Hill-Rom Holdings, Inc.
Form 10-K
November 19, 2018

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

FORM 10-K
(Mark One)
þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2018
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	35-1160484
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 East Randolph Street, Suite 1000 Chicago, IL	60601
(Address of principal executive offices)	(Zip Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, without par value	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 þ 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 þ
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 þ 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 þ 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. þ
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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

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

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

The aggregate market value of the registrant's voting common equity, held by non-affiliates of the registrant, was approximately $5.8 billion, based on the closing sales price of $87.00 per share as of March 29, 2018 (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 67,283,434 shares of its common stock, without par value, outstanding as of November 13, 2018.

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 March 6, 2019 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, 2018

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PART I

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K ("Form 10-K") contain forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995, as amended, regarding our future plans, objectives, beliefs, expectations, representations and projections.

Forward-looking statements are not guarantees of future performance, and our actual results could differ materially from those set forth in any forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include, but are not limited to, the factors discussed in Part I, Item 1A "Risk Factors" in this Form 10-K and in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K. We assume no obligation to update or revise any forward-looking statements, unless required by law.

Item 1. BUSINESS

General

Hill-Rom Holdings, Inc. (the "Company," "Hill-Rom," "we," "us," or "our") was incorporated on August 7, 1969 in the State o Indiana and is headquartered in Chicago, Illinois. We are a leading global medical technology company with more than 10,000 employees worldwide. We partner with health care providers in more than 100 countries, across multiple care settings, by focusing on patient care solutions that improve clinical and economic outcomes in five core areas: Advancing Mobility, Wound Care and Prevention, Patient Monitoring and Diagnostics, Surgical Safety and Efficiency and Respiratory Health. Our innovations ensure caregivers have the products they need to help diagnose, treat and protect their patients; speed up recoveries; and manage conditions. Every day, around the world, we enhance outcomes for patients and their caregivers.

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 reporting 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 clinical workflow solutions that deliver 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, as well as a portfolio of vision care and respiratory care devices.

- Surgical Solutions – globally provides products that improve surgical safety and efficiency in the operating room including tables, lights, pendants, positioning devices, and various other surgical instruments and accessories.

Net revenue, segment profitability and other measures of segment reporting for each reporting segment are set forth in Note 11 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 50%, 52% and 55% of our revenue in fiscal 2018, 2017 and 2016 was derived from this segment.

Front Line Care. Our Front Line Care products include our patient monitoring and diagnostics products from Welch Allyn and Mortara and our respiratory health products. Our patient monitoring and diagnostics products include blood pressure, physical assessment, vital signs monitoring, diagnostic cardiopulmonary, diabetic retinopathy screening, and thermometry products. We

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integrated Welch Allyn and Mortara technologies with the release of Connex® Cardio ECG which combines the clinical excellence of Mortara technology with Welch Allyn EMR connectivity expertise. Our respiratory health products include the Vest® System, VitalCough® System, MetaNeb® System and new Monarch® 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%, 32%, and 30% of our revenue in fiscal 2018, 2017 and 2016 were derived from products within this segment.

Surgical Solutions. Our Surgical Solutions products include surgical tables, lights, and pendants utilized within the operating room 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. In addition, we offer operating room surgical safety and accessory products such as scalpels and blades, light handle systems, skin markers and other disposable products. The products offered within this segment are both capital sales and recurring consumable revenue streams that are sold globally. Approximately 16%, 16%, and 15% of our revenue in fiscal 2018, 2017 and 2016 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 and Mortara products) through distributors. Through our network of 147 North American and 30 international service centers, and approximately 1,900 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. No single customer accounts for 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, over the past several years, the fluctuating prices of certain raw materials, including metals, fuel, plastics and other petroleum-based products in particular, and fuel related delivery costs, had a direct effect on our profitability. Although we generally have not engaged in hedging transactions with respect to raw material purchases, we have entered into fixed price supply contracts at times.

Most of our contracts with hospital Group Purchasing Organizations (“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.

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

Segments	Competitors	
Patient Support Systems	ArjoHuntleigh Ascom Holding Joerns Healthcare LINET spol. s.r.o. Rauland, a Division of AMETEK, Inc.	Sizewise Stiegelmeyer Stryker Corporation
Front Line Care	Covidien, Ltd., a Division of Medtronic plc. Electromed, Inc. Exergen Corporation GE Healthcare Heine Optotechnik International Biophysics Corporation Keeler Instruments, Inc. Littman, a 3M Brand	Mindray Medical International Midmark Corporation Omron Healthcare, Inc. Philips Resmed Rudolf Riester GmbH Schiller AG Thayer Medical Corporation
Surgical Solutions	Action Medical DeRoyal Draeger Maquet, a Division of Getinge AB MizuhoOSI	Skytron Steris Stryker Corporation Swann-Morton

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 as this law is executed. 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.

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Product Development

Most of our products and product improvements are developed 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; Beaverton, Oregon; Cary, North Carolina; Milwaukee, Wisconsin; 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 2018, 2017 and 2016 was $135.6 million, $133.7 million and $133.5 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 2018, 2017 and 2016 were approximately $2.4 million, $2.3 million and $2.4 million.

Patents and Trademarks

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 and service marks relating to our products and services. Except for the marks “Hill-Rom®”, “Welch Allyn®” and “Bard-Parker®”, we do not believe any single trademark 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 11 of our Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K.

Employees

As of September 30, 2018, we had more than 10,000 employees worldwide. Approximately 3% of our employees in the United States work under collective bargaining agreements. We are also subject to various collective bargaining arrangements or national agreements outside the United States covering approximately 15% of our employees. The collective bargaining agreement at our primary U.S. manufacturing facility expires in January 2019. We have not experienced a work stoppage in the United States in over 40 years, and we believe that our employee relations are satisfactory. 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, 52, was elected President and Chief Executive Officer of Hill-Rom, 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.

Carlos Alonso, 59, was elected Senior Vice President and President, Hill-Rom International, effective April 2015. Before joining Hill-Rom, Mr. Alonso served as the President and CEO of the Esaote Group, a medical imaging leader based in Genova, Italy. Prior to the Esaote Group, Mr. Alonso served as the CEO of Esteve Pharmaceuticals based in Barcelona, Spain, and held various leadership roles of increasing responsibility with Baxter International, Inc. over the course of fifteen years, including serving as Global President of the Renal Division.

Andreas Frank, 42, was elected Chief Transformation Officer, effective October 2017. He previously served as Senior Vice President Corporate Development and Strategy. Before joining Hill-Rom, Mr. Frank was Director, Corporate Development at Danaher Corporation. Previously, he worked in the Corporate Finance and Strategy practice at the consulting firm McKinsey & Company.

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Paul Johnson, 53, was elected as Senior Vice President and President of Patient Support Systems, effective November 2016. He had previously served as president, PSS North America. Before joining Hill-Rom in 2013, Mr. Johnson held various commercial leadership positions at Life Technologies and GE Healthcare.

Kenneth Meyers, 56, was elected Senior Vice President and Chief Human Resources Officer, effective September 2015. Before joining Hill-Rom, Mr. Meyers 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 Rasin, 52, was elected Senior Vice President, Chief Legal Officer and Secretary for Hill-Rom, effective January 2016. Previously she was General Counsel for Dentsply International Inc. Prior to Dentsply, Ms. Rasin served as General Counsel at Samsonite Corporation (for which she worked in Denver and London) and as a senior attorney at General Motors (in Detroit and Zurich).

Richard M. Wagner, 50, was elected Vice President, Controller and Chief Accounting Officer of the Company, effective May 2018. Before joining Hill-Rom, Mr. Wagner was Vice President, Finance at Cree, Inc. and prior to that role, he served as Vice President, Corporate Controller at Dentsply Sirona, Inc.

Alton Shader, 45, was elected Senior Vice President and President, Front Line Care, effective September 2015. He had served as Senior Vice President and President, North America since July 2012 and previously as Senior Vice President and President, Post-Acute Care with Hill-Rom since July 2011. Before joining Hill-Rom, Mr. Shader was General Manager of Renal at Baxter International, Inc. Previously, he served as General Manager for Baxter Ireland and held senior marketing positions in Baxter's operations in Zurich and in California. As indicated in the Company's Form 8-K filed with the SEC on November 2, 2018, Mr. Shader informed the Company that he will be resigning from his position as Senior Vice President and President, Front Line Care, effective December 1, 2018.

Steven J. Strobel, 60, was elected Senior Vice President, effective November 2014 and Chief Financial Officer, effective December 2014. Before joining Hill-Rom, Mr. Strobel was President of McGough Road Advisors, a corporate finance consulting firm, from 2012 to 2014 and previously Chief Financial Officer of BlueStar Energy, an independent retail energy services company, from 2009 to 2012. Prior to BlueStar, he served as Treasurer and Corporate Controller at Motorola, and in the same positions at Owens Corning. Mr. Strobel serves on the Board of Directors of Newell Brands Inc., where he chairs the Audit Committee.

Francisco Canal Vega, 57, was elected Senior Vice President and President, Surgical Solutions, effective June 2017. Prior to this, he had served as President of our Europe region from 2015. Before joining Hill-Rom, Mr. Canal held several senior executive roles at Baxter, Gambro, and Smith & Nephew.

Availability of Reports and Other Information

Our website is www.hill-rom.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 Securities and Exchange Commission ("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 and the Chief Executive Officer, our Global Code of Conduct (and any amendments or waivers), the Corporate Governance Standards of our Board of Directors and the charters of each of the standing committees of the Board of Directors. 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 we face. 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.

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We face significant uncertainty in our industry due to government health care reform, 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). 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 Regulations, which were adopted by the European Union (“EU”) as a common legal framework for all EU member states. These directives 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 Directives, 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

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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, 2018, we had $1,972.9 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, we might incur substantial additional indebtedness in the future, which could cause the related risks to intensify. We might need to refinance all or a portion of our indebtedness on or before their respective maturities. We cannot provide assurance 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 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

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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 for such acquisitions or relationships 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 are able to consummate acquisitions, such acquisitions could be dilutive to earnings and we might not be fully successful in our integration efforts or fully realize expected benefits from the integration. 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 $54.8 million based on our projected benefit obligation and fair value of plan assets as of September 30, 2018. 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, Integrated Delivery Networks (“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 and 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.

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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 a number of 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 particular 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 period of time, we might not be able to manufacture one or more products for a period of time, 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 only 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 a number of 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 account for a significant percent of our total sales in fiscal 2018. 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

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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 increase 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 3% of our employees in the United States work under collective bargaining agreements. We are also subject to various collective bargaining arrangements or national agreements outside the United States covering approximately 15% of our employees. 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. Our labor contract at our primary U.S. manufacturing facility expires in January 2019. Our ability 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.

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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 and products, as well as any data breaches or violations of any data privacy laws (including the GDPR), 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) which 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 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 our ERP software solutions and other complementary information technology systems, which is expected to be completed over the next several years. Rationalizing these solutions and systems is highly dependent on the coordination of numerous software and system providers and internal business teams. The interdependence of these solutions and systems is key to the successful completion of the initiatives and the failure of any one system could have a material adverse effect on our overall information technology infrastructure. Rationalizing our information technology infrastructure 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. As a result, 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.

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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.

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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.

Location	Description and Primary Use	Owned/Leased
Acton, MA	Light manufacturing, development and distribution of health care equipment; Office administration	Leased
Batesville, IN	Manufacturing, development and distribution of health care equipment; Office administration	Owned
Beaverton, OR	Development of health care equipment; Office administration	Leased
Caledonia, MI	Manufacturing, development and distribution of surgical products; Office administration	Leased
Cary, NC	Development of health care equipment; Office administration	Leased
Charleston, SC	Light manufacturing and distribution of health care equipment; Office administration	Leased
Chicago, IL	Office administration	Leased
Milwaukee, WI	Manufacturing, development and distribution of health care equipment; Office administration	Owned
St. Paul, MN	Office administration and distribution of health care equipment	Leased
Skaneateles Falls, NY	Manufacturing, development and distribution of health care equipment; Office administration	Owned
Sydney, Australia	Distribution of health care equipment; Office administration	Leased
Shanghai, China	Manufacturing and development of health care equipment; Office administration	Leased
Taicang, China	Light manufacturing and distribution of health care equipment	Leased
Pluvigner, France	Manufacturing, development and distribution of health care equipment; Office administration	Owned
Puchheim, Germany	Development and distribution of health care equipment; Office administration	Owned/Leased
Saalfeld, Germany	Manufacturing, development and distribution of health care equipment; Office administration	Owned
Navan, County Meath, Ireland	Office administration	Owned
Bologna, Italy	Research and development	Leased
Tijuana, Mexico	Manufacturing and distribution of health care equipment; Office administration	Leased
Monterrey, Mexico	Manufacturing of health care equipment	Owned
Amsterdam, Netherlands	Office administration	Leased
Las Piedras, Puerto Rico	Manufacturing of surgical products	Owned
Singapore	Research and development of health care equipment; Office administration	Leased
Lulea, Sweden	Manufacturing, development and distribution of health care equipment; Office administration	Owned

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

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Item 3. LEGAL PROCEEDINGS

See Note 13 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.

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PART II

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

Market Information

Our common stock is traded on the New York Stock Exchange under the ticker symbol "HRC". The closing price of our common stock on the New York Stock Exchange on November 13, 2018 was $93.38 per share. The following table reflects the range of high and low selling prices of our common stock and cash dividends declared by quarter for each of the last two fiscal years.

	Year Ended September 30					
	2018			2017		
Quarter Ended:	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
December 31	$85.74	$73.04	$ 0.18	$63.12	$50.50	$ 0.17
March 31	91.11	78.16	0.20	71.22	55.04	0.18
June 30	94.63	83.24	0.20	81.33	69.47	0.18
September 30	98.96	86.18	0.20	84.65	71.91	0.18

Holders

As of November 13, 2018, there were approximately 52,800 shareholders of record.

Dividends

The declaration and payment of cash dividends is at the sole discretion of our Board of Directors ("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 (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs (2)
July 1, 2018 - July 31, 2018	756	$ 93.68	—	$ 164.7

August 1, 2018 - August 31, 2018	56	$ 96.84	—	$ 164.7
September 1, 2018 - September 30, 2018	69,621	$ 94.21	—	$ 164.7
Total	70,433		—	

(1) Shares purchased in the quarter ended September 30, 2018 were in connection with employee payroll tax withholding for restricted stock distributions.

(2) In September 2013, the Board approved an expansion of its previously announced share repurchase authorization to a total of $190.0 million. In November 2017, the Board approved an increase to the share repurchase program in an amount of $150.0 million. As of September 30, 2018, a cumulative total of $175.3 million had been used under both programs, leaving us with availability of $164.7 million under the share repurchase programs. The program does not have an expiration date and currently there are no plans to terminate this program in the future.

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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 "2018 Peer Group") has changed since the date of our Annual Report on Form 10-K for fiscal 2017, we have included the data for the 2018 Peer Group as well as for our prior year's peer group (the "2017 Peer Group") in the graph below. The changes reflected in the 2018 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 2018 Peer Group and our 2017 Peer Group was $100 on October 1, 2013 and that all dividends were reinvested.

	2013	2014	2015	2016	2017	2018
HRC	$100	$116	$145	$173	$207	$263
S&P 500	$100	$117	$114	$129	$150	$173
2017 Peer Group	$100	$113	$125	$157	$182	$226
2018 Peer Group	$100	$112	$123	$155	$176	$219

* For purposes of the Stock Performance Graph above, our 2018 Peer Group is 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.

Our 2017 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, St. Jude Medical, Inc., 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 March 6, 2019, and such information is incorporated herein by reference.

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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 2 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 12 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.

(In millions, except per share data)	2018	2017	2016	2015	2014
Net revenue	$2,848.0	$2,743.7	$2,655.2	$1,988.2	$1,686.1
Net income	252.4	132.3	122.8	46.8	60.6
Net income attributable to common shareholders	252.4	133.6	124.1	47.7	60.6
Net income attributable to common shareholders per basic share	3.81	2.04	1.90	0.83	1.05
Net income attributable to common shareholders per diluted share	3.73	1.99	1.86	0.82	1.04
Total assets	4,360.0	4,528.7	4,262.4	4,457.6	1,751.3
Long-term obligations	1,790.4	2,120.4	1,938.4	2,175.2	364.1
Cash flows from operating activities	395.2	311.1	281.2	213.8	210.3
Capital expenditures	89.5	97.5	83.3	121.3	62.7
Cash flows from investing activities	(82.4)	(389.4)	(97.7)	(1,756.4)	(294.5)
Cash flows from financing activities	(356.6)	70.6	(141.9)	1,642.7	63.8
Cash dividends per basic share	0.7800	0.7100	0.6700	0.6325	0.5950

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

This Form 10-K contains "forward-looking statements" within the meaning of the federal securities laws 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," "o "could," "will," "should," "likely," "appears," "projects," "forecasts," "outlook" or other similar words or phrases. There are in 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 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.

Overview

Hill-Rom Holdings, Inc. ("we," "us," or "our"), is a leading global medical technology company with more than 10,000 employees worldwide. We partner with health care providers in more than 100 countries, across all care settings, by focusing on patient care solutions that improve clinical and economic outcomes in five core areas: Advancing Mobility, Wound Care and Prevention, Patient Monitoring and Diagnostics, Surgical Safety and Efficiency and Respiratory Health. Our innovations ensure caregivers have the products they need to help diagnose, treat and protect their patients; speed up recoveries; and manage conditions. Every day, around the world, we enhance outcomes for patients and their caregivers.

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 a number of 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 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, wearables, artificial intelligence and accessibility to big data and 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, enhancing patient experience, lowering length of stay 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 disclosure. As an example, several pieces of legislation have been enacted over the past few years to address these areas including the “pay for performance” initiative by the Centers for Medicare and Medicaid Services which aims to better align reimbursement with improved patient outcomes and the reduction of adverse events including bedsores

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(or pressure ulcers), ventilator associated pneumonia, patient falls, deep vein thrombosis and patient entrapment. 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 pressures 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, 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 Hill-Rom’ approach, 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. Recently divested non-strategic assets enhance our growth prospects by 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 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.

Risk Factors

Our ability to sustain long-term growth and successfully execute the strategies discussed above depends in part on our ability to manage within an increasingly competitive and regulated environment and to address the other risk factors described under Part I, in Item 1A of this Form 10-K.

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, Special charges as described in Note 7 of our Consolidated Financial Statements under Part II, in Item 8 of this Form 10-K, the impact of the U.S. Tax Cuts and Jobs Act (the "Tax Act"), change in a tax accounting method, and other tax law changes as described in Note 8 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.

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

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 reporting 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 clinical workflow solutions that deliver 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, as well as a portfolio of vision care and respiratory care devices.

- Surgical Solutions – globally provides products that improve surgical safety and efficiency in the operating room including tables, lights, pendants, positioning devices, and various other surgical instruments and accessories.

Net Revenue

(In millions)	Year Ended September 30		Change As Reported	Constant Currency	U.S. Change As Reported	OUS Change As Reported	Constant Currency
	2018	2017					
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	$2,848.0	$2,743.7	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	$2,848.0	$2,743.7	3.8 %	2.4 %	3.6 %	4.1 %	(0.3)%

OUS - Outside of the United States

Consolidated Revenue

Consolidated revenue increased 3.8% on a reported basis and 2.4% on a constant currency basis in fiscal 2018 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, 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.

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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 the prior year. The change was driven by strong growth in hospital bed systems, clinical workflow solutions and patient handling equipment, offset by lower revenue from businesses we recently 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 the prior year, due to the benefit from our Mortara acquisition in fiscal 2017 and strong growth across the Welch Allyn portfolio and respiratory care businesses due to the launch of new products.

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

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 the prior year 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 the prior year. 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 the prior year. 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

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and administrative expenses decreased 20 basis points 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.

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 11 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 the prior year 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 the prior year primarily due to revenue growth and higher margins from operational cost improvements.

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 7 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Interest expense was higher in fiscal 2018 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 4 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 the prior year. 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 8 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 in the fiscal 2017 of Accounting Standards Update (“ASU”) 2016-09 Compensation – Stock Compensation (Topic 718), Improvements to Employee

Share-Based Payment Accounting 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 8 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.

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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 8 of our Consolidated Financial Statements in Item 8 of this Form 10-K, as well as operational 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. GAAP amounts are adjusted for certain items to aid management in evaluating the performance of the business. Income tax expense is computed by applying a blended statutory tax rate based on the jurisdictional mix of the respective before tax adjustment.

(In millions)	Year Ended September 30, 2018				Year Ended September 30, 2017			
	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Operating Margin[1]	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	0.4%	11.1	3.0	0.12	0.9%	23.5	9.7	0.21
Acquisition-related intangible asset amortization	3.8%	106.9	28.2	1.16	4.0%	108.4	34.2	1.10
Field corrective actions	—%	—	—	—	—%	—	(0.2)	—
Litigation settlements and expenses	0.2%	5.8	1.5	0.06	(0.3)%	5.7	2.1	0.05
Special charges[2]	2.7%	77.6	21.1	0.84	1.9%	37.4	4.8	0.49
Tax law and method changes and related costs	—%	1.6	79.2	(1.15)	—%	—	(2.2)	0.03
Gain on disposition	—%	(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] Total may not add due to rounding

[2] 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 7 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

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Fiscal Year Ended September 30, 2017 Compared to Fiscal Year Ended September 30, 2016

Net Revenue
(In millions)

	Year Ended September 30		Change As Reported	Constant Currency	U.S. Change As Reported	OUS Change As Reported	Constant Currency
	2017	2016					
Revenue:							
Product sales and service	$2,358.1	$2,263.4	4.2 %	4.6 %	4.7 %	3.2 %	4.4 %
Rental revenue	385.6	391.8	(1.6)%	(1.3)%	(1.1)%	(5.1)%	(2.6)%
Total net revenue	$2,743.7	$2,655.2	3.3 %	3.7 %	3.6 %	2.7 %	4.0 %
Revenue:							
Patient Support Systems	$1,423.9	$1,437.2	(0.9)%	(0.6)%	0.2 %	(3.9)%	(2.8)%
Front Line Care	885.3	809.7	9.3 %	9.7 %	8.0 %	12.8 %	14.0 %
Surgical Solutions	434.5	408.3	6.4 %	7.2 %	8.1 %	4.7 %	6.4 %
Total net revenue	$2,743.7	$2,655.2	3.3 %	3.7 %	3.6 %	2.7 %	4.0 %

OUS - Outside of the United States

Consolidated Revenue

Consolidated revenue increased 3.3% on a reported basis and 3.7% on a constant currency basis in fiscal 2017 with growth in both the United States and OUS. This growth was impacted by the acquisition of Mortara in February 2017, partially offset by the disposition of our Architectural Products and Völker businesses in fiscal 2017 and the disposition of our products related to our perinatal data management system in fiscal 2016. All three dispositions were within our Patient Support Systems segment. Excluding the impact of businesses we divested and the impact of the Mortara acquisition, our consolidated revenue grew approximately 3% on a constant currency basis.

Product sales and service revenue increased 4.2% on a reported basis and 4.6% on a constant currency basis in fiscal 2017, primarily due to growth in our Surgical Solutions segment as well as our acquisition of Mortara. This growth was partially offset by declines from businesses we divested within our Patient Support Systems segment.

Rental revenue decreased 1.6% on a reported basis and 1.3% on a constant currency basis in fiscal 2017 primarily due to volume declines in our third-party rental business.

Business Segment Revenue

Patient Support Systems revenue decreased 0.9% on a reported basis and 0.6% on a constant currency basis in fiscal 2017 compared to the prior year. Fiscal 2017 was impacted by lower revenue from businesses we divested. Excluding the impact of these completed divestitures from all periods, revenue grew by approximately 3% on a constant currency basis in fiscal 2017 led by growth in the United States and Middle East.

Front Line Care revenue increased 9.3% on a reported basis and 9.7% on a constant currency basis in fiscal 2017 compared to the prior year, primarily due to growth in Europe and Asia Pacific from our Welch Allyn business, as well as additional revenue from our Mortara acquisition in February 2017.

Surgical Solutions revenue decreased 6.4% on a reported basis and 7.2% on a constant currency basis in fiscal 2017 compared to the prior year, mainly due to double digit growth in our surgical equipment and patient positioning

businesses, which included strong OUS growth across most regions and new product growth in the United States.

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Gross Profit

(In millions)	Year Ended September 30	
	2017	2016
Gross Profit		
Product sales and service	$1,122.3	$1,054.0
Percent of Related Net Revenue	47.6 %	46.6 %
Rental	$198.3	$203.0
Percent of Related Net Revenue	51.4 %	51.8 %
Total Gross Profit	$1,320.6	$1,257.0
Percent of Total Net Revenue	48.1 %	47.3 %

Product sales and service gross margin increased 100 basis points in fiscal 2017. The prior year included an impact of $19.9 million for the inventory step-up associated with the Welch Allyn acquisition compared to the current year impact of $4.8 million for inventory step-up associated with the Mortara acquisition. Excluding these items, product sales and service gross margin increased 30 basis points in fiscal 2017, primarily due to product mix and supply chain improvements.

Rental gross margin decreased 40 basis points in fiscal 2017 compared to the prior year due to reduced leverage of our fleet and field service infrastructure driven by lower revenue.

Operating Expenses

(In millions)	Year Ended September 30	
	2017	2016
Research and development expenses	$133.7	$133.5
Percent of Total Net Revenue	4.9 %	5.0 %
Selling and administrative expenses	$876.1	$853.3
Percent of Total Net Revenue	31.9 %	32.1 %

Research and development expenses remained relatively flat in fiscal 2017 compared to the prior year. As a percentage of net revenue, research and development expenses have been consistent year over year.

As a percentage of total net revenue, selling and administrative expenses decreased in fiscal 2017 compared to the prior year. Selling and administrative expenses include $132.7 million and $114.8 million of acquisition-related intangible asset amortization, acquisition and integration costs, and certain litigation charges in fiscal 2017 and 2016. Excluding these items, selling and administrative expenses decreased 70 basis points as a percentage of net revenue as a result of disciplined cost management.

Business Segment Divisional Income

(In millions)	Year Ended September 30		Change As Reported
	2017	2016	
Divisional income:			
Patient Support Systems	$249.6	$245.2	1.8 %
Front Line Care	231.8	202.1	14.7 %

Surgical Solutions	42.5	46.2	(8.0)%

Divisional income is defined in Note 11 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Patient Support Systems divisional income increased 1.8% in fiscal 2017 primarily due to lower operating expenses and an increase in margins from product mix and supply chain improvements.

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Front Line Care divisional income increased 14.7% in fiscal 2017 compared to the prior year as a result of our Mortara acquisition and higher margins from supply chain improvements.

Surgical Solutions divisional income decreased 8.0% in fiscal 2017 compared to the prior year, primarily due to increased operating expenses and lower margins due to increases in supply chain costs.

Special Charges and Other

(In millions)	Year Ended September 30	
	2017	2016
Special charges	$37.4	$39.9
Interest expense	$(88.9)	$(90.4)
Loss on extinguishment of debt	$—	$(10.8)
Investment income and other, net	$(1.5)	$9.2

In connection with various organizational changes to improve our business alignment and cost structure, we recognized special charges of $37.4 million and $39.9 million in fiscal 2017 and 2016. These charges relate to the initiatives described in Note 7 of our Consolidated Financial Statements in Item 8 of this Form 10-K.

Interest expense was lower in fiscal 2017 mainly due to the improved terms under our prior year amendment to our Senior Credit Agreement. Loss on extinguishment of debt in the prior year relates to the amendment and restatement of our Senior Credit Agreement.

Investment income and other, net decreased due to the fiscal 2016 gain from the disposition of our products related to our perinatal data management system.

Income Tax Expense

The effective tax rate for fiscal 2017 was 27.7% compared to 11.2% for the prior year. The effective tax rate for fiscal 2017 is higher than the comparable period in fiscal 2016 due primarily to the difference in the amount of discrete tax benefits recognized in each period. The tax rate for fiscal 2017 was unfavorably impacted by the nondeductible impairment loss related to the sale of our Völker business compared to the favorable tax benefits of $20.0 million in the prior year primarily related to the release of the valuation allowance on our deferred tax assets in France. Fiscal 2017 also includes tax benefits of $8.9 million related to the adoption of the ASU 2016-09, as discussed in Note 10 of our Consolidated Financial Statements in Item 8 of this Form 10-K. The adjusted effective tax rate for fiscal 2017 was 27.6% compared to 29.2% for the comparable period in the prior year. The lower adjusted tax rate is due primarily to tax benefits related to the adoption of ASU 2016-09.

Earnings per Share

Diluted earnings per share increased 7.0% on a reported basis and 14.2% on an adjusted basis in fiscal 2017, compared to fiscal 2016.

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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. GAAP amounts are adjusted for certain items to aid management in evaluating the performance of the business. Income tax expense is computed by applying a blended statutory tax rate based on the jurisdictional mix of the respective before tax adjustment.

(In millions)	Year Ended September 30							
	2017				2016			
	Operating Margin[1]	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS[1]
GAAP Basis	10.0 %	$183.0	$ 50.7	$1.99	8.7 %	$138.3	$ 15.5	$1.86
Adjustments:								
Acquisition and integration costs	0.9 %	23.5	9.7	0.21	1.5 %	38.9	11.3	0.41
Acquisition-related intangible asset amortization	4.0 %	108.4	34.2	1.10	3.6 %	95.9	31.7	0.96
Field corrective actions	—	—	(0.2)	—	— %	0.2	(0.1)	—
Litigation settlements and expenses	(0.3)%	5.7	2.1	0.05	—	—	—	—
Special charges[2]	1.9 %	37.4	4.8	0.49	1.5 %	39.9	13.4	0.40
Foreign tax law change	—	—	(2.2)	0.03	— %	—	—	—
Foreign valuation allowance	—	—	—	—	—	—	19.5	(0.29)
Debt refinancing	—	—	—	—	—	12.9	4.7	0.12
Gain on disposition	—	(1.0)	(0.4)	(0.01)	—	(10.1)	(3.7)	(0.10)
Adjusted Basis	16.3 %	$357.0	$ 98.7	$3.86	15.3%	$316.0	$ 92.3	$3.38

[1] Total does not add due to rounding

[2] 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 7 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Liquidity and Capital Resources

	Year Ended September 30		
(In millions)	2018	2017	2016
Cash Flows Provided By (Used In):			
Operating activities	$395.2	$311.1	$281.2
Investing activities	(82.4)	(389.4)	(97.7)
Financing activities	(356.6)	70.6	(141.9)
Effect of exchange rate changes on cash	(5.0)	7.3	(2.2)
Increase (Decrease) in Cash and Cash Equivalents	$(48.8)	$(0.4)	$39.4

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.

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Operating Activities

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 8 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 2 of our Consolidated Financial Statements in Item 8 of this Form 10-K, depreciation, amortization and stock compensation expense, along with working capital activities.

Cash provided by operating activities increased $29.9 million in fiscal 2017 compared to fiscal 2016 due primarily to higher net income and a prior year pension contribution partially offset by working capital activities. Cash provided by operating activities was driven primarily by net income, adjusted for the non-cash effects of depreciation, amortization, the impairment of our Völker business and stock compensation expense, along with working capital activities.

Cash provided by operating activities in fiscal 2016 was driven primarily by net income, adjusted for the non-cash effects of depreciation, amortization, loss on extinguishment of debt, stock compensation expense and the rollout of inventory step-up from the Welch Allyn acquisition. These sources of cash were offset by the payout of performance-based compensation related to fiscal 2015, a pension contribution of $30 million, acquisition and restructuring costs related mainly to Welch Allyn and other working capital activities.

Investing Activities

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.

Cash used in investing activities increased $291.7 million in fiscal 2017 compared to the prior year, primarily due to our acquisition of Mortara in fiscal 2017, partially offset by proceeds on the sale of property, plant and equipment and our recently divested Architectural Products and Völker businesses. See Note 2 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information on our acquisition of Mortara.

Cash used for investing activities in fiscal 2016 consisted mainly of capital expenditures and payment for the acquisition of Anodyne Medical Device, Inc., known as Tridien Medical (“Tridien”) of $25.3 million.

Financing Activities

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 4 of our Consolidated Financial Statements for information on our financing agreements.

Cash provided by financing activities was $70.6 million in fiscal 2017 compared to cash used by financing activities of $141.9 million in fiscal 2016. This change was primarily due to higher net borrowings in fiscal 2017 in connection with the Mortara acquisition, offset by incremental share repurchases of $52.2 million. See Note 4 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information on our financing agreements.

Cash used in financing activities in fiscal 2016 consisted mainly of the pay down of long-term debt and payments of cash dividends.

The treasury stock acquired represents purchases in the open market and the repurchases of shares associated with employee payroll tax withholdings for restricted stock distributions.

Our debt-to-capital ratio was 55.0%, 62.8% and 63.5% as of September 30, 2018, 2017 and 2016.

Other Liquidity Matters

In addition to the discussion of our financing agreements detailed in Note 4 of our Consolidated Financial Statements and our retirement and postretirement benefit plans detailed in Note 5 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.

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As part of the $190.0 million share repurchase program approved by the Board in September 2013, 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 or 2016 in the open market. In November 2017, the Board approved an increase to the share repurchase program in an amount of $150.0 million. As of September 30, 2018, a cumulative total of $175.3 million had been used under both programs, leaving us with availability of $164.7 million under the share repurchase programs. 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 is no current intention to terminate this program in the future.

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.

We believe that cash on hand and 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 $700.0 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.

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 4 of our Consolidated Financial Statements). As of September 30, 2018, approximately 71.5% of our cash and cash equivalents 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 Revolving Credit Facility and Securitization Program, will be sufficient to fund U.S. operations, working capital needs, capital expenditure requirements and financing obligations.

Credit Ratings

In fiscal 2018, Standard and Poor’s Rating Services and Moody’s Investor Service issued credit ratings for Hill-Rom of BB+ and Ba2, respectively, with stable outlooks.

Other Uses of Cash

We expect capital spending in fiscal 2019 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.

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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, 2018:

	Payments Due by Period				
(In millions)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Contractual Obligations					
Long-term debt obligations	$1,989.8	$183.0	$1,038.6	$425.0	$343.2
Interest payments relating to long-term debt (1)	321.4	72.0	124.3	84.7	40.4
Operating lease obligations	129.7	31.0	41.6	29.1	28.0
Pension and postretirement health care benefit funding (2)	25.3	2.8	4.5	4.4	13.6
Purchase obligations (3)	200.2	166.4	33.7	0.1	—
Other long-term liabilities (4)	31.9	—	12.5	12.5	6.9
Total contractual cash obligations	$2,698.3	$455.2	$1,255.2	$555.8	$432.1

(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 2019.

(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, 2018 of $8.1 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 $6.2 million of Other long-term liabilities as of September 30, 2018, 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 a materially 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 materially from these estimates and assumptions, results of operations and financial condition could be affected. Our most critical accounting policies are described below.

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Revenue Recognition

Net revenue reflects gross revenue less sales discounts and allowances, GPO fees, price concessions and customer returns for product sales and rental revenue reserves. Revenue is evaluated under the following criteria and recognized when each is met:

- Evidence of an arrangement: An agreement with the customer reflecting the terms and conditions to deliver products or services serves as evidence of an arrangement.

- Delivery: For products, delivery is generally considered to occur upon transfer of title and risk of loss per the respective sales terms. For rental services, delivery is considered to occur when the services are rendered.

- Fixed or determinable price: The sales price is considered fixed or determinable if it is not subject to refund or adjustment.

- Collection is considered probable: At or prior to the time of a transaction, credit reviews of each customer are performed to determine the creditworthiness of the customer. Collection is considered probable if the customer is expected to be able to pay amounts under the arrangement as those amounts become due. If collection is not probable, revenue is recognized when collection becomes probable which generally is upon cash collection.

Revenue for health care and surgical products are generally recognized upon delivery of the products to the customer and their assumption of risk of loss and other risks and rewards of ownership. Local business customs and sales terms specific to certain customers or products can sometimes result in deviations to this normal practice; however, in no case is revenue recognized prior to the transfer of risk of loss and rewards of ownership.

For non-invasive therapy products and medical equipment management services, the majority of product offerings are rental products for which revenue is recognized consistent with the rendering of the service and use of products. For The Vest ® product, revenue is generally recognized from the time of receipt of authorization for billing from the applicable paying entity as this serves as evidence of the arrangement and sets a fixed or determinable price.

For health care products and services aimed at improving operational efficiency and asset utilization, various revenue recognition techniques are used, depending on the offering. Arrangements to provide services, routinely under separately sold service and maintenance contracts, result in the deferral of revenue until specified services are performed. Service contract revenue is generally recognized ratably over the contract period, if applicable, or as services are rendered. Product-related goods are generally recognized upon delivery to the customer.

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.

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We are also involved in other possible claims, including product and general liability, workers' compensation, auto liability and employment related matters. Refer to Note 13 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.

Goodwill and Intangible Assets

We account for acquired businesses using the acquisition method of accounting. This method requires that the identifiable assets acquired and liabilities assumed be measured at their fair value, with goodwill being the excess value of consideration paid less the fair value of the net identifiable assets acquired. Judgments and estimates are required in the determination of fair values, including the setting of discount rates, growth rates and projected business results for the acquired business and portions of the acquired business, along with estimated useful lives. 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 market multiples, projected sales, projected operating 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.

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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 to 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 6.0% for fiscal 2018, 5.8% for fiscal 2017 and 5.8% for fiscal 2016. As of September 30, 2018, we had pension plan assets of $279.8 million. A 25 basis point increase in the expected rate of return on pension plan assets reduces annual pension expense by approximately $0.6 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 4.2% in 2018, 3.9% in fiscal 2017 and 3.7% in fiscal 2016. 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, 2018 and 2017, we had $80.2 million and $58.2 million of 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.

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 twelve 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,

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make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition of up to $3.5 million in the next twelve months, excluding interest.

In order to determine the amount of the transition tax arising from the enactment of the Tax Act, we computed the total accumulated post-1986 prescribed earnings and profits ("E&P") for applicable foreign entities. We then calculated and applied the related tax pools to the E&P balances under the prescribed tax law methodology.

We are awaiting further interpretative guidance, continuing to assess available tax methods and elections, and continuing to gather additional information to finalize the computation the provisional amount of the transition tax which is required to be finalized in first quarter of fiscal 2019.

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.

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, 2018, the notional amount of open foreign exchange contracts was $5.5 million. These contracts were in a net asset position 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.

Refer to Note 4 and Note 5 of our Consolidated Financial Statements in Item 8 of this Form 10-K for additional discussions about our swap 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

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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.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

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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, 2018 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, 2018.

The effectiveness of our internal control over financial reporting as of September 30, 2018 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/ Steven J. Strobel
Steven J. Strobel
Senior Vice President and Chief Financial Officer

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

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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, 2018 and September 30, 2017, and the related statements of consolidated income, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended September 30, 2018, including the related notes and financial statement schedule 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, 2018, 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, 2018 and September 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2018 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, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 10 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in fiscal 2017.

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

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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.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana
November 16, 2018

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

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Hill-Rom Holdings, Inc. and Subsidiaries
STATEMENTS OF CONSOLIDATED INCOME
(In millions, except per share data)

	Year Ended September 30		
	2018	2017	2016
Net Revenue			
Product sales and service	$2,469.6	$2,358.1	$2,263.4
Rental revenue	378.4	385.6	391.8
Total net revenue	2,848.0	2,743.7	2,655.2
Cost of Net Revenue			
Cost of goods sold	1,274.1	1,235.8	1,209.4
Rental expenses	179.7	187.3	188.8
Total cost of net revenue	1,453.8	1,423.1	1,398.2
Gross Profit	1,394.2	1,320.6	1,257.0
Research and development expenses	135.6	133.7	133.5
Selling and administrative expenses	891.5	876.1	853.3
Special charges	77.6	37.4	39.9
Operating Profit	289.5	273.4	230.3
Interest expense	(95.0)	(88.9)	(90.4)
Loss on extinguishment of debt	—	—	(10.8)
Investment income and other, net	2.7	(1.5)	9.2
Income Before Income Taxes	197.2	183.0	138.3
Income tax expense (benefit)	(55.2)	50.7	15.5
Net Income	252.4	132.3	122.8
Less: Net loss attributable to noncontrolling interests	—	(1.3)	(1.3)
Net Income Attributable to Common Shareholders	$252.4	$133.6	$124.1
Net Income Attributable to Common Shareholders per Basic Common Share	$3.81	$2.04	$1.90
Net Income Attributable to Common Shareholders per Diluted Common Share	$3.73	$1.99	$1.86
Dividends per Common Share	$0.78	$0.71	$0.67
Average Basic Common Shares Outstanding (in thousands)	66,234	65,599	65,333
Average Diluted Common Shares Outstanding (in thousands)	67,612	67,225	66,596

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
(In millions)

	Year Ended September 30		
	2018	2017	2016
Net Income	$252.4	$132.3	$122.8
Other Comprehensive Income (Loss), net of tax:			
Derivative instruments and hedges	12.5	7.4	(3.1)
Foreign currency translation adjustment	(24.0)	33.9	(22.4)
Change in pension and postretirement defined benefit plans	8.5	17.8	(2.8)
Total Other Comprehensive Income (Loss), net of tax	(3.0)	59.1	(28.3)
Total Comprehensive Income	249.4	191.4	94.5
Less: Comprehensive loss attributable to noncontrolling interests	—	(1.3)	(1.3)
Total Comprehensive Income Attributable to Common Shareholders	$249.4	$192.7	$95.8

See Notes to Consolidated Financial Statements.

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

	September 30, 2018	September 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 183.0	$ 231.8
Trade accounts receivable, less allowances of $21.8 in 2018 and $25.1 in 2017 (Note 1)	580.7	579.3
Inventories (Note 1)	291.7	284.5
Other current assets	100.2	70.6
Total current assets	1,155.6	1,166.2
Property, plant and equipment (Note 1)	915.0	979.6
Less accumulated depreciation	(586.7)	(624.2)
Property, plant and equipment, net	328.3	355.4
Intangible assets:		
Goodwill (Notes 1, 2 and 3)	1,738.3	1,759.6
Other intangible assets and software, net (Notes 1, 2 and 3)	1,027.7	1,144.0
Deferred income taxes (Notes 1 and 8)	35.0	40.9
Other assets	75.1	62.6
Total Assets	$ 4,360.0	$ 4,528.7
LIABILITIES		
Current Liabilities		
Trade accounts payable	$ 177.3	$ 167.9
Short-term borrowings (Note 4)	182.5	188.9
Accrued compensation	132.5	126.9
Accrued product warranties (Note 1)	20.5	25.5
Accrued rebates	42.5	39.7
Deferred revenue	40.0	35.2
Other current liabilities	67.1	74.6
Total current liabilities	662.4	658.7
Long-term debt (Note 4)	1,790.4	2,120.4
Accrued pension and postretirement benefits (Note 5)	69.3	78.1
Deferred income taxes (Notes 1 and 8)	181.3	266.2
Other long-term liabilities	40.4	39.7
Total Liabilities	2,743.8	3,163.1
Commitments and Contingencies (Note 13)		
SHAREHOLDERS' EQUITY (Note 10)		
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 2018 and 2017	4.4	4.4
Additional paid-in capital	602.9	584.4
Retained earnings	1,876.2	1,676.2
Accumulated other comprehensive loss (Note 1)	(113.0)	(110.0)
Treasury stock, common shares at cost: 21,201,522 in 2018 and 22,643,840 in 2017	(754.3)	(796.8)
Total Shareholders' Equity Attributable to Common Shareholders	1,616.2	1,358.2

Noncontrolling interests	—	7.4
Total Shareholders' Equity	1,616.2	1,365.6
Total Liabilities and Shareholders' Equity	$ 4,360.0	$ 4,528.7

See Notes to Consolidated Financial Statements.

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

	Year Ended September 30		
	2018	2017	2016
Operating Activities			
Net income	$252.4	$132.3	$122.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant, equipment and software	89.6	95.2	103.9
Acquisition-related intangible asset amortization	106.9	108.4	95.9
Amortization of debt discounts and issuance costs	7.4	7.2	9.2
Loss on extinguishment of debt	—	—	10.8
Provision (benefit) for deferred income taxes	(84.8)	(32.8)	(0.5)
(Gain) loss on disposal of property, equipment leased to others, intangible assets and impairments	2.7	24.7	1.9
Pension contribution to master pension plan	—	—	(30.0)
(Gain) loss on disposition of businesses	23.0	(1.0)	(10.1)
Stock compensation	28.1	23.0	23.1
Excess tax benefits from employee stock plans	—	—	(3.6)
Change in working capital excluding cash, current debt, acquisitions and dispositions:			
Trade accounts receivable	(5.1)	(42.5)	(15.8)
Inventories	(10.4)	(14.9)	21.3
Other current assets	(29.4)	15.0	27.7
Trade accounts payable	12.5	21.6	(0.5)
Accrued expenses and other liabilities	(1.0)	(32.3)	(73.0)
Other, net	3.3	7.2	(1.9)
Net cash provided by operating activities	395.2	311.1	