 0.3	\$ (0.6)
Foreign currency translation adjustment ³	—	—	—	—	—	—	1.0	—	1.0
Change in pension and postretirement defined benefit plans ⁴	2.0	(2.4)	(0.4)	3.0	(1.0)	2.0	5.9	(2.2)	3.7

¹ Reclassified from Accumulated other comprehensive income (loss) into Investment income and other, net.

² Reclassified from Accumulated other comprehensive income (loss) into Interest expense.

³ Reclassified from Accumulated other comprehensive income (loss) into Special charges.

⁴ Reclassified from Accumulated other comprehensive income (loss) into Cost of goods sold and Selling and administrative expenses. These components are included in the computation of net periodic pension expense.

⁵ As a result of the adoption of ASU 2018-02, we reclassified \$5.4 million from Accumulated other comprehensive income (loss) to Retained earnings.

Note 10. Special Charges

In connection with various organizational changes to improve our business alignment and cost structure, we recognized Special charges of \$28.4 million, \$77.6 million and \$37.4 million in fiscal 2019, 2018 and 2017. Although these charges are infrequent and unusual in nature, additional Special charges are expected to be incurred. It is not practicable to estimate the amount of these future expected costs until such time as the evaluations are complete.

These charges are summarized as follows:

Legal Claim Recovery and Legal Settlement

In fiscal 2018, we received a settlement payment for a legal claim and recorded a gain of \$1.2 million in Special charges.

In fiscal 2017, we entered into a confidential agreement with Stryker Corporation, resolving alleged infringement of certain Hillrom patents covering proprietary communications networks resulting in a gain of \$15.1 million recorded in Special charges.

Dispositions

In fiscal 2018, we recorded a loss of \$24.5 million in Special charges related to the UHS Settlement Agreement (Note 3).

In fiscal 2017, we sold our Völker business. We recorded impairment charges of \$25.4 million in fiscal 2017, relating mainly to non-cash write-downs of long-lived assets and working capital associated with the Völker brand portfolio and fiscal 2017 related transaction costs of approximately \$3.0 million in Special charges (Note 3).

In fiscal 2017, we sold our Architectural Products business and recorded \$1.1 million of expense, primarily related to severance, in Special charges (Note 3).

Business Optimization and Realignment

Management pursues opportunities to align our operations to achieve synergies and position the business for growth. In fiscal 2018, a global transformation program was launched that was focused on reducing complexity, increasing efficiency, improving our cost structure with targeted investments that align with our strategic priorities,

As part of this program, management launched an initiative related to a global information technology transformation, including rationalizing and transforming our enterprise resource planning software solutions and other complementary information technology systems. In fiscal 2019, the Company incurred \$3.3 million related to this initiative, of which \$2.0 million was capitalized and \$1.3 million was expensed in Special charges. The objective of this initiative is to consolidate and streamline our key workstreams that interact with customers and vendors, support our financial reporting processes and maintain the security of our data. The solutions designed under this initiative will be implemented over the next five to seven years.

We acquired Breathe and Voalte in fiscal 2019 and Mortara in fiscal 2017 and initiated integration activities to achieve the available synergies of our combined company. We also incurred costs, including severance and benefit costs, associated with other business realignment and integration activities.

In fiscal 2019, we incurred total business optimization and realignment charges of approximately \$21.1 million, of which \$12.9 million were severance and benefit costs with the remainder related to professional fees and project management costs. These amounts compare to charges of \$38.4 million and \$7.6 million in fiscal 2018 and 2017, of which \$17.6 million and \$3.5 million were severance and benefit costs.

The restructuring in Europe to reduce our European manufacturing capacity and to streamline our operations is complete and, in fiscal 2017, we recorded Special charges of \$0.9 million for legal and professional fees, temporary labor, project management, severance and benefit costs, and other administrative functions. We do not expect to incur further costs related to this action.

Site Consolidation

We continue to streamline our operations and simplify our supply chain by consolidating certain manufacturing and distribution operations ("Site Consolidation"). In fiscal 2019, we recorded total charges of \$7.3 million, related to these efforts, of which \$1.8 million were severance and benefit costs. The remaining costs primarily consisted of lease termination and facility closure costs related to one site. In fiscal 2018, we recorded total charges related to these activities of \$15.9 million, of which \$3.7 million were severance and benefit costs. In fiscal 2017, we recorded total charges of \$19.7 million, of which \$5.1 million were severance and benefit costs.

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In fiscal 2017, we sold our Charleston property for \$6.1 million in cash proceeds and recorded a gain of \$5.2 million in Special charges.

For all accrued severance and other benefit charges described above, we record restructuring reserves within Other current liabilities. The reserve activity for severance and other benefits in fiscal 2019 and 2018 was as follows:

Balance as of September 30, 2017	\$ 9.0
Expenses	21.3
Cash Payments	(20.9)
Reversals	(0.9)
Balance as of September 30, 2018	<u>8.5</u>
Expenses	16.4
Cash Payments	(15.1)
Reversals	(1.3)
Balance as of September 30, 2019	<u><u>\$ 8.5</u></u>

Note 11. Income Taxes

The significant components of income before income taxes and the consolidated income tax provision were as follows:

	Year Ended September 30		
	2019	2018	2017
Income before income taxes:			
Domestic	\$ 122.5	\$ 101.8	\$ 129.0
Foreign	86.1	95.4	54.0
Total	<u><u>\$ 208.6</u></u>	<u><u>\$ 197.2</u></u>	<u><u>\$ 183.0</u></u>
Income tax expense:			
Current provision			
U.S. Federal	\$ 51.0	\$ 5.9	\$ 61.6
State	6.0	3.5	8.6
Foreign	18.2	20.2	13.3
Total current provision	<u>75.2</u>	<u>29.6</u>	<u>83.5</u>
Deferred provision:			
U.S. Federal	(12.0)	(83.4)	(34.9)
State	(2.5)	(2.8)	1.3
Foreign	(4.3)	1.4	0.8
Total deferred provision	<u>(18.8)</u>	<u>(84.8)</u>	<u>(32.8)</u>
Income tax expense	<u><u>\$ 56.4</u></u>	<u><u>\$ (55.2)</u></u>	<u><u>\$ 50.7</u></u>

Differences between income tax expense reported for financial reporting purposes and that computed based upon the application of the statutory U.S. Federal tax rate to the reported income before income taxes were as follows:

	Year Ended September 30					
	2019		2018		2017	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
U.S. Federal income tax ¹	\$ 43.8	21.0%	\$ 48.4	24.5 %	\$ 64.1	35.0%
State income tax ²	3.3	1.6	2.9	1.5	4.1	2.2
Foreign income tax ³	(10.1)	(4.9)	(25.9)	(13.2)	(35.6)	(19.4)
Application of federal research tax credits	(5.6)	(2.7)	(5.6)	(2.9)	(3.6)	(2.0)
Application of foreign tax credits	(0.1)	—	(1.0)	(0.5)	(15.0)	(8.2)
Valuation of tax attributes	2.2	1.1	23.4	11.9	36.3	19.8
Foreign inclusions	—	—	(0.9)	(0.4)	11.5	6.3
Domestic manufacturer's deduction	—	—	(0.9)	(0.4)	(4.4)	(2.4)
Excess tax benefits from share based awards	(5.2)	(2.5)	(16.1)	(8.2)	(8.9)	(4.9)
U.S. tax benefit of foreign currency loss	—	—	(9.2)	(4.7)	—	—
U.S. tax reform deferred tax remeasurement	—	—	(93.8)	(47.6)	—	—
U.S. tax reform transition tax	(1.0)	(0.5)	22.9	11.6	—	—
Foreign-derived intangible income deduction	(4.3)	(2.0)	—	—	—	—
Global intangible low-taxed income inclusion	9.6	4.6	—	—	—	—
Disposition of subsidiary	18.2	8.7	—	—	—	—
Current period change in uncertain tax positions	4.6	2.2	1.5	0.8	(0.8)	(0.4)
Other, net	1.0	0.4	(0.9)	(0.4)	3.0	1.7
Income tax expense	\$ 56.4	27.0%	\$ (55.2)	(28.0)%	\$ 50.7	27.7%

¹ At statutory rate.

² Net of U.S. Federal benefit.

³ U.S. Federal tax rate differential.

The tax effect of temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

	September 30, 2019	September 30, 2018
Deferred tax assets:		
Employee benefit accruals	\$ 42.9	\$ 34.9
Inventory	10.0	12.7
Net operating loss carryforwards	69.8	84.5
Tax credit carryforwards	22.6	20.5
Other, net	25.3	26.4
	170.6	179.0
Less: Valuation allowance	(45.0)	(80.2)
Total deferred tax assets	125.6	98.8
Deferred tax liabilities:		
Depreciation	(14.5)	(19.2)
Amortization	(215.4)	(216.8)
Other, net	(5.6)	(9.1)
Total deferred tax liabilities	(235.5)	(245.1)
Deferred tax liability - net	\$ (109.9)	\$ (146.3)

As of September 30, 2019, we had \$36.7 million of deferred tax assets related to operating loss carryforwards in foreign jurisdictions that are subject to various carryforward periods with the majority eligible to be carried forward for an unlimited period. Additionally, we had \$26.1 million of deferred tax assets related to U.S. Federal net operating loss (“NOL”) carryforwards, some of which will be carried forward for an unlimited period and some of which will expire between 2021 and 2036 and \$7.0 million of deferred tax assets related to state NOL carryforwards, some of which will be carried forward for an unlimited period and some of which will expire between 2020 and 2039. We had \$22.6 million of deferred tax assets related to state tax credits, some of which will be carried forward for an unlimited period and some of which will expire between 2020 and 2034. During fiscal 2019, we fully utilized all of our domestic capital loss carryforwards.

The gross deferred tax assets as of September 30, 2019 were reduced by valuation allowances of \$45.0 million primarily related to certain foreign deferred tax attributes and state tax credit carryforwards as it is more likely than not that some portion or all of these tax attributes will not be realized. In evaluating whether it is more likely than not that we would recover our deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies were considered. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances. During fiscal 2019, the valuation allowance decreased by \$35.2 million. The decrease related primarily to the forfeiture of foreign net operating losses related to a legal entity reorganization. These net operating losses were previously reserved with a full valuation allowance thus the forfeiture of these net operating losses had no net impact to the current year tax expense.

We operate under tax holidays in both Singapore and Puerto Rico. The Singapore tax holiday is effective through 2019. We are currently negotiating a new multi-year arrangement to extend the incentive in Singapore. The Puerto Rico tax holiday is effective through 2025, but we have disposed of this operation and thus will not recognize any benefit in the future. Both incentives are conditional on meeting certain employment and/or investment thresholds. The impact of these tax holidays decreased foreign taxes by \$5.2 million in fiscal 2019, \$4.3 million in fiscal 2018 and \$3.6 million in fiscal 2017. The benefit of the tax holidays on net income per diluted share was \$0.08, \$0.06 and \$0.05 in fiscal 2019, 2018 and 2017.

With regard to our non-U.S. subsidiaries, it is our practice and intention to reinvest the earnings in those businesses, to fund capital expenditures and other operating cash needs. Because the undistributed earnings of non-U.S. subsidiaries are considered to be permanently reinvested, no U.S. deferred income taxes or foreign withholding taxes have been provided on earnings subsequent to the enactment of the Tax Act. As of September 30, 2019, we have approximately \$50.6 million of undistributed earnings in our non-U.S. subsidiaries that are considered to be permanently reinvested. If such earnings were repatriated, we do not anticipate incurring a significant amount of additional tax expense.

We file a consolidated federal income tax return as well as multiple state, local and foreign jurisdiction tax returns. In the normal course of business, we are subject to examination by the taxing authorities in each of the jurisdictions where we file tax returns. In fiscal 2019, the U.S. Internal Revenue Service (“IRS”) concluded its audit of fiscal 2017 and initiated its post-filing examination of the fiscal 2018 consolidated federal return. We continue to participate in the IRS Compliance Assurance Program (“CAP”) for fiscal 2019 and fiscal 2020. We are in the application process to remain in the CAP for fiscal 2021. The CAP provides the opportunity for the IRS to review certain tax matters prior to us filing our tax return for the year, thereby reducing the time it takes to complete the post-filing examination. We are also subject to state and local or foreign income tax examinations by taxing authorities for years back to fiscal 2014.

We also have on-going audits in various stages of completion in several state and foreign jurisdictions, one or more of which may conclude within the next 12 months. Such settlements could involve some or all of the following: the payment of additional taxes and related penalties, the adjustment of certain deferred taxes and/or the recognition of unrecognized tax benefits. The resolution of these matters, in combination with the expiration of certain statutes of limitations in various jurisdictions, make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition by up to \$7.3 million in the next 12 months, excluding interest.

The total amount of gross unrecognized tax benefits as of September 30, 2019, 2018 and 2017 were \$9.6 million, \$6.2 million and \$4.5 million, which includes \$9.3 million, \$5.6 million and \$3.3 million that, if recognized, would impact the effective tax rate in future periods. The remaining amount relates to items which, if recognized, would not impact our effective tax rate.

A rollforward of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended September 30		
	2019	2018	2017
Balance as of October 1	\$ 6.2	\$ 4.5	\$ 5.1
Increases in tax position of prior years	5.8	2.3	0.1
Increases in tax position during the current year	—	0.3	—
Settlements with taxing authorities	(1.1)	—	—
Lapse of applicable statute of limitations	(1.0)	(0.9)	(0.8)
Foreign currency adjustments	(0.3)	—	0.1
Total change	3.4	1.7	(0.6)
Balance as of September 30	\$ 9.6	\$ 6.2	\$ 4.5

In fiscal 2019, we recorded a domestic reserve of \$5.8 million related to an unrecognized tax benefit for a position related to the Transition Tax that we believe is not more likely than not of being sustained on audit.

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Accrued interest and penalties, which are not presented in the rollforward table above, were \$1.7 million, \$2.1 million and \$2.6 million as of September 30, 2019, 2018 and 2017. Related to interest and penalties, we recognized an income tax benefit of \$0.4 million in 2019, \$0.5 million in 2018, and \$0.4 million in 2017.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code which impacted the financial results of our fiscal year ended September 30, 2018, and continues to impact the financial results of the quarter and year to date periods ended September 30, 2019, including, but not limited to (1) reduced the U.S. Federal corporate tax rate, (2) required a one-time transition tax (“Transition Tax”) on certain unrepatriated earnings of foreign subsidiaries that may electively be paid over eight years, and (3) accelerated first year expensing of certain capital expenditures. The Tax Act reduces the U.S. Federal corporate tax rate from 35.0% to 21.0% effective January 1, 2018 for calendar year tax filers. Internal Revenue Code Section 15 provides that for fiscal 2018, we had a blended corporate tax rate of 24.5%, which was based on a proration of the applicable tax rates before and after the effective date of the Tax Act. The statutory tax rate of 21.0% applies to our current fiscal 2019 and beyond.

The Tax Act also puts in place new tax laws that will impact our taxable income beginning in fiscal 2019, which include, but are not limited to (1) creating a Base Erosion Anti-abuse Tax (“BEAT”), which is a tax on certain related-party payments that reduce the U.S. tax base, (2) generally eliminating U.S. Federal income taxes on dividends from foreign subsidiaries, (3) a new provision designed to tax currently GILTI, which allows for the possibility of utilizing foreign tax credits and a deduction equal to 50.0% to offset the income tax liability (subject to some limitations), (4) a provision that could limit the amount of deductible interest expense, (5) the repeal of the domestic production activity deduction replaced with an additional deduction for FDII, (6) limitations on the deductibility of certain executive compensation, and (7) limitations on the utilization of foreign tax credits to reduce the U.S. income tax liability.

Shortly after the Tax Act was enacted, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”) which provides guidance on accounting for the Tax Act’s impact. SAB 118 provided a measurement period, which in no case should extend beyond one year from the Tax Act enactment date, during which a company acting in good faith may complete the accounting for the impacts of the Tax Act under ASC Topic 740. In accordance with the expiration of the SAB 118 measurement period, we completed the assessment of the income tax effects of the Tax Act in the first quarter of fiscal 2019 and further reduced our Transition Tax liability by \$1.0 million in the first quarter of fiscal 2019.

The U.S. Internal Revenue Service and Treasury Department continue to release proposed guidance with respect to the Tax Act. We continue to evaluate what impact, if any, each piece of guidance may have on our related tax positions and our effective tax rate if, and when, such guidance is finalized.

Note 12. Earnings per Common Share

Basic earnings per share is calculated based upon the weighted average number of outstanding common shares for the period, plus the effect of deferred vested shares. Diluted earnings per share is calculated consistent with the basic earnings per share calculation plus the effect of dilutive unissued common shares related to stock-based employee compensation programs. For all periods

presented, anti-dilutive stock options were excluded from the calculation of diluted earnings per share. Cumulative treasury stock acquired, less cumulative shares reissued, have been excluded in determining the average number of shares outstanding.

Earnings per share are calculated as follows (share information in thousands):

	Year Ended September 30		
	2019	2018	2017
Net income attributable to common shareholders	\$ 152.2	\$ 252.4	\$ 133.6
Average basic shares outstanding	66,772	66,234	65,599
Add potential effect of exercise of stock options and other unvested equity awards	888	1,378	1,626
Average diluted shares outstanding	67,660	67,612	67,225
Net income attributable to common shareholders per basic common share	\$ 2.28	\$ 3.81	\$ 2.04
Net income attributable to common shareholders per diluted common share	\$ 2.25	\$ 3.73	\$ 1.99
Shares with anti-dilutive effect excluded from the computation of diluted EPS	288	263	20

Note 13. Common Stock

Share Repurchases

Under the Board-approved share repurchase program, authorization of \$340.0 million was previously granted to repurchase shares. In September 2019, the Board approved an additional \$170.0 million for repurchases. Repurchases may be made on the open market or via private transactions, and are used to manage our capital structure, offset the dilutive impact of stock-based compensation and return cash to shareholders. This program does not have an expiration date and there are no plans to terminate this program in the future. In fiscal 2019, we repurchased 1.2 million shares of our common stock in the open market valued at \$117.2 million. We repurchased 0.8 million shares of our common stock in the open market in fiscal 2017 valued at \$50.0 million. We did not repurchase shares in fiscal 2018 in the open market. As of September 30, 2019, a cumulative total of \$292.5 million had been used, leaving us with availability of \$217.5 million for future repurchases.

In connection with employee payroll tax withholding for restricted stock distributions, we purchased 48,908 shares of our common stock for \$4.7 million in fiscal 2019, and 158,182 shares for \$14.1 million in fiscal 2018 and 158,668 shares for \$10.6 million in fiscal 2017.

Stock-Based Compensation

We have stock-based compensation plans under which employees and non-employee directors may be granted options to purchase shares of Company common stock at the fair market value at the time of grant. In addition to stock options, we grant performance share units (“PSUs”) and RSUs to certain management level employees and vested restricted stock to non-employee directors. We also offer eligible employees the opportunity to buy shares of our common stock at a discount via an Employee Stock Purchase Plan (“ESPP”).

Our primary stock-based compensation program is the Stock Incentive Plan, which has been approved by our shareholders. Under the Stock Incentive Plan, we have a total of 15.3 million authorized shares. As of September 30, 2019, approximately 1.8 million shares were available for future grants under our stock-based compensation plans. We generally settle our stock-based awards with treasury shares. As of September 30, 2019, we had 21.8 million treasury shares available for use to settle stock-based awards.

The stock-based compensation cost that was charged against income for all plans was \$34.4 million, \$28.1 million and \$23.0 million for fiscal 2019, 2018 and 2017.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*. In the first quarter of fiscal 2017, we elected to early adopt ASU 2016-09, as permitted. Under ASU 2016-09, the tax effects of stock compensation will be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. Amendments related to accounting for excess tax benefits have been adopted prospectively, resulting in recognition of excess tax benefits against income tax expense rather than additional paid-in capital of \$5.2 million, \$16.1 million and \$8.9 million in fiscal

2019, 2018 and 2017. As a result of the adoption, we did not record an adjustment to retained earnings as we did not have NOL carryforwards attributable to excess tax benefits on stock compensation that had not been previously recognized to additional paid-in capital. Excess tax benefits for share-based payments are now included as net operating activities rather than net financing activities in the Statements of Consolidated Cash Flows. The changes have been applied prospectively in accordance with ASU 2016-09 and prior periods have not been adjusted. Cash paid by an employer when directly withholding shares for tax withholding purposes will continue to be classified as financing activities. We elected not to change our accounting policy for forfeitures. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions.

Stock Options

Stock options granted by our Compensation Committee of our Board under the Stock Incentive Plan are non-qualified stock options. These awards are generally granted with exercise prices equal to the average of the high and low prices of our common stock on the date of grant. They vest in equal annual installments over a three- or four-year period and the maximum contractual term is ten years. We use a Binomial option-pricing model to estimate the fair value of stock options, and compensation cost is recognized on a straight-line basis over the requisite service period.

The following table sets forth the weighted average fair value per share of stock options and the related valuation assumptions used in the determination of those fair values:

	Year Ended September 30		
	2019	2018	2017
Weighted average fair value per share	\$25.28	\$22.50	\$15.05
Valuation assumptions:			
Risk-free interest rate	3.0%	2.2%	1.7%
Expected dividend yield	0.8%	0.9%	1.3%
Expected volatility	30.5%	30.8%	33.2%
Weighted average expected life (years)	4.7	4.9	4.9

The risk-free interest rate is based upon observed U.S. Treasury interest rates appropriate for the term of our employee stock options. Expected dividend yield is based on the history and our expectation of dividend payouts. Expected volatility was based on our historical stock price volatility. Expected life represents the weighted average period the stock options are expected to remain outstanding and is a derived output of the Binomial model. The expected life of employee stock options is impacted by the above assumptions as well as the post-vesting forfeiture rate and the exercise factor used in the Binomial model. These two variables are based on the history of exercises and forfeitures for previous stock options granted by us.

The following table summarizes transactions under our stock option plans in fiscal 2019:

	Weighted Average Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Balance Outstanding as of October 1, 2018	912	\$ 57.40		
Granted	168	97.39		
Exercised	(317)	45.72		
Cancelled/Forfeited	(45)	69.31		
Balance Outstanding as of September 30, 2019	718	\$ 71.14	7.4	\$ 24.5
Exercisable as of September 30, 2019	243	\$ 53.99	5.7	\$ 12.4
Options Expected to Vest	425	\$ 79.12	8.2	\$ 11.1

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on our closing stock price of \$105.23, as reported by the New York Stock Exchange on September 30, 2019. This amount, which changes continuously based on the fair value of our common stock, would have been received by the option holders had all option holders exercised their options as of the balance sheet date.

The total intrinsic value of options exercised in fiscal 2019, 2018 and 2017 was \$17.7 million, \$54.7 million and \$19.4 million.

As of September 30, 2019, there was \$6.3 million of unrecognized compensation expense related to stock options granted under the Stock Incentive Plan. This unrecognized compensation expense does not consider potential forfeitures, and is expected to be recognized over a weighted average period of 2.2 years.

Restricted Stock Units

RSUs are granted to certain employees with fair values equal to the average of the high and low prices of our common stock on the date of grant, multiplied by the number of units granted. RSU grants are contingent upon continued employment and vest over periods ranging from one to four years. Dividends, payable in common stock equivalents, accrue on the grants and are subject to the same specified terms as the original grants, including the risk of forfeiture.

The following table summarizes transactions for our nonvested RSUs in fiscal 2019:

	Number of Share Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested RSUs as of October 1, 2018	318	\$ 73.72
Granted	277	98.28
Vested	(168)	63.53
Forfeited	(56)	80.05
Nonvested RSUs as of September 30, 2019	371	\$ 95.76

As of September 30, 2019, there was \$19.5 million of total unrecognized compensation expense related to nonvested RSUs granted under the Stock Incentive Plan. This unrecognized compensation expense does not consider potential forfeitures, and is expected to be recognized over a weighted average period of 1.8 years. The total vest date fair value of shares that vested in fiscal 2019, 2018 and 2017 was \$16.6 million, \$21.9 million and \$14.5 million.

Performance Share Units

Our Compensation Committee grants PSUs to certain employees and these awards are subject to any stock dividends, stock splits, and other similar rights inuring to common stock, but unlike our RSUs are not entitled to dividend reinvestment. Vesting of the grants is contingent upon achievement of performance targets and corresponding service requirements.

The fair value of the PSUs is equal to the average of the high and low prices of our common stock on the date of grant, multiplied by the number of units granted. For PSUs with a market condition such as total shareholder return, the Monte-Carlo simulation method is used to determine fair value. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of our and our group of peer companies' future expected stock prices.

The following table sets forth the weighted average fair value per share for PSUs and the related valuation assumptions used in the determination of those fair values. PSUs granted in fiscal 2019, 2018 and 2017 are based on company-specific performance targets, with a total shareholder return collar.

	Year Ended September 30		
	2019	2018	2017
Weighted average fair value per share	\$112.79	\$87.42	\$55.95
Valuation assumptions:			
Risk-free interest rate	3.0%	1.9%	1.2%
Expected volatility	22.8%	21.9%	22.6%

The basis for the assumptions listed above is similar to the valuation assumptions used for stock options, as discussed previously.

The following table summarizes transactions for our nonvested PSUs in fiscal 2019:

	Number of Share Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested PSUs as of October 1, 2018	291	\$ 70.77
Granted	87	112.79
Vested	(144)	55.95
Forfeited	(28)	72.21
Nonvested PSUs as of September 30, 2019	206	\$ 98.78

As of September 30, 2019, there was \$10.8 million of unrecognized compensation expense related to PSUs granted under the Stock Incentive Plan based on the expected achievement of certain performance targets or market conditions. This unrecognized compensation expense as of September 30, 2019 does not reflect a reduction for our estimate of potential forfeitures and is expected to be recognized by the end of fiscal 2021. The total fair value of shares that vested in fiscal 2019, 2018 and 2017 was \$8.0 million, \$16.4 million and \$14.2 million.

Note 14. Segment Reporting

We disclose segment information that is consistent with the way in which management operates and views the business. Our operating structure contains the following reportable segments:

- **Patient Support Systems** – globally provides our med-surg and specialty bed systems and surfaces, safe patient handling equipment and mobility solutions, as well as our care communications platform that delivers software and information technologies to improve care and deliver actionable insight to caregivers and patients.
- **Front Line Care** – globally provides patient monitoring and diagnostic technologies, including a diversified portfolio of physical assessment tools that help diagnose, treat and manage a wide variety of illnesses and diseases, including a portfolio of vision care and respiratory health devices.
- **Surgical Solutions** – globally provides products that improve safety and efficiency in the surgical space, including tables, lights, pendants, positioning devices and other accessories.

Our performance within each reportable segment continues to be measured on a divisional income basis before non-allocated operating and administrative costs, litigation, special charges, acquisition and integration costs, acquisition-related intangible asset amortization, and other unusual events. Divisional income generally represents the division's gross profit less its direct operating costs along with an allocation of manufacturing and distribution costs, research and development and certain corporate functional expenses.

Non-allocated operating costs, administrative costs, and other includes functional expenses that support the entire organization such as administration, finance, legal and human resources, expenses associated with strategic developments, acquisition-related intangible asset amortization, and other events that are not indicative of operating trends. We exclude such amounts from divisional income to allow management to evaluate and understand divisional operating trends. The chief operating decision maker does not receive any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

The following summarizes financial results by reportable segment:

	Year Ended September 30		
	2019	2018	2017
Net revenue:			
Patient Support Systems	\$ 1,490.5	\$ 1,429.5	\$ 1,423.9
Front Line Care	978.1	960.2	885.3
Surgical Solutions	438.7	458.3	434.5
Total net revenue	<u>\$ 2,907.3</u>	<u>\$ 2,848.0</u>	<u>\$ 2,743.7</u>
Divisional income:			
Patient Support Systems	\$ 292.5	\$ 281.3	\$ 249.6
Front Line Care	267.7	253.0	231.8
Surgical Solutions	61.2	53.1	42.5
Other operating costs:			
Non-allocated operating costs, administrative costs, and other	276.9	220.4	211.5
Special charges	28.4	77.6	37.4
Operating profit	<u>316.1</u>	<u>289.4</u>	<u>275.0</u>
Interest expense	(89.6)	(95.0)	(88.9)
Loss on extinguishment of debt	(3.3)	—	—
Investment income and other, net	(14.6)	2.8	(3.1)
Income before income taxes	<u>\$ 208.6</u>	<u>\$ 197.2</u>	<u>\$ 183.0</u>
Depreciation and amortization of property, plant, equipment and intangibles:			
Patient Support Systems	\$ 36.2	\$ 37.4	\$ 47.0
Front Line Care	101.9	110.7	107.4
Surgical Solutions	28.4	20.8	22.1
Corporate	28.3	27.6	27.1
Total depreciation and amortization of property, plant, equipment and intangibles	<u>\$ 194.8</u>	<u>\$ 196.5</u>	<u>\$ 203.6</u>

Geographic Information

Geographic data for net revenue and long-lived assets were as follows:

	Year Ended September 30		
	2019	2018	2017
Net revenue to unaffiliated customers:			
United States	\$ 2,056.8	\$ 1,956.4	\$ 1,887.6
Foreign	850.5	891.6	856.1
Total net revenue	<u>\$ 2,907.3</u>	<u>\$ 2,848.0</u>	<u>\$ 2,743.7</u>
Long-lived assets:			
United States	\$ 212.5	\$ 239.5	\$ 243.9
Foreign	84.3	88.8	111.5
Total long-lived assets	<u>\$ 296.8</u>	<u>\$ 328.3</u>	<u>\$ 355.4</u>

Net revenue in the above table is attributed to geographic areas based on the location of the customer.

Note 15. Quarterly Financial Information (Unaudited)

The following table presents selected consolidated financial data by quarter for fiscal 2019 and 2018.

<u>2019 Quarter Ended</u>	<u>December 31, 2018</u>	<u>March 31, 2019</u>	<u>June 30, 2019</u>	<u>September 30, 2019</u>
Net Revenue	\$ 683.5	\$ 714.2	\$ 726.8	\$ 782.8
Gross Profit	330.0	352.6	356.6	385.8
Net Income Attributable to Common Shareholders	42.2	49.5	32.6	27.9
Net Income Attributable to Common Shareholders per Common Share - Basic	0.63	0.74	0.49	0.42
Net Income Attributable to Common Shareholders per Common Share - Diluted	0.62	0.74	0.48	0.41
<u>2018 Quarter Ended</u>	<u>December 31, 2017</u>	<u>March 31, 2018</u>	<u>June 30, 2018</u>	<u>September 30, 2018</u>
Net Revenue	\$ 669.7	\$ 710.5	\$ 708.6	\$ 759.2
Gross Profit	319.6	350.4	348.0	376.2
Net Income Attributable to Common Shareholders	88.3	28.5	45.2	90.4
Net Income Attributable to Common Shareholders per Common Share - Basic	1.34	0.43	0.68	1.36
Net Income Attributable to Common Shareholders per Common Share - Diluted	1.31	0.42	0.67	1.33

Note 16. Commitments and Contingencies

Lease Commitments

Rental expense in fiscal 2019, 2018 and 2017 was \$39.8 million, \$41.3 million and \$38.0 million. The table below indicates the future minimum payments under non-cancelable operating leases (excluding executory costs) aggregating \$94.9 million, for manufacturing facilities, warehouse distribution centers, service centers, sales offices, automobiles and other equipment.

	<u>Amount</u>
2020	\$ 25.7
2021	21.4
2022	15.7
2023	11.1
2024	6.4
2025 and beyond	14.6

Self Insurance

We are involved in various claims, including product and general liability, workers' compensation, auto liability and employment related matters. Such claims in the United States have deductibles and self-insured retentions at various limits up to \$1.0 million per occurrence or per claim, depending upon the type of coverage and policy period. International deductibles and self-insured retentions are lower. We are also generally self-insured up to certain stop-loss limits for certain employee health benefits, including medical, drug and dental. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims and outside actuarial analysis, which are based on historical information along with certain assumptions about future events. Such estimated reserves are classified as Other current liabilities and Other long-term liabilities in the Consolidated Balance Sheets.

Legal Proceedings

General

We are subject to various other claims and contingencies arising out of the normal course of business, including those relating to governmental investigations and proceedings, commercial transactions, product liability, employee related matters, antitrust, safety, health, taxes, environmental and other matters. Litigation is subject to many uncertainties and the outcome of individual litigated matters is not predictable with assurance. It is possible that some litigation matters for which reserves have not been established could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on our financial condition, results of operations and cash flows.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer (the “Certifying Officers”), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2019. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and such information is accumulated and communicated to management, including our Certifying Officers and our Board, as appropriate to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures were effective as of September 30, 2019.

Management’s Report on Internal Control Over Financial Reporting

The report of management’s assessment of the effectiveness of our internal control over financial reporting as of September 30, 2019 and the related report of our independent registered public accounting firm, are included in Item 8 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes to our internal controls over financial reporting for the quarter ended September 30, 2019. Management’s report on our internal control over financial reporting is included in Item 8 of this Form 10-K.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the SEC in January 2020 relating to our 2020 Annual Meeting of Shareholders (the “2020 Proxy Statement”), under the headings “Election of Directors”, “Section 16(a) Beneficial Ownership Reporting Compliance”, and “Corporate Governance.” Information relating to our executive officers is included in this Form 10-K in Part I, Item 1 under the caption “Executive Officers.”

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the 2020 Proxy Statement, under the heading “Executive Compensation.”

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the 2020 Proxy Statement, under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the 2020 Proxy Statement, where such information is included under the heading “Corporate Governance.”

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the 2020 Proxy Statement, where such information is included under the heading “Proposals Requiring Your Vote - Ratification of Appointment of Independent Registered Public Accounting Firm.”

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents have been filed as a part of this Form 10-K or, where noted, incorporated by reference:

(1) Financial Statements

The financial statements of the Company and its consolidated subsidiaries are listed under Part II, Item 8 on the Index to the Consolidated Financial Statements.

(2) Financial Statement Schedules

The financial statement schedule filed in response to Part II, Item 8 and Part IV, Item 15(c) of Form 10-K is listed under Part II, Item 8 on the Index to Consolidated Financial Statements.

(3) Exhibits (See changes to Exhibit Index below):

“The Exhibit Index, which follows the signature page to this Form 10-K and is hereby incorporated herein by reference, sets forth a list of those exhibits filed herewith, and includes and identifies management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601 (b)(10)(iii) of Regulation S-K.”

The agreements included as exhibits to this Form 10-K are intended to provide information regarding their terms and not to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements may contain representations and warranties by the parties to the agreements, including us, solely for the benefit of the other parties to the applicable agreement. Such representation and warranties:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to certain investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

HILL-ROM HOLDINGS, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

Fiscal 2019, 2018 and 2017

(In millions)

DESCRIPTION	ADDITIONS				
	BALANCE AS OF BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS NET OF RECOVERIES	BALANCE AS OF END OF PERIOD
Reserves deducted from assets to which they apply:					
Allowance for possible losses and sales returns - accounts receivable:					
Fiscal Year Ended:					
September 30, 2019	\$ 21.8	\$ 5.0	\$ 0.7 ¹	\$ (6.9) ²	\$ 20.6
September 30, 2018	25.1	2.5	0.2 ¹	(6.0) ²	21.8
September 30, 2017	26.8	4.3	2.0 ¹	(8.0) ²	25.1
Valuation allowance against deferred tax assets:					
Fiscal Year Ended:					
September 30, 2019	\$ 80.2	\$ 2.2	\$ 4.5 ³	\$ (41.9) ⁴	\$ 45.0
September 30, 2018	58.2	23.1	—	(1.1)	80.2
September 30, 2017	26.9	30.8	—	0.5	58.2

¹ Reduction of gross revenue for uncollectible health care rental reimbursements, cash discounts and other adjustments in determining net revenue. Also includes the effect of acquired businesses, if any.

² Generally reflects the write-off of specific receivables against recorded reserves.

³ Generally reflects the effect of acquired businesses, if any.

⁴ Primarily reflects utilization of valuation allowance as a result of forfeitures on net operating losses.

HILL-ROM HOLDINGS, INC.

INDEX TO EXHIBITS

Management contracts and compensatory plans or arrangements are designated with “*”.

- [2.1](#) Agreement and Plan of Merger dated June 16, 2015 by and among Hill-Rom Holdings, Inc., Empire Merger Sub Corp., and Welch Allyn Holdings, Inc. (Incorporated herein by reference to Exhibit 2.1 filed with the Company’s Form 8-K dated June 17, 2015)
- [3.1](#) Restated and Amended Articles of Incorporation of Hill-Rom Holdings, Inc., as currently in effect (Incorporated herein by reference to Exhibit 3.1 filed with the Company’s Form 8-K dated March 10, 2010)
- [3.2](#) Amended and Restated Code of By-Laws of Hill-Rom Holdings, Inc., as currently in effect (Incorporated herein by reference to Exhibit 3.2 filed with the Company’s Form 8-K dated March 10, 2010)
- [4.1](#) Indenture dated as of December 1, 1991, between Hill-Rom Holdings, Inc. and Union Bank, N.A. (as successor to LaSalle Bank National Association and Harris Trust and Savings Bank) as Trustee (Incorporated herein by reference to Exhibit (4) (a) to Registration Statement on Form S-3, Registration No. 33-44086)
- [4.2](#) Indenture dated as of September 1, 2015, between Hill-Rom Holdings, Inc. and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the Company’s Form 8-K dated September 1, 2015)
- [4.3](#) First Supplemental Indenture dated September 8, 2015, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.3 to the Company’s Form 10-K dated November 17, 2016)
- [4.4](#) Second Supplemental Indenture dated as of September 29, 2016, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.4 to the Company’s Form 10-K dated November 17, 2016)
- [4.5](#) Indenture dated as of February 14, 2017, between Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the Company’s Form 8-K dated February 14, 2017)
- [4.6](#) Third Supplemental Indenture dated May 12, 2017, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.5 to the Company’s Form 10-K dated November 17, 2017)
- [4.7](#) First Supplemental Indenture dated May 12, 2017, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.7 to the Company’s Form 10-K dated November 17, 2017)
- [4.8](#) Indenture, dated September 19, 2019, among Hill-Rom Holdings, Inc., the subsidiary guarantors party thereto, and Citibank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the Company’s Form 8-K dated September 19, 2019)
- [4.9](#) First Supplemental Indenture dated October 16, 2019, among Hill-Rom Holdings, Inc., the guarantors party thereto, and Citibank, N.A., as Trustee
- [4.10](#) Third Supplemental Indenture dated October 16, 2019, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee
- [*10.1](#) Hill-Rom Holdings, Inc. Board of Directors’ Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.10 filed with the Company’s Form 10-Q dated July 13, 2001)

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- [*10.2](#) Hill-Rom Holdings, Inc. Director Phantom Stock Plan and form of award (Incorporated herein by reference to Exhibit 10.11 filed with the Company's Form 10-Q dated July 13, 2001)
- [*10.3](#) Form of Director Indemnity Agreement (Incorporated herein by reference to Exhibit 10.6 filed with the Company's Form 10-K dated December 23, 2003)
- [*10.4](#) Form of Indemnity Agreement between Hill-Rom Holdings, Inc. and certain executive officers (Incorporated herein by reference to Exhibit 10.9 filed with the Company's Form 10-K dated December 23, 2003)
- [*10.5](#) Hill-Rom Holdings, Inc. Amended and Restated Short Term Incentive Compensation Program (Incorporated herein by reference to Exhibit 10.1 filed with the Company's Form 10-K dated November 24, 2009)
- [*10.6](#) Amended and Restated Hill-Rom Holdings, Inc. Stock Incentive Plan, as currently in effect (Incorporated herein by reference to Exhibit 10.30 filed with the Company's Form 10-K dated November 24, 2009)
- [*10.7](#) Hill-Rom Holdings, Inc. Short-Term Incentive Plan (Incorporated herein by reference to Appendix 1 to the Hill-Rom Holdings, Inc. Definitive Proxy Statement on Schedule 14A dated January 18, 2011)
- [*10.8](#) Hill-Rom Holdings, Inc. Amended and Restated Supplemental Executive Retirement Plan (Incorporated herein by reference to Exhibit 10.69 filed with the Company's Form 10-K dated November 16, 2011)
- [*10.9](#) Form of Indemnity Agreement between Hill-Rom Holdings, Inc. and certain executive officers (Incorporated herein by reference to Exhibit 10.6 filed with the Company's Form 10-K dated November 16, 2011)
- [*10.10](#) Form of Limited Recapture Agreement between Hill-Rom Holdings, Inc. and certain of its officers, including Named Executive Officers (Incorporated herein by reference to Exhibit 10.34 filed with the Company's Form 10-K dated November 20, 2013)
- [*10.11](#) FY 2016 Non-Employee Director Compensation Policy (Incorporated herein by reference to Exhibit 10.31 filed with the Company's Form 10-K dated November 19, 2015)
- [*10.12](#) Letter Agreement between Hill-Rom Holdings, Inc. and Jason Richardson (Incorporated herein by reference to Exhibit 10.1 filed with the Company's Form 8-K dated March 16, 2016)
- [10.13](#) Credit Agreement dated as of August 30, 2019 among Hill-Rom Holdings, Inc, Welch Allyn, Inc., the other borrowers from time to time party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (Incorporated herein by reference to Exhibit 10.1 the Company's Form 8-K dated August 30, 2019)
- [10.14](#) Loan and Security Agreement dated May 5, 2017, among Hill-Rom Finance Company LLC, as Borrower, the persons from time to time party hereto, as lenders and as Group Agents, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent, and Hill-Rom Company, Inc., as initial Servicer (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 5, 2017)
- [10.15](#) Purchase and Sale Agreement dated May 5, 2017, among Hill-Rom Company, Inc., as an originator and as servicer, other originators from time to time party hereto, as originators, and Hill-Rom Finance Company LLC, as Buyer (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated May 5, 2017)
- [10.16](#) Performance Guaranty dated May 5, 2017, between Hill-Rom Holdings, Inc., the Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, for and on behalf of the Credit Parties and other Secured Parties from time to time under the Loan and Security Agreement, dated as of the date hereof, among Hill-Rom Finance Company LLC, Hill-Rom Company, Inc., as initial servicer, the Administrative Agent and BTMU (Incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated May 5, 2017)

- [*10.17](#) Hill-Rom Holdings, Inc. Employee Stock Purchase Plan, as amended and restated as of July 1, 2017 (Incorporated herein by reference to Exhibit 10.22 to the Company's Form 10-K dated November 16, 2018)
- [*10.18](#) Employment Agreement between HR Europe B.V. and Francisco Canal Vega (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q dated July 28, 2017)
- [*10.19](#) Form of Non-Qualified Stock Option Agreement for employees hired prior to August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.30 to the Company's Form 10-K dated November 17, 2017)
- [*10.20](#) Form of Non-Qualified Stock Option Agreement for employees hired on and after August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.31 to the Company's Form 10-K dated November 17, 2017)
- [*10.21](#) Form of Non-Qualified Stock Option Agreement (CEO version), under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.32 to the Company's Form 10-K dated November 17, 2017)
- [*10.22](#) Form of Restricted Stock Unit Award Agreement for employees hired prior to August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.33 to the Company's Form 10-K dated November 17, 2017)
- [*10.23](#) Form of Restricted Stock Unit Award Agreement for employees hired on and after August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.34 to the Company's Form 10-K dated November 17, 2017)
- [*10.24](#) Form of Restricted Stock Unit Award Agreement (CEO version), under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.35 to the Company's Form 10-K dated November 17, 2017)
- [*10.25](#) Form of Performance-Based Restricted Stock Unit Award Agreement for employees hired prior to August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.36 to the Company's Form 10-K dated November 17, 2017)
- [*10.26](#) Form of Performance-Based Restricted Stock Unit Award Agreement for employees hired on and after August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.37 to the Company's Form 10-K dated November 17, 2017)
- [*10.27](#) Form of Performance-Based Restricted Stock Unit Award Agreement (CEO version), under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.30 to the Company's Form 10-K dated November 17, 2017)
- [*10.28](#) First Amendment to Employment Agreement between Francisco Canal Vega and Hill-Rom Holdings, Inc. dated April 23, 2018 (Incorporated herein by reference to Exhibit 10.9 to the Company's Form 10-Q dated April 27, 2018)
- [10.29](#) Amendment No. 1 to Loan and Security Agreement, dated as of May 4, 2018, among Hill-Rom Company, Inc., as initial servicer, Hill-Rom Finance Company LLC, as borrower, and MUFG Bank, Ltd., (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd.), as Group Agent, as Committed Lender and as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 4, 2018)
- [10.30](#) Amendment No. 1 to Purchase and Sale Agreement, dated as of May 4, 2018, among Hill-Rom Company, Inc., as initial servicer, each of the Originators party to the Purchase and Sale Agreement, as originators, and Hill-Rom Finance Company LLC, as buyer (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated May 4, 2018)

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- [10.31](#) Master Framework Agreement, dated as of May 4, 2018, by and among MUFG Bank, Ltd., as buyer, Hill-Rom Company, Inc., Hill-Rom Manufacturing, Inc., and each additional seller from time to time party thereto, as sellers, and Hill-Rom Company, as agent for the sellers (Incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated May 4, 2018)
- [10.32](#) 1996 SIFMA Master Repurchase Agreement, including Annex I thereto, (as amended thereby), dated as of May 4, 2018, between Hill-Rom Company, Inc. and MUFG Bank, Ltd (Incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated May 4, 2018)
- [10.33](#) 1996 SIFMA Master Repurchase Agreement, including Annex I thereto, (as amended thereby), dated as of May 4, 2018, between Hill-Rom Manufacturing, Inc. and MUFG Bank, Ltd (Incorporated herein by reference to Exhibit 10.5 to the Company's Form 8-K dated May 4, 2018)
- [10.34](#) Guaranty, dated as of May 4, 2018, between Hill-Rom Holdings, Inc., and MUFG Bank, Ltd., as buyer under the Master Framework Agreement (Incorporated herein by reference to Exhibit 10.6 to the Company's Form 8-K dated May 4, 2018)
- [10.35](#) Amendment No. 3 to Loan and Security Agreement, dated as of May 3, 2019, among Hill-Rom Company, Inc., as initial servicer, Hill-Rom Finance Company LLC, as borrower, and MUFG Bank, Ltd., (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd.), as Group Agent, as Committed Lender and as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 3, 2019)
- [10.36](#) Amendment No. 1 to Master Framework Agreement, dated as of May 3, 2019, by and among MUFG Bank, Ltd., as buyer, Hill-Rom Company, Inc., Hill-Rom Manufacturing, Inc., and each additional seller from time to time party thereto, as sellers, and Hill-Rom Company, as agent for the sellers (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated May 3, 2019)
- [*10.37](#) Letter Agreement executed March 21, 2018 between Hill-Rom Holdings, Inc. and Richard M. Wagner (Incorporated herein by reference to Exhibit 10.1 filed with the Company's Form 8-K dated May 10, 2018)
- [*10.38](#) Addendum III to Employment Agreement between HR Europe B.V. and Francisco Canal Vega dated November 15, 2018 (Incorporated herein by reference to Exhibit 10.42 to the Company's Form 10-K dated November 16, 2018)
- [*10.39](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and John P. Groetelaars dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.43 to the Company's Form 10-K dated November 16, 2018)
- [*10.40](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Deborah Rasin dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.44 to the Company's Form 10-K dated November 16, 2018)
- [*10.41](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Carlos Alonso Marum dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.45 to the Company's Form 10-K dated November 16, 2018)
- [*10.42](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Steven Strobel dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.46 to the Company's Form 10-K dated November 16, 2018)
- [*10.43](#) Amended and Restated Change in Control Agreement between Hill-Rom Holdings, Inc. and John P. Groetelaars dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.47 to the Company's Form 10-K dated November 16, 2018)
- [*10.44](#) Form of Amended and Restated Change in Control Agreement dated November 16, 2018, between Hill-Rom Holdings, Inc. and certain of its officers, including Messrs. Carlos Alonso Marum, Francisco Canal Vega, Andreas Frank, Paul Johnson, Kenneth Meyers, Steven J. Strobel, Richard Wagner, and Ms. Deborah Rasin (Incorporated herein by reference to Exhibit 10.48 to the Company's Form 10-K dated November 16, 2018)

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*10.45	Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Andreas Frank dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.49 to the Company's Form 10-K dated November 16, 2018)
*10.46	Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Paul Johnson dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.50 to the Company's Form 10-K dated November 16, 2018)
*10.47	Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Kenneth Meyers dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.51 to the Company's Form 10-K dated November 16, 2018)
10.48	Residential Lease Agreement between Hill-Rom Holdings, Inc. and Andreas Frank dated May 1, 2019 (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q dated August 2, 2019)
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HILL-ROM HOLDINGS, INC.

By: /s/ John P. Groetelaars
John P. Groetelaars
President and Chief Executive Officer

Date: November 15, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ William G. Dempsey
William G. Dempsey
Chair of the Board

/s/ James R. Giertz
James R. Giertz
Director

/s/ John P. Groetelaars
John P. Groetelaars
President and Chief Executive Officer and Director
(Principal Executive Officer)

/s/ William H. Kucheman
William H. Kucheman
Director

/s/ Barbara W. Bodem
Barbara W. Bodem
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Ronald A. Malone
Ronald A. Malone
Director

/s/ Richard M. Wagner
Richard M. Wagner
Vice President — Controller and
Chief Accounting Officer
(Principal Accounting Officer)

/s/ Gregory J. Moore
Gregory J. Moore
Director

/s/ Gary L. Ellis
Gary L. Ellis
Director

/s/ Nancy M. Schlichting
Nancy M. Schlichting
Director

/s/ Mary Garrett
Mary Garrett
Director

/s/ Stacy Enxing Seng
Stacy Enxing Seng
Director

Date: November 15, 2019

FIRST SUPPLEMENTAL INDENTURE

This First Supplemental Indenture (the “First Supplemental Indenture”), dated as of October 16, 2019, among Hill-Rom Holdings, Inc., an Indiana corporation (or its permitted successor) (the “Issuer”), the other Guarantors (as defined in the Indenture referred to herein), the guarantor named in the signature pages hereto (the “Guaranteeing Subsidiary”) and Citibank, N.A., as trustee under the Indenture referred to below (the “Trustee”).

W I T N E S S E T H

WHEREAS, the Issuer has heretofore executed and delivered to the Trustee an indenture (the “Indenture”), dated as of September 19, 2019, providing for the issuance of the Issuer’s 4.375% Senior Notes due 2027 (the “Notes”);

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuer’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the “Guarantee”); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this First Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

- (1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.
- (2) Agreement to Guarantee. The Guaranteeing Subsidiary hereby (a) jointly and severally agrees, along with all existing Guarantors, to provide an unconditional Guarantee of the Notes on the terms set forth in the Indenture including but not limited to Article 10 thereof and (b) becomes a party to the Indenture as a Guarantor and, as such, will have the rights and be subject to all of the obligations and agreements of a Guarantor under the Indenture.
- (3) No Recourse Against Others. No director, officer, employee, incorporator or stockholder of the Guaranteeing Subsidiary shall have any liability for any obligations of the Issuer or the other Guarantors under the Notes, any Guarantees, the Indenture or this First Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting Notes waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.
- (4) GOVERNING LAW. THIS FIRST SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.
- (5) Counterparts. The parties may sign any number of copies of this First Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this First Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this First Supplemental Indenture as to the parties hereto and may be used in lieu of the original First Supplemental Indenture and signature pages for all purposes.

(6) Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

(7) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this First Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer and the Guaranteeing Subsidiary.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed, all as of the date first above written.

Hill-Rom Holdings, Inc.

By: _____
Name: Deborah M. Rasin
Title: Senior Vice President, Chief Legal Officer and
Secretary

Breathe Technologies, Inc., as Guarantor

By: _____

Name: Deborah M. Rasin

Title: Director

CITIBANK, N.A., as Trustee

By: _____
Name: Ryan Biasi
Title: Senior Trust Officer

THIRD SUPPLEMENTAL INDENTURE

This Third Supplemental Indenture (the “Third Supplemental Indenture”), dated as of October 16, 2019, among Hill-Rom Holdings, Inc., an Indiana corporation (or its permitted successor) (the “Issuer”), the other Guarantors (as defined in the Indenture referred to herein), the guarantor named in the signature pages hereto (the “Guaranteeing Subsidiary”) and MUFG Union Bank, N.A., as trustee under the Indenture referred to below (the “Trustee”).

W I T N E S S E T H

WHEREAS, the Issuer has heretofore executed and delivered to the Trustee an indenture (the “Indenture”), dated as of February 14, 2017, providing for the issuance of the Issuer’s 5.00% Senior Notes due 2025 (the “Notes”);

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuer’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the “Guarantee”); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Third Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to Guarantee. The Guaranteeing Subsidiary hereby (a) jointly and severally agrees, along with all existing Guarantors, to provide an unconditional Guarantee of the Notes on the terms set forth in the Indenture including but not limited to Article 10 thereof and (b) becomes a party to the Indenture as a Guarantor and, as such, will have the rights and be subject to all of the obligations and agreements of a Guarantor under the Indenture.

(3) No Recourse Against Others. No director, officer, employee, incorporator or stockholder of the Guaranteeing Subsidiary shall have any liability for any obligations of the Issuer or the other Guarantors under the Notes, any Guarantees, the Indenture or this Third Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting Notes waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

(4) GOVERNING LAW. THIS THIRD SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(5) Counterparts. The parties may sign any number of copies of this Third Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Third Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Third Supplemental Indenture as to the parties hereto and may be used in lieu of the original Third Supplemental Indenture and signature pages for all purposes.

(6) Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

(7) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Third Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer and the Guaranteeing Subsidiary.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be duly executed, all as of the date first above written.

Hill-Rom Holdings, Inc.

By: _____
Name: Deborah M. Rasin
Title: Senior Vice President, Chief Legal Officer and
Secretary

Breathe Technologies, Inc., as Guarantor

By: _____

Name: Deborah M. Rasin

Title: Director

MUFG UNION BANK, N.A., as Trustee

By: _____
Name: D. Amedeo Morreale
Title: Vice President

**HILL-ROM HOLDINGS, INC.
SUBSIDIARIES OF THE REGISTRANT**

All subsidiaries of the Company as of September 30, 2019 are wholly-owned Indiana corporations, unless otherwise noted.

Subsidiaries of Hill-Rom Holdings, Inc.

Hill-Rom, Inc.
Eagle Acquisition Sub B.V., a Netherlands corporation
Huntersville Insurance Company, Inc., a Utah corporation
Comfort Holdings, Inc.

Jointly owned subsidiary of Hill-Rom Holdings, Inc. and Hill-Rom EU LLC

Welch Allyn, Inc., a New York corporation

Subsidiaries of Hill-Rom, Inc.

Advanced Respiratory, Inc., a Minnesota corporation
Allen Medical Systems, Inc.
Hill-Rom Services, Inc.
Voalte, Inc., a Delaware corporation
Breathe Technologies, Inc., a Delaware corporation

Subsidiary of Breathe Technologies, Inc.

Breathe Homecare, Inc., a Delaware corporation

Subsidiary of Comfort Holdings, Inc.

Anodyne Medical Device, Inc., a Delaware corporation

Subsidiary of Anodyne Medical Device, Inc.

AMF Support Surfaces, Inc., a California corporation

Subsidiary of Allen Medical Systems, Inc.

AMATECH Corporation

Jointly owned subsidiary of Hill-Rom, Inc. and Advanced Respiratory, Inc.

Hill-Rom Company, Inc.

Subsidiaries of Hill-Rom Company, Inc.

Hill-Rom International, Inc.
MEDIQ/PRN Life Support Systems, LLC, an Indiana limited liability company
Hill-Rom Logistics, LLC, an Indiana limited liability company
Hill-Rom Company Real Estate Holdings, LLC, a Delaware limited liability company
Hill-Rom Finance Company LLC, a Delaware limited liability company
Hillrom Asia Holdings Pte. Ltd., a Singapore corporation

Subsidiary of Hillrom Asia Holdings Pte. Ltd.

Hillrom Finance Ltd., a Cayman Islands limited company

Subsidiary of Hill-Rom Services, Inc.

Hill-Rom Manufacturing, Inc.

Subsidiary of Hill-Rom Manufacturing, Inc.

Hill-Rom Finance Limited Partner, Inc.
Hill-Rom Manufacturing Real Estate Holdings, LLC, a Delaware limited liability company

Subsidiaries of Hill-Rom International, Inc.

Hill-Rom Pty, Ltd., an Australia corporation
Hill-Rom Asia Limited, a Hong Kong corporation
Hill-Rom Japan KK, a Japan corporation

Hill-Rom (Thailand) Company Limited, a Thailand limited company
Hill-Rom Chile SpA, a Chile corporation

Subsidiary of Hill-Rom Pty, Ltd.
Trumpf Med (Aust) Pty Limited, an Australia corporation

Subsidiaries of Hill-Rom Asia Limited
Hill-Rom Business Services Co., Ltd., a China corporation
Hill-Rom Shanghai Ltd., a China corporation

Jointly owned subsidiary of Hill-Rom, Inc., Hillrom Finance Ltd., Inc., and Hill-Rom Finance Limited Partner, Inc.
Hill-Rom EU LLC, a Cayman Island limited liability corporation

Subsidiary of Hill-Rom EU LLC
Hill-Rom (Luxembourg) General Partner Ltd. S.á r.l., a Cayman Island corporation

Subsidiary of Hill-Rom (Luxembourg) General Partner Ltd. S.á r.l.
Hill-Rom (Luxembourg) Limited S.á r.l., a Cayman Island corporation

Jointly owned subsidiary of Hill-Rom (Luxembourg) General Partner Ltd. S.á r.l. and Hill-Rom (Luxembourg) Limited S.á r.l.
HR Finance C.V., a Netherlands partnership

Subsidiary of Hill-Rom (Luxembourg) Limited S.á r.l.
Hill-Rom International S.á r.l./B.V., a Luxembourg corporation

Subsidiaries of HR Finance C.V.
HR Europe B.V., a Netherlands corporation
Hill-Rom Holdings Netherlands, B.V., a Netherlands corporation
Hill-Rom Receivables, LLC, a Delaware limited liability company
Hill-Rom Mexico Holdings, B.V., a Netherlands corporation

Subsidiaries of Hill-Rom Holdings Netherlands, B.V.
Hill-Rom UK (Holdings) Ltd., a United Kingdom corporation
Trumpf Medizin Systeme Beteiligungs GmbH, a Germany corporation
Hill-Rom Taiwan Ltd., a Taiwan limited liability company
Hill-Rom Singapore Holdings S.á r.l., a Luxembourg corporation

Subsidiary of Hill-Rom Receivables, LLC
Hill-Rom Society with Restricted Liability, a Barbados Restricted Liability Society

Subsidiary of Hill-Rom Mexico Holdings, B.V.
Hill-Rom Mexico Holdings, LLC, a Delaware limited liability company

Jointly owned subsidiaries of Hill-Rom Mexico Holdings, B.V. and Hill-Rom Mexico Holdings, LLC
Hill-Rom Servicios, S. de R.L. de C.V., a Mexico corporation
Hill-Rom de Mexico, S. de R.L. de C.V., a Mexico corporation

Jointly owned subsidiary of Hill-Rom Holdings Netherlands B.V. and Hill-Rom International S.á r.l./B.V.
Hill-Rom SPRL, a Belgium corporation

Subsidiary of Hill-Rom Singapore Holdings S.á r.l.
Hill-Rom Services Pte, Ltd., a Singapore corporation

Subsidiary of Hill-Rom Holdings Netherlands BV and HR Europe BV
Trumpf Medizin Systeme GmbH & Co. KG, a Germany partnership

Subsidiaries of Trumpf Medizin Systeme GmbH & Co. KG
Trumpf Medical Systems (Taicang) Co., Limited, a China corporation
Videomed S.r.l., a Italy corporation

Subsidiaries of Hill-Rom UK (Holdings) Ltd.

Aspen Medical Europe Limited (UK), a United Kingdom corporation
Hill-Rom Ltd., a United Kingdom corporation

Subsidiaries of Hill-Rom International S.á r.l./B.V.

Hill-Rom B.V., a Netherlands corporation
Hill-Rom S.A., a Switzerland corporation
Hill-Rom Austria GmbH, an Austria corporation
Hill-Rom Poland sp. z.o.o., a Poland corporation
Hill-Rom Canada, Ltd., a Canada corporation
Hill-Rom S.á r.l., a France corporation

Jointly owned subsidiaries of Hill-Rom International S.á r.l./B.V. and Hill-Rom Services, Inc.

Hill-Rom India Private Ltd., an India corporation
Hill-Rom Rus, LLC, a Russia limited liability company
Hill-Rom Comercializadora de Mexico, S. de R.L. de C.V., a Mexico corporation
Hill-Rom Turkey Medikal Urunler Dagitim ve Ticaret Limited Sirketi, a Turkey corporation

Subsidiaries of Hill-Rom S.á r.l.

Hill-Rom, S.p.A, an Italy corporation
Hill-Rom SAS, a France corporation
Hill-Rom Iberia S.L., a Spain corporation
Hill-Rom AB, a Sweden corporation

Subsidiaries of Hill-Rom AB

Liko R&D AB, a Sweden corporation
Liko AB, a Sweden corporation
Hill-Rom Norway, a Norway corporation

Subsidiary of Liko AB

Hill-Rom Verwaltung GmbH, a Germany corporation

Jointly owned subsidiary of Liko AB and Eagle Acquisition Sub B.V.

Hill-Rom Holding GmbH & Co. KG, a Germany partnership

Subsidiaries of Hill-Rom Holding GmbH & Co. KG

Hill-Rom GmbH, a Germany corporation

Subsidiaries of Welch Allyn, Inc.

Welch Allyn International Ventures, Inc., a Delaware corporation
Welch Allyn Protocol, Inc., an Oregon corporation
Welch Allyn International Holdings, Inc., a Delaware corporation
Welch Allyn Real Estate Holdings, LLC, a Delaware limited liability company

Subsidiaries of Welch Allyn International Holdings, Inc.

Welch Allyn South Africa Pty, Ltd., a South Africa corporation
Welch Allyn UK Ltd., a United Kingdom corporation
Welch Allyn B.V., a Netherlands corporation
Welch Allyn France, S.a r.l., a France corporation
Welch Allyn Malaysia SDN, Bhd, a Malaysia corporation
Welch Allyn Singapore Pte, Ltd., a Singapore corporation
Welch Allyn Japan K.K., a Japan corporation
Welch Allyn CV Holdings, LLC, a Delaware limited liability company
Mortara Instrument Europe S.r.l., an Italian limited liability company

Subsidiaries of Mortara Instrument Europe S.r.l.

Welch Allyn GmbH, a German corporation

Jointly held subsidiaries of Welch Allyn International Ventures, Inc. and Welch Allyn International Holdings, Inc.
Welch Allyn Columbia Ltda, a Columbia corporation
Welch Allyn do Brasil Comercia de Equipmentos Medicos, Ltda, a Brazil corporation

Jointly held subsidiary of Welch Allyn CV Holdings, LLC and Welch Allyn International Holdings, Inc.
WA Holdings, C.V., a Netherlands partnership

Subsidiary of WA Holdings, C.V.
Welch Allyn Coop Holdings, LLC, a Delaware limited liability company

Jointly held subsidiary of WA Holdings, C.V. and Welch Allyn Coop Holdings, LLC
Welch Allyn International Holdings Cooperatief, U.A., a Netherlands cooperative

Subsidiaries of Welch Allyn International Holdings Cooperatief, U.A.
Welch Allyn Canada Limited, a Canada corporation
Welch Allyn EME B.V., a Netherlands corporation
Welch Allyn Limited, an Ireland corporation
Welch Allyn Australia Pty Limited, an Australia corporation
Welch Allyn Maquila Holdings, LLC, a Delaware limited liability company

Jointly held subsidiary of Welch Allyn Maquila Holdings, LLC and WA Holdings, C.V.
Welch Allyn de Mexico, S. de R.L. de C.V., a Mexico corporation
Welch Allyn Servicios, S. de R.L. de C.V., a Mexico corporation

Jointly held subsidiary of Welch Allyn International Holdings Cooperatief, U.A. and Welch Allyn Coop Holdings, LLC
Welch Allyn Productos Medicos S. de R.L. de C.V., a Mexico corporation

Subsidiary of Welch Allyn Singapore Pte, Ltd.
Welch Allyn Medical Equipment (Suzhou) Co. Ltd., a China corporation

Subsidiary of Welch Allyn, B.V.
Welch Allyn Sverige, AB, a Sweden corporation

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-157341, 333-157338, 333-88354, 333-49669, and 333-88328) of Hill-Rom Holdings, Inc. of our report dated November 15, 2019 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana
November 15, 2019

CERTIFICATIONS

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John P. Groetelaars, certify that:

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

Date: November 15, 2019

/s/ John P. Groetelaars

John P. Groetelaars

President and Chief Executive Officer

CERTIFICATIONS

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Barbara W. Bodem, certify that:

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

Date: November 15, 2019

/s/ Barbara W. Bodem

Barbara W. Bodem

Senior Vice President and Chief Financial Officer

**Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Hill-Rom Holdings, Inc. (the “Company”) for the year ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John P. Groetelaars, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John P. Groetelaars

John P. Groetelaars

President and Chief Executive Officer

November 15, 2019

A signed original of this written statement required by Section 906 has been provided to Hill-Rom Holdings, Inc. and will be retained by Hill-Rom Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report report on Form 10-K of Hill-Rom Holdings, Inc. (the “Company”) for the year ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Barbara W. Bodem, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barbara W. Bodem

Barbara W. Bodem

Senior Vice President and Chief Financial Officer

November 15, 2019

A signed original of this written statement required by Section 906 has been provided to Hill-Rom Holdings, Inc. and will be retained by Hill-Rom Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
