Hillenbrand, Inc.
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

Commission File No. 001-33794

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

Indiana (State of incorporation)	26-1342272 (I.R.S. Employer Identification No.)
One Batesville Boulevard Batesville, IN (Address of principal executive offices)	47006 (Zip Code)

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

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

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

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

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

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

The registrant had 62,939,321 shares of common stock, no par value per share, outstanding as of July 27, 2015.

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net revenue	$398.7	$416.8	$1,204.8	$1,198.5
Cost of goods sold	259.8	267.5	778.9	775.4
Gross profit	138.9	149.3	425.9	423.1
Operating expenses	85.6	97.7	268.5	291.6
Operating profit	53.3	51.6	157.4	131.5
Interest expense	5.7	5.6	17.8	17.5
Other income (expense), net	(1.3)	0.1	(6.3)	9.7
Income before income taxes	46.3	46.1	133.3	123.7
Income tax expense	13.8	12.7	39.9	35.4
Consolidated net income	32.5	33.4	93.4	88.3
Less: Net income attributable to noncontrolling interests	0.4	0.6	1.1	2.2
Net income(1)	$32.1	$32.8	$92.3	$86.1
Net income(1) — per share of common stock:				
Basic earnings per share	$0.51	$0.52	$1.46	$1.36
Diluted earnings per share	$0.50	$0.51	$1.44	$1.35
Weighted average shares outstanding (basic)	63.3	63.1	63.2	63.2
Weighted average shares outstanding (diluted)	63.9	63.7	63.8	63.8
Cash dividends declared per share	$0.2000	$0.1975	$0.6000	$0.5925

(1) Net income attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Consolidated net income	$32.5	$33.4	$93.4	$88.3
Changes in other comprehensive income (loss), net of tax				
Currency translation adjustment	20.3	(3.3)	(36.3)	5.3
Pension and postretirement (net of quarter-to-date tax of $1.0 and $0.3 and year-to-date tax of $1.5 and $1.8)	0.9	0.7	2.7	3.8
Change in net unrealized gain (loss) on derivative instruments (net of quarter-to-date tax of ($0.8) and $- and year-to-date tax of $0.8 and $0.1)	2.5	(0.5)	(1.8)	(0.2)
Total changes in other comprehensive income (loss), net of tax	23.7	(3.1)	(35.4)	8.9
Consolidated comprehensive income (loss)	56.2	30.3	58.0	97.2
Less: Comprehensive income attributable to noncontrolling interests	0.3	0.6	0.9	2.2
Comprehensive income (loss) (2)	$55.9	$29.7	$57.1	$95.0

(2) Comprehensive income attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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

	June 30, 2015	September 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$45.6	$58.0
Trade receivables, net	165.4	191.0
Unbilled receivables from long-term manufacturing contracts	138.4	149.3
Inventories	170.6	168.5
Deferred income taxes	30.1	30.5
Prepaid expenses	21.7	19.0
Other current assets	20.1	21.5
Total current assets	591.9	637.8
Property, plant, and equipment, net	155.5	159.5
Intangible assets, net	467.7	510.5
Goodwill	548.9	570.7
Other assets	40.8	40.0
Total Assets	$1,804.8	$1,918.5
LIABILITIES		
Current Liabilities		
Trade accounts payable	$115.2	$192.6
Liabilities from long-term manufacturing contracts and advances	73.5	76.1
Current portion of long-term debt	11.2	15.0
Accrued compensation	57.7	69.6
Deferred income taxes	25.7	20.7
Other current liabilities	113.3	117.1
Total current liabilities	396.6	491.1
Long-term debt	519.1	543.5
Long-term portion of accrued pension and postretirement healthcare	188.6	200.9
Deferred income taxes	49.0	55.4
Other long-term liabilities	33.1	33.8
Total Liabilities	$1,186.4	$1,324.7
Commitments and contingencies		
SHAREHOLDERS’ EQUITY		
Common stock, no par value (63.6 and 63.5 shares issued, 62.9 and 62.9 shares outstanding)	—	—
Additional paid-in capital	348.7	342.1
Retained earnings	365.9	311.7
Treasury stock (0.7 and 0.6 shares)	(19.9)	(18.3)
Accumulated other comprehensive loss	(87.4)	(52.2)
Hillenbrand Shareholders’ Equity	607.3	583.3
Noncontrolling interests	11.1	10.5
Total Shareholders’ Equity	618.4	593.8

Total Liabilities and Equity	$1,804.8	$1,918.5

See Condensed Notes to Consolidated Financial Statements

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

	Nine Months Ended June 30, 2015	2014
Operating Activities		
Consolidated net income	$93.4	$88.3
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	41.1	43.7
Deferred income taxes	3.2	(4.6)
Share-based compensation	8.9	6.2
Net (gain) loss on investments	2.1	(7.8)
Trade accounts receivable and receivables on long-term manufacturing contracts	14.7	33.6
Inventories	(9.9)	(6.2)
Other current assets	(2.3)	(12.8)
Trade accounts payable	(66.3)	(7.0)
Accrued expenses and other current liabilities	(23.5)	14.5
Income taxes payable	13.9	(7.9)
Defined benefit plan and postretirement funding	(7.7)	(13.4)
Defined benefit plan and postretirement expense	10.8	10.8
Other, net	(2.9)	(0.5)
Net cash provided by operating activities	75.5	136.9
Investing Activities		
Capital expenditures	(19.7)	(17.9)
Proceeds from sales of property, plant, and equipment	0.7	0.8
Proceeds from investments	—	5.5
Other, net	(1.2)	1.1
Net cash used in investing activities	(20.2)	(10.5)
Financing Activities		
Repayments on term loan	(6.8)	(7.5)
Proceeds from revolving credit facilities	334.2	247.1
Repayments on revolving credit facilities	(453.1)	(309.2)
Proceeds from unsecured Series A Notes, net of financing costs	99.6	—
Proceeds from other borrowings	2.2	0.7
Payments of dividends on common stock	(37.8)	(37.2)
Repurchases of common stock	(9.2)	(16.5)
Net proceeds on stock plans	3.5	13.5
Other, net	1.2	0.2
Net cash used in financing activities	(66.2)	(108.9)
Effect of exchange rates on cash and cash equivalents	(1.5)	1.5
Net cash flows	(12.4)	19.0
Cash and cash equivalents:		

At beginning of period	58.0	42.7
At end of period	$45.6	$61.7

See Condensed Notes to Consolidated Financial Statements

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

1. Background and Basis of Presentation

Hillenbrand, Inc. (“Hillenbrand”) is a global diversified industrial company that makes and sells premium business-to-business products and services for a wide variety of industries. We pursue profitable growth and meaningful dividends for our shareholders by leveraging our leading brands and robust cash generation capabilities, as well as our Hillenbrand Business System (HBS), which we utilize to drive results across the enterprise by deploying management practices including Lean, Talent Development, and Strategy Management. Hillenbrand is composed of two segments: the Process Equipment Group and Batesville®. The Process Equipment Group has multiple market-leading brands of process and material handling equipment and systems serving a wide variety of industries across the globe. Batesville is a recognized leader in the North American death care industry. “Hillenbrand,” “the Company,” “we,” “us,” “our,” and similar words refer to Hillenbrand and its subsidiaries.

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

These unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements and therefore do not include all information required in accordance with accounting principles generally accepted in the United States (“GAAP”). The unaudited consolidated financial statements have been prepared on the same basis as, and should be read in conjunction with, the audited consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K for the year ended September 30, 2014, as filed with the SEC. The September 30, 2014 Consolidated Balance Sheet included in this Form 10-Q was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP for a year-end balance sheet included in Form 10-K. In the opinion of management, these financial statements reflect all adjustments necessary to present a fair statement of the Company’s consolidated financial position and the consolidated results of operations and cash flow as of the dates and for the periods presented.

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

2. Summary of Significant Accounting Policies

The significant accounting policies used in preparing these consolidated financial statements are consistent with the accounting policies described in our Annual Report on Form 10-K for 2014.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for our fiscal year beginning October 1, 2018, including interim periods within that reporting period, and allows for either full retrospective adoption or modified retrospective adoption, with early adoption permitted on October 1, 2017. We are currently evaluating the impact that ASU 2014-09 will have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 will be effective for our fiscal year beginning October 1, 2016, with early adoption permitted. We do not expect the adoption of ASU 2014-15 to have a material impact on our consolidated financial statements.

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In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. ASU 2015-01 will be effective for our fiscal year beginning October 1, 2016, with early adoption permitted. We do not expect the adoption of ASU 2015-01 to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis. The new standard amends the consolidation guidance in ASC 810 and significantly changes the consolidation analysis required under current generally accepted accounting principles. ASU 2015-01 will be effective for our fiscal year beginning October 1, 2016, with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest. ASU 2015-03 simplifies the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 will be effective for our fiscal year beginning October 1, 2016, with early adoption permitted. We do not expect the adoption of ASU 2015-03 to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other - Internal-Use Software. ASU 2015-05 helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. ASU 2015-05 will be effective for our fiscal year beginning October 1, 2016, with early adoption permitted. We are currently evaluating the impact that ASU 2015-05 will have on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement. ASU 2015-07 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. It removes the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. ASU 2015-07 will be effective for our fiscal year beginning October 1, 2016, with early adoption permitted. We are currently evaluating the impact that ASU 2015-07 will have on our consolidated financial statements.

3. Supplemental Balance Sheet Information

	June 30, 2015	September 30, 2014
Trade accounts receivable reserves	$19.0	$19.2
Accumulated depreciation on property, plant, and equipment	$339.3	$278.3
Accumulated amortization on intangible assets	$139.3	$127.4
Inventories:		
Raw materials and components	$44.7	$53.2
Work in process	72.1	73.3
Finished goods	53.8	42.0
Total inventories	$170.6	$168.5

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4. Financing Agreements

	June 30, 2015	September 30, 2014
$700 revolving credit facility, maturing December 19, 2019	$105.8	$229.6
$180 term loan, final maturity December 19, 2019	173.2	180.0
$150 senior unsecured notes, due July 15, 2020, net of discount	149.1	148.9
$100 unsecured Series A Notes, due December 15, 2024	100.0	—
Other	2.2	—
Total debt	530.3	558.5
Less: current portion	11.2	15.0
Total long-term debt	$519.1	$543.5

On February 18, 2015, we entered into an Amendment Agreement (the “Amendment Agreement”), amending and restating our €150.0 Syndicated Letter of Guarantee Facility (as amended, “LG Facility”), dated as of June 3, 2013, under which unsecured letters of credit, bank guarantees, or other surety bonds may be issued. The Amendment Agreement extends the maturity date of the LG Facility until at least December 19, 2019, and, among other things, amends a financial covenant contained in the LG Facility to provide the Company and its subsidiaries greater flexibility to consummate acquisitions. The financial covenant amendment allows for an increase in the Company’s permitted maximum leverage ratio during the three quarters subsequent to an acquisition valued in excess of $75.0. We are allowed this increase up to two times during the term of the LG Facility (each, a “Leverage Holiday”).

On December 15, 2014, we issued $100.0 in 4.60% Series A unsecured notes (“Series A Notes”) pursuant to the Private Shelf Agreement, dated as of December 6, 2012 (as amended, the “Shelf Agreement”), among the Company, Prudential Investment Management, Inc. (“Prudential”) and each Prudential Affiliate (as defined therein) that becomes a purchaser thereunder. The Series A Notes are unsecured, mature on December 15, 2024, and bear interest at 4.60% payable semi-annually in arrears. The Company may at any time upon providing notice, prepay all or part of the Series A Notes at 100% of the principal amount prepaid plus a Make-Whole Amount (as defined therein). Consistent with our revolving credit facility, term loan, senior unsecured notes, and LG facility, the Series A Notes are fully and unconditionally guaranteed by certain of the Company’s domestic subsidiaries (the “Guarantors”). Deferred financing costs of $0.5 related to the Series A Notes are being amortized to interest expense over the term of the Series A Notes.

On December 15, 2014, the Company and the Guarantors entered into an amendment (the “First Amendment”) to the Shelf Agreement and on December 19, 2014, entered into a separate amendment (the “Second Amendment” and, collectively with the First Amendment, the “Prudential Amendments”) to the Shelf Agreement. The Prudential Amendments, among other things, amend a financial covenant contained in the Shelf Agreement to provide for Leverage Holidays similar to those discussed above regarding the LG Facility. If a Leverage Holiday is elected, in addition to the interest accruing on the Series A Notes, the Company must pay to each holder of a Series A Note a fee equivalent to 0.75% per annum.

On December 19, 2014, the Company entered into a Second Amendment (the “JPM Amendment”) to the Amended and Restated Credit Agreement, dated as of November 19, 2012, which governs our revolving credit facility and term loan (the “Facility”), by and among the Company and certain of its affiliates, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent. The JPM Amendment provides for revolving loans of up to $700.0 and a term loan in the amount of $180.0, extends the maturity date of the Facility to December 19, 2019, and, among other amendments, amends the Facility to provide for Leverage Holidays similar to those discussed above regarding the LG Facility. New deferred financing costs related to the JPM Amendment were $1.7, which along with existing costs of $2.0, are being amortized to interest expense over the term of the Facility.

With respect to the Facility, as of June 30, 2015, we had $15.8 in outstanding letters of credit issued and $578.4 of maximum borrowing capacity, of which $444.1 of borrowing capacity is immediately available based on our leverage covenant at June 30, 2015, with additional amounts available in the event of a qualifying acquisition. The weighted-average interest rates on borrowings under the Facility were 1.32% and 1.29% for the three and nine months ended June 30, 2015, and 1.32% and 1.35% for the same periods in the prior year. The Facility carries a leverage-based facility fee, assessed on the entire facility amount. The weighted average facility fee was 0.23% for the three months and nine months ended June 30, 2015.

The weighted average interest rates on the term loan were 1.56% and 1.55% for the three and nine months ended June 30, 2015, and 1.58% and 1.64% for the same periods in the prior year.

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In the normal course of business, the Process Equipment Group provides customers with bank guarantees and other credit arrangements in support of performance, warranty, advance payment, and other contractual obligations. This form of trade finance is customary in the industry and, as a result, we maintain adequate capacity to provide the guarantees under the LG Facility and other arrangements. As of June 30, 2015, we had guarantee arrangements with capacity totaling $222.1, of which $153.4 was utilized for this purpose.

The availability of borrowings under the Facility and the LG Facility is subject to our ability to meet certain conditions including compliance with covenants, absence of default, and continued accuracy of certain representations and warranties. Financial covenants include a maximum ratio of Indebtedness to EBITDA (as such terms are defined in the relevant agreements) of 3.5 to 1.0 and a minimum ratio of EBITDA (as defined in the agreements) to interest expense of 3.5 to 1.0. As of June 30, 2015, we were in compliance with all covenants.

We had restricted cash of $0.7 and $0.4 at June 30, 2015 and September 30, 2014.

5. Retirement Benefits

Defined Benefit Plans

	U.S. Pension Benefits Three Months Ended June 30,		Non-U.S. Pension Benefits Three Months Ended June 30,	
	2015	2014	2015	2014
Service costs	$1.0	$1.0	$0.4	$0.4
Interest costs	3.6	3.6	0.7	1.1
Expected return on plan assets	(3.4)	(3.5)	(0.3)	(0.3)
Amortization of unrecognized prior service costs, net	0.2	0.3	—	—
Amortization of net loss	1.3	0.9	0.1	—
Net pension costs	$2.7	$2.3	$0.9	$1.2

	U.S. Pension Benefits Nine Months Ended June 30,		Non-U.S. Pension Benefits Nine Months Ended June 30,	
	2015	2014	2015	2014
Service costs	$3.2	$3.0	$1.3	$1.2
Interest costs	10.8	10.9	2.1	3.2
Expected return on plan assets	(10.6)	(10.5)	(0.8)	(0.8)
Amortization of unrecognized prior service costs, net	0.7	0.7	—	—
Amortization of net loss	3.9	2.8	0.1	—
Net pension costs	$8.0	$6.9	$2.7	$3.6

Postretirement Healthcare Plans — Net postretirement healthcare costs were $(0.1) and $0.1 for the three months ended June 30, 2015 and 2014, and $0.1 and $0.3 for the nine months ended June 30, 2015 and 2014.

Defined Contribution Plans — Expenses related to our defined contribution plans were $2.4 and $2.3 for the three months ended June 30, 2015 and 2014, and $6.9 and $6.5 for the nine months ended June 30, 2015 and 2014.

6. Income Taxes

The effective tax rates for the three months ended June 30, 2015 and 2014 were 29.8% and 27.5%. The increase in the effective tax rate during the three months ended June 30, 2015 was primarily due to discrete tax benefits recognized in 2014. The effective tax rates for the nine months ended June 30, 2015 and 2014 were 29.9% and 28.6%. The increase in the effective tax rate during the nine months ended June 30, 2015 was primarily due to discrete tax benefits recognized in 2014 and less favorable geographic mix of pre-tax income in 2015, partially offset by a reduction in the reserve for uncertain tax positions in the first quarter of 2015.

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7. Earnings Per Share

The dilutive effects of performance-based stock awards were included in the computation of diluted earnings per share at the level the related performance criteria were met through the respective balance sheet date. At June 30, 2015 and 2014, potential dilutive effects, representing approximately 1,400,000 and 1,800,000, shares were excluded from the computation of diluted earnings per share as the related performance criteria were not yet met, although we expect to meet various levels of criteria in the future.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net income(1)	$32.1	$32.8	$92.3	$86.1
Weighted average shares outstanding (basic - in millions)	63.3	63.1	63.2	63.2
Effect of dilutive stock options and other unvested equity awards (in millions)	0.6	0.6	0.6	0.6
Weighted average shares outstanding (diluted - in millions)	63.9	63.7	63.8	63.8
Basic earnings per share	$0.51	$0.52	$1.46	$1.36
Diluted earnings per share	$0.50	$0.51	$1.44	$1.35
Shares with anti-dilutive effect excluded from the computation of diluted earnings per share (in millions)	0.7	0.4	0.7	0.4

(1) Net income attributable to Hillenbrand

8. Shareholders' Equity

During the nine months ended June 30, 2015, we paid approximately $37.8 of cash dividends. We also repurchased approximately 305,000 shares of our common stock during the nine months ended June 30, 2015, for a total cost of approximately $9.2. In connection with our share based compensation plans discussed further in Note 10, we also issued approximately 327,000 shares of common stock, of which approximately 254,000 shares were treasury stock.

9. Other Comprehensive Income (Loss)

	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Total Attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2013	$(33.0)	$31.4	$0.2	$(1.4)		
Other comprehensive income before reclassifications						
Before tax amount	2.4	5.3	1.0	8.7	$—	$8.7
Tax expense	(0.7)	—	(0.3)	(1.0)	—	(1.0)
After tax amount	1.7	5.3	0.7	7.7	—	7.7
Amounts reclassified from accumulated other comprehensive income(1)	2.1	—	(0.9)	1.2	—	1.2
Net current period other comprehensive income (loss)	3.8	5.3	(0.2)	8.9	$—	$8.9

Balance at June 30, 2014	$ (29.2)	$ 36.7	$ —	$ 7.5

(1) Amounts are net of tax.

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	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Total Attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2014	$ (46.0)	$ (4.9)	$ (1.3)	$ (52.2)		
Other comprehensive income before reclassifications						
Before tax amount	—	(36.1)	(6.3)	(42.4)	$ (0.2)	$ (42.6)
Tax expense	—	—	1.9	1.9	—	1.9
After tax amount	—	(36.1)	(4.4)	(40.5)	(0.2)	(40.7)
Amounts reclassified from accumulated other comprehensive income(1)	2.7	—	2.6	5.3	—	5.3
Net current period other comprehensive income (loss)	2.7	(36.1)	(1.8)	(35.2)	$ (0.2)	$ (35.4)
Balance at June 30, 2015	$ (43.3)	$ (41.0)	$ (3.1)	$ (87.4)		

(1) Amounts are net of tax.

Reclassifications out of Accumulated Other Comprehensive Income include:

	Three Months Ended June 30, 2014			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$—	$ —	$ (0.1)	$ (0.1)
Cost of goods sold	0.6	0.1	(0.1)	0.6
Operating expenses	0.2	0.1	—	0.3
Other income (expense), net	—	—	(0.1)	(0.1)
Total before tax	$0.8	$ 0.2	$ (0.3)	$0.7
Tax expense				(0.3)
Total reclassifications for the period, net of tax				$0.4

	Nine Months Ended June 30, 2014			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$—	$ —	$ (0.5)	$ (0.5)
Cost of goods sold	1.9	0.4	(0.4)	1.9
Operating expenses	0.7	0.2	—	0.9
Other income (expense), net	—	—	(0.4)	(0.4)
Total before tax	$2.6	$ 0.6	$ (1.3)	$1.9
Tax expense				(0.7)
Total reclassifications for the period, net of tax				$1.2

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	Three Months Ended June 30, 2015			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$—	$ —	$0.6	$0.6
Cost of goods sold	0.9	0.1	0.1	1.1
Operating expenses	0.3	0.1	—	0.4
Other income (expense), net	—	—	0.4	0.4
Total before tax	$1.2	$ 0.2	$1.1	$2.5
Tax expense				(0.7)
Total reclassifications for the period, net of tax				$1.8

	Nine Months Ended June 30, 2015			
	Amortization of Pension and Postretirement (1)		(Gain)/Loss on	
	Net Loss Recognized	Prior Service Costs Recognized	Derivative Instruments	Total
Affected Line in the Consolidated Statement of Operations:				
Net revenue	$—	$ —	$1.9	$1.9
Cost of goods sold	2.6	0.4	0.1	3.1
Operating expenses	1.0	0.2	—	1.2
Other income (expense), net	—	—	1.5	1.5
Total before tax	$3.6	$ 0.6	$3.5	$7.7
Tax expense				(2.4)
Total reclassifications for the period, net of tax				$5.3

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 5).

10. Share-Based Compensation

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Share-based compensation costs	$2.6	$1.1	$8.9	$6.2
Less impact of income tax benefit	1.0	0.4	3.3	2.3
Share-based compensation costs, net of tax	$1.6	$0.7	$5.6	$3.9

We have share-based compensation with long-term performance-based metrics that are contingent upon our relative total shareholder return and the creation of shareholder value as measured by the cumulative cash returns and final period net operating profit after tax compared to the performance-based targets for each grant over a three-year period. For the performance-based awards contingent upon the creation of shareholder value, compensation expense is adjusted each quarter based upon actual results to date and any changes to forecasted information on each of the separate grants.

During the nine months ended June 30, 2015, we made the following grants:

	Number of Units
Stock options	360,903
Time-based stock awards	68,137
Performance-based stock awards (maximum that can be earned)	474,599

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Stock options granted during fiscal 2015 had a weighted-average exercise price of $32.66 and a weighted-average grant date fair value of $8.38. Our time-based stock awards and performance-based stock awards granted during fiscal 2015 had weighted-average grant date fair values of $31.01 and $33.44. Included in the performance-based stock awards granted during 2015 are 150,464 units whose payout level is based upon the Company's total shareholder return as it relates to the performance of companies in its compensation peer group over a three-year measurement period. These units will be expensed on a straight-line basis over the measurement period and are not subsequently adjusted after the grant date.

11. Other Income (Expense), Net

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Equity in net income (loss) of affiliates	$(0.6)	$—	$(2.0)	$2.6
Foreign currency exchange loss, net	(0.2)	—	(4.3)	(0.6)
Gain on exercise of warrants	—	—	—	5.2
Service agreement cancellation	—	—	—	2.5
Other, net	(0.5)	0.1	—	—
Other income and (expense), net	$(1.3)	$0.1	$(6.3)	$9.7

Following our spin-off from our former parent, we held warrants to purchase the common stock of Forethought Financial Group, Inc. ("Forethought"). Forethought was acquired by a third party during the second quarter of 2014. In connection with that acquisition, these warrants were exercised for $6.2, resulting in a gain of $5.2.

We recognized a $2.5 gain related to the cancellation of a service agreement at Batesville during the second quarter of 2014.

12. Commitments and Contingencies

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

Claims other than employment and related matters have deductibles and self-insured retentions ranging from $0.5 to $1.0 per occurrence or per claim, depending upon the type of coverage and policy period. Outside insurance companies and third-party claims administrators assist in establishing individual claim reserves, and an independent outside actuary provides estimates of ultimate projected losses, including incurred but not reported claims, which are used to establish reserves for losses. Claim reserves for employment-related matters are established based upon advice from internal and external counsel and historical settlement information for claims and related fees when such amounts are considered probable of payment.

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

13. Fair Value Measurements

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

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

	Carrying Value at June 30, 2015	Fair Value at June 30, 2015 Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$45.6	$45.6	$—	$—
Investments in rabbi trust	4.8	4.8	—	—
Derivative instruments	1.6	—	1.6	—
Liabilities:				
$150 senior unsecured notes	149.1	163.1	—	—
Revolving credit facility	105.8	—	105.8	—
Term loan	173.2	—	173.2	—
$100 Series A Notes	100.0	—	100.0	—
Derivative instruments	6.8	—	6.8	—

The fair values of the revolving credit facility, term loan, and Series A Notes approximated carrying value at June 30, 2015. The fair values of the revolving credit facility, term loan, and Series A Notes are estimated based on internally developed models, using current market interest rate data for similar issues as there is no active market for our revolving credit facility, term loan, or Series A Notes.

The fair values of the Company's derivative instruments are based upon pricing models using inputs derived from third-party pricing services or observable market data such as currency spot and forward rates. These values are periodically validated by comparing to third-party broker quotes. The aggregate notional value of these derivatives was $118.3 at June 30, 2015. The derivatives are included in other current assets and other current liabilities on the balance sheet.

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14. Segment and Geographical Information

	Three Months Ended June 30, 2015	2014	Nine Months Ended June 30, 2015	2014
Net revenue				
Process Equipment Group	$253.6	$274.0	$750.8	$755.7
Batesville	145.1	142.8	454.0	442.8
Total	$398.7	$416.8	$1,204.8	$1,198.5
Adjusted EBITDA				
Process Equipment Group	$43.7	$44.1	$116.3	$96.8
Batesville	32.2	34.3	108.9	113.7
Corporate	(9.7)	(7.6)	(30.1)	(17.3)
Net revenue (1)				
United States	$226.6	$224.7	$679.3	$643.0
International	172.1	192.1	525.5	555.5
Total	$398.7	$416.8	$1,204.8	$1,198.5

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

	June 30, 2015	September 30, 2014
Total assets assigned		
Process Equipment Group	$1,521.5	$1,632.8
Batesville	216.6	237.8
Corporate	66.7	47.9
Total	$1,804.8	$1,918.5
Tangible long-lived assets, net		
United States	$95.1	$93.7
International	60.4	65.8
Total	$155.5	$159.5

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

	Three Months Ended June 30, 2015	2014	Nine Months Ended June 30, 2015	2014
Adjusted EBITDA:				
Process Equipment Group	$43.7	$44.1	$116.3	$96.8
Batesville	32.2	34.3	108.9	113.7
Corporate	(9.7)	(7.6)	(30.1)	(17.3)
Less:				
Interest income	—	(0.3)	(0.7)	(0.6)
Interest expense	5.7	5.6	17.8	17.5
Income tax expense	13.8	12.7	39.9	35.4
Depreciation and amortization	12.7	14.7	41.1	43.7

Business acquisition and integration	0.5	1.7	0.7	4.7
Restructuring	1.0	1.6	2.4	2.8
Litigation	—	1.4	0.5	1.4
Consolidated net income	$32.5	$33.4	$93.4	$88.3

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15. Condensed Consolidating Information

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

Condensed Consolidating Statements of Income

	Three Months Ended June 30, 2015					Three Months Ended June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenue	$—	$ 225.9	$ 222.4	$ (49.6)	$ 398.7	$—	$ 219.6	$ 240.7	$ (43.5)	$ 416.8
Cost of goods sold	—	121.9	163.1	(25.2)	259.8	—	113.5	172.2	(18.2)	267.5
Gross profit	—	104.0	59.3	(24.4)	138.9	—	106.1	68.5	(25.3)	149.3
Operating expenses	9.7	60.9	39.4	(24.4)	85.6	8.9	63.0	51.1	(25.3)	97.7
Operating profit	(9.7)	43.1	19.9	—	53.3	(8.9)	43.1	17.4	—	51.6
Interest expense	5.2	0.2	0.3	—	5.7	4.6	0.1	0.9	—	5.6
Other income (expense), net	1.6	(2.8)	(0.1)	—	(1.3)	—	(0.7)	0.8	—	0.1
Equity in net income (loss) of subsidiaries	38.9	0.2	—	(39.1)	—	39.3	2.7	—	(42.0)	—
Income (loss) before income taxes	25.6	40.3	19.5	(39.1)	46.3	25.8	45.0	17.3	(42.0)	46.1
Income tax expense (benefit)	(6.5)	15.0	5.3	—	13.8	(7.0)	15.9	3.8	—	12.7
Consolidated net income	32.1	25.3	14.2	(39.1)	32.5	32.8	29.1	13.5	(42.0)	33.4
Less: Net income attributable to noncontrolling interests	—	—	0.4	—	0.4	—	—	0.6	—	0.6
Net income (loss) (1)	$32.1	$ 25.3	$ 13.8	$ (39.1)	$ 32.1	$32.8	$ 29.1	$ 12.9	$ (42.0)	$ 32.8
Consolidated comprehensive income (loss)	$55.9	$ 26.2	$ 38.5	$ (64.4)	$ 56.2	$29.7	$ 29.7	$ 9.8	$ (38.9)	$ 30.3
Less: Comprehensive income attributable to noncontrolling interests	—	—	0.3	—	0.3	—	—	0.6	—	0.6
Comprehensive income (loss) (2)	$55.9	$ 26.2	$ 38.2	$ (64.4)	$ 55.9	$29.7	$ 29.7	$ 9.2	$ (38.9)	$ 29.7

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	Nine Months Ended June 30, 2015					Nine Months Ended June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenue	$—	$ 678.3	$ 675.9	$ (149.4)	$ 1,204.8	$—	$ 632.3	$ 693.1	$ (126.9)	$ 1,198.5
Cost of goods sold	—	355.4	498.1	(74.6)	778.9	—	320.8	504.4	(49.8)	775.4
Gross profit	—	322.9	177.8	(74.8)	425.9	—	311.5	188.7	(77.1)	423.1
Operating expenses	28.5	187.6	127.2	(74.8)	268.5	29.7	188.2	150.8	(77.1)	291.6
Operating profit	(28.5)	135.3	50.6	—	157.4	(29.7)	123.3	37.9	—	131.5
Interest expense	15.3	0.6	1.9	—	17.8	14.3	0.2	3.0	—	17.5
Other income (expense), net	(0.1)	(3.4)	(2.8)	—	(6.3)	0.1	8.7	0.9	—	9.7
Equity in net income (loss) of subsidiaries	113.9	5.4	—	(119.3)	—	108.8	7.6	—	(116.4)	—
Income (loss) before income taxes	70.0	136.7	45.9	(119.3)	133.3	64.9	139.4	35.8	(116.4)	123.7
Income tax expense (benefit)	(22.3)	49.1	13.1	—	39.9	(21.2)	49.0	7.6	—	35.4
Consolidated net income	92.3	87.6	32.8	(119.3)	93.4	86.1	90.4	28.2	(116.4)	88.3
Less: Net income attributable to noncontrolling interests	—	—	1.1	—	1.1	—	—	2.2	—	2.2
Net income (loss) (1)	$92.3	$ 87.6	$ 31.7	$ (119.3)	$ 92.3	$86.1	$ 90.4	$ 26.0	$ (116.4)	$ 86.1
Consolidated comprehensive income (loss)	$57.1	$ 90.2	$ 8.1	$ (97.4)	$ 58.0	$95.0	$ 92.4	$ 35.1	$ (125.3)	$ 97.2
Less: Comprehensive income attributable to noncontrolling interests	—	—	0.9	—	0.9	—	—	2.2	—	2.2
Comprehensive income (loss) (2)	$57.1	$ 90.2	$ 7.2	$ (97.4)	$ 57.1	$95.0	$ 92.4	$ 32.9	$ (125.3)	$ 95.0

(1) Net income attributable to Hillenbrand
(2) Comprehensive income attributable to Hillenbrand

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Condensed Consolidating Balance Sheets

	June 30, 2015					September 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and equivalents	$—	$8.5	$37.1	$—	$45.6	$0.4	$10.6	$47.0	$—	$58.0
Trade receivables, net	—	96.3	69.1	—	165.4	—	113.2	77.8	—	191.0
Unbilled receivables from long-term manufacturing contracts	—	12.2	126.2	—	138.4	—	4.0	145.3	—	149.3
Inventories	—	81.5	91.8	(2.7)	170.6	—	69.7	101.8	(3.0)	168.5
Deferred income taxes	13.9	12.5	3.7	—	30.1	10.6	17.3	2.6	—	30.5
Prepaid expense	3.5	6.7	11.5	—	21.7	2.5	4.9	11.6	—	19.0
Intercompany receivables	300.8	1,168.7	50.9	(1,520.4)	—	291.0	1,189.9	5.3	(1,486.2)	—
Other current assets	0.6	1.8	17.3	0.4	20.1	1.2	2.1	17.8	0.4	21.5
Total current assets	318.8	1,388.2	407.6	(1,522.7)	591.9	305.7	1,411.7	409.2	(1,488.8)	637.8
Property, plant and equipment, net	6.6	65.8	83.1	—	155.5	6.7	65.4	87.4	—	159.5
Intangible assets, net	2.3	177.8	287.6	—	467.7	2.5	186.1	321.9	—	510.5
Goodwill	—	211.7	337.2	—	548.9	—	211.7	359.0	—	570.7
Investment in consolidated subsidiaries	2,031.8	835.6	—	(2,867.4)	—	2,000.2	644.0	—	(2,644.2)	—
Other assets	15.5	23.1	3.9	(1.7)	40.8	25.8	9.9	4.3	—	40.0
Total Assets	$2,375.0	$2,702.2	$1,119.4	$(4,391.8)	$1,804.8	$2,340.9	$2,528.8	$1,181.8	$(4,133.0)	$1,918.5
Trade accounts payable	$0.6	$27.6	$87.0	$—	$115.2	$3.0	$32.8	$156.8	$—	$192.6
Liabilities from long-term manufacturing contracts and advances	—	14.4	59.1	—	73.5	—	20.4	55.7	—	76.1
Current portion of long-term debt	9.6	—	1.6	—	11.2	15.0	—	—	—	15.0
Accrued compensation	3.0	21.2	33.5	—	57.7	5.0	55.3	9.3	—	69.6

Deferred income taxes	—	—	25.7	—	25.7	—	1.6	19.1	—	20.7
Intercompany payables	1,229.4	293.7	—	(1,523.1)	—	1,202.7	286.5	—	(1,489.2)	—
Other current liabilities	4.9	57.6	50.4	0.4	113.3	4.1	61.6	51.0	0.4	117.1
Total current liabilities	1,247.5	414.5	257.3	(1,522.7)	396.6	1,229.8	458.2	291.9	(1,488.8)	491.1
Long-term debt	519.1	—	—	—	519.1	525.9	—	17.6	—	543.5
Accrued pension and postretirement healthcare	1.1	96.5	91.0	—	188.6	1.0	94.2	105.7	—	200.9
Deferred income taxes	—	19.1	30.7	(0.8)	49.0	0.8	15.1	39.5	—	55.4
Other long-term liabilities	—	23.8	10.2	(0.9)	33.1	0.1	27.7	6.0	—	33.8
Total Liabilities	1,767.7	553.9	389.2	(1,524.4)	1,186.4	1,757.6	595.2	460.7	(1,488.8)	1,324.7
Total Hillenbrand Shareholders' Equity	607.3	2,148.3	719.1	(2,867.4)	607.3	583.3	1,933.6	710.6	(2,644.2)	583.3
Noncontrolling interests	—	—	11.1	—	11.1	—	—	10.5	—	10.5
Total Equity	607.3	2,148.3	730.2	(2,867.4)	618.4	583.3	1,933.6	721.1	(2,644.2)	593.8
Total Liabilities and Equity	$2,375.0	$2,702.2	$1,119.4	$(4,391.8)	$1,804.8	$2,340.9	$2,528.8	$1,181.8	$(4,133.0)	$1,918.5

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Condensed Consolidating Statements of Cash Flow

	Nine Months Ended June 30, 2015					Nine Months Ended June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 55.9	$ 91.1	$ 14.1	$ (85.6)	$ 75.5	$ 72.1	$ 47.1	$ 65.0	$ (47.3)	$ 136.9
Investing activities:										
Capital expenditures	(1.2)	(12.7)	(5.8)	—	(19.7)	(1.0)	(9.3)	(7.6)	—	(17.9)
Proceeds from sales of property, plant, and equipment	—	0.7	—	—	0.7	—	0.8	—	—	0.8
Proceeds from investments	—	—	—	—	—	—	5.5	—	—	5.5
Other, net	—	(0.9)	(0.3)	—	(1.2)	—	0.2	0.9	—	1.1
Net cash used in investing activities	(1.2)	(12.9)	(6.1)	—	(20.2)	(1.0)	(2.8)	(6.7)	—	(10.5)
Financing activities:										
Repayments on term loan	(6.8)	—	—	—	(6.8)	(7.5)	—	—	—	(7.5)
Proceeds from revolving credit facilities	257.8	—	76.4	—	334.2	196.4	—	50.7	—	247.1
Repayments on revolving credit facilities	(364.0)	—	(89.1)	—	(453.1)	(221.3)	—	(87.9)	—	(309.2)
Proceeds from unsecured Series A Notes,										