Hill-Rom Holdings, Inc.
Form 10-Q
July 27, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018
OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____
Commission File 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 E. Randolph St., Suite 1000 Chicago, IL	60601
(Address of principal executive offices)	(Zip Code)

(312) 819-7200
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
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 o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (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 o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock, without par value – 66,404,832 shares as of July 23, 2018.

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HILL-ROM HOLDINGS, INC.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
(In millions, except per share data)

	Quarter Ended June 30		Year to Date Ended June 30	
	2018	2017	2018	2017
Net Revenue				
Product sales and service	$617.6	$593.1	$1,803.5	$1,714.6
Rental revenue	91.0	96.0	285.3	290.8
Total net revenue	708.6	689.1	2,088.8	2,005.4
Cost of Revenue				
Cost of goods sold	317.5	311.5	935.3	905.6
Rental expenses	43.1	46.5	135.5	141.7
Total cost of revenue	360.6	358.0	1,070.8	1,047.3
Gross Profit	348.0	331.1	1,018.0	958.1
Research and development expenses	33.6	34.9	100.6	102.2
Selling and administrative expenses	221.9	221.0	676.3	652.2
Special charges (Note 8)	14.0	34.8	64.4	43.7
Operating Profit	78.5	40.4	176.7	160.0
Interest expense	(24.2)	(23.8)	(71.5)	(65.2)
Investment income and other, net	1.2	(0.5)	2.6	(2.1)
Income Before Income Taxes	55.5	16.1	107.8	92.7
Income tax expense (benefit) (Note 9)	10.3	10.4	(54.2)	29.5
Net Income	45.2	5.7	162.0	63.2
Less: Net loss attributable to noncontrolling interests	—	(0.3)	—	(1.0)
Net Income Attributable to Common Shareholders	$45.2	$6.0	$162.0	$64.2
Net Income Attributable to Common Shareholders per Common Share - Basic	$0.68	$0.09	$2.45	$0.98
Net Income Attributable to Common Shareholders per Common Share - Diluted	$0.67	$0.09	$2.40	$0.95
Dividends per Common Share	$0.20	$0.18	$0.58	$0.53
Average Common Shares Outstanding - Basic (thousands) (Note 10)	66,299	65,795	66,121	65,567

Average Common Shares Outstanding - Diluted (thousands) (Note 10)	67,646	67,688	67,550	67,300

See Notes to Condensed Consolidated Financial Statements (unaudited)

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Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	Quarter Ended June 30		Year to Date Ended June 30	
	2018	2017	2018	2017
Net Income	$45.2	$5.7	$162.0	$63.2
Other Comprehensive Income (Loss), net of tax (Note 7):				
Derivative instruments and hedges	2.2	(2.4)	13.5	7.6
Foreign currency translation adjustment	(43.9)	38.1	(21.3)	12.6
Change in pension and postretirement defined benefit plans	1.0	0.6	2.6	2.7
Total Other Comprehensive Income (Loss), net of tax	(40.7)	36.3	(5.2)	22.9
Total Comprehensive Income	4.5	42.0	156.8	86.1
Less: Comprehensive loss attributable to noncontrolling interests	—	(0.3)	—	(1.0)
Total Comprehensive Income Attributable to Common Shareholders	$4.5	$42.3	$156.8	$87.1

See Notes to Condensed Consolidated Financial Statements (unaudited)

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Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
(In millions)

	June 30, 2018	September 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$246.5	$ 231.8
Trade accounts receivable, net of allowances (Note 2)	555.5	579.3
Inventories (Note 2)	309.4	284.5
Other current assets	109.6	70.6
Total current assets	1,221.0	1,166.2
Property, plant and equipment, net (Note 2)	335.9	355.4
Goodwill (Note 4)	1,739.6	1,759.6
Other intangible assets and software, net (Note 2)	1,054.5	1,144.0
Deferred income taxes (Notes 1 and 9)	39.2	40.9
Other assets	75.2	62.6
Total Assets	$4,465.4	$ 4,528.7
LIABILITIES		
Current Liabilities		
Trade accounts payable	$163.4	$ 167.9
Short-term borrowings (Note 5)	304.8	188.9
Accrued compensation	127.2	126.9
Accrued product warranties (Note 12)	23.3	25.5
Accrued rebates	36.6	39.7
Other current liabilities	115.6	109.8
Total current liabilities	770.9	658.7
Long-term debt (Note 5)	1,865.3	2,120.4
Accrued pension and postretirement benefits (Note 6)	77.5	78.1
Deferred income taxes (Notes 1 and 9)	179.9	266.2
Other long-term liabilities	62.9	39.7
Total Liabilities	2,956.5	3,163.1
Commitments and Contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Common Stock (Note 2)	4.4	4.4
Additional paid-in capital	600.6	584.4
Retained earnings	1,799.4	1,676.2
Accumulated other comprehensive loss (Note 7)	(115.2)	(110.0)
Treasury stock, at cost (Note 2)	(780.3)	(796.8)
Total Shareholders' Equity Attributable to Common Shareholders	1,508.9	1,358.2
Noncontrolling interests	—	7.4
Total Shareholders' Equity	1,508.9	1,365.6
Total Liabilities and Shareholders' Equity	$4,465.4	$ 4,528.7

See Notes to Condensed Consolidated Financial Statements (unaudited)

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Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)	Year to Date Ended June 30	
	2018	2017
Operating Activities		
Net income	$162.0	$63.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	58.5	60.5
Amortization	13.7	15.3
Acquisition-related intangible asset amortization	80.5	80.2
Provision (benefit) for deferred income taxes	(89.4)	(23.3)
(Gain) loss on disposal of property, equipment leased to others, intangible assets, and impairments	1.1	23.5
(Gain) loss on disposition of businesses	22.4	(1.0)
Stock compensation	21.6	17.5
Change in working capital excluding cash, current debt, acquisitions and dispositions:		
Trade accounts receivable	20.5	13.7
Inventories	(27.4)	(1.8)
Other current assets	(38.5)	13.2
Trade accounts payable	(2.6)	1.0
Accrued expenses and other liabilities	1.0	(29.9)
Other, net	26.4	7.6
Net cash provided by operating activities	249.8	239.7
Investing Activities		
Capital expenditures and purchases of intangible assets	(71.9)	(73.8)
Proceeds on sale of property and equipment leased to others	4.0	13.7
Payment for acquisition of businesses, net of cash acquired	—	(311.4)
Proceeds on sale of businesses	1.0	4.5
Other	2.2	(2.1)
Net cash used in investing activities	(64.7)	(369.1)
Financing Activities		
Proceeds from borrowings on long-term debt	1.0	300.0
Payments of long-term debt	(137.4)	(54.9)
Borrowings on Revolving Credit Facility	75.0	108.0
Payments on Revolving Credit Facility	(165.0)	(248.8)
Borrowings on Securitization Program	68.2	101.3
Payments on Securitization Program	(40.7)	(14.5)
Borrowings on Note Securitization Facility	61.0	—
Debt issuance costs	(0.4)	(5.1)
Payments of cash dividends	(38.4)	(34.8)
Proceeds on exercise of stock options	13.6	17.5
Proceeds from stock issuance	4.5	3.5
Treasury stock acquired	(7.4)	(34.3)
Net cash provided by (used in) financing activities	(166.0)	137.9
Effect of exchange rate changes on cash	(4.4)	2.5
Net Cash Flows	14.7	11.0
Cash and Cash Equivalents:		
At beginning of period	231.8	232.2

At end of period	$246.5	$243.2

See Notes to Condensed Consolidated Financial Statements (unaudited)

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Hill-Rom Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars in millions, except per share data)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Unless the context otherwise requires, the terms "Hill-Rom," "the Company," "we," "our," and "us" refer to Hill-Rom Holding Inc. and its wholly-owned subsidiaries. The unaudited Condensed Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in Hill-Rom's latest Annual Report on Form 10-K for the fiscal year ended September 30, 2017 ("2017 Form 10-K") as filed with the United States ("U.S.") Securities and Exchange Commission. The September 30, 2017 Condensed Consolidated Balance Sheet was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. In the opinion of management, the Condensed Consolidated Financial Statements herein include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position, results of operations and cash flows for the interim periods presented. Quarterly results are not necessarily indicative of annual results.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates and such differences could be material. Examples of such estimates include, but are not limited to, income taxes (Notes 1 and 9), accounts receivable reserves (Note 2), accrued warranties (Note 12), the impairment of intangibles and goodwill (Note 4), pension expense (Note 6), and commitments and contingencies (Note 14).

Fair Value Measurements

Fair value measurements of our financial assets and liabilities are classified and disclosed in one of the following three categories:

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

We record cash and cash equivalents, as disclosed on our Condensed Consolidated Balance Sheets, as Level 1 instruments and certain other derivatives and investments as either Level 2 or 3 instruments. Investments measured at Net Asset Value as a practical expedient are not categorized in the fair value hierarchy. Refer to Note 5 for disclosure of our debt instrument and interest rate swap fair values. There have not been significant changes in our classification of assets and liabilities during the fiscal quarter.

Taxes Collected from Customers and Remitted to Governmental Units

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

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Income Taxes

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

As of June 30, 2018, we had $57.7 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. The valuation allowance total was not materially impacted by the Tax Cuts and Jobs Act (the “Tax Act”) enacted in the United States in December 2017. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit. During the third quarter of fiscal 2018, the Company recorded a reserve of $2.3 million related to an unrecognized tax benefit in a non-US jurisdiction that the Company believes is not more likely than not of being sustained on audit.

Dispositions

During the second quarter of fiscal 2018, we entered into an agreement to convey certain net assets related to the Company’s third-party rental business, which is comprised of purchased moveable medical equipment that can be rented to customers, to Universal Hospital Services, Inc. (“UHS”) in exchange for UHS’s agreement to dismiss its previously disclosed litigation against the Company (“Settlement Agreement”). The third-party rental business was part of our Patient Support Systems segment. As a result, during the second quarter of fiscal 2018, we recorded a loss of $23.4 million in Special charges, which included $20.4 million related to the non-cash loss reserve for the assets to be conveyed, and other Settlement Agreement related costs of approximately $3.0 million. During the third quarter of fiscal 2018, we recorded an additional loss of $0.6 million in Special charges related to additional Settlement Agreement costs. During the third quarter of fiscal 2018, the transaction closed subject to potential purchase price adjustments.

During the fourth quarter of fiscal 2017, we sold our Völker business. During the first quarter of fiscal 2018, we recorded a gain of $1.0 million attributable to the final working capital settlement associated with the Völker transaction.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 which delayed the effective date of the new revenue guidance by one year, while permitting companies to early adopt the new standard as of the original effective date. As a result, the provisions of ASU 2014-09 and subsequent amendments, are effective for us in the first quarter of fiscal 2019 using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption. We plan to adopt the new standard effective October 1, 2018 and are continuing to evaluate the impact of adoption on our Consolidated Financial Statements and the implementation approach to be used.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). From the lessee’s perspective, the new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor’s perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for our first quarter of fiscal 2020. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently in the process of evaluating the impact of the amended guidance on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory (Topic 740). This standard requires immediate recognition of the income tax consequences of intercompany asset transfers other than inventory. ASU 2016-16 is effective for our first quarter of fiscal 2019 and requires a modified retrospective transition method. We are currently in the process of evaluating the impact of it on our Consolidated Financial Statements.

In February 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard requires employers to include only the service cost component of net periodic pension cost in operating expenses, together with other employee compensation costs. The other components of net periodic pension cost, including interest cost, expected return on plan assets, amortization of prior service cost and settlement and curtailment effects, are to be included in non-operating expenses. The ASU is effective for our first quarter of fiscal 2019 and requires a retrospective transition method. We are currently in the process of evaluating the impact of it on our Consolidated Financial Statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This standard amends and simplifies hedge accounting guidance, as well as improves presentation and disclosure to align the economic effects of risk management strategies in the financial statements. More specifically, this update expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the amendments in this update. ASU 2017-12 is effective for our first quarter of fiscal 2019 and requires a prospective transition method. We are currently in the process of evaluating the impact of it on our Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). The standard allows entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings. ASU 2018-02 is effective for our first quarter of fiscal 2020. The amendments in this standard should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. Federal corporate income tax rate in the Tax Act is recognized. We are currently in the process of evaluating the impact of it on our Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The standard issued six technical corrections and improvements to clarify guidance in ASU 2016-01, which primarily impacted the accounting for equity investments, financial liabilities under fair value option, and the presentation and disclosure requirements of financial instruments. ASU 2018-03 is effective for our first quarter of fiscal 2019 and generally requires a modified retrospective transition method but requires prospective transition for equity investments without a readily determinable fair value. We are currently in the process of evaluating the impact of it on our Consolidated Financial Statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update). The standard is for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. The changes were effective when issued. See Note 9, Income Taxes, for additional information of how ASU 2018-05 impacts our Consolidated Financial Statements.

Except as noted above, there have been no significant changes to our assessment of the impact of recently issued accounting standards included in Note 1 of our Consolidated Financial Statements in our 2017 Form 10-K.

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Note 2. Supplementary Balance Sheet Information

	June 30, 2018	September 30, 2017
Allowance for possible losses and discounts on trade receivables	$ 21.4	$ 25.1
Inventories:		
Finished products	$ 147.5	$ 147.5
Raw materials and work in process	161.9	137.0
Total inventory	$ 309.4	$ 284.5
Accumulated depreciation of property, plant and equipment	$ 661.9	$ 624.2
Accumulated amortization of software and other intangible assets	$ 576.2	$ 492.3
Preferred stock, without par value:		
Shares authorized	1,000,000	1,000,000
Shares issued	None	None
Common stock, without par value:		
Shares authorized	199,000,000	199,000,000
Shares issued	88,457,634	88,457,634
Shares outstanding	66,383,659	65,813,794
Treasury shares	22,073,975	22,643,840

Note 3. Acquisitions

Mortara Instrument

On February 14, 2017, we completed the acquisition of Mortara Instrument, Inc. (“Mortara”) for consideration of $330.0 million in cash ($311.2 million, net of cash acquired), primarily financed through a private offering of $300.0 million of senior unsecured notes (Note 5). Mortara provides a portfolio of diagnostic cardiology devices designed to serve the full continuum of clinical care, from acute care to primary care and clinical research organizations.

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

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

	Amount
Trade receivables	$16.4
Inventory	21.5
Other current assets	2.8
Property, plant and equipment	18.2
Goodwill	165.5
Trade names (7-year weighted average useful life)	15.8
Customer relationships (8-year useful life)	37.9
Developed technology (7-year useful life)	52.3
Other noncurrent assets	4.8
Current liabilities	(22.8)
Noncurrent liabilities	(1.2)
Total purchase price, net of cash acquired	$311.2

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

Note 4. Goodwill and Indefinite-Lived Intangible Assets

The following summarizes goodwill activity by reportable segment:

	Patient Support Systems	Front Line Care	Surgical Solutions	Total
Balances at September 30, 2017				
Goodwill	$545.0	$1,375.6	$311.8	$2,232.4
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net at September 30, 2017	72.2	1,375.6	311.8	1,759.6
Changes in Goodwill during the period:				
Goodwill related to acquisitions	—	0.8	—	0.8
Deconsolidation of VIE	—	—	(13.2)	(13.2)
Currency translation effect	(0.5)	(5.5)	(1.6)	(7.6)
Balances at June 30, 2018				
Goodwill	544.5	1,370.9	297.0	2,212.4
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net at June 30, 2018	$71.7	$1,370.9	$297.0	$1,739.6

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

As discussed in Note 13, we operate in three reportable business segments. Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded and is reallocated as necessary based on the restructuring of reporting units over time. Once goodwill is assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

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Testing for goodwill impairment is performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluation of goodwill performed during the third quarter of fiscal 2018 and 2017 did not result in any impairments.

Indefinite-lived intangible assets

We have various indefinite-lived intangible assets representing trade names with a carrying value of $466.9 million as of June 30, 2018 and September 30, 2017. Testing for indefinite-lived intangible asset impairment is performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of an indefinite-lived intangible asset below its carrying amount. The annual evaluation of indefinite-lived intangible assets performed during the third quarter of fiscal 2018 and 2017 did not result in any impairments.

Note 5. Financing Agreements

Total debt consists of the following:

	June 30, 2018	September 30, 2017
Revolving credit facility	$—	$ 90.0
Current portion of long-term debt	137.2	109.8
Senior secured Term Loan A, long-term portion	1,104.9	1,266.7
Senior unsecured 5.75% notes due on September 1, 2023	420.6	419.9
Senior unsecured 5.00% notes due on February 14, 2025	296.2	295.8
Unsecured 7.00% debentures due on February 15, 2024	13.6	13.6
Unsecured 6.75% debentures due on December 15, 2027	29.6	29.6
Securitization Program	106.6	79.1
Note Securitization Facility	61.0	—
Other	0.4	4.8
Total debt	2,170.1	2,309.3
Less Short-term borrowings	304.8	188.9
Total Long-term debt	$1,865.3	$ 2,120.4

In May 2018, we renewed our 364-day accounts receivable securitization program (the “Securitization Program”) with certain financial institutions for borrowings up to $110.0 million. We also entered into an additional 364-day facility for borrowings up to $90.0 million (the “Note Securitization Facility”) in May 2018. Under the terms of each of the Securitization Program and Note Securitization Facility, certain of our accounts receivable secure the amounts borrowed and cannot be used to pay our other debts or liabilities. The amount that we may borrow at a given point in time is determined based on the amount of qualifying accounts receivable that are present at such point in time. As of June 30, 2018, $106.6 million and $61.0 million was borrowed under the Securitization Program and Note Securitization Facility, respectively. Borrowings outstanding under the Securitization Program and Note Securitization Facility bear interest at the London Interbank Offered Rate (“LIBOR”) plus the applicable margin of 0.8% and 1.0%, respectively, and are included as a component of Short-term borrowings, while the accounts receivable securing these obligations remain as a component of Trade accounts receivable, net of allowances in our Condensed Consolidated Balance Sheets. In addition, the agreements governing the Securitization Program and Note Securitization Facility contain various customary affirmative and negative covenants, and customary default and termination provisions. As of June 30, 2018, we were in compliance with these covenants and provisions.

In February 2017, we entered into $300.0 million of senior unsecured notes maturing February 2025 for purposes of financing the Mortara acquisition. These notes bear interest at a fixed rate of 5.00% annually. We also have outstanding senior unsecured notes of $425.0 million maturing in September 2023 that bear interest at a fixed rate of 5.75% annually (collectively, the “Senior Notes”). These Senior Notes were issued at par in private placement offerings and are not registered securities on any public market. All of the notes were outstanding as of June 30, 2018. We are not required to make any mandatory redemption or sinking fund payments with respect to the Senior Notes, other than in certain circumstances such as a change in control or material sale of assets. We may redeem the 5.75% and 5.00% notes in whole or in part prior to maturity, but doing so prior to September 1, 2021 and February 15, 2023, respectively, would require payment of a premium on any amounts redeemed, the amount of which

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varies based on the timing of the redemption. The indentures governing the Senior Notes contain certain covenants which impose limitations on the amount of dividends we may pay and the amount of common shares we may repurchase in the open market, but we do not expect these covenants to affect our current dividend policy or open share repurchase program. The terms of these indentures also impose certain restrictions on the amount and type of additional indebtedness we may obtain in the future, as well as the types of liens and guarantees we may provide.

Our Senior Credit Agreement consists of two facilities as follows:
- $1,462.5 million senior secured Term Loan A facility ("TLA Facility"), maturing in September 2021
- Revolving Credit Facility, providing borrowing capacity of up to $700.0 million, maturing in September 2021

The TLA Facility and Revolving Credit Facility bear interest at variable rates which currently approximate 3.6%. These interest rates are based primarily on LIBOR, but under certain conditions could also be based on the U.S. Federal Funds Rate or the U.S. Prime Rate, at our option. The TLA Facility requires minimum principal payments of $109.7 million in fiscal 2018 and $146.3 million annually thereafter, with the remaining unpaid principal balance due at maturity. We are able to voluntarily prepay outstanding loans under the TLA Facility at any time. During the year to date period ended June 30, 2018, we made payments of $137.3 million on the TLA Facility.

As of June 30, 2018, there were no borrowings on the Revolving Credit Facility, and available borrowing capacity was $692.0 million after giving effect to $8.0 million of outstanding standby letters of credit. The availability of borrowings under our Revolving Credit Facility is subject to our ability at the time of borrowing to meet certain specified conditions, including compliance with covenants contained in the Senior Credit Agreement.

The facilities provided by the Senior Credit Agreement are held with a syndicate of banks, which includes over 30 institutions. Our general corporate assets, including those of our subsidiaries, collateralize these obligations. The credit agreement governing these facilities contains financial covenants which specify a maximum secured net leverage ratio and a minimum interest coverage ratio, as such terms are defined in the credit agreement. These financial covenants are measured at the end of each fiscal quarter. The required ratios vary providing a gradually decreasing maximum secured net leverage ratio and a gradually increasing minimum interest coverage ratio, as set forth in the table below:

Any Fiscal Quarter Ended During the Calendar Year Ending:	Maximum Secured Net Leverage Ratio	Minimum Interest Coverage Ratio
December 31, 2018	3.50x	3.75x
December 31, 2019 and thereafter	3.00x	4.00x

We were in compliance with all financial covenants under our financing agreements as of June 30, 2018.

We are exposed to market risk from fluctuations in interest rates. We sometimes manage our exposure to interest rate fluctuations through the use of interest rate swaps. As of June 30, 2018, we had seven interest rate swap agreements, with notional amounts of $750.0 million, in aggregate, to hedge the variability of cash flows associated with a portion of the variable interest rate payments through September 2021 on the Senior Secured Credit Facilities. The interest rate swaps have effective start dates ranging between December 31, 2017 and September 8, 2020 and were designated as cash flow hedges. As of June 30, 2018, these swaps were in a net asset position with an aggregate fair value of $23.7 million, all of which were classified as Other assets. As of September 30, 2017, these swaps were in a net asset position with an aggregate fair value of $7.3 million, of which $8.5 million were classified as Other assets and $1.2 million were classified as Other current liabilities. We classify fair value measurements on our interest rate swaps as Level 2, as described in Note 1.

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

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

	June 30, 2018	September 30, 2017
Senior secured Term Loan A	$1,191.4	$ 1,364.8
Senior unsecured 5.75% notes due on September 1, 2023	436.3	449.3
Senior unsecured 5.00% notes due on February 14, 2025	294.3	311.9
Unsecured debentures	42.9	46.8
Total	$1,964.9	$ 2,172.8

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

Note 6. Retirement and Postretirement Plans

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

	Quarter Ended June 30		Year to Date Ended June 30	
	2018	2017	2018	2017
Service cost	$1.2	$1.4	$3.6	$4.3
Interest cost	2.7	2.5	8.2	7.4
Expected return on plan assets	(3.9)	(3.7)	(11.8)	(11.0)
Amortization of unrecognized prior service cost, net	0.1	—	0.1	0.1
Amortization of net loss	1.1	1.5	3.3	4.6
Net pension expense	$1.2	$1.7	$3.4	$5.4

In addition to defined benefit retirement plans, we also offer two postretirement health care plans in the United States that provide health care benefits to qualified retirees and their dependents. The plans are closed to new participants and include retiree cost sharing provisions. Annual costs related to these plans are not significant.

We have defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Our contributions to the plans are based on eligibility and, in some cases, employee contributions. Expense under these plans was $7.0 million and $6.7 million in each of the quarterly periods ended June 30, 2018 and 2017, and $20.9 million and $19.8 million in the year to date periods ended June 30, 2018 and 2017.

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Note 7. Other Comprehensive Income (Loss)

The following table represents the changes in accumulated other comprehensive loss by component:

	Quarter Ended June 30, 2018							
	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Derivative instruments and hedges	$4.8	$ (1.9)	$2.9	$(0.7)	$2.2	$15.6	$2.2	$17.8
Foreign currency translation adjustment	(43.9)	—	(43.9)	—	(43.9)	(58.7)	(43.9)	(102.6)
Change in pension and postretirement defined benefit plans	0.3	1.1	1.4	(0.4)	1.0	(31.4)	1.0	(30.4)
Total	$(38.8)	$ (0.8)	$(39.6)	$(1.1)	$(40.7)	$(74.5)	$(40.7)	$(115.2)

	Quarter Ended June 30, 2017							
	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Derivative instruments and hedges	$(3.5)	$ (0.2)	$(3.7)	$1.3	$(2.4)	$6.9	$(2.4)	$4.5
Foreign currency translation adjustment	37.1	1.0	38.1	—	38.1	(140.7)	38.1	(102.6)
Change in pension and postretirement defined benefit plans	(0.5)	1.5	1.0	(0.4)	0.6	(48.7)	0.6	(48.1)
Total	$33.1	$ 2.3	$35.4	$0.9	$36.3	$(182.5)	$36.3	$(146.2)

	Year to Date Ended June 30, 2018							
	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Derivative instruments and hedges	$20.3	$ (2.8)	$17.5	$(4.0)	$13.5	$4.3	$13.5	$17.8
Foreign currency translation adjustment	(21.3)	—	(21.3)	—	(21.3)	(81.3)	(21.3)	(102.6)
Change in pension and postretirement defined benefit plans	0.1	3.3	3.4	(0.8)	2.6	(33.0)	2.6	(30.4)
Total	$(0.9)	$ 0.5	$(0.4)	$(4.8)	$(5.2)	$(110.0)	$(5.2)	$(115.2)

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