Hillenbrand, Inc.
Form 10-Q
May 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019

OR

o Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number. 001-33794

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

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

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

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

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

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

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

Large accelerated filer ý Accelerated filer o Emerging growth company o

Non-accelerated filer o Smaller reporting company o

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

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

The registrant had 62,621,870 shares of common stock, no par value per share, outstanding as of April 26, 2019.

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net revenue	$464.6	$452.2	$874.9	$849.4
Cost of goods sold	303.7	283.6	567.0	534.6
Gross profit	160.9	168.6	307.9	314.8
Operating expenses	93.7	98.3	184.4	187.4
Amortization expense	8.6	7.5	16.4	15.1
Impairment charge	—	63.4	—	63.4
Interest expense	5.4	6.0	10.9	12.3
Other income (expense), net	0.1	(1.1)	0.6	(1.5)
Income (loss) before income taxes	53.3	(7.7)	96.8	35.1
Income tax expense	13.8	13.6	28.3	37.3
Consolidated net income (loss)	39.5	(21.3)	68.5	(2.2)
Less: Net income attributable to noncontrolling interests	1.5	0.6	2.2	1.6
Net income (loss) (1)	$38.0	$(21.9)	$66.3	$(3.8)
Net income (loss) (1) — per share of common stock:				
Basic earnings per share	$0.60	$(0.34)	$1.05	$(0.06)
Diluted earnings per share	$0.60	$(0.34)	$1.05	$(0.06)
Weighted average shares outstanding (basic)	62.9	63.3	62.9	63.5
Weighted average shares outstanding (diluted)	63.4	63.3	63.4	63.5

(1) Net income (loss) attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Consolidated net income (loss)	$39.5	$(21.3)	$68.5	$(2.2)
Changes in other comprehensive (loss) income, net of tax				
Currency translation adjustment	(4.6)	14.7	(9.5)	21.0
Pension and postretirement (net of tax of quarter-to-date tax of $0.1 and $0.4 and year-to-date tax of $0.2 and $0.7)	0.3	0.7	0.5	1.4
Change in net unrealized gain (loss) on derivative instruments (net of quarter-to-date tax of $0.9 and $0.1 and year-to-date tax of $2.6 and $0.1)	(3.2)	0.5	(8.4)	0.3
Total changes in other comprehensive (loss) income, net of tax	(7.5)	15.9	(17.4)	22.7
Consolidated comprehensive income (loss)	32.0	(5.4)	51.1	20.5
Less: Comprehensive income attributable to noncontrolling interests	1.5	0.5	2.4	1.6
Comprehensive income (loss) (2)	$30.5	$(5.9)	$48.7	$18.9

(2) Comprehensive income (loss) attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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

	March 31, 2019	September 30, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$58.6	$ 56.0
Trade receivables, net	199.5	218.5
Receivables from long-term manufacturing contracts	164.8	120.3
Inventories	183.0	172.5
Prepaid expenses	24.1	25.2
Other current assets	20.4	18.1
Total current assets	650.4	610.6
Property, plant, and equipment, net	137.6	142.0
Intangible assets, net	477.3	487.3
Goodwill	583.0	581.9
Other assets	37.2	42.8
Total Assets	$1,885.5	$ 1,864.6
LIABILITIES		
Current Liabilities		
Trade accounts payable	$207.7	$ 196.8
Liabilities from long-term manufacturing contracts and advances	125.1	125.9
Accrued compensation	55.5	71.9
Other current liabilities	117.5	137.1
Total current liabilities	505.8	531.7
Long-term debt	361.7	344.6
Accrued pension and postretirement healthcare	114.6	120.5
Deferred income taxes	79.4	76.4
Other long-term liabilities	53.9	47.3
Total Liabilities	1,115.4	1,120.5
Commitments and contingencies (Note 14)		
SHAREHOLDERS’ EQUITY		
Common stock, no par value (63.9 and 63.9 shares issued, 62.6 and 62.3 shares outstanding)	—	—
Additional paid-in capital	343.1	351.4
Retained earnings	571.1	531.0
Treasury stock (1.3 and 1.6 shares)	(55.6)	(67.1)
Accumulated other comprehensive loss	(101.8)	(84.2)
Hillenbrand Shareholders’ Equity	756.8	731.1
Noncontrolling interests	13.3	13.0
Total Shareholders’ Equity	770.1	744.1
Total Liabilities and Equity	$1,885.5	$ 1,864.6

See Condensed Notes to Consolidated Financial Statements

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

	Six Months Ended March 31,	
	2019	2018
Operating Activities		
Consolidated net income (loss)	$68.5	$(2.2)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	29.2	27.8
Impairment charge	—	63.4
Deferred income taxes	8.7	(10.4)
Share-based compensation	5.8	6.2
Trade accounts receivable and receivables from long-term manufacturing contracts	(24.8)	(34.2)
Inventories	(12.1)	(25.6)
Prepaid expenses and other current assets	(0.8)	(10.7)
Trade accounts payable	12.7	12.8
Accrued expenses and other current liabilities	(24.6)	10.3
Income taxes payable	(12.8)	26.5
Defined benefit plan and postretirement funding	(4.6)	(5.6)
Defined benefit plan and postretirement expense	1.7	2.3
Other, net	(0.4)	0.9
Net cash provided by operating activities	46.5	61.5
Investing Activities		
Capital expenditures	(8.3)	(10.6)
Acquisition of business, net of cash acquired	(26.2)	—
Other, net	0.1	0.1
Net cash used in investing activities	(34.4)	(10.5)
Financing Activities		
Repayments on term loan	—	(148.5)
Proceeds from revolving credit facilities, net of financing costs	342.0	701.8
Repayments on revolving credit facilities	(323.8)	(542.8)
Payments of dividends on common stock	(26.2)	(26.2)
Repurchases of common stock	—	(38.9)
Proceeds from stock option exercises and other	1.4	9.3
Payments for employee taxes on net settlement equity awards	(4.2)	(4.1)
Other, net	(0.5)	(1.0)
Net cash used in financing activities	(11.3)	(50.4)
Effect of exchange rates on cash and cash equivalents	2.1	1.7
Net cash flows	2.9	2.3
Cash, cash equivalents, and restricted cash:		
At beginning of period	56.5	66.7
At end of period	$59.4	$69.0

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same amounts shown in the Consolidated Statements of Cash Flows:

	March 31, 2019	March 31, 2018
Cash and cash equivalents	58.6	68.5
Short-term restricted cash included in other current assets	0.8	0.5
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	$ 59.4	$ 69.0

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.
Consolidated Statements of Shareholders' Equity (Unaudited)
(in millions)

	Three Months Ended March 31, 2019							
	Shareholders of Hillenbrand, Inc.							
	Common Stock			Treasury Stock				
	Shares	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2018	63.9	$ 341.7	$ 546.3	1.4	$ (59.2)	$ (94.3)	$ 12.9	$ 747.4
Total other comprehensive income (loss), net of tax	—	—	—	—	—	(7.5)	—	(7.5)
Net income	—	—	38.0	—	—	—	1.5	39.5
Issuance/retirement of stock for stock awards/options	—	(2.6)	—	(0.1)	3.6	—	—	1.0
Share-based compensation	—	3.9	—	—	—	—	—	3.9
Dividends ($0.2100 per share)	—	0.1	(13.2)	—	—	—	(1.1)	(14.2)
Balance at March 31, 2019	63.9	$ 343.1	$ 571.1	1.3	$ (55.6)	$ (101.8)	$ 13.3	$ 770.1

	Six Months Ended March 31, 2019							
	Shareholders of Hillenbrand, Inc.							
	Common Stock			Treasury Stock				
	Shares	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at September 30, 2018	63.9	$ 351.4	$ 531.0	1.6	$ (67.1)	$ (84.2)	$ 13.0	$ 744.1
Total other comprehensive income (loss), net of tax	—	—	—	—	—	(17.6)	0.2	(17.4)
Net income	—	—	66.3	—	—	—	2.2	68.5
Issuance/retirement of stock for stock awards/options	—	(14.3)	—	(0.3)	11.5	—	—	(2.8)
Share-based compensation	—	5.8	—	—	—	—	—	5.8
Dividends ($0.4200 per share)	—	0.2	(26.4)	—	—	—	(2.1)	(28.3)
Other	—	—	0.2	—	—	—	—	0.2
Balance at March 31, 2019	63.9	$ 343.1	$ 571.1	1.3	$ (55.6)	$ (101.8)	$ 13.3	$ 770.1

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.
Consolidated Statements of Shareholders' Equity (Unaudited)
(in millions)

	Three Months Ended March 31, 2018							
	Shareholders of Hillenbrand, Inc.							
	Common Stock			Treasury Stock				
	Shares	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2017	63.9	$ 344.1	$ 512.0	0.8	$ (28.7)	$ (74.5)	$ 15.6	$ 768.5
Total other comprehensive income (loss), net of tax	—	—	—	—	—	16.0	(0.1)	15.9
Net (loss) income	—	—	(21.9)	—	—	—	0.6	(21.3)
Issuance/retirement of stock for stock awards/options	—	(1.8)	—	(0.1)	4.4	—	—	2.6
Share-based compensation	—	3.9	—	—	—	—	—	3.9
Purchases of common stock	—	—	—	0.5	(23.7)	—	—	(23.7)
Dividends ($0.2075 per share)	—	0.2	(13.2)	—	—	—	(0.9)	(13.9)
Balance at March 31, 2018	63.9	$ 346.4	$ 476.9	1.2	$ (48.0)	$ (58.5)	$ 15.2	$ 732.0

	Six Months Ended March 31, 2018							
	Shareholders of Hillenbrand, Inc.							
	Common Stock			Treasury Stock				
	Shares	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at September 30, 2017	63.8	$ 349.9	$ 507.1	0.7	$ (24.4)	$ (81.2)	$ 14.5	$ 765.9
Total other comprehensive income (loss), net of tax	—	—	—	—	—	22.7	—	22.7
Net (loss) income	—	—	(3.8)	—	—	—	1.6	(2.2)
Issuance/retirement of stock for stock awards/options	0.1	(10.1)	—	(0.4)	15.3	—	—	5.2
Share-based compensation	—	6.2	—	—	—	—	—	6.2
Purchases of common stock	—	—	—	0.9	(38.9)	—	—	(38.9)
Dividends ($0.4150 per share)	—	0.4	(26.4)	—	—	—	(0.9)	(26.9)
Balance at March 31, 2018	63.9	$ 346.4	$ 476.9	1.2	$ (48.0)	$ (58.5)	$ 15.2	$ 732.0

See Condensed Notes to Consolidated Financial Statements

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

1. Background and Basis of Presentation

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

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

These unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements and therefore do not include all information required in accordance with accounting principles generally accepted in the United States ("GAAP"). The unaudited consolidated financial statements have been prepared on the same basis as, and should be read in conjunction with, the audited consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K for the year ended September 30, 2018, as filed with the SEC. The September 30, 2018 Consolidated Balance Sheet included in this Form 10-Q was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP for a year-end balance sheet included in Form 10-K. In the opinion of management, these financial statements reflect all adjustments necessary to present a fair statement of the Company's consolidated financial position and the consolidated results of operations and cash flow as of the dates and for the periods presented.

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

2. Summary of Significant Accounting Policies

The significant accounting policies used in preparing these consolidated financial statements are consistent with the accounting policies described in our Annual Report on Form 10-K for 2018, except as described below.

Recently Adopted Accounting Standards

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 intends to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components, and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In addition, this ASU makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 was early adopted for our fiscal year beginning on October 1, 2018 on a prospective basis. The adoption of this standard did not have a significant impact on our consolidated financial statements.

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

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business. ASU 2017-01 assists entities in determining whether a transaction involves an asset or a business. Specifically, it states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If this initial test is not met, a set cannot be considered a business unless it includes an input and a substantive process that together significantly contribute to the ability to create output. ASU 2017-01 became effective and was adopted for our fiscal year beginning on October 1, 2018. The adoption of ASU 2017-01 did not have a significant impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 states that an employer must report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period and present the other components of net benefit cost (as defined in paragraphs 715-30-35-4 and 715-60-35-9) in the income statement separately from the service cost component and outside a subtotal of income from operations (if one is presented). In addition, ASU 2017-07 limits the capitalization of compensation costs to the service cost component only (if capitalization is appropriate). ASU 2017-07 became effective and was adopted for our fiscal year beginning on October 1, 2018. On the Consolidated Statements of Income, the adoption of this standard resulted in the reclassification of \$0.1 credit from Cost of goods sold to Other income (expense), net, for the three months ended March 31, 2018, and \$0.2 credit from Cost of goods sold and \$0.1 from Operating expenses to Other income (expense), net, for the six months ended March 31, 2018.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications (in accordance with Topic 718). The new guidance will provide relief to entities that make non-substantive changes to share-based payment awards. ASU 2017-09 became effective and was adopted for our fiscal year beginning on October 1, 2018. The adoption of ASU 2017-09 did not have a significant impact on our consolidated financial statements.

Beginning in 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASC 606"), plus a number of related ASUs designed to clarify and interpret ASC 606. The new standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates than the previously effective standards. It also requires significant disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The new standard became effective for our fiscal year beginning on October 1, 2018 and was adopted on a modified retrospective basis. The Company elected the practical expedient and only evaluated contracts for which substantially all revenue had not been recognized under ASC Topic 605, with the cumulative effect of the new guidance recorded as of the date of initial application.

The primary changes from the adoption of ASC 606 resulted from certain performance obligations that were previously recognized at a point in time that are now recognized over time. The cumulative effect of the changes made to the Consolidated Balance Sheet as of October 1, 2018 for the adoption of ASC 606 was as follows:

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	Balance at September 30, 2018	Adjustments due to ASC 606	Balance at October 1, 2018
Assets			
Receivables from long-term manufacturing contracts	$ 120.3	$ 1.9	$ 122.2
Inventories	172.5	(1.6)	170.9
Liabilities			
Deferred income taxes	$ 76.4	$ 0.1	$ 76.5
Shareholders' Equity			
Retained earnings	$ 531.0	$ 0.2	$ 531.2

The following tables summarize the impacts of adopting ASC 606 on the Company's consolidated financial statements as of and for the three and six months ended March 31, 2019.

Consolidated Statements of Income:

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	As Reported	Adjustments Due to ASC 606	Balances without Adoption	As Reported	Adjustments Due to ASC 606	Balances without Adoption
Net revenue	$464.6	$ (0.1)	$ 464.5	$874.9	$ (1.1)	$ 873.8
Cost of goods sold	303.7	(0.1)	303.6	567.0	(1.0)	566.0
Gross profit	160.9	—	160.9	307.9	(0.1)	307.8
Income before income taxes	53.3	—	53.3	96.8	(0.1)	96.7
Consolidated net income	39.5	—	39.5	68.5	(0.1)	68.4

Consolidated Balance Sheet:

	March 31, 2019		
	As Reported	Adjustments Due to ASC 606	Balances without Adoption
Assets			
Receivables from long-term manufacturing contracts	$164.8	$ (3.0)	$ 161.8
Inventories	183.0	2.7	185.7
Liabilities			
Deferred income taxes	$79.4	$ (0.1)	$ 79.3
Shareholders' Equity			
Retained earnings	$571.1	$ (0.2)	$ 570.9

The Company has elected the following as a result of adopting the new standard on revenue recognition:

- Hillenbrand elected not to adjust the promised amount of consideration for the effects of the time value of money for contracts in which the anticipated period between when Hillenbrand transfers the goods or services to the customer and when the customer pays is equal to one year or less.

- Hillenbrand elected to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities rather than as a promised service.

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

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires lessees to recognize a right of use asset and related lease liability for leases that have terms of more than twelve months. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance, with the classifications based on criteria that are similar to those applied under the current lease guidance, without the explicit bright lines. ASU 2016-02 will be effective for our fiscal year beginning on October 1, 2019. We have developed an implementation plan and we are currently gathering data to further assess the impact that ASU 2016-02 will have on our consolidated financial statements. The adoption is anticipated to have a significant impact on assets and liabilities within our Consolidated Balance Sheets due to the recognition of right-of-use assets and corresponding lease liabilities.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Statements. ASU 2016-13 replaces the current incurred loss impairment model with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. ASU 2016-13 will be effective for our fiscal year beginning on October 1, 2020, with early adoption permitted for our fiscal year beginning October 1, 2019. We are currently evaluating the impact that ASU 2016-13 will have on our consolidated financial statements.

3. Revenue Recognition

We adopted ASC 606, Revenue from Contracts with Customers, on October 1, 2018. As a result, we have changed our accounting policy for revenue recognition as detailed below.

Net revenue includes gross revenue less sales discounts, customer rebates, sales incentives, and product returns, all of which require us to make estimates for the portion of these allowances that have yet to be credited or paid to our customers. We estimate these allowances using the expected value method, which is based upon historical rates and projections of customer purchases toward contractual rebate thresholds.

Performance Obligations & Contract Estimates

The Process Equipment Group designs, engineers, manufactures, markets, and services differentiated process and material handling equipment and systems for a wide variety of industries. A large portion of our revenue across the Process Equipment Group is derived from manufactured equipment, which may be standard, customized to meet customer specifications, or turnkey.

Our contracts with customers in the Process Equipment Group segment often include multiple performance obligations. Performance obligations are promises in a contract to transfer a distinct good or service to the customer, and are the basis for determining how revenue is recognized. For instance, a contract may include obligations to deliver equipment, installation services, and spare parts. We frequently have contracts for which the equipment and the installation services, as well as highly engineered or specialized spare parts, are all considered a single performance obligation, as in these instances the installation services and/or spare parts are not separately identifiable. However, due to the varying nature of equipment and contracts across the Process Equipment Group, we also have contracts where the installation services and/or spare parts are deemed to be separately identifiable and are therefore deemed to be distinct performance obligations.

A contract’s transaction price is allocated to each distinct performance obligation based on its respective stand-alone selling price, and recognized as revenue when, or as, the performance obligation is satisfied. When a distinct performance obligation is not sold separately, the value of the standalone selling price is estimated considering all reasonably available information. When an obligation is distinct, as defined in ASC 606, we allocate a portion of the contract price to the obligation and recognize it separately from the other performance obligations.

The timing of revenue recognition for each performance obligation is either over time or at a point in time. We recognize revenue over time for contracts that have an enforceable right to collect payment for performance completed to-date upon customer cancellation and provide one or more of the following: (i) service over a period of time, (ii) highly customized equipment, or (iii) parts which are highly engineered and have no alternative use. Revenue generated from standard equipment and highly customized equipment or parts contracts without an enforceable right to payment for performance completed to-date, as well as non-specialized parts sales and sales of death care products, is recognized at a point in time.

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We use the input method of "cost-to-cost" to recognize revenue over time. Accounting for these contracts involves management judgment in estimating total contract revenue and cost. Contract revenues are largely determined by negotiated contract prices and quantities, modified by our assumptions regarding contract options, change orders, and incentive and award provisions associated with technical performance clauses. Contract costs are incurred over longer periods of time and, accordingly, the estimation of these costs requires judgment. We measure progress based on costs incurred to date relative to total estimated cost at completion. Incurred cost represents work performed, which corresponds with, and we believe thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, and certain overhead expenses. Cost estimates are based on various assumptions to project the outcome of future events, including labor productivity and availability, the complexity of the work to be performed, the cost of materials, and the performance of subcontractors. Significant factors that influence these estimates include inflationary trends, technical and schedule risk, internal and subcontractor performance trends, business volume assumptions, asset utilization, and anticipated labor agreements. Revenue and cost estimates are regularly monitored and revised based on changes in circumstances. Anticipated losses on long-term contracts are recognized immediately when such losses become evident. We maintain financial controls over the customer qualification, contract pricing, and estimation processes to reduce the risk of contract losses.

Stand-alone service revenue is recognized either over time proportionately over the period of the underlying contract or as invoiced, depending on the terms of the arrangement. Stand-alone service revenue is not material to the Company.

For the Process Equipment Group and Batesville segment products where revenue is recognized at a point in time, we recognize it when our customers take control of the asset. We define this as the point in time at which the customer has the capability of full beneficial use of the asset as intended per the contract.

Contract balances

In the Process Equipment Group segment, the Company requires an advance deposit based on the terms and conditions of contracts with customers for many of its contracts. Payment terms generally require an upfront payment at the start of the contract, and the remaining payments during the contract or within a certain number of days of delivery. Typically, revenue is recognized within one year of receiving an advance deposit. For contracts where an advance payment is received greater than one year from expected revenue recognition, or a portion of the payment due extends beyond one year, the Company has determined it does not constitute a significant financing component.

The timing of revenue recognition, billings, and cash collections can result in customer receivables, advance payments, and billings in excess of revenue recognized. Customer receivables include amounts billed and currently due from customers and are included in Trade receivables, net, as well as unbilled amounts (contract assets) which are included in Receivables from long-term manufacturing contracts on our Consolidated Balance Sheets. Amounts are billed in accordance with contractual terms or as work progresses in accordance with contractual terms. Unbilled amounts arise when the timing of billing differs from the timing of revenue recognized, such as when contract provisions require specific milestones to be met before a customer can be billed. Unbilled amounts primarily relate to performance obligations satisfied over time when the cost-to-cost method is used and the revenue recognized exceeds the amount billed to the customer as there is not yet a right to payment in accordance with contractual terms. Unbilled amounts are recorded as a contract asset when the revenue associated with the contract is recognized prior to billing and derecognized when billed in accordance with the terms of the contract. Trade receivables are recorded at face amounts and represent the amounts we believe to be collectible. The Company maintains allowances for doubtful accounts for estimated losses as a result of customers' inability to make required payments. Management evaluates the aging of the customer receivable balances, the financial condition of its customers, historical trends and the time outstanding of specific balances to estimate the amount of customer receivables that may not be collected in the future, and records the appropriate provision.

Advance payments and billings in excess of revenue recognized are included in Liabilities from long-term manufacturing contracts and advances on our Consolidated Balance Sheets. Advance payments and billings in excess of revenue recognized represent contract liabilities and are recorded when customers remit contractual cash payments in advance of us satisfying performance obligations under contractual arrangements, including those with performance obligations satisfied over time. Billings in excess of revenue recognized primarily relate to performance obligations satisfied over time when the cost-to-cost method is used and revenue cannot yet be recognized as the Company has not completed the corresponding performance obligation. Contract liabilities are derecognized when revenue is recognized and the performance obligation is satisfied.

The balance in Receivables from long-term manufacturing contracts at March 31, 2019 and September 30, 2018 was $164.8 and $120.3. The change was driven by the adoption of ASC 606 ($3.0) and the impact of net revenue recognized prior to billings ($41.5). The balance in the Liabilities from long-term manufacturing contracts and advances at March 31, 2019 and September 30, 2018 was $125.1 and $125.9 and consists primarily of cash payments received or due in advance of satisfying our performance obligations. The revenue recognized for the six months ended March 31, 2019 related to Liabilities from long-term manufacturing

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contracts and advances as of September 30, 2018 was $107.0. During the six months ended March 31, 2019, the adjustments related to performance obligations satisfied in previous periods were immaterial.

Costs incurred to obtain a customer contract are not material to the Company. The Company elected to apply the practical expedient to not capitalize contract costs to obtain contracts with a duration of one year or less, which are expensed as incurred.

Transaction price allocated to the remaining performance obligations

As of March 31, 2019, the aggregate amount of transaction price of remaining performance obligations, which corresponds to backlog as defined in Item 2 of this Form 10-Q, for the Company was $960.5. Approximately 85% of these obligations are expected to be satisfied over the next twelve months, and the remaining performance obligations, primarily within one to three years.

Disaggregation of revenue

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	Process Equipment Group	Batesville	Total	Process Equipment Group	Batesville	Total
Revenue by End Market						
Plastics	$202.2	$ —	$202.2	$363.1	$ —	$363.1
Chemicals	22.9	—	22.9	52.5	—	52.5
Food & Pharmaceuticals	24.4	—	24.4	40.9	—	40.9
Minerals & Mining	22.2	—	22.2	50.2	—	50.2
Water & Wastewater	7.7	—	7.7	17.2	—	17.2
Death Care	—	137.9	137.9	—	266.0	266.0
Other	47.3	—	47.3	85.0	—	85.0
Total	$326.7	$ 137.9	$464.6	$608.9	$ 266.0	$874.9

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	Process Equipment Group	Batesville	Total	Process Equipment Group	Batesville	Total
Products and Services						
Equipment	$227.6	$ —	$227.6	$411.0	$ —	$411.0
Parts and Services	99.1	—	99.1	197.9	—	197.9
Death Care	—	137.9	137.9	—	266.0	266.0
Total	$326.7	$ 137.9	$464.6	$608.9	$ 266.0	$874.9

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	Process Equipment Group	Batesville	Total	Process Equipment Group	Batesville	Total
Timing of Transfer						
Point in Time	$176.8	$ 137.9	$314.7	$340.5	$ 266.0	$606.5
Over Time	149.9	—	149.9	268.4	—	268.4

Total	$326.7	$ 137.9	$464.6	$608.9	$ 266.0	$874.9

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4. Business Acquisitions

We completed the acquisition of Burnaby Machine and Mill Equipment Ltd. ("BM&M") in November 2018 for $26.2 in cash. We used our revolving credit facility (the "Facility") to fund the acquisition. Based in Canada, BM&M provides high-speed gyratory screeners for a variety of industries. The results of BM&M will be reported in the Process Equipment Group segment. Based on our purchase price allocation, we recorded $14 of intangibles, which consisted of $10 of customer relationships, $1 of trade names and $3 of backlog. In addition, we recorded $9 of goodwill and $3 of net tangible assets, primarily working capital. Goodwill is not deductible for tax purposes. The fair value did not ascribe a significant amount to tangible assets, as we often seek to acquire companies with a relatively low physical asset base in order to limit the need to invest significant additional cash post-acquisition.

5. Supplemental Balance Sheet Information

	March 31, 2019	September 30, 2018
Trade accounts receivable reserves	$ 21.0	$ 22.2
Accumulated depreciation on property, plant, and equipment	$ 310.6	$ 303.8
Inventories:		
Raw materials and components	$ 71.3	$ 68.3
Work in process	49.5	44.7
Finished goods	62.2	59.5
Total inventories	$ 183.0	$ 172.5

We had restricted cash of $0.8 and $0.5 included in Other current assets in the Consolidated Balance Sheets at March 31, 2019 and at September 30, 2018.

6. Intangible Assets and Goodwill

Intangible Assets

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

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of March 31, 2019 and September 30, 2018.

	March 31, 2019		September 30, 2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Finite-lived assets:				
Trade names	$0.2	$ (0.2)	$0.2	$ (0.2)
Customer relationships	469.2	(158.8)	464.5	(148.4)
Technology, including patents	78.2	(47.3)	79.6	(45.1)
Software	58.5	(50.6)	58.0	(48.9)

Other	2.8	(1.7	)	0.2	(0.2	)
	608.9	(258.6	)	602.5	(242.8	)
Indefinite-lived assets:						
Trade names	127.0	—		127.6	—	
Total	$735.9	$ (258.6	)	$730.1	$ (242.8	)

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The net change in intangible assets during the six months ended March 31, 2019 was driven primarily by the acquisition of BM&M in November 2018, which included intangible assets of approximately $14, normal amortization, and foreign currency adjustments. See Note 4 for further detail on the acquisition of BM&M.

Goodwill

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

	Process Equipment Group	Batesville	Total
Balance September 30, 2018	$ 573.6	$ 8.3	$ 581.9
Acquisition	9.1	—	9.1
Foreign currency adjustments	(8.0)	—	(8.0)
Balance March 31, 2019	$ 574.7	$ 8.3	$ 583.0

Impairment

In connection with the preparation of the quarterly financial statements for the second quarter 2018, an interim impairment assessment was performed at a reporting unit in the Process Equipment Group segment most directly impacted by domestic coal mining and coal power. During the quarter ended March 31, 2018, published industry reports reduced their forecasts for domestic coal production and consumption. The reporting unit also experienced a larger than expected decline in orders for equipment and parts used in the domestic coal mining and coal power industries. In conjunction with these events and as part of the long-term strategic forecasting process, the Company made the decision to redirect strategic investments for growth, significantly reducing the reporting unit's terminal growth rate. As a result of this change in expected future cash flows, along with comparable fair value information, management concluded that the reporting unit carrying value exceeded its fair value, resulting in a goodwill impairment charge of $58.8 during the quarter ended March 31, 2018. Intangible asset impairment charges for trade names associated with the same reporting unit were $4.6 pre-tax ($3.5 after tax) based on similar factors during the quarter ended March 31, 2018.

7. Financing Agreements

	March 31, 2019	September 30, 2018
$900 revolving credit facility (excluding outstanding letters of credit)	$ 112.6	$ 95.7
$150 senior unsecured notes, net of discount (1)	149.5	149.3
$100 Series A Notes (2)	99.6	99.6
Other	1.7	—
Total debt	363.4	344.6
Less: current portion (3)	1.7	—
Total long-term debt	$ 361.7	$ 344.6

(1) Includes debt issuance costs of $0.3 and $0.4 at March 31, 2019 and September 30, 2018.
(2) Includes debt issuance costs of $0.4 and $0.4 at March 31, 2019 and September 30, 2018.
(3) Included in Other current liabilities in the Consolidated Balance Sheets.

Our private shelf agreement expired in March 2019. We entered into this Private Shelf Agreement on December 6, 2012 (as amended, the “Shelf Agreement”), with Prudential Investment Management, Inc. (“Prudential”) and each Prudential Affiliate (as defined therein) that became a purchaser thereunder, and on December 15, 2014, we issued $100.0 in 4.60% Series A unsecured notes (“Series A Notes”) pursuant thereto, which remain outstanding.

With respect to the revolving credit facility, as of March 31, 2019, we had $7.2 in outstanding letters of credit issued and $780.2 of maximum borrowing capacity. $741.6 of this borrowing capacity was immediately available based on our leverage covenant at March 31, 2019, with additional amounts available in the event of a qualifying acquisition. The weighted-average interest rates on borrowings under the Facility were 2.73% and 2.57% for the three and six months ended March 31, 2019, and 2.03% and 1.82% for the same periods in the prior year. The weighted average facility fee was 0.12% and 0.11% for the three and six months ended March 31, 2019, and 0.15% and 0.17% for the same periods in the prior year.

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In the normal course of business, the Process Equipment Group provides to certain customers bank guarantees and other credit arrangements in support of performance, warranty, advance payment, and other contractual obligations. This form of trade finance is customary in the industry and, as a result, we maintain adequate capacity to provide the guarantees. As of March 31, 2019, we had credit arrangements totaling $300.9, under which $210.6 was utilized, for this purpose. These arrangements include our €150.0 Syndicated Letter of Guarantee Facility (as amended, the "LG Facility") and other ancillary credit facilities.

The Facility, the LG Facility, and the Series A Notes, require us to meet certain conditions including compliance with covenants, absence of default, and continued accuracy of certain representations and warranties. Financial covenants include a maximum ratio of Indebtedness to EBITDA (as defined in the agreements, "Leverage Ratio") of 3.5 to 1.0 including the application of cash as a reduction of Indebtedness (subject to certain limitations); a maximum Leverage Ratio resulting from an acquisition in excess of $75.0 of 4.0 to 1.0 for a period of three consecutive quarters following such acquisition; and a minimum ratio of EBITDA (as defined in the agreements) to interest expense of 3.0 to 1.0. As of March 31, 2019, we were in compliance with all covenants.

The Facility, senior unsecured notes, 4.60% Series A unsecured notes issued under the Shelf Agreement ("Series A Notes"), and LG Facility are fully and unconditionally, and jointly and severally, guaranteed by certain of the Company's domestic subsidiaries.

8. Retirement Benefits

Defined Benefit Plans

	U.S. Pension Benefits		Non-U.S. Pension Benefits	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2019	2018	2019	2018
Service costs	$0.6	$0.7	$ 0.4	$ 0.4
Interest costs	2.5	2.1	0.3	0.3
Expected return on plan assets	(3.3)	(3.5)	(0.2)	(0.1)
Amortization of unrecognized prior service costs, net	0.1	0.1	—	—
Amortization of net loss	0.2	0.8	0.3	0.3
Net pension costs	$0.1	$0.2	$ 0.8	$ 0.9

	U.S. Pension Benefits		Non-U.S. Pension Benefits	
	Six Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Service costs	$1.2	$1.4	$ 0.7	$ 1.0
Interest costs	5.1	4.3	0.6	0.6
Expected return on plan assets	(6.6)	(7.0)	(0.3)	(0.3)
Amortization of unrecognized prior service costs, net	0.1	0.1	—	—

Amortization of net loss	0.4	1.6	0.5	0.5
Net pension costs	$0.2	$0.4	$ 1.5	$ 1.8

Postretirement Healthcare Plans — Net postretirement healthcare costs were not significant for the three and six months ended March 31, 2019 and 2018.

Defined Contribution Plans — Expenses related to our defined contribution plans were $2.9 and $5.7 for the three and six months ended March 31, 2019 and $2.9 and $5.6 for the same periods in the prior year.

9. Income Taxes

The effective tax rates for the three months ended March 31, 2019 and 2018 were 25.9% and (176.6)%. The negative effective tax rate in the prior year quarter primarily resulted from the nondeductible portion of the previously mentioned impairment charge recorded in the Process Equipment Group segment and the resulting loss before tax for the quarter. Additionally, the current year increase in the effective tax rate includes the effect of an unfavorable geographic mix of pretax income, partially offset by the full implementation of the Tax Cuts and Jobs Act ("Tax Act").

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The effective tax rates for the six months ended March 31, 2019 and 2018 were 29.2% and 106.3%. The high effective tax rate in the prior year primarily resulted from the nondeductible portion of the previously mentioned impairment charge recorded in the Process Equipment Group segment and the impact of the Tax Act, as driven by the items discussed below. Additionally, the current year decrease in the effective tax rate is partially driven by the full implementation of the Tax Act, partially offset by the effects of an unfavorable geographic mix of pretax income and an increase in reserve for uncertain tax positions.

The Tax Act was enacted on December 22, 2017. The majority of the provisions of the Tax Act were to be effective for tax years beginning after December 31, 2017 (which corresponds to Hillenbrand's current fiscal year ending September 30, 2019). As a non-calendar year end company, certain of the provisions of the Tax Act were effective for us for the fiscal year ended September 30, 2018, while others became effective for our current fiscal year ending September 30, 2019. The Tax Act reduced the federal corporate tax rate from 35% to 21%, which became effective on January 1, 2018. The Internal Revenue Code provides that our fiscal year ended September 30, 2018 had a blended U.S. corporate tax rate of 24.5%, which is based on a proration of the applicable tax rates before and after effective date of the Tax Act. The statutory tax rate of 21% applies to fiscal year ending September 30, 2019 and future years. 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 provides 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 Accounting Standards Codification Topic 740 ("ASC 740"). Per SAB 118, the Company must reflect the income tax effects of the Tax Act in the reporting period in which the accounting under ASC 740 is complete.

In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, the company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements in the first reporting period in which a reasonable estimate can be determined. If a company cannot determine a provisional estimate to be included in the financial statements, the company should continue to apply ASC 740 based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted.

The impact of the federal tax rate reduction under the Tax Act was recognized in the rate applied to earnings for the fiscal year ended September 30, 2018. The reduction for this period was from 35.0% to 24.5%. The further reduction of the federal tax rate to the statutory tax rate of 21% under the Tax Act is being recognized in the rate applied to earnings for the fiscal year ending September 30, 2019.

We recorded a provisional discrete net tax expense of $14.3 related to the Tax Act in the quarter ended December 31, 2017. This net expense includes a benefit of $14.9 due to the remeasurement of our deferred tax items to reflect the impact of the federal tax rate reduction on our net deferred tax liabilities.

Furthermore, Hillenbrand is subject to a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries (the "Transition Tax") as enacted pursuant to the Tax Act. This Transition Tax was imposed on the deferred accumulated earnings of foreign subsidiaries at an effective rate of 15.5% of foreign earnings attributable to cash and cash equivalents, and 8% of the residual foreign earnings. During the fiscal year ended September 30, 2018, we recorded a provisional net expense for the Transition Tax of $24.6. During the quarter ended December 31, 2018, we completed our determination of the effect of the Transition Tax and, pursuant to SAB 118, we recognized a $0.5 increase to the Transition Tax liability, resulting in a Transition Tax liability of $25.1. Hillenbrand elected to pay the Transition Tax over eight years and made the first installment payment of $2.0 during the quarter ended December 31, 2018. The remaining Transition Tax liability is included in Other current liabilities ($2.0) and Other long-term liabilities ($21.1) in the Consolidated Balance Sheet at March 31, 2019.

In connection with the Tax Act, we evaluated our future cash deployment needs and revised our permanent reinvestment assertions. While we continue to assert permanent reinvestment for the earnings of certain of our foreign subsidiaries, we recognized an additional $1.3 of deferred tax liability during the quarter ended December 31, 2018, associated with those foreign subsidiaries where we no longer maintain a permanent reinvestment assertion.

As noted above, the enactment dates for many of the provisions within the Tax Act were for tax years beginning after December 31, 2017, and as a result, certain provisions were not effective until our current fiscal year ending September 30, 2019. These provisions have been incorporated into the current period tax provision, and include recognizing global intangible low-taxed income and foreign derived intangible income, eliminating U.S. federal income taxes on dividends from foreign subsidiaries, eliminating the domestic production activity deduction, limiting the amount of deductible interest expense, limiting the use of foreign tax credits to reduce the U.S. income tax liability, and limiting the deduction of executive compensation, as well as other provisions.

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10. Earnings per share

The dilutive effects of performance-based stock awards were included in the computation of diluted earnings per share at the level the related performance criteria were met through the respective balance sheet date. At March 31, 2019 and 2018, potential dilutive effects, representing approximately 400,000 shares at each period, were excluded from the computation of diluted earnings per share as the related performance criteria were not yet met, although we expect to meet various levels of criteria in the future.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income (loss) (1)	$38.0	$(21.9)	$66.3	$(3.8)
Weighted average shares outstanding (basic - in millions)	62.9	63.3	62.9	63.5
Effect of dilutive stock options and other unvested equity awards (in millions)	0.5	—	0.5	—
Weighted average shares outstanding (diluted - in millions)	63.4	63.3	63.4	63.5
Basic earnings per share	$0.60	$(0.34)	$1.05	$(0.06)
Diluted earnings per share	$0.60	$(0.34)	$1.05	$(0.06)
Shares with anti-dilutive effect excluded from the computation of diluted earnings per share (in millions)	1.1	1.2	0.9	1.0

(1) Net income (loss) attributable to Hillenbrand

11. Other Comprehensive Income (Loss)

	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Total Attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2018	$ (41.0)	$ (44.1)	$ 0.9	$ (84.2)		
Other comprehensive income before reclassifications						
Before tax amount	—	(9.7)	(11.0)	(20.7)	$ 0.2	$(20.5)
Tax expense	—	—	2.6	2.6	—	2.6
After tax amount	—	(9.7)	(8.4)	(18.1)	0.2	(17.9)
Amounts reclassified from accumulated other comprehensive income(1)	0.5	—	—	0.5	—	0.5
Net current period other comprehensive income (loss)	0.5	(9.7)	(8.4)	(17.6)	$ 0.2	$(17.4)
Balance at March 31, 2019	$ (40.5)	$ (53.8)	$ (7.5)	$ (101.8)		

(1) Amounts are net of tax.

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	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Total Attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2017	$ (45.3)	$ (36.9)	$ 1.0	$ (81.2)		
Other comprehensive income before reclassifications						
Before tax amount	—	21.0	0.8	21.8	$ —	$ 21.8
Tax expense	—	—	(0.2)	(0.2)	—	(0.2)
After tax amount	—	21.0	0.6	21.6	—	21.6
Amounts reclassified from accumulated other comprehensive income(1)	1.4	—	(0.3)	1.1	—	1.1
Net current period other comprehensive income (loss)	1.4	21.0	0.3	22.7	$ —	$ 22.7
Balance at March 31, 2018	$ (43.9)	$ (15.9)	$ 1.3	$ (58.5)		

(1) Amounts are net of tax.

Reclassifications out of Accumulated Other Comprehensive Income include:

	Three Months Ended March 31, 2019			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$ —	$ —	$ 0.1	$ 0.1
Cost of goods sold	—	—	(0.1)	(0.1)
Operating expenses	—	—	—	—
Other income (expense), net	0.4	—	—	0.4
Total before tax	$ 0.4	$ —	$ —	$ 0.4
Tax expense				(0.1)
Total reclassifications for the period, net of tax				$ 0.3

	Six Months Ended March 31, 2019			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$ —	$ —	$ 0.2	$ 0.2
Cost of goods sold	—	—	(0.2)	(0.2)
Operating expenses	—	—	—	—
Other income (expense), net	0.7	—	—	0.7
Total before tax	$ 0.7	$ —	$ —	$ 0.7
Tax expense				(0.2)
Total reclassifications for the period, net of tax				$ 0.5

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 8).

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	Three Months Ended March 31, 2018			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$ —	$ —	$ —	$ —
Cost of goods sold	—	—	—	—
Operating expenses	—	—	—	—
Other income (expense), net	0.9	—	—	0.9
Total before tax	$ 0.9	$ —	$ —	$ 0.9
Tax expense				(0.2)
Total reclassifications for the period, net of tax				$ 0.7

	Six Months Ended March 31, 2018			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$ —	$ —	$ (0.4)	$ (0.4)
Cost of goods sold	—	—	—	—
Operating expenses	—	—	—	—
Other income (expense), net	2.0	—	—	2.0
Total before tax	$ 2.0	$ —	$ (0.4)	$ 1.6
Tax expense				(0.5)
Total reclassifications for the period, net of tax				$ 1.1

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 8).

12. Share-Based Compensation

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Share-based compensation costs	$3.9	$3.9	$5.8	$6.2
Less impact of income tax benefit	0.9	1.0	1.3	1.6
Share-based compensation costs, net of tax	$3.0	$2.9	$4.5	$4.6

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

During the six months ended March 31, 2019, we made the following grants:

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	Number of Units
Stock options	431,726
Time-based stock awards	23,921
Performance-based stock awards (maximum that can be earned)	334,335

Stock options granted during fiscal 2019 had a weighted-average exercise price of $41.31 and a weighted-average grant date fair value of $10.15. Our time-based stock awards and performance-based stock awards granted during fiscal 2019 had weighted-average grant date fair values of $41.29 and $41.77. Included in the performance-based stock awards granted during fiscal 2019 are 181,994 units whose payout level is based upon the Company's relative total shareholder return over the three-year measurement period, as described above. These units will be expensed on a straight-line basis over the measurement period and are not subsequently adjusted after the grant date.

13. Other Income (Expense), Net

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Equity in net income (loss) of affiliates	$—	$—	$(0.1)	$—
Foreign currency exchange gain (loss), net	0.1	(0.5)	0.5	(0.8)
Other, net	—	(0.6)	0.2	(0.7)
Other income (expense), net	$0.1	$(1.1)	$0.6	$(1.5)

14. Commitments and Contingencies

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

Claims covered by insurance have in most instances deductibles and self-funded retentions up to $0.5 per occurrence or per claim, depending upon the type of coverage and policy period. For auto, workers compensation, and general liability, outside insurance companies and third-party claims administrators generally assist in establishing individual claim reserves. An independent outside actuary provides estimates of ultimate projected losses, including incurred but not reported claims, which are used to establish reserves for losses. For all other types of claims, reserves are established based upon advice from internal and external counsel and historical settlement information for claims when such amounts are considered probable of payment.

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

Aldrees Litigation

In April 2016, Hamad M. Aldrees & Partners Holding Co. for Industry and Mining (Closed Joint Company) (“Aldrees”) filed a lawsuit against Company subsidiary Rotex Europe Limited (“Rotex”) in the High Court of Justice, Queen’s Bench Division, Technology and Construction Court (the “High Court”) in London, England (the “Aldrees Litigation”). The Aldrees Litigation resulted from an agreement made in 2010 for Rotex to supply, among other things, five mineral separating machines. Aldrees alleged breach of contract and misrepresentation by Rotex and was seeking damages of approximately £38.5.

The trial concluded in the third quarter of fiscal 2018 and a final decision was released by the High Court in March 2019 awarding a fraction of the claimed damages to Aldrees. This result did not have a material impact on the Company’s consolidated results of operations, financial position, or cash flows.

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15. Fair Value Measurements

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

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

	Carrying Value at March 31, 2019	Fair Value at March 31, 2019 Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 58.6	$ 58.6	$ —	$ —
Investments in rabbi trust	4.0	4.0	—	—
Derivative instruments	2.2	—	2.2	—
Liabilities:				
$150 senior unsecured notes	149.8	154.0	—	—
Revolving credit facility	112.6	—	112.6	—
$100 Series A Notes	100.0	—	105.4	—
Derivative instruments	12.4	—	12.4	—

The fair value of the amounts outstanding under the revolving credit facility approximated carrying value at March 31, 2019. The fair values of the revolving credit facility and Series A Notes were estimated based on internally developed models, using current market interest rate data for similar issues, as there is no active market for our revolving credit facility or Series A Notes.

Derivative instruments

The Company has hedging programs in place to manage its currency exposures. The objectives of our hedging programs are to mitigate exposures in gross margin and non-functional-currency-denominated assets and liabilities. Under these programs, we use derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates. These include foreign currency exchange forward contracts, which generally have terms up to 24 months. Additionally, the Company has derivative instruments in place to hedge the interest rate associated with $150.0 of ten-year, fixed-rate financing we expect to issue in the future. These derivative instruments terminate in December 2020, if not settled earlier in connection with the underlying expected future financing. Our objectives in using these derivatives are to reduce volatility in future interest expense and to manage our exposure to interest rate movements.

The fair values of the Company's derivative instruments were based upon pricing models using inputs derived from third-party pricing services or observable market data such as currency spot and forward rates. These values are periodically validated by comparing to third-party broker quotes. The aggregate notional value of derivatives was $283.3 at March 31, 2019. The derivatives are included at fair value in Other current assets, Other current liabilities, and Other long-term liabilities on the Consolidated Balance Sheets.

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16. Segment and Geographical Information

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net revenue				
Process Equipment Group	$326.7	$299.8	$608.9	$564.1
Batesville	137.9	152.4	266.0	285.3
Total	$464.6	$452.2	$874.9	$849.4
Adjusted EBITDA				
Process Equipment Group	$55.5	$49.9	$101.7	$95.5
Batesville	31.6	38.6	58.3	66.5
Corporate	(12.2)	(12.2)	(21.0)	(20.5)
Net revenue (1)				
United States	$232.4	$246.2	$447.2	$465.0
Germany	141.6	129.8	252.9	240.2
All other foreign business units	90.6	76.2	174.8	144.2
Total	$464.6	$452.2	$874.9	$849.4

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

	March 31, 2019	September 30, 2018
Total assets assigned		
Process Equipment Group	$1,667.9	$ 1,638.8
Batesville	187.0	191.8
Corporate	30.6	34.0
Total	$1,885.5	$ 1,864.6
Tangible long-lived assets, net		
United States	$74.3	$ 76.6
Germany	38.6	40.7
All other foreign business units	24.7	24.7
Total	$137.6	$ 142.0

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Adjusted EBITDA:				
Process Equipment Group	$55.5	$49.9	$101.7	$95.5
Batesville	31.6	38.6	58.3	66.5
Corporate	(12.2)	(12.2)	(21.0)	(20.5)
Less:				
Interest income	(0.2)	(0.3)	(0.4)	(0.8)

Interest expense	5.4	6.0	10.9	12.3
Income tax expense	13.8	13.6	28.3	37.3
Depreciation and amortization	15.1	14.0	29.2	27.8
Impairment charge	—	63.4	—	63.4
Business acquisition, development, and integration	0.5	0.2	1.1	2.5
Restructuring and restructuring related	0.7	0.7	1.2	1.2
Inventory step-up	0.1	—	0.2	—
Consolidated net income (loss)	$39.5	$(21.3)	$68.5	$(2.2)

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17. Condensed Consolidating Information

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

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Condensed Consolidating Statements of Income

	Three Months Ended March 31, 2019					Three Months Ended March 31, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenue	$—	$ 230.6	$ 294.1	$ (60.1)	$ 464.6	$—	$ 250.9	$ 256.4	$ (55.1)	$ 452.2
Cost of goods sold	—	126.8	210.0	(33.1)	303.7	—	129.7	181.0	(27.1)	283.6
Gross profit	—	103.8	84.1	(27.0)	160.9	—	121.2	75.4	(28.0)	168.6
Operating expenses	13.7	60.9	46.1	(27.0)	93.7	13.6	64.8	47.9	(28.0)	98.3
Amortization expense	—	3.4	5.2	—	8.6	—	3.2	4.3	—	7.5
Impairment charge	—	—	—	—	—	—	63.4	—	—	63.4
Interest expense	4.7	0.1	0.6	—	5.4	5.3	—	0.7	—	6.0
Other income (expense), net	(0.2)	(0.1)	0.4	—	0.1	(0.1)	(0.2)	(0.8)	—	(1.1)
Equity in net income (loss) of subsidiaries	51.4	3.5	—	(54.9)	—	(5.1)	1.8	—	3.3	—
Income (loss) before income taxes	32.8	42.8	32.6	(54.9)	53.3	(24.1)	(8.6)	21.7	3.3	(7.7)
Income tax expense (benefit)	(5.2)	10.6	8.4	—	13.8	(2.2)	9.4	6.4	—	13.6
Consolidated net income (loss)	38.0	32.2	24.2	(54.9)	39.5	(21.9)	(18.0)	15.3	3.3	(21.3)
Less: Net income attributable to noncontrolling interests	—	—	1.5	—	1.5	—	—	0.6	—	0.6
Net income (loss) (1)	$38.0	$ 32.2	$ 22.7	$ (54.9)	$ 38.0	$(21.9)	$ (18.0)	$ 14.7	$ 3.3	$ (21.9)
Consolidated comprehensive income (loss)	$30.5	$ 32.4	$ 19.6	$ (50.5)	$ 32.0	$(5.9)	$ (17.6)	$ 30.1	$ (12.0)	$ (5.4)
Less: Comprehensive income attributable to noncontrolling interests	—	—	1.5	—	1.5	—	—	0.5	—	0.5
Comprehensive income (loss) (2)	$30.5	$ 32.4	$ 18.1	$ (50.5)	$ 30.5	$(5.9)	$ (17.6)	$ 29.6	$ (12.0)	$ (5.9)

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	Six Months Ended March 31, 2019					Six Months Ended March 31, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenue	$—	$ 446.7	$ 541.9	$ (113.7)	$ 874.9	$—	$ 469.1	$ 485.5	$ (105.2)	$ 849.4
Cost of goods sold	—	242.6	384.4	(60.0)	567.0	—	244.8	341.1	(51.3)	534.6
Gross profit	—	204.1	157.5	(53.7)	307.9	—	224.3	144.4	(53.9)	314.8
Operating expenses	23.9	122.3	91.9	(53.7)	184.4	24.5	126.4	90.4	(53.9)	187.4
Amortization expense	—	6.7	9.7	—	16.4	—	6.7	8.4	—	15.1
Impairment charge	—	—	—	—	—	—	63.4	—	—	63.4
Interest expense	9.2	0.1	1.6	—	10.9	11.1	—	1.2	—	12.3
Other income (expense), net	(0.5)	(0.1)	1.2	—	0.6	(0.4)	0.3	(1.4)	—	(1.5)
Equity in net income (loss) of subsidiaries	93.4	5.7	—	(99.1)	—	32.3	3.2	—	(35.5)	—
Income (loss) before income taxes	59.8	80.6	55.5	(99.1)	96.8	(3.7)	31.3	43.0	(35.5)	35.1
Income tax expense (benefit)	(6.5)	20.5	14.3	—	28.3	0.1	24.9	12.3	—	37.3
Consolidated net income (loss)	66.3	60.1	41.2	(99.1)	68.5	(3.8)	6.4	30.7	(35.5)	(2.2)
Less: Net income attributable to noncontrolling interests	—	—	2.2	—	2.2	—	—	1.6	—	1.6
Net income (loss) (1)	$66.3	$ 60.1	$ 39.0	$ (99.1)	$ 66.3	$ (3.8)	$ 6.4	$ 29.1	$ (35.5)	$ (3.8)
Consolidated comprehensive income (loss)	$48.7	$ 60.2	$ 31.4	$ (89.2)	$ 51.1	$18.9	$ 7.3	$ 51.4	$ (57.1)	$ 20.5
Less: Comprehensive income attributable to noncontrolling interests	—	—	2.4	—	2.4	—	—	1.6	—	1.6
Comprehensive income (loss) (2)	$48.7	$ 60.2	$ 29.0	$ (89.2)	$ 48.7	$18.9	$ 7.3	$ 49.8	$ (57.1)	$ 18.9

(1) Net income (loss) attributable to Hillenbrand

(2) Comprehensive income (loss) attributable to Hillenbrand

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Condensed Consolidating Balance Sheets

	March 31, 2019					September 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and cash equivalents	$0.2	$5.3	$53.1	$—	$58.6	$1.1	$5.8	$49.1	$—	$56.0
Trade receivables, net	—	105.7	93.8	—	199.5	—	124.5	94.0	—	218.5
Receivables from long-term manufacturing contracts	—	8.4	156.4	—	164.8	—	5.3	115.0	—	120.3
Inventories	—	82.9	103.0	(2.9)	183.0	—	76.7	98.6	(2.8)	172.5
Prepaid expense	2.9	7.7	13.5	—	24.1	2.7	7.0	15.5	—	25.2
Intercompany receivables	—	1,130.9	49.1	(1,180.0)	—	—	1,131.1	79.1	(1,210.2)	—
Other current assets	—	1.9	18.1	0.4	20.4	—	3.2	14.6	0.3	18.1
Total current assets	3.1	1,342.8	487.0	(1,182.5)	650.4	3.8	1,353.6	465.9	(1,212.7)	610.6
Property, plant and equipment, net	3.6	58.9	75.1	—	137.6	3.8	60.2	78.0	—	142.0
Intangible assets, net	2.8	188.6	285.9	—	477.3	3.2	196.0	288.1	—	487.3
Goodwill	—	225.0	358.0	—	583.0	—	225.0	356.9	—	581.9
Investment in consolidated subsidiaries	2,290.8	668.0	—	(2,958.8)	—	2,263.1	653.9	—	(2,917.0)	—
Other assets	27.1	26.5	1.9	(18.3)	37.2	15.7	28.2	5.9	(7.0)	42.8
Total Assets	$2,327.4	$2,509.8	$1,207.9	$(4,159.6)	$1,885.5	$2,289.6	$2,516.9	$1,194.8	$(4,136.7)	$1,864.6
Trade accounts payable	$0.2	$62.9	$144.6	$—	$207.7	$—	$62.4	$134.4	$—	$196.8
Liabilities from long-term manufacturing contracts and advances	—	24.6	100.5	—	125.1	—	26.6	99.3	—	125.9
Accrued compensation	3.9	13.6	38.0							