

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

FORM 10-K

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

For the fiscal year ended September 30, 2021

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

For the transition period from ____ to ____
Commission File No. 1-6651



HILL-ROM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation)

130 E. Randolph St. Suite 1000
Chicago, IL

(Address of principal executive offices)

35-1160484

(I.R.S. Employer Identification No.)

60601

(Zip Code)

Registrant's telephone number, including area code: (312) 819-7200

Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's voting common equity, held by non-affiliates of the registrant, was approximately \$7.3 billion, based on the closing sales price of \$110.48 per share as of March 31, 2021 (the last business day of the registrant's most recently completed second fiscal quarter). There is no non-voting common equity held by non-affiliates. The registrant had 66,050,458 shares of its common stock, without par value, outstanding as of November 10, 2021.

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 28, 2022 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, 2021

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, with respect to general economic conditions, our financial condition, results of operations, cash flows and business and our expectations or beliefs concerning future events, including the demand for our products, the ability to operate our manufacturing sites at full capacity, future supplies of raw materials for our operations, product launches, share repurchases, international market conditions, expectations regarding our liquidity, our capital spending, plans for future acquisitions and divestitures, our operating plans, the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger, dated as of September 1, 2021 (the “Merger Agreement”) by and among Hill-Rom Holdings, Inc., Baxter International Inc., a Delaware corporation (“Baxter”), and Bel Air Subsidiary, Inc. (“Merger Sub”), an Indiana corporation and a direct wholly-owned subsidiary of Baxter (“Merger Sub”).

Pursuant to the Merger Agreement, on the terms and subject to the conditions set forth therein, Merger Sub will be merged with and into Baxter (the “Merger”), the failure to obtain certain required regulatory approvals or the failure to satisfy any of the other closing conditions to the completion of the Merger, risks related to disruption of management’s attention from Hillrom’s ongoing business operations due to the Merger, the effect of the announcement of the Merger on the ability of Hillrom to retain and hire key personnel and maintain relationships with its customers, suppliers, distributors and others with whom it does business, or on its operating results and business generally, the ability to meet expectations regarding the timing and completion of the Merger, and risks associated with Merger-related litigation.

These forward-looking statements can generally be identified by phrases such as we or our management “expects,” “anticipates,” “believes,” “estimates,” “intends,” “plans to,” “ought,” “could,” “will,” “should,” “likely,” “appears,” “projects,” “forecasts,” “outlook” or other similar words or phrases. There are inherent risks and uncertainties in any forward-looking statements. We caution readers not to place undue reliance on any forward-looking statements. All statements that address our future operating performance or events or developments that we expect or anticipate will occur in the future are forward-looking statements.

Our forward-looking statements are based on management’s expectations and beliefs as of the time this Form 10-K is filed with the Securities and Exchange Commission in the United States (“SEC”) or, with respect to any document incorporated by reference, as of the time such document was prepared. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially due to various factors. These factors include those described in Part I, Item 1A “Risk Factors” of this Form 10-K. Our actual results also could be materially adversely impacted by the length and severity of the on-going coronavirus pandemic (“COVID-19,” “the pandemic,” or “the virus”), further resurgences and new variants of COVID-19, the availability, distribution, rate of public acceptance and efficacy of vaccines and therapeutics for COVID-19, and the long-term economic impacts as a result of the pandemic. Except as required by applicable law or regulations, we undertake no obligation to update, amend or clarify any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or any other developments or changes.

Item 1. BUSINESS

General

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

Proposed Acquisition by Baxter International Inc.

On September 1, 2021, Hillrom, Baxter, and Merger Sub entered into the Merger Agreement, pursuant to which, on the terms and subject to the conditions set forth therein, Merger Sub will be merged with and into Hillrom, with Hillrom surviving the Merger as a wholly owned subsidiary of Baxter. Under the terms of the Merger Agreement, which has been unanimously approved by Hillrom's Board of Directors, Baxter will acquire all outstanding shares of Hillrom for \$156.00 per share in cash, for a total equity value of approximately \$10.5 billion. The Merger is expected to close by early fiscal year 2022, subject to receipt of specified regulatory approvals and other customary closing conditions.

Segment Information

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

- **Patient Support Systems** – globally provides an ecosystem of our digital and connected care solutions: devices, software, communications and integration technologies that improve care and deliver actionable insights to caregivers and patients in the acute care setting. Key products include care communications and mobility solutions, connected med-surg and ICU bed systems, sensors and surfaces, safe patient handling equipment and services.
- **Front Line Care** – globally provides integrated patient monitoring and diagnostic technologies – from hospital to home – that enable and support Hillrom's connected care strategy. Our diverse portfolio includes secure, connected, digital assessment technologies to help diagnose, treat and manage a wide variety of illnesses and diseases, including respiratory therapy, cardiology, vision screening and physical assessment.
- **Surgical Solutions** – globally enables peak procedural performance, connectivity and video integration products that improve collaboration, workflow, safety and efficiency in the operating room, such as surgical video technologies, tables, lights, pendants, precision positioning devices and other accessories.

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

Products and Services

Patient Support Systems. Our Patient Support Systems business include a variety of specialty frames and surfaces (such as medical surgical beds, intensive care unit beds, and bariatric patient beds), patient mobility solutions, non-invasive therapeutic products and surfaces, and our information technologies and software solutions in our Care Communications portfolio. These products are sold globally 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 52%, 53%, and 51% of our revenue during fiscal years ended September 30, 2021, 2020, and 2019 was derived from this segment.

Front Line Care. Our Front Line Care products include our patient monitoring and diagnostics products from Welch Allyn, respiratory health products, and ambulatory cardiology ECG patch monitors from the Bardy Diagnostics, Inc. acquisition. Our patient monitoring and diagnostics products from Welch Allyn include products in each of the following four categories: patient exam and diagnostics, patient monitoring, diagnostic cardiology and vision screening and diagnostics. Our respiratory health products include non-invasive devices that provide respiratory support and assist patients in the mobilization of retained blockages. Front Line Care products are sold globally within multiple care settings including primary care, acute care, extended care and home care (respiratory health and ambulatory cardiology products). Approximately 37%, 36%, and 34% of our revenue during fiscal years ended September 30, 2021, 2020, and 2019 was derived from products within this segment.

Surgical Solutions. Our Surgical Solutions products include tables, lights, pendants and operating room integration technology utilized within the surgical setting. We also offer a range of positioning devices for use in shoulder, hip, spinal and lithotomy surgeries as well as platform-neutral positioning accessories for nearly every model of operating room table. Approximately 11%, 11%, and 15% of our revenue during fiscal years ended September 30, 2021, 2020, and 2019 was derived from products within this segment.

We have extensive distribution capabilities and broad reach across all health care settings. We primarily operate in the following channels: (1) sales and rentals of products to acute and extended care facilities worldwide through both a direct sales

force and distributors; (2) sales and rentals of products directly to patients in the home; and (3) sales into primary care facilities (primarily Welch Allyn products) through distributors. Through our network of 161 North American and 37 international service centers, and approximately 2,000 service professionals, we provide technical support and services and rapidly deliver our products to customers as-needed, providing our customers flexibility to purchase or rent select products. This extensive network is critical to serving our customers and securing contracts with Group Purchasing Organizations (“GPOs”) and Integrated Delivery Networks (“IDNs”).

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

Acquisitions and Dispositions

Business Acquisitions

During fiscal years ended September 30, 2021, 2020 and 2019, we acquired the following companies:

Fiscal Year	Company Name	Description of the Business	Description of the Acquisition
2021	Bardy Diagnostics, Inc. ("Bardy")	Developer and supplier of cardiac arrhythmia monitoring devices located in the United States.	Purchased all of the outstanding equity interest.
2020	Excel Medical Electronics ("Excel Medical")	Clinical communications software company located in the United States	Purchased all of the outstanding equity interest.
2020	Connecta Soft, S.A. de C.V. ("Connecta")	Clinical communications software company based in Mexico.	Purchased the multiplatform medical device integration and connectivity software programs, products, and solutions of the company.
2020	Videomed S.r.l. ("Videomed")	Developer of integrated video solutions in operating rooms located in Italy.	Purchased all of the outstanding equity interest.
2019	Voalte, Inc. ("Voalte")	Clinical communications software company located in the United States.	Purchased all of the outstanding equity interest.
2019	Breathe Technologies, Inc. ("Breathe")	Developer and manufacturer of a patented wearable, non-invasive ventilation technology that supports improved patient mobility. Located in the United States.	Purchased all of the outstanding equity interest.

Asset Acquisition

During fiscal year ended September 30, 2021, we acquired the contact-free continuous monitoring intellectual property and technology from EarlySense Ltd. ("EarlySense") to our Patient Support Systems segment.

Dispositions

During fiscal year ended September 30, 2019, we disposed of our surgical consumable products and related assets from our Surgical Solutions segment.

Refer to Note 3. Business Combinations for further information regarding acquisitions and dispositions.

Raw Materials

Principal materials used in our products for each business segment include electronic and electromechanical components, carbon steel, aluminum, stainless steel, wood and laminates, petroleum-based products, such as foams and plastics, and other materials, majority of our raw material components are available from multiple sources.

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

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

Competition

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

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

Segments	Competitors
Patient Support Systems ("PSS")	Arjo LINET spol. s.r.o. Paramount Rauland, a Division of AMETEK, Inc.
Front Line Care ("FLC")	Electromed, Inc. Exergen Corporation GE Healthcare Heine Optotechnik iRhythm Technologies, Inc. Midmark Corporation
Surgical Solutions ("GSS")	Dräger Maquet, a Division of Getinge AB MizuhoOSI
	Stryker Corporation Vocera
	Mindray Medical International OMRON Healthcare, Inc. Philips Resmed Riester Schiller AG
	Skytron Steris Stryker Corporation

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

Regulatory Matters

FDA Regulation

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

Environmental

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

Health Care Regulations

In March 2010, comprehensive health care reform legislation in the United States was signed into law through the passage of the Patient Protection and Affordable Health Care Act and the Health Care and Education Reconciliation Act. The health care industry continues to undergo significant change, both in response to this law and in response to other legislative and regulatory actions. In addition to health care reform, Medicare, Medicaid and managed care organizations, such as health maintenance organizations and preferred provider organizations, traditional indemnity insurers and third-party administrators are under

increasing pressure to control costs and limit utilization, while improving quality and health care outcomes. These objectives are being advanced through a variety of reform initiatives including, but not limited to, accountable care organizations, value-based purchasing, bundling initiatives and competitive bidding programs. We are also subject to a number of other regulations around the world related to the sale and distribution of health care products. The potential impact of these regulations to our business is discussed further in Item 1A. Risk Factors and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-K.

Product Development

We pursue development of new products and product improvements internally. We maintain professional working relationships with various medical professionals who assist in product research and development. New and improved products play a critical role in our sales growth. We continue to place emphasis on the development of proprietary products and product improvements to complement and expand our existing product lines. Our significant research and development activities are located in Acton, Massachusetts; Batesville, Indiana; Cary, North Carolina; 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 during fiscal years ended September 30, 2021, 2020 and 2019 was \$144.9 million, \$136.5 million and \$139.5 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 during fiscal years ended September 30, 2021, 2020 and 2019 were approximately \$10.1 million, \$15.3 million and \$8.0 million.

Patents, Trademarks and Trade Names

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

Foreign Operations

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

Human Capital Resources

As of September 30, 2021, Hillrom had approximately 10,000 employees worldwide, with approximately 6,000 employees in the United States and approximately 4,000 employees outside of the United States. Hillrom's global presence enables our strategic priority of expanding internationally and penetrating emerging markets with our differentiated solutions. Our employees are our most important assets and they set the foundation for our ability to achieve our strategic objectives. All of our employees contribute to Hillrom's success and, in particular, the employees in our manufacturing, sales, research and development and quality assurance departments are instrumental in driving operational execution and strong financial performance, advancing innovation and maintaining a strong quality and compliance program.

The success and growth of Hillrom's business depend in large part on our ability to attract, retain and develop a diverse population of talented and high-performing employees at all levels of our organization, including the individuals who comprise our global workforce as well as executive officers and other key personnel. To succeed in a competitive labor market, Hillrom has developed key recruitment and retention strategies, objectives and measures that we focus on as part of the overall management of our business. These strategies, objectives and measures form the pillars of our human capital management framework and are advanced through the following programs, policies and initiatives:

- **Competitive Pay and Benefits.** Hillrom's compensation programs are designed to align the compensation of our employees with Hillrom's performance and to provide the proper incentives to attract, retain and motivate employees to achieve superior results. The structure of our compensation programs balances incentive earnings for both short-term and long-term performance. Specifically:

- We provide employee wages that are competitive and consistent with employee positions, skill levels, experience, knowledge and geographic location.
 - We engage nationally recognized outside compensation and benefits consulting firms to independently evaluate the effectiveness of our executive compensation and benefit programs and to provide benchmarking against our peers within the industry.
 - We align our executives' long-term equity compensation with our shareholders' interests by linking realizable pay with stock performance.
 - Annual increases and incentive compensation are based on merit, which is communicated to employees at the time of hiring and documented through our talent management process as part of our annual review procedures and upon internal transfer and/or promotion.
 - All employees are eligible for health insurance, paid and unpaid leaves, a retirement plan and life and disability/accident coverage. We also offer a variety of voluntary benefits that allow employees to select the options that meet their needs, including flexible time-off, telemedicine, paid parental leave, adoption assistance, a travel solution for nursing moms, family building benefits, prescription savings solutions, Veterans' Health Administration coverage in U.S. medical plans, transgender medical coverage, a personalized wellness program, a financial wellness program and expanded coverage for diabetic employees.
- **Advancing and Celebrating Diversity, Inclusion and Belonging (“DIB”).** DIB is vital to Hillrom’s ability to grow the business and innovate in an ever-changing, fast-paced environment. Our diverse and inclusive workplace encourages different perspectives and ideas, which we believe enables better business decisions and rapid innovation. The following are highlights of Hillrom’s DIB program:
 - We have established a DIB Council that provides strategic direction, guidance and advocacy for Hillrom's DIB initiatives and advancements and is led by our Chief Executive Officer and Chief Human Resources Officer and includes high-performing leaders from around the world.
 - As of September 30, 2021, women leaders made up 36% of Hillrom’s Board of Directors and 53% of Hillrom’s Executive Leadership Team.
 - We sponsor multiple Employee Resources Groups, which are employee-led and open to all employees, including: Pride Partnership; Individuals with Disabilities Empowered to Achieve; Veteran Employee Team; Embrace—A Black Professional Organization; Professional Women’s Group; HOLA (Hillrom Organization for Latino/a Advancement) and LOTUS (Leadership, Opportunity, Talent, Unity, Successes).
 - We recruit diverse talent through local partnerships with organizations such as RecruitMilitary, HACE (Hispanic Alliance for Career Enhancement), Diversity Best Practice, NSBE (National Society of Black Engineers) focused on individuals with disabilities, NABA (National Association of Black Accountants), 100 Black Men of the Twin Cities and Syracuse, Inc., Chicago Urban League, Imentor and One Million Degrees. In addition, we have formed partnership with several Historically Black Colleges Universities ("HBCU").

Our culture is dynamic, continually evolving and advancing to enable all of our employees the opportunities to realize their best professional selves. Fundamentally, our culture is rooted in a commitment to diversity, inclusion and belonging.

Non-Executive employees and non-executive directors by gender are shown in the table below:

	September 30, 2021	
	Male	Female
Non-Executive Directors	329	129
Managers and Senior Managers	826	378
Other employees of the Company	5,026	3,155

Non-Executive United States employees and non-executive directors by ethnicity are shown in the table below:

	September 30, 2021	
	White	Other
Non-Executive Directors	286	58
Managers and Senior Managers	646	164
Other employees of the Company	3,551	1,287

- Health and Safety.** Health and safety are firmly rooted across Hillrom's global footprint. During fiscal year ended September 30, 2021, Hillrom completed the deployment across its manufacturing facilities of its new environmental health and safety management system, which is designed to streamline data collection, ensure greater consistency and accuracy across global operations and improve health and safety performance. We prioritize, manage and carefully track safety performance at all locations globally and integrate sound safety practices to make a meaningful difference in every facet of our operations. During fiscal year ended September 30, 2021, Hillrom's recordable injury rate increased compared to the fiscal year ended September 30, 2020 by 10.5% (0.42 recordable injuries per 100 workers per year) on a company-wide basis and reduced by 18.8% (0.26 recordable injuries per 100 workers per year) across its manufacturing operations. Hillrom reduced its overall recordable injury rate compared to the fiscal year ended September 30, 2019 by 19.2%.

In response to the COVID-19 pandemic and related mitigation measures, we implemented changes in our business in March 2020 in an effort to protect our employees and customers, and to support appropriate health and safety protocols. For example, we installed physical barriers between employees in production facilities, implemented extensive cleaning and sanitation processes for both production and office administration spaces and implemented broad work-from-home initiatives for employees in our administrative functions. While Hillrom's essential workers (production and field service employees) have continued to work at our facilities and provide vital service to our customers, many employees in our administrative functions have effectively worked remotely since mid-March 2020. We have adapted our processes and used technology to continue to effectively execute on our strategic priorities as well as daily operating activities. A workforce reintegration plan has been established to facilitate a return to the office. The reintegration plan includes safety measures and procedures in compliance with local laws and regulations to ensure a safe work environment for employees that return to the office.

- Labor Relations/Fair Labor Practice.** We are committed to equal opportunity employment and working effectively with existing unions. As of September 30, 2021, approximately 8% of our employees in the United States (including contingent workers) worked under collective bargaining agreements. We have not experienced a work stoppage in the United States in over 40 years, and we believe that our employee relations are satisfactory. The two collective bargaining agreements at our primary U.S. manufacturing facility expire in January 2022 and January 2024. We are also subject to various collective bargaining arrangements and/or national trade union agreements outside the United States. As of September 30, 2021, approximately 64% of our employees outside the United States (including contingent workers) worked under such arrangements.
- Recruitment, Training and Development.** We use recruitment vehicles to attract diverse talent to our organization, including partnerships with local and national organizations, HBCUs and various social media outlets. Hillrom invests in learning opportunities that foster a growth mindset. Our formal offerings include a tuition reimbursement program, an e-learning platform known as Hillrom University ("HRU") and virtual workshops that support our culture, strategy and the development of crucial skills. To measure the impact of the investments we make in our people, and to help us continually improve our human resources programs, we regularly track a number of critical metrics, including the following:
 - Internal Hires:** We track the percentage of open positions filled with internal candidates and use this metric as a measure of how successfully we are promoting talent from within. For the fiscal year ended September 30, 2021, the data was as follows:
 - Director and above: 61%
 - Manager and above: 49%
 - All levels: 33%
 - Employee Satisfaction:** We conduct an anonymous bi-annual engagement survey of our global workforce. Administered and analyzed by an independent third-party, the survey results are reviewed by the executive officers. The results of this engagement survey are shared with individual managers, who are then tasked with taking action

based on their employees' anonymous feedback (both quantitative and qualitative). By paying close attention to the results both at an aggregate enterprise level as well as at a department/business/work group level, Hillrom has been able to enhance its culture of respect, help educate employees more effectively about our benefits offerings as well as our learning and development opportunities and further improve our communications content, mechanisms and frequency.

Information about our 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 any executive officer was selected.

John P. Groetelaars, 55, was elected President and Chief Executive Officer of Hillrom, effective May 2018. Previously, Mr. Groetelaars was Executive Vice President and President of Becton, Dickinson and Company's ("BD") Interventional Segment. Prior to the BD acquisition of C.R. Bard, Mr. Groetelaars was Group President at Bard, which he had joined in 2008. He previously held positions of increasing responsibility with Boston Scientific Corporation, Guidant Corporation and Eli Lilly.

Barbara W. Bodem, 53, was elected Senior Vice President and Chief Financial Officer, effective December 2018. Before joining Hillrom, she served as Senior Vice President, Finance at Mallinckrodt. Previously, she served in a variety of senior finance roles for Hospira, Inc. and Eli Lilly, including serving as CFO of Lilly Oncology.

Amy Dodrill, 48, was elected Senior Vice President and President, Surgical Solutions, effective June 2019. She had previously served as Vice President of our U.S. Surgical Solutions sales operations and prior to that, as an area vice president in our Patient Support Systems business since joining Hillrom in October 2011. Before joining Hillrom, she held several senior leadership roles at DynaVox Systems LLC and GE Healthcare.

Andreas G. Frank, 45, was elected Senior Vice President and President, Front Line Care, effective December 2018. He previously served as Chief Transformation Officer and Senior Vice President Corporate Development and Strategy, since joining Hillrom in October 2011. Before joining Hillrom, he was Director, Corporate Development at Danaher Corporation. Previously, he worked in the Corporate Finance and Strategy practice at the consulting firm McKinsey & Company.

Paul Johnson, 56, was elected as Senior Vice President and President of Patient Support Systems, effective November 2016. He had previously served as President, PSS North America, since joining Hillrom in February 2013. Before joining Hillrom, he held various commercial leadership positions at Life Technologies and GE Healthcare.

Mary Kay Ladone, 55, was elected Senior Vice President, Corporate Development, Strategy and Investor Relations, effective December 2018. She previously served as Vice President, Investor Relations, since joining Hill-Rom in July 2016. Before joining Hillrom, she served as Senior Vice President, Investor Relations, of Baxalta Incorporated. Previously, she served in a variety of senior finance, business development and investor relations roles for Baxter International.

Deborah M. Rasin, 55, was elected Senior Vice President, Chief Legal Officer and Secretary, effective January 2016. Before joining Hillrom, she was General Counsel for Dentsply International Inc. Previously, she served as General Counsel at Samsonite Corporation and as a senior attorney at General Motors.

Richard M. Wagner, 53, was elected Vice President, Controller and Chief Accounting Officer, effective May 2018. Before joining Hillrom, he was Vice President, Finance at Cree, Inc. and prior to that role, he served as Vice President, Corporate Controller at Dentsply Sirona, Inc.

Availability of Reports and Other Information

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

Item 1A. RISK FACTORS

Our business involves risks related to economic, market, regulatory and legislative factors in the jurisdictions in which we operate. The following information about these risks should be considered carefully together with the other information contained herein. Although the risks are organized by headings and each risk is described separately, many of the risks are interrelated. The risks described below are not the only risks faced by Hillrom. Additional risks not currently known or considered immaterial also might result in adverse effects on our business. Any of these risks could have a material adverse impact on our business, financial condition, future results or cash flows. The order in which these factors appear should not be construed to indicate their relative importance or priority.

Risks Related to Proposed Acquisition by Baxter

The Merger is subject to receipt of approval from our shareholders and regulatory approvals and clearances, as well as the satisfaction of other closing conditions in the Merger Agreement, and we may not complete the Merger with Baxter within the time frame we anticipate or at all.

There can be no assurance that the Merger with Baxter will occur. The Merger Agreement contains a number of customary conditions to the completion of the Merger, including (i) the approval of the Merger Agreement by the affirmative vote of the holders of a majority of the outstanding shares of Hillrom common stock entitled to vote at a special meeting, (ii) the expiration or termination of the waiting period (and any extensions) applicable to the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which expired October 13, 2021, (iii) the receipt of specified regulatory approvals and clearances, (iv) the absence of any newly enacted law, injunction or order prohibiting the Merger, (v) the accuracy of the representations and warranties contained in the Merger Agreement (generally subject to a material adverse effect qualification), (vi) compliance in all material respects with the covenants and agreements in the Merger Agreement, and (vii) absence of a Material Adverse Effect (as defined in the Merger Agreement) on Hillrom since the date of the Merger Agreement. We can provide no assurance that all required approvals and clearances will be obtained or that all closing conditions will be satisfied, and, if all required approvals and clearances are obtained and the closing conditions are satisfied, we can provide no assurance as to the terms, conditions and timing of such approvals or the timing of the completion of the Merger. In addition, the Merger Agreement may be terminated under certain specified circumstances, including, but not limited to, a change in the recommendation of Hillrom's Board of Directors or a termination of the Merger Agreement by us to enter into an agreement for a "Superior Proposal," as defined in the Merger Agreement. If the Merger is not completed, in certain circumstances, we could be required to pay a termination fee of \$367 million to Baxter. If the Merger Agreement is terminated, the termination fee we may be required to pay, if any, under the Merger Agreement may require us to use available cash that would have otherwise been available for general corporate purposes or other uses and/or may have an adverse impact on the terms a third party might propose in seeking to acquire or merge with us or deter such third party from making a competing acquisition proposal.

Failure to complete the Merger could materially adversely affect our business operations, financial results and stock price.

If the Merger is not completed, our shareholders will not receive any payment for their shares in connection with the Merger. Instead, Hillrom will remain an independent public company, and the shares will continue to be traded on the New York Stock Exchange. Our ongoing business may be materially adversely affected, and we would be subject to a number of risks, including the following:

- we may experience negative reactions from the financial markets, including negative impacts on our stock price, and it is uncertain when, if ever, the price of the shares would return to the prices at which the shares currently trade;
- we may experience negative publicity, which could have an adverse effect on our ongoing operations including, but not limited to, retaining and attracting employees, customers, suppliers and distributors;
- we will still be required to pay certain significant costs relating to the Merger, such as legal, accounting, financial advisor, printing and other professional services fees, which may relate to activities that we would not have undertaken other than to complete the Merger;
- we may be required to pay a termination fee as required under the Merger Agreement;
- the Merger Agreement places certain restrictions on the conduct of our business, which may have delayed or prevented us from undertaking business opportunities that, absent the Merger Agreement, we may have pursued;
- matters relating to the Merger require substantial commitments of time and resources by our management, which could result in the distraction of management from ongoing business operations and refraining from pursuing other opportunities that could have been beneficial to us; and

- we may be required to commit time and resources to defending against proceedings related to the Merger.

If the Merger is not consummated, the risks described above may materialize and they may have a material adverse effect on our business operations, financial results and stock price, especially to the extent that the current market price of our common stock reflects an assumption that the Merger will be completed.

We will be subject to various uncertainties while the Merger is pending that may cause disruption and may make it more difficult to maintain relationships with employees, customers, suppliers and distributors.

Uncertainty about the effect of the Merger on employees, customers, suppliers and distributors may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is completed, and could cause customers, suppliers, distributors and others that deal with us to attempt to change existing business relationships with us. Retention and motivation of certain employees may be challenging while the Merger is pending, as certain employees may experience uncertainty about their future roles. If key employees depart, our business could be harmed. In addition, there could be distractions to or disruptions for our employees and management associated with obtaining the required approvals to close the Merger. Our customers, suppliers and distributors may experience uncertainty regarding the Merger, including with respect to current or future business relationships following the Merger. Our business relationships may be subject to disruption as customers, suppliers, distributors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than with us. These disruptions and changes to existing business relationships, including termination or modification, could negatively affect our business operations and financial results. Further, shareholder litigation challenging the Merger has been commenced against us and may delay or prevent the completion of the Merger or result in significant defense costs and serve as a distraction to our management and directors. The risks, and adverse effects, of such disruptions could be exacerbated by a delay in completion of the Merger or termination of the Merger Agreement.

COVID-19 Risks

Our business, results of operations, financial condition and prospects have been and could continue to be adversely affected by the ongoing COVID-19 pandemic and the related effects on public health.

The situation surrounding the COVID-19 pandemic remains fluid, and given its inherent uncertainty, it could have an adverse impact on our business in the future. The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions, the emergence and spread of variants, infection rates in the areas where we operate, the effectiveness of vaccination efforts in the markets where we do business, and the impact of these and other factors on our employees, customers, suppliers, service providers and business partners. If COVID-19 or its variants continue to spread and escalate domestically or internationally, or if governments impose additional measures intended to mitigate the spread and related effects of the pandemic, the risks described below, and many of the other risks and uncertainties described in this Item 1A. Risk Factors, could be elevated significantly.

To date, the COVID-19 pandemic and preventive measures taken to contain or mitigate the outbreak have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas and significant disruption in global economic and financial markets.

Although we experienced and expect to continue to experience challenges in connection with the COVID-19 pandemic as set forth below, at this time, we have not experienced a negative impact on our liquidity or results of operations. While we experienced a recovery in the level of demand for our products negatively impacted by the COVID-19 pandemic, the continued spread of COVID-19 and its variants could negatively impact our business, results of operations, financial condition and prospects in a number of ways in the future. For example, it could, among other things:

- interrupt, slow, or render our supply chains inoperable, resulting in more expensive alternative sources of labor and materials or an inability to find such alternative sources of labor and materials for our products;
- subject us to governmental mandates and quarantines that may require forced shutdowns of our facilities for extended or indefinite periods due to public health measures;
- increase regulation of our industry, up to and including the exercise of war powers under The Defense Production Act of 1950, as amended, which could require us to turn over our production capabilities to the U.S. Government;
- substantially interfere with general commercial activity related to our customer base if our customers' businesses are affected by the outbreak, including through delays or reductions of purchases of our products;

- diminish our ability to adequately predict customer demand for our products, which could adversely impact our ability to effectively manage inventory levels;
- cause health care providers to limit or restrict access to their facilities to only essential personnel for a material amount of time, adversely impacting our ability to complete installations of our care communications offerings and operating room equipment, and limiting contact with our sales personnel;
- reduce the number of ambulatory care or office visits if health care providers prioritize pandemic-related treatment and governmental and industry associations recommend the deferral of elective surgeries;
- cause our employees, including key executives, our production and service workforce and functional team members to become ill, quarantined or otherwise unable to work or travel due to health reasons or governmental restrictions;
- increase absenteeism or cause workplace disruption related to employees working from home or remotely;
- contribute to adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of domestic and international credit markets, which could negatively impact our customers' ability to pay us as well as our ability to access capital that could in the future negatively affect our liquidity;
- result in the establishment of trade barriers that disrupt the flow of goods and increase costs associated with logistics and transportation;
- decrease our ability to grow our business through mergers, acquisitions and other similar business arrangements during any such pandemic or other outbreak as targets focus on operating their respective businesses;
- negatively impact innovation and development of new products as our research and development (“R&D”) teams may be required to work from home and resources and energy may be redirected during any such outbreak; or
- contribute to a recession or market correction that could adversely affect the value of our common stock.

Further or prolonged deterioration of adverse conditions relating to the COVID-19 pandemic, including any of the above factors and others that are currently unknown, could continue to have a negative impact on our business, results of operations, financial condition and prospects and could heighten many of our known risks described in this Item 1A. Risk Factors, any of which could have a material effect on us.

Regulatory Risks

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

In March 2010, the U.S. Congress adopted and President Obama signed into law comprehensive health care reform legislation through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872) (collectively, “the Healthcare Reform Act”). The provisions of the Healthcare Reform Act are intended to expand access to health insurance coverage and improve the quality of healthcare over time. However, other provisions of the legislation, including Medicare provisions, aim to decrease costs through comparative effectiveness research, and pilot programs to evaluate alternative payment methodologies could result in pricing pressure or negatively impact the demand for our products.

We cannot predict with certainty what additional future 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 healthcare provider customers experience reimbursement pressure resulting in lower revenue for them, their demand for our products and services might decrease. The impact of the above-mentioned items could have a material adverse impact on our business, results of operations and cash flows.

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

We design, manufacture, install and distribute medical devices that are regulated by the FDA and similar agencies in other countries. Failure to comply with applicable regulations could result in future product recalls, injunctions preventing the

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

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

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

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

Our business contracts with foreign and U.S. federal, state, and local government entities are subject to specific rules, regulations and approvals applicable to government contractors. Foreign and U.S. federal, state, and local 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 these entities, civil fines and damages and criminal prosecution. In addition, changes in procurement policies, budget considerations, unexpected foreign or U.S. federal, state, or local 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 such foreign or U.S. federal, state, or local government entities.

Capital and Credit Risks

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, 2021, we had \$2,060.9 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 our business and the industry in which we operate, including the continued impacts of COVID-19, which could require additional resources or a reallocation of capital to respond to changing priorities;
- restrict our ability to make strategic acquisitions or dispositions or to maximize business opportunities;

- adversely affect our credit rating, with the result that the cost of servicing our indebtedness might increase;
- adversely affect the market price of our common stock;
- limit our ability to apply proceeds from an offering or asset sale to purposes other than the servicing and repayment of debt; and
- cause us to fail to meet payment obligations or otherwise default under our debt, which will give our lenders the right to accelerate the indebtedness and exercise other rights and remedies against us.

In addition to the indebtedness we had outstanding as of the fiscal year ended September 30, 2021, we might incur substantial additional indebtedness in the future, which could cause the related risks to intensify. We may refinance all or a portion of our indebtedness on or before their respective maturities. We cannot provide assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. The terms of any additional debt might give the holders rights, preferences, and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of any new debt might also impose additional and more stringent restrictions on our operations than are currently in place. If we are unable to refinance our debt, we might default under the terms of our indebtedness, which could lead to an acceleration of the required repayment of the outstanding balance. We do not expect that we could repay all of our outstanding indebtedness if the repayment of such indebtedness was accelerated.

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

Borrowings under the Senior Credit Agreement and Securitization Facilities will be at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Assuming all loans under the Senior Credit Agreement and Securitization Facilities were fully drawn, each quarter point change in interest rates, excluding the effects of any interest rate swap agreements, would result in a \$5.8 million change in annual interest expense on our indebtedness under the Senior Credit Agreement and Securitization Facilities. In the future, we may enter into additional interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

Our Senior Credit Agreement, Securitization Facilities and certain derivative instruments use the London Interbank Offered Rate (“LIBOR”) as a benchmark for establishing interest rates. On July 27, 2017, the United Kingdom’s Financial Conduct Authority announced that it intends to phase out LIBOR beginning December 2021. We may have to negotiate new credit terms or potentially incur additional indebtedness that rely on an alternative interest rate method to LIBOR as a result of the LIBOR phase out. Any legal or regulatory changes made in response to LIBOR’s future discontinuance may result in, among other things, a sudden or prolonged increase or decrease in LIBOR, a delay in the publication of LIBOR, or changes in the rules or methodologies in LIBOR. In addition, we have not adopted any of the current alternative methods to LIBOR, therefore the impact of such alternative methods may be impossible or impracticable to determine. While we do not expect that the transition from LIBOR will have a material adverse effect on our results of operations and cash flows, it is still uncertain at this time.

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 COVID-19 pandemic is currently causing disruptions to global economic conditions, and it is unknown how long such disruptions will continue and whether such disruptions will become more severe. The credit and capital markets have experienced and could continue to experience extreme volatility and disruption that could lead to periods of recessionary conditions and depressed levels of consumer and commercial spending. These recessionary conditions have caused and could continue to 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. 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. Moreover, volatility in the credit markets has in the past and could continue to 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 and may result in higher supply costs.

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.

Operating and Product Risks

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. 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. These factors, along with possible legislative developments and others, might result in significant shifts in market share among the industry's major participants, which includes us. Accordingly, if we are unable to effectively differentiate ourselves from our competitors in terms of 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.

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

Our future financial performance will depend in part on our ability to influence, anticipate, identify and respond to changing consumer preferences and needs, including those impacted by the COVID-19 pandemic. 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, including as a result of the COVID-19 pandemic, 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 in a cost-effective manner, 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.

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

We have in the past, and expect in the future, to grow our business through mergers, acquisitions and other similar business arrangements. We might not be able to identify suitable acquisition candidates or business relationships, negotiate acceptable terms or receive necessary financing on acceptable terms for such acquisitions or relationships. Additionally, we might become responsible for liabilities associated with businesses that we acquire to the extent they are not covered by indemnification from the sellers or by insurance. Even if we can consummate acquisitions, such acquisitions could be dilutive to earnings and might not be successfully integrated to fully realize the expected benefits. Our integration efforts might also divert management and other resources from other important matters, and we could experience delays or unusual expenses in the integration process, including intangible asset impairments, which could result in significant charges in our Consolidated

Financial Statements included under Part II, Item 8 of this Form 10-K. Moreover, the margins for these companies might differ from our historical gross and operating margins resulting in a material adverse effect on our results of operations.

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

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

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

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 represented approximately 31% of our total sales during fiscal year ended September 30, 2021. 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. The COVID-19 pandemic has contributed and could continue to contribute to these conditions or trigger legislative or regulatory responses that could directly or indirectly effect our business. In addition, our collections of international receivables are subject to economic pressures and the actions of some governmental authorities that have initiated various austerity measures to control health care and other governmental spending.

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

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

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

We are 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 creates 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.

Materials and Manufacturing Risks

Increased prices for, or unavailability of, raw materials or sub-assemblies used in our products could adversely affect profitability or revenue. Specifically, 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 rely on single suppliers for the procurement of several raw materials and sub-assemblies.

Our profitability is affected by the prices and availability of the raw materials and sub-assemblies used in the manufacture of our products. These prices might fluctuate based on many factors beyond our control, including, but not limited to, changes in supply and demand, general economic conditions, including the ongoing impact of COVID-19, 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 increased 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 may from time to time engaged in hedging transactions with respect to raw material purchases but do enter into fixed price supply contracts at times. Future decisions not to engage in hedging transactions or ineffective hedging transactions might result in increased cost volatility, potentially adversely impacting our profitability.

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

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 most of our products in a single facility or location. If an event (including any weather or natural disaster or disruptions in connection with the COVID-19 pandemic) 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 manufacturing of the relevant products to another facility or location in a cost-effective or timely manner, if at all. This potential inability to transfer production could occur for several reasons, including but not limited to a lack of necessary relevant manufacturing capability at another facility, or the regulatory

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

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

The SEC has adopted rules regarding disclosure for public companies whose products contain conflict minerals (commonly referred to as tin, tantalum, tungsten and gold) that originate from the Democratic Republic of the Congo (“DRC”) and/or adjoining countries. The implementation of these requirements could adversely affect the sourcing, availability and pricing of materials used in the manufacturing of our products. In addition, we 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.

Employee and Pension Plan Risks

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 \$61.9 million based on our projected benefit obligation and fair value of plan assets as of September 30, 2021. 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.

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

Approximately 8% of our employees in the United States (including contingent workers) work under collective bargaining agreements. Approximately 64% of our employees outside the United States (including contingent workers) work under various collective bargaining arrangements and/or national trade union agreements. Although we have not recently experienced any significant work stoppages as a result of labor disagreements, we cannot ensure that such a stoppage will not occur in the future. The two collective bargaining agreements at our primary U.S. manufacturing facility expire in January 2022 and January 2024, respectively. Our inability to negotiate satisfactory new agreements or a labor disturbance at one of our principal facilities could have a material adverse effect on our operations.

We might not be 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.

Cybersecurity and Information Technology Risks

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

We are in the process of rationalizing and transforming our ERP software solutions and other complementary information technology systems, which is expected to be completed over the next several years. The implementation of these solutions and systems is highly dependent on the coordination of numerous software and system providers and internal business teams. We could experience changes in our operational processes and internal controls, which in turn could require significant capital investments and change management, including recruiting and training of qualified personnel. The interdependence of these solutions and systems is key to the successful completion of the initiatives. The failure of any one solution or system could have a significant impact on our business processes and information systems, including loss or corruption of data, delayed shipments, decreases in productivity as our personnel and third-party providers implement and become familiar with

new systems, increased costs and lost revenues, which could have an adverse effect on our overall information technology infrastructure and as a result, could have an adverse impact on our business, results of operations and cash flows.

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

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 software-based products. Our information technology and cybersecurity systems have been and may continue to be subjected to viruses or other malicious codes, unauthorized access attempts, cyber- or phishing-attacks, tampering, or other security breaches. 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, regulatory standards, integration of acquisitions, and the increasing need to protect patient, customer and supplier information. In addition, the EU-wide General Data Protection Regulation ("GDPR"), imposes stringent data protection requirements and provides for significant 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, in an effort to obtain proprietary information. As a result of the COVID-19 pandemic, we have faced and may continue to face increased cybersecurity risks due to our reliance on internet technology and the number of our employees who are working remotely, which may create additional opportunities for cybercriminals to exploit vulnerabilities. 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 cyber-based attack, or suffer other adverse consequences. Any significant breakdown, intrusion, interruption, corruption, or destruction of these systems, as well as any data breaches or cyber-based attacks, could have a material adverse effect on our business. We have experienced targeted and non-targeted cybersecurity attacks and incidents in the past that have resulted in unauthorized persons gaining access to our information and systems, and we could in the future experience similar attacks. We are continuously investing in our cybersecurity program to mature current capabilities, in addition to accelerating the implementation of new capabilities to keep pace with the changing threat landscape. To date, no cybersecurity incident or attack has had a material impact on our business or consolidated financial statements.

Climate Change Risks

Climate change, or legal, regulatory or market measures to address climate change, could adversely affect our business, results of operations and financial condition.

The long-term effects of climate change are difficult to predict and may be widespread. The impacts of climate change may include physical risks (such as rising sea levels or frequency and severity of extreme weather conditions), social and human effects (such as population dislocations or harm to health and well-being), compliance costs and transition risks (such as regulatory or technology changes), shifts in market trends (such as customers putting an increased priority on purchasing products that are sustainably made) and other adverse effects. Such impacts may disrupt our supply chain and operations by adversely affecting our ability to procure goods or services required for the operation of our business at the quantities and levels we require, due to impairment of the availability and cost of certain products, materials, commodities and energy.

In addition, the increasing concern over climate change has resulted and may continue to result in more regional, federal, and/or global legal and regulatory requirements relating to climate change, including regulating greenhouse gas emissions, alternative energy policies and sustainability initiatives. If legislation or regulations are enacted or promulgated in the United States or in any other jurisdictions in which we do business that impose more stringent restrictions and requirements than our current legal or regulatory obligations, we may experience disruptions in, or increases in the costs associated with, sourcing, manufacturing and distributing our products, which may adversely affect our business, results of operations and financial

condition. Any such regulatory changes could have a significant effect on our operating and financial decisions, including those involving capital expenditures to reduce emissions and comply with other regulatory requirements.

Tax Risks

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.

General Risk Factors

Our stock price and trading volume has been, and may continue to be, volatile from time to time and we might 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 might 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, including the impact of the COVID-19 pandemic;
- our stock repurchase program;
- announcements of technological innovations;
- new products or product enhancements by us or our competitors;
- developments in patents or other intellectual property rights and litigation;
- developments in relationships with our customers and suppliers;
- the implementation of health care reform legislation and the adoption of additional reform legislation in the future; and
- the ability to or extent of integrating our acquisitions.

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

Item 1B. UNRESOLVED STAFF COMMENTS

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

Item 2. PROPERTIES

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

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

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

Item 3. LEGAL PROCEEDINGS

See Note 15. Commitments and Contingencies 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.

PART II

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

Market Information and Shareholders

Our common stock is traded on the New York Stock Exchange under the ticker symbol HRC. As of November 10, 2021, we had 62,100 shareholders of record.

Dividends

The declaration and payment of cash dividends is at the sole discretion of our Board and depends upon many factors, including our financial condition, earnings potential, capital requirements, alternative uses of cash, covenants associated with debt obligations, legal requirements, and other factors considered relevant by our Board. We have paid cash dividends on our common stock every quarter since our initial public offering in 1971. We intend to continue to pay quarterly cash dividends comparable to those paid in the periods covered by the Consolidated Financial Statements included within Item 8 of Part II of this Form 10-K, at the discretion and subject to the approval of our Board and subject to the terms of the Merger Agreement. The Merger Agreement limits our ability to increase the amount of our quarterly cash dividends while the Merger is pending; however, we may continue to pay regular quarterly dividends not exceeding \$0.24 per share, declared and paid at such times as are consistent with the Company's historical practice over the twelve-month period prior to the date of the Merger Agreement.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ^{1,2}	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs ^{2,3} (in millions)
July 1, 2021 - July 31, 2021	1,192	\$ 116.10	—	\$ 532.7
August 1, 2021 - August 31, 2021	109	\$ 124.53	—	\$ 532.7
September 1, 2021 - September 30, 2021	—	\$ —	—	\$ 532.7
Total	<u>1,301</u>		<u>—</u>	

¹ Shares purchased in the quarter ended September 30, 2021 were in connection with employee payroll tax withholding for restricted stock distributions.

² Purchases of common stock may be made in the open market or through private transactions at times and amounts determined by the Company based on its evaluation of market conditions and other factors. The Merger Agreement places restrictions on our ability to repurchase shares of our common stock. As a result, we do not expect to make repurchases under the common stock repurchase program while the Merger Agreement is in effect. However, we may continue to repurchase shares of our common stock from employees in connection with employee payroll tax withholding for restricted stock distributions.

³ In September 2019, the Board approved an additional \$170.0 million for share repurchases. In July 2021, the Board approved an increase to the share repurchase program in an amount of \$500.0 million. The below table reflects the date of Board approval, the authorized dollar value of the shares to be repurchased under the approved program and the availability to repurchase as of September 30, 2021. There is no expiration date for this program.

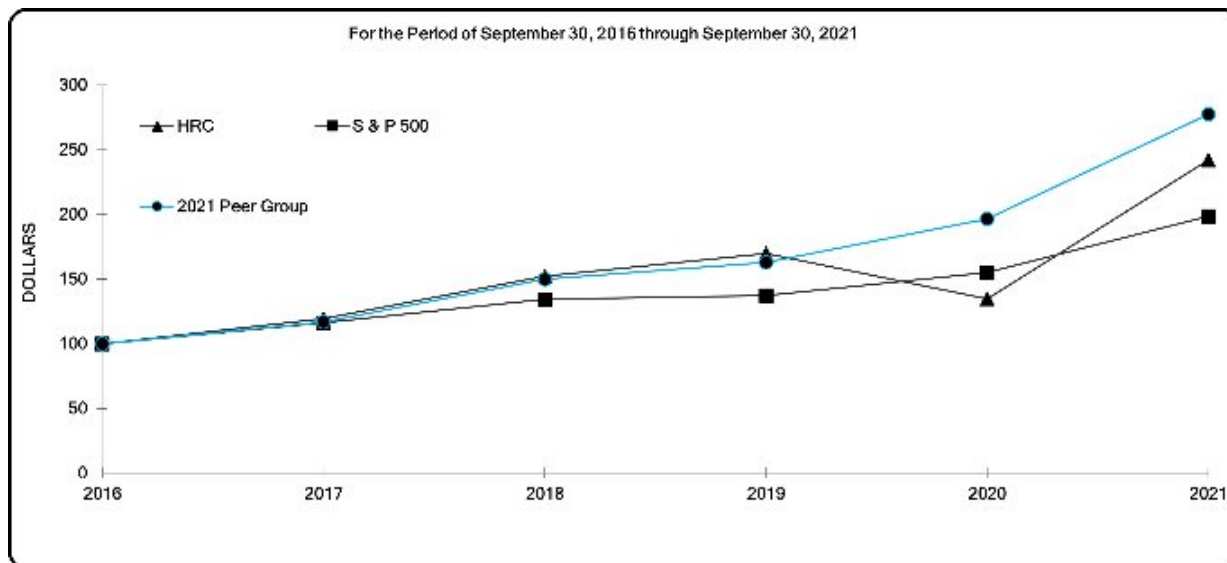
(In millions)

Board Approval Date	Authorized Dollar Value	Dollar Value of Shares Purchased Prior to Fiscal 2021	Dollar Value of Shares Purchased in Fiscal 2021	Availability to Purchase as of September 30, 2021
September 2019	\$ 170.0	\$ 6.6	\$ 130.7	\$ 32.7
July 2021	500.0	—	—	500.0
Totals	<u>\$ 670.0</u>	<u>\$ 6.6</u>	<u>\$ 130.7</u>	<u>\$ 532.7</u>

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. The composition of our current peer group (the “2021 Peer Group”) has not changed since the date of our Annual Report on Form 10-K for fiscal 2020. The 2021 Peer Group is aligned with the peer group used in our most recent compensation study done for executive compensation purposes. The graph below assumes that the value of the investment in our common stock, the S&P 500 and our 2021 Peer Group was \$100 on October 1, 2016 and that all dividends were reinvested.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
HRC	\$ 100	\$ 119	\$ 152	\$ 170	\$ 135	\$ 242
S&P 500	100	116	134	137	155	199
2021 Peer Group	100	117	150	163	197	277



* For purposes of the Stock Performance Graph above, our 2021 Peer Group is comprised of: Agilent Technologies, Inc., Avanos Medical, Inc. (formerly Halyard Health, Inc.), Bio-Rad Laboratories, Inc., Bruker Corporation, The Cooper Companies, Inc., Dentsply Sirona, Inc., Edwards Lifesciences Corporation, Hologic, Inc., Intuitive Surgical, Inc., Mednax, Inc., Patterson Companies, Inc., PerkinElmer, Inc., Quest Diagnostics Incorporated, ResMed, Inc., Steris plc, Teleflex Incorporated, Varian Medical Systems, Inc., Waters Corporation and West Pharmaceutical Services, Inc.

Item 6. [Reserved]

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

Overview

Hill-Rom Holdings, Inc. (“we,” “us,” or “our”) is a global medical technology leader whose approximately 10,000 employees have a single purpose: enhancing outcomes for patients and their caregivers by Advancing Connected Care™. Around the world, our innovations touch over 7 million patients each day. Our products and services help enable earlier diagnosis and treatment, optimize surgical efficiency and accelerate patient recovery while simplifying clinical communication and shifting

care closer to home. We make these outcomes possible through connected smart beds, patient lifts, patient assessment and monitoring technologies, caregiver collaboration tools, respiratory health devices, advanced equipment for the surgical space and more, delivering actionable, real-time insights at the point of care.

Industry Trends

We believe the following global healthcare trends will accelerate in a post-pandemic market.

Clinical Communications. COVID-19 accelerated the need and greater acceptance of virtual care. Although available for some time, the adoption of virtual visits has gained wide acceptance from patients, providers and more importantly payers. We see this trend continuing and the environment is ripe for continued growth, including within the walls of the hospitals. Additionally, with shortages of physician specialties and other healthcare staff, patient engagement tools, remote patient monitoring software, and use of digital communication technology designed to increase care team efficiencies will also increase due to the desire for lower cost care (lower staff-to-patient ratios), and the opportunity to enhance patient outcomes.

Intelligent Monitoring and Diagnostics. Connected care cannot only take place through virtual means, but also through the digital transformation of connected devices and decision support tools. Providers will utilize sensors, wearables, artificial intelligence and predictive analytics to generate meaningful and real-time information about patients to maximize clinical insights, improve workflow, enable earlier intervention and enhance the patient's experience, across sites of care

Lower Cost Care Settings. Growing pressure on health care costs are resulting in a continued 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 such as ambulatory surgery centers, outpatient centers and the home. Opportunities include improved medical technologies, remote monitoring, communication solutions and information technologies.

Provider Consolidation. The financial pressures experienced via COVID-19 place an even greater chasm between providers that can weather hardship and those that cannot. We expect economic considerations, competition and other factors will lead to ongoing consolidation of customers.

Economic and Clinical Value. The overriding importance of improved quality of care metrics will maintain the focus on improving outcomes related to pressure injuries, patient falls, patient deterioration and sepsis. Hospitals may experience reduced reimbursement for hospital-acquired adverse events, creating a stronger connection between these adverse events and hospital revenue levels. Therefore, we believe that health care providers will seek to do business with partners that can demonstrate improved clinical, and consequently, economic outcomes.

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

Strategic Priorities

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

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

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

Transforming the portfolio with select merger and acquisition and optimization initiatives as permitted under the terms of the merger agreement. 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 deploy capital on opportunities that align with our strategy and meet our financial objectives. We enhanced our growth prospects by divesting non-strategic assets and redirecting resources to advance category leadership in higher-growth, higher-margin opportunities. We will continue to evaluate and pursue opportunities that further optimize our business portfolio.

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

The Impacts of COVID-19 on Hillrom

COVID-19 has impacted global economies as travel, leisure and discretionary consumer spending has reduced significantly causing companies to make commensurate changes to their investments, human capital, and financial outlooks. The United States and countries around the world continue to take precautionary and preventive measures to reduce the spread of COVID-19. Prospects for an eventual path out of the crisis have improved as COVID-19 vaccines were authorized for use globally and governments began executing plans to distribute the vaccines to the public as supplies become available over the course of the fiscal year ended September 30, 2021. However, the timing of return to historical operating levels remains uncertain due to external factors such as policymaker decisions to remove certain restrictions, as they evaluate the continued infection rate and COVID-19 related deaths, the emergence of new variants of the virus, potential future outbreaks, the distribution of available vaccines, and people's willingness to take the vaccine.

Revenues and Customers

For the fiscal year ended September 30, 2021, we experienced increased revenue as hospital access and physician practice restrictions continue to moderate in the primary markets we serve and return to more normal operating activities. This is partially offset by lower demand globally for products used in the treatment of patients diagnosed with COVID-19. The lower demand was due to declining COVID-19 confirmed cases and hospitalizations and a reduction in significant one-time COVID-19 purchases made in comparison to the fiscal year ended September 30, 2020. For the fiscal years ended September 30, 2021 and 2020, we estimated that approximately \$100.0 million and \$180.0 million of revenue recognized related to one-time COVID-19 purchases and rentals. In addition, we recognized revenue of \$11.5 million in the fiscal year ended September 30, 2021 related to a retrospective increase in the third-party reimbursement rate for certain respiratory health devices. The impact of these sales are described within our Results of Operations.

For the fiscal year ending September 30, 2022, we expect product demand to reflect hospitals and physician practices return to more normal operating activities as effective efforts to control the spread of COVID-19 continue across the world.

Operations and Workforce

The COVID-19 pandemic did not significantly impact Hillrom's operations related to our workforce or supply chain. Our production facilities have remained open and employment levels have remained consistent. Many employees in our administrative functions have effectively worked remotely since mid-March 2020. In other areas of the business, we have adapted our processes and used technology to continue to effectively execute on our strategic priorities as well as daily operating activities. A workforce reintegration plan has been established to facilitate a return to the office. The reintegration plan includes safety measures and procedures in compliance with local laws and regulations to ensure a safe work environment for employees that return to the office.

As disclosed in Note 1. Summary of Significant Accounting Policies, we benefited from government programs within the various jurisdictions in which we operate in the form of subsidies, incentives, cost relief and payment deferrals. Management will continue to evaluate these opportunities as well as the related requirements or restrictions to support our operations and workforce in a manner that allows us to continue to operate efficiently and effectively.

For further discussion, see the risk factor within Item 1.A Risk Factors, entitled "**Our business, results of operations, financial condition and prospects have been and could continue to be adversely affected by the ongoing COVID-19 pandemic and the related effects on public health.**"

Use of Non-GAAP Financial Measures

The accompanying Consolidated Financial Statements and 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 operating margin, income before taxes, income tax expense and earnings per diluted share results on an adjusted basis as we believe these measures contribute to the understanding of our financial performance, provide additional analytical tools to understand our results from core operations and reveal underlying operating trends. These measures exclude strategic developments, acquisition and integration costs and related fair value adjustments, gains and losses associated with disposals of businesses or significant product lines, regulatory costs related to updating existing product registrations to comply with the European Medical Device Regulations, Special charges as described in Note 10. Special Charges of this Form 10-K, the transitional impacts of the U.S. Tax Cuts and Jobs Act (the “Tax Act”), changes in tax accounting methods, and other tax law changes as described in Note 11. Income Taxes of this Form 10-K, expenses associated with these tax items, the impacts of significant litigation matters, certain impacts of the COVID-19 pandemic and other unusual events. We also exclude expenses associated with the amortization of purchased intangible assets. These adjustments are made to allow investors to evaluate and understand operating trends excluding their impact on operating income and earnings per diluted share.

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

In addition, we present certain results on a constant currency basis, which compares results between periods as if foreign currency exchange rates had remained consistent period-over-period. We monitor sales performance on an adjusted basis 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, 2021 Compared to the Fiscal Year Ended September 30, 2020

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.

Net Revenue

<i>(In millions)</i>	Year Ended September 30		Change As Reported	Constant Currency	U.S.		OUS	
	2021	2020			Change As Reported	Change As Reported	Change As Reported	Constant Currency
	Revenue:							
Product sales and service	\$ 2,669.6	\$ 2,571.2	3.8 %	1.9 %	5.4 %	0.8 %	(4.8) %	
Rental revenue	349.1	309.8	12.7 %	11.9 %	14.7 %	(1.6) %	(8.1) %	
Total net revenue	\$ 3,018.7	\$ 2,881.0	4.8 %	3.0 %	6.7 %	0.7 %	(4.9) %	
Revenue:								
Patient Support Systems	\$ 1,568.3	\$ 1,539.1	1.9 %	0.3 %	2.5 %	0.2 %	(5.8) %	
Front Line Care	1,117.0	1,025.0	9.0 %	7.3 %	11.1 %	4.3 %	(1.0) %	
Surgical Solutions	333.4	316.9	5.2 %	1.9 %	19.6 %	(4.2) %	(9.7) %	
Total net revenue	\$ 3,018.7	\$ 2,881.0	4.8 %	3.0 %	6.7 %	0.7 %	(4.9) %	

OUS - Outside of the United States

Consolidated Revenue

Product sales and service revenue increased 3.8% on a reported basis, and 1.9% on a constant currency basis for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was primarily driven by higher demand in our care communications business, Surgical Solutions business and higher demand for products used within the physician practice setting as hospitals and physician offices restrictions continue to moderate in the primary markets we serve and return to more normal operating activities. The increase was further driven by the one-time revenue related to a retrospective increase in the third-party reimbursement rate for certain respiratory health devices as well as new product launches and revenue from recent acquisitions across all business segments. The increase was partially offset by a reduction in significant one-time COVID-19 purchases in comparison to the fiscal year ended September 30, 2020 and the global exit of the original equipment manufacturer business with Surgical Solutions.

Rental revenue increased 12.7% on a reported basis, and 11.9% on a constant currency basis for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was primarily driven by higher deployment of beds in the United States within Patient Support Systems that related to hospital needs for COVID-19 patients.

Business Segment Revenue

Patient Support Systems revenue increased 1.9% on a reported basis and 0.3% on a constant currency basis for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was driven primarily by higher demand in our care communications business due to new product launches, recent acquisitions and hospital access restrictions continuing to moderate in the primary markets we serve and return to more normal operating activities. The increase was further driven by higher rental of beds in response to COVID-19 hospitalizations. The increase was partially offset by a reduction in significant one-time COVID-19 purchases of intensive care unit and med-surg beds and specialty surfaces.

Front Line Care revenue increased 9.0% on a reported basis and 7.3% on a constant currency basis for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was primarily driven by higher global demand for patient monitoring, physical assessment tools and diagnostic products, including vision care and cardiology. The increase was further driven by the one-time revenue recognized in the fiscal year ended September 30, 2021 related to a retrospective increase in the third-party reimbursement rate for certain respiratory health devices as well as new product launches and revenue from recent acquisitions. The increase was partially offset by the absence of significant one-time COVID-19 purchases of respiratory health ventilators during the year ended September 30, 2020.

Surgical Solutions revenue increased 5.2% on a reported basis and 1.9% on a constant currency basis for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020, primarily driven by higher demand for operating room tables as hospitals begin to return to more normal operating activities and revenue from recent acquisitions. The increase is partially offset by the global exit of the original equipment manufacturer business.

Gross Profit

(In millions)

	Year Ended September 30	
	2021	2020
Gross Profit ¹		
Product sales and service	\$ 1,387.2	\$ 1,311.3
Percent of Related Net Revenue	52.0 %	51.0 %
Rental	\$ 200.9	\$ 163.8
Percent of Related Net Revenue	57.5 %	52.9 %
Total Gross Profit	\$ 1,588.1	\$ 1,475.1
Percent of Total Net Revenue	52.6 %	51.2 %

¹ Gross Profit is calculated as net product sales and service revenue and rental revenue less the related cost of goods sold or rental expenses as disclosed on the Statements of Consolidated Income.

Gross Profit from Product sales and service increased \$75.9 million or 5.8% for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was primarily driven by the revenue from the retrospective

increase in the third-party reimbursement rate for certain respiratory health devices for the fiscal year ended September 30, 2021. The increase in gross profit is also attributable to favorable product mix from new product launches and improved cost efficiencies within our supply chain operations.

Gross Profit from Rental increased \$37.1 million or 22.6% for the fiscal year ended September 30, 2021 compared to fiscal year ended September 30, 2020. The increase in rental gross profit was driven by higher volumes and lower servicing costs associated with the Patient Support Systems rental portfolio due to higher rental of beds for COVID-19 patients.

Operating Expenses

(In millions)

	<u>Year Ended September 30</u>	
	<u>2021</u>	<u>2020</u>
Research and development expenses	\$ 144.9	\$ 136.5
<i>Percent of Total Net Revenue</i>	<i>4.8 %</i>	<i>4.7 %</i>
Selling and administrative expenses	\$ 887.0	\$ 820.4
<i>Percent of Total Revenue</i>	<i>29.4 %</i>	<i>28.5 %</i>
Acquisition-related intangible asset amortization	\$ 108.6	\$ 109.0
<i>Percent of Total Net Revenue</i>	<i>3.6 %</i>	<i>3.8 %</i>

Research and development expenses increased \$8.4 million, or 6.2%, for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 due to the timing of projects. As a percentage of revenue, Research and development expenses remained relatively consistent.

Selling and administrative expenses increased \$66.6 million, or 8.1% for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 primarily due to litigation expenses incurred related to the acquisition of Bardy, higher variable compensation linked to performance, acquisition-related expenses related to the proposed acquisition by Baxter, and increased headcount due to growth initiatives. The increase is partially offset by lower spending on business travel. See Note 3. Business Combinations and Note 15. Commitments and Contingencies for further information.

Acquisition-related intangible asset amortization decreased \$0.4 million, or 0.4%, for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 and remained consistent as a percentage of revenue. See Note 3. Business Combinations for further information on acquired intangible assets.

Special Charges and Other

(In millions)

	<u>Year Ended September 30</u>	
	<u>2021</u>	<u>2020</u>
Special charges	\$ 47.4	\$ 41.5
Interest expense	(65.6)	(74.0)
Loss on extinguishment of debt	(9.8)	(15.6)
Investment income (expense) and other, net	(22.0)	(6.9)

In connection with various transformative initiatives, exit activities, and organizational changes to improve our business alignment and cost structure we recognized Special charges of \$47.4 million for the fiscal year ended September 30, 2021, compared to \$41.5 million for the fiscal year ended September 30, 2020. During the year ended September 30, 2021, we incurred \$25.6 million related to the Workforce Reduction Plan. These charges related to the initiatives described in Note 10. Special Charges.

Interest expense decreased \$8.4 million, or 11.4%, for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 due to lower average borrowings outstanding and a decline in LIBOR impacting our variable rate debt under the Securitization and Revolving Credit Facilities. See Note 5. Financing Agreements for further information.

Loss on extinguishment of debt was \$9.8 million for the fiscal year ended September 30, 2021 and related to the redemption of our senior unsecured 5.00% notes of \$300 million in May 2021, which was comprised of a \$7.5 million prepayment premium

and \$2.3 million of debt issuance costs previously capitalized. Loss on extinguishment of debt was \$15.6 million for the fiscal year ended September 30, 2020 and related to the refinancing of senior unsecured notes of \$425.0 million in September 2019, which was comprised of a \$12.2 million prepayment premium and \$3.4 million of debt issuance costs previously capitalized. See Note 5. Financing Agreements for further information.

Investment income (expense) and other, net for the fiscal year ended September 30, 2021 was expense of \$22.0 million primarily related to the litigation settlement of \$32.5 million related to the acquisition of Bardy, partially offset by the receipt of settlement awards of \$8.8 million and an insurance settlement of \$5.3 million related to covered losses in prior periods. Investment income (expense) and other, net for the fiscal year ended September 30, 2020 was expense of \$6.9 million comprised primarily of a non-cash pension plan settlement loss of \$8.4 million, investment losses of \$2.0 million which was partially offset by a \$3.0 million gain that represented the step up to fair value of the historical investment of a company that was fully acquired during fiscal year ended September 30, 2020. See Note 3. Business Combinations and Note 8. Retirement and Postretirement Benefit Plans and Note 15. Commitments and Contingencies for further information.

Income Tax Expense

The effective tax rate was 17.9% for the fiscal year ended September 30, 2021 compared to 17.8% for the fiscal year ended September 30, 2020. The effective tax rate remained relatively flat for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020, increasing just 0.1%. See Note 11. Income Taxes for further information.

The adjusted effective tax rate remained relatively flat for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020, decreasing just 0.5%, from 19.8% to 19.3%.

Earnings per Share

Diluted earnings per share increased from \$3.32 to \$3.72 for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 primarily driven by higher gross profits due to higher revenues and favorable product mix. The increase was partially offset by higher operating expense levels, including litigation expenses and settlement payments related to the acquisition of Bardy, acquisition-related expenses related to the proposed acquisition by Baxter and higher special charges.

Business Segment Divisional Income

(In millions)

	<u>Year Ended September 30</u>		<u>Change As Reported</u>
	<u>2021</u>	<u>2020</u>	
Divisional income:			
Patient Support Systems	\$ 356.1	\$ 332.3	7.2 %
Front Line Care	348.8	301.8	15.6 %
Surgical Solutions	51.6	39.5	30.6 %

Refer to Note 14. Segment Reporting for a description of how divisional income is determined.

Patient Support Systems divisional income increased 7.2% for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 primarily due to expanded gross profits from the bed rental portfolio in the United States due to higher rental of beds as well as favorable product mix due to new product launches. The increase was partially offset by a reduction in the significant one-time COVID-19 purchases of intensive care unit and med-surg beds and specialty surfaces.

Front Line Care divisional income increased 15.6% for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was primarily driven by higher global sales of patient diagnostic products, including vision care and cardiology, partially offset by lower sales of respiratory health ventilators compared to the prior year due to declining demand for products used in the treatment of COVID-19 patients.

Surgical Solutions divisional income increased 30.6% for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 primarily driven by increased demand for operating room tables as hospitals began to return to more normal operating activities, offset by the global exit of the original equipment manufacturer business.

As Reported 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 for the fiscal years ended September 30, 2021 and 2020. As reported amounts are adjusted for certain items to aid management in evaluating the performance of the business. Investors should consider these measures in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Income tax expense is computed by applying a blended statutory tax rate based on the jurisdictional mix of the respective before tax adjustment.

Year Ended September 30

(In millions)

	2021				2020			
	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS
As Reported	13.3 %	\$ 302.8	\$ 54.3	\$ 3.72	12.8 %	\$ 271.2	\$ 48.2	\$ 3.32
Adjustments:								
Acquisition and integration costs and related fair value adjustments ¹	0.9 %	62.7	6.9	0.84	— %	(0.6)	1.8	(0.04)
Acquisition-related intangible asset amortization ²	3.6 %	108.6	26.3	1.23	3.7 %	109.0	26.1	1.23
Field corrective actions ³	0.1 %	1.6	0.4	0.02	0.2 %	4.9	1.2	0.05
Regulatory compliance costs ⁴	0.5 %	15.1	3.7	0.17	0.5 %	15.6	3.7	0.18
Special charges ⁵	1.6 %	47.4	11.0	0.54	1.4 %	41.5	9.2	0.48
Debt refinancing costs ⁶	— %	9.8	2.3	0.11	— %	16.1	3.7	0.18
Loss on disposition of business ⁷	— %	—	—	—	— %	(2.8)	(4.4)	0.02
Pension settlement expense ⁸	— %	\$ —	—	—	— %	8.4	1.9	0.10
Litigation settlements ⁹	— %	(6.8)	(1.6)	(0.08)	— %	(1.2)	(0.3)	(0.01)
COVID-19 related cost and benefits, net ¹⁰	(0.4) %	(11.6)	(0.7)	(0.16)	0.2 %	1.4	0.7	0.02
LIFO change ¹¹	(0.2) %	(6.8)	(1.5)	(0.08)	— %	—	—	—
Adjusted Earnings	19.4 %	522.8	\$ 101.1	\$ 6.31	18.8 %	\$ 463.5	\$ 91.8	\$ 5.53

¹ Acquisition and integration costs and related fair value adjustments include legal and professional fees, temporary labor, consulting and other costs related to business development activities and the closing and integration of acquired businesses. For acquired businesses, this also includes fair value adjustments related to contingent considerations, and purchase accounting adjustments for deferred revenue and other items. See Note 3. Business Combinations for further information.

² Acquisition-related intangible asset amortization relates to the amortization of intangible assets acquired through the transactions described in Note 3. Business Combinations and Note 4. Goodwill and Intangible Assets.

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

⁴ Regulatory compliance costs relate to updating existing product registrations to comply with the European Medical Device Regulations and the impacts of current period tax law changes. These costs are included in Selling and administrative expenses.

⁵ Special charges represent a variety of costs associated with restructuring actions, including severance and related benefits, lease termination fees, asset write-downs and temporary labor on shutdown of operations. It also includes costs related to a global information technology transformation, including rationalizing and transforming our enterprise resource planning software solutions and other complementary information technology systems. See Note 10. Special Charges for further information.

⁶ Debt refinancing costs are expenses related to the costs incurred between the issuance and redemption our of our senior unsecured notes due 2027 and 2023, and the redemption of our senior unsecured notes due 2025. For the fiscal year ended September 30, 2021, debt refinancing costs include a loss on extinguishment of debt of \$9.8 million related to the redemption of all of our previously outstanding senior unsecured 5.00% notes due February 2025. For the fiscal year ended September 30, 2020, debt refinancing costs include a loss on extinguishment of debt of \$15.6 million as well as \$0.5 million duplicative interest costs related to the redemption of our previously outstanding senior unsecured 5.75% notes due September 2023. See Note 5. Financing Agreements for further information.

⁷ Loss on disposition of business relates to losses recorded in Investment income (expense) and other, net and additional tax expense of \$4.1 million as a result of a change in the taxable gain resulting from business dispositions, which occurred in August 2019.

⁸ Pension settlement expense represents an actuarial loss totaling \$8.4 million recorded as a component of Investment income (expense) and other, net. See Note 8. Retirement and Postretirement Benefit Plans for further information.

⁹ Litigation settlements represent the aggregate charges, costs or recoveries associated with litigation settlements, including related expenses. These costs are recorded as a component of Investment income (expense) and other, net.

¹⁰ COVID-19 related costs and benefits, net primarily represent incremental non-recurring costs incurred to prepare our facilities for workforce reintegration to ensure the safety of our employees, partially offset by the recognition of funding associated with government programs created in response to COVID-19. For the fiscal year ended September 30, 2021, COVID-19 related benefits include revenue of \$11.5 million related to a retrospective increase in the third-party reimbursement rate for certain respiratory health devices. See Note 1. Summary of Significant Accounting Policies for further information.

¹¹ LIFO change reflects the change in accounting principle related to the change in costing method of remaining inventory from LIFO to FIFO, which we adopted during the three months ended September 30, 2021. See Note 1. Summary of Significant Accounting Policies for further information.

Liquidity and Capital Resources

(In millions)

	Year Ended September 30	
	2021	2020
Cash Flows Provided By (Used In):		
Operating activities	\$ 476.1	\$ 481.7
Investing activities	(487.2)	(131.2)
Financing activities	(13.4)	(695.0)
Effect of exchange rate changes on cash	(0.2)	7.2
(Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	\$ (24.7)	\$ (337.3)

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 that would increase or decrease our cost of borrowings. Changes in our credit rating can, however, impact the cost of borrowings and any potential future borrowings under any new financing agreements.

Operating Activities

Cash provided by operating activities decreased \$5.6 million for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 primarily due to slightly higher working capital, partially offset by higher net income.

Investing Activities

Cash used in investing activities increased \$356.0 million for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020 primarily due to the increase in cash paid related to the acquisition activity summarized in the table below.

Also, included in capital spending is our global information technology transformation. During the years ended September 30, 2021 and 2020, \$17.4 million and \$22.0 million was capitalized as software in Other intangible assets and software, net related to the global information technology transformation initiative. See Note 3. Business Combinations and Note 10. Special Charges for further information.

Company or Assets Acquired	Date of Acquisition	Cash Paid (In millions)
Intellectual property and technology of EarlySense	January 28, 2021	\$ 30.0
Bardy	August 6, 2021	369.0
Fiscal 2021 Totals		\$ 399.0
Excel Medical	January 10, 2020	\$ 13.1
Connecta	May 18, 2020	7.5
Videomed	July 21, 2020	7.8
Fiscal 2020 Totals		\$ 28.4

Financing Activities

Cash used in financing activities was \$13.4 million for the fiscal year ended September 30, 2021 primarily due to net borrowings on the Revolving Credit Facility of \$515.0 million offset by cash paid for the redemption of all of our previously outstanding senior unsecured 5.00% notes due February 2025 for \$300.0 million and related prepayment penalty of \$7.5 million, stock repurchases of \$130.7 million in the open market, as well as cash dividends paid of \$62.0 million. We used the increased borrowings and operating cash flows to redeem our senior unsecured 5.00% notes.

Our debt-to-capital ratio was 52.3% and 52.1% as of September 30, 2021 and 2020.

For further discussion on Results of Operations and Liquidity and Capital Resources for the fiscal year ended September 30, 2020 compared to the fiscal year ended September 30, 2019, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS in the fiscal year ended September 2020 Annual report on Form 10-K.

Other Liquidity Matters

Our cash balances and cash flows generated from operations may be used to fund strategic investments, business acquisitions, working capital needs, investments in technology and marketing, share repurchases and payments of dividends to our shareholders. We believe that our cash balances and cash flows generated from operations, along with amounts available under our financing agreements, will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations for at least the next 12 months from the date of this filing.

Our cash flows from operating activities for the fiscal year ended September 30, 2021 were not materially adversely impacted by COVID-19. There have been no changes to our cost of or access to our capital and funding sources. We have not identified instability with the financial institutions with whom we maintain our financing relationships. We believe we can continue to service our outstanding borrowings or other financial obligations.

As of September 30, 2021, there were outstanding borrowings of \$515.0 million on the Revolving Credit Facility and available borrowing capacity was \$675.0 million after giving effect to the \$9.9 million of outstanding standby letters of credit. As of September 30, 2020, there were no outstanding borrowings on the Revolving Credit Facility, and available borrowing capacity was \$1,191.0 million after giving effect to \$9.0 million of outstanding standby letters of credit.

Our long-term debt instruments require nominal repayments over the next 12 months, with our next significant maturity occurring in August 2024. Since the beginning of the global COVID-19 pandemic in December 2019, we have not experienced liquidity constraints through either the movement of cash or under our Revolving Credit Facility. Furthermore, we have successfully extended our 364-day accounts receivable securitization facilities that now expires on April 22, 2022. On May 20, 2021, we redeemed all of our outstanding senior unsecured 5.00% notes due February 15, 2025 of \$300.0 million using cash on hand and funds borrowed from both Securitization Facilities and the Revolving Credit Facility.

As of September 30, 2021, we were in compliance with all debt covenants under our financing agreements. See Note 5. Financing Agreements for further information on our financing agreements and outstanding debt obligations.

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 have a liability of \$70.1 million recorded in the Consolidated Balance Sheet related to fair value of the contingent consideration that may be payable related to recent acquisitions. Refer to Note 3. Business Combinations for further detail regarding the acquisitions completed during fiscal years ended September 30, 2021, 2020 and 2019.

On July 7, 2021, the Board of Directors approved an increase to the share repurchase program in an amount of \$500.0 million. Refer to Item 5 of Part I of this Form 10-K for further information.

Our primary pension plan invests in a variety of equity and debt securities. Refer to Note 8. Retirement and Postretirement Benefit Plans for further detail regarding our retirement plans, including our benefit obligations, plan assets funded status and estimated future benefit payments, among others.

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.

On September 15, 2020, we committed to a workforce reduction plan, which includes a voluntary retirement program and involuntary severance actions. The actions under this plan resulted in cash expenditures of approximately \$25.6 million and were substantially completed during fiscal year ended September 30, 2021.

During fiscal year ended September 30, 2021, we repatriated \$2.2 million of our cash and cash equivalents from outside the United States that was previously taxed, and paid no related foreign withholding tax. During fiscal year ended September 30, 2020, we repatriated \$12.2 million of our cash and cash equivalents from outside the United States that was previously taxed and paid no related foreign withholding tax. These repatriated funds were used for working capital purposes or debt repayments. As of September 30, 2021, approximately 54.9% of our cash and cash equivalents were held by our foreign subsidiaries.

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

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

Credit Ratings

During fiscal year ended September 30, 2021, Standard and Poor's Rating Services and Moody's Investor Service issued credit ratings for Hillrom of BB+ and Ba2 with positive and stable outlooks.

Other Uses of Cash

We expect capital spending during fiscal year ending September 30, 2022 to be approximately \$100.0 million. Capital spending will be monitored and controlled as the year progresses. We expect to use operating cash flows to satisfy capital spending.

To give a clear picture of matters potentially impacting our liquidity position, the following table outlines our contractual obligations as of September 30, 2021:

<i>(In millions)</i>	Payments Due by Period		
	<u>Total</u>	<u>1 Year or Less</u>	<u>More than 1 Year</u>
Contractual Obligations			
Debt obligations	\$ 2,068.9	\$ 235.7	\$ 1,833.2
Interest payments relating to long-term debt ¹	162.0	39.5	122.5
Operating lease liabilities	79.3	24.6	54.7
Purchase obligations ²	304.6	259.9	44.7
Contingent consideration related to acquisitions ³	130.5	51.0	79.5
Other obligations, including Pension and postretirement health care benefit funding ⁴	66.4	5.4	61.0
Total contractual cash obligations	<u>\$ 2,811.7</u>	<u>\$ 616.1</u>	<u>\$ 2,195.6</u>

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

² 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.

³ Contingent consideration related to acquisitions represent the maximum obligation of commercial milestones for certain acquisitions and is based upon the mid-point of commercial milestones for the acquisition of Bardy.

⁴ Other obligations, including Pension and postretirement health care benefit funding include deferred compensation arrangements, self-insurance reserves and other various liabilities. Pension and postretirement health care benefit funding excludes our master defined benefit retirement plan in the United States because we are not required to make any further contributions during fiscal year ending September 30, 2022.

We also had commercial commitments related to standby letters of credit as of September 30, 2021 of \$11.1 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. Also, we have an additional \$2.7 million of Other long-term liabilities as of September 30, 2021, 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 entered into certain guarantees and indemnifications of performance, as well as, non-competition agreements for varying periods of time. Potential losses under the indemnifications are generally limited to a portion of the original transaction price, or to other lesser specific dollar amounts for certain provisions. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have an adverse impact on our financial condition and results of operations.

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

Revenue is presented net of several types of variable consideration including rebates, discounts and product returns, which are estimated at the time of sale generally using the expected value method, although the most likely amount method is also used for certain types of variable consideration. These estimates take into consideration historical experience, current contractual and

statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns.

Certain costs associated with obtaining or fulfilling a contract are capitalized until such time as the related performance obligations are completed and the related revenue is recognized.

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

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

Revenue and Accounts Receivable Reserves

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

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

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

Business Combinations, Goodwill and Intangible Assets

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

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

The goodwill and indefinite-lived intangible asset impairment assessments require either evaluating qualitative factors or performing a quantitative assessment to determine if the carrying value is more likely than not in excess of its fair value.

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

Quantitative testing of the reporting units consists of a comparison of the fair value of the reporting units to their carrying value.

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

An impairment charge is recorded for the amount by which a reporting unit's carrying value exceeds the estimated fair value of the goodwill, not to exceed the carrying amount of its goodwill.

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

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

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, 2021, we had \$53.0 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to certain foreign deferred tax attributes and state tax credit carryforwards as it is more likely than not that some portion or all of these tax attributes will not be realized.

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

We also have on-going audits in various stages of completion in several state and foreign jurisdictions, one or more of which may conclude within the next 12 months. Such settlements could involve some or all of the following: the payment of

additional taxes and related penalties, the adjustment of certain deferred taxes and/or the recognition of unrecognized tax benefits. The resolution of these matters, in combination with the expiration of certain statutes of limitations in various jurisdictions, make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition by up to \$2.0 million in the next 12 months, excluding interest.

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

Recently Issued Accounting Guidance

For a summary of recently issued accounting guidance applicable to us, see Note 1. Summary of Significant Accounting Policies.

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 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 contracts to manage exposures arising from fluctuating exchange rates related to specific and forecasted transactions. We operate this program pursuant to documented corporate risk management policies and do not enter into derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an appropriate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies. The maximum length of time over which we hedge transaction exposures is generally 12 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 6. Derivative Instruments and Hedging Activity and Note 8. Retirement and Postretirement Benefit Plans for further discussions about our derivative agreements and our pension plan assets. We may need to make additional pension plan contributions and our pension expense in future years may increase if market volatility and disruption causes declines in asset values and low interest rates result in a high pension obligation. Investment strategies and policies are set by the plan's fiduciaries. Long-term strategic investment objectives utilize a diversified mix of equity and fixed income securities to preserve the funded status of the trusts and balance risk and return. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and monitoring asset allocations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Management performed an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2021 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, 2021.

The effectiveness of our internal control over financial reporting as of September 30, 2021 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, who also audited our Consolidated Financial Statements, and has issued an attestation report, which is included herein.

/s/ John P. Groetelaars

John P. Groetelaars
President and Chief Executive Officer

/s/ Barbara W. Bodem

Barbara W. Bodem
Senior Vice President and Chief Financial Officer

/s/ Richard M. Wagner

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders 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, 2021 and 2020, and the related consolidated statements of income, of comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended September 30, 2021, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended September 30, 2021 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2021 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, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in fiscal 2020 and the manner in which it accounts for revenues from contracts with customers in fiscal 2019.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

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

Critical Audit Matters

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

Acquisition of Bardy Diagnostics, Inc.

As described in Note 3 to the consolidated financial statements, on August 6, 2021, the Company purchased all of the outstanding equity interest of Bardy Diagnostics, Inc. ("Bardy"), for total consideration of \$434.2 million. Management recorded \$383.8 million of goodwill and \$65.2 million of contingent consideration in connection with the business combination. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if the purchase price exceeds the estimated net fair value. As disclosed by management, the identification and determination of the net fair value of assets acquired and liabilities assumed requires significant judgment by management. The fair value of contingent consideration is estimated by management using the Monte Carlo model. Management applied significant judgment in estimating the fair value of contingent consideration which involved the use of a significant assumption with respect to the revenue growth rate used in the model.

The principal considerations for our determination that performing procedures relating to the acquisition of Bardy Diagnostics, Inc. is a critical audit matter are (i) a high degree of auditor judgment and subjectivity in performing procedures relating to the identification and determination of the net fair value of assets acquired and liabilities assumed and the fair value of contingent consideration related to the acquisition due to the significant judgment by management when identifying and determining the net fair value estimates; (ii) the significant audit effort in evaluating the significant assumption related to the revenue growth rate related to contingent consideration; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to acquisition accounting, including controls over management's identification and determination of the net fair value of assets acquired and liabilities assumed and controls over the development of the significant assumption related to revenue growth rate. These procedures also included, among others, (i) reading the purchase agreement, (ii) testing management's process for identifying and determining the fair value of assets acquired and liabilities assumed, and the total consideration estimated to be transferred. Testing management's process included evaluating the appropriateness of the valuation models, testing completeness and accuracy of data provided by management, and evaluating the reasonableness of the significant assumption related to revenue growth rate. Evaluating the reasonableness of management's significant assumption related to the revenue growth rate involved considering the current and past performance of the business, the consistency with external market and industry data, and whether this assumption was consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's Monte Carlo model.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
November 12, 2021

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

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

	Year Ended September 30		
	2021	2020	2019
Net Revenue			
Product sales and service	\$ 2,669.6	\$ 2,571.2	\$ 2,615.0
Rental revenue	349.1	309.8	292.3
Total net revenue	<u>3,018.7</u>	<u>2,881.0</u>	<u>2,907.3</u>
Cost of Net Revenue			
Cost of goods sold	1,282.4	1,259.9	1,330.7
Rental expenses	148.2	146.0	151.6
Total cost of net revenue (excludes acquisition-related intangible asset amortization)	<u>1,430.6</u>	<u>1,405.9</u>	<u>1,482.3</u>
Research and development expenses	144.9	136.5	139.5
Selling and administrative expenses	887.0	820.4	818.6
Acquisition-related intangible asset amortization	108.6	109.0	122.4
Special charges	47.4	41.5	28.4
Operating Profit	<u>400.2</u>	<u>367.7</u>	<u>316.1</u>
Interest expense	(65.6)	(74.0)	(89.6)
Loss on extinguishment of debt	(9.8)	(15.6)	(3.3)
Investment income (expense) and other, net	(22.0)	(6.9)	(14.6)
Income Before Income Taxes	<u>302.8</u>	<u>271.2</u>	<u>208.6</u>
Income tax expense	54.3	48.2	56.4
Net Income	<u>\$ 248.5</u>	<u>\$ 223.0</u>	<u>\$ 152.2</u>
Net Income per Basic Common Share	<u>\$ 3.75</u>	<u>\$ 3.35</u>	<u>\$ 2.28</u>
Net Income per Diluted Common Share	<u>\$ 3.72</u>	<u>\$ 3.32</u>	<u>\$ 2.25</u>
Average Basic Common Shares Outstanding (in thousands)	<u>66,204</u>	<u>66,631</u>	<u>66,772</u>
Average Diluted Common Shares Outstanding (in thousands)	<u>66,847</u>	<u>67,212</u>	<u>67,660</u>

See Notes to Consolidated Financial Statements

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(In millions)

	Year Ended September 30		
	2021	2020	2019
Net Income	\$ 248.5	\$ 223.0	\$ 152.2
Other Comprehensive Income (Loss), net of tax:			
Derivative instruments designated as hedges	17.9	(36.5)	(10.4)
Foreign currency translation adjustment	9.0	34.7	(40.1)
Change in pension and postretirement defined benefit plans	17.3	4.1	(13.6)
Total Other Comprehensive Income (Loss), net of tax	44.2	2.3	(64.1)
Total Comprehensive Income	\$ 292.7	\$ 225.3	\$ 88.1

See Notes to Consolidated Financial Statements

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

	September 30, 2021	September 30, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 271.8	\$ 296.5
Trade accounts receivable, net of allowances of \$25.4 and \$25.9 as of September 30, 2021 and 2020	671.2	594.9
Inventories, net of reserves	319.4	352.0
Other current assets	101.4	121.5
Total current assets	<u>1,363.8</u>	<u>1,364.9</u>
Property, plant and equipment	875.8	858.2
Less accumulated depreciation	(587.7)	(552.1)
Property, plant and equipment, net	288.1	306.1
Goodwill	2,221.7	1,835.5
Other intangible assets and software, net	955.3	976.7
Deferred income taxes	32.4	32.9
Other assets	137.8	155.0
Total Assets	<u>\$ 4,999.1</u>	<u>\$ 4,671.1</u>
LIABILITIES		
Current Liabilities		
Trade accounts payable	\$ 229.9	\$ 236.5
Short-term borrowings	235.7	222.3
Accrued compensation	182.3	144.9
Accrued product warranties	29.6	30.8
Accrued rebates	50.7	44.8
Deferred revenue	112.7	110.1
Other current liabilities	150.3	162.8
Total current liabilities	<u>991.2</u>	<u>952.2</u>
Long-term debt	1,825.2	1,655.7
Accrued pension and postretirement benefits	73.8	89.3
Deferred income taxes	65.4	113.0
Other long-term liabilities	163.8	134.8
Total Liabilities	<u>3,119.4</u>	<u>2,945.0</u>
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital Stock:		
Preferred stock - without par value: Authorized - 1,000,000 shares; none issued or outstanding		
Common stock - without par value: Authorized - 199,000,000	4.4	4.4
Issued - 88,457,634 shares as of September 30, 2021 and September 30, 2020; Outstanding: 65,893,802 shares as of September 30, 2021 and 66,640,832 shares as of September 30, 2020		
Additional paid-in capital	707.6	667.0
Retained earnings	2,315.9	2,132.2
Accumulated other comprehensive (loss)	(136.0)	(180.2)
Treasury stock, common shares at cost: 22,563,832 as of September 30, 2021 and 21,816,802 as of September 30, 2020	(1,012.2)	(897.3)
Total Shareholders' Equity	<u>1,879.7</u>	<u>1,726.1</u>
Total Liabilities and Shareholders' Equity	<u>\$ 4,999.1</u>	<u>\$ 4,671.1</u>

See Notes to Consolidated Financial Statements

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)

	Year Ended September 30		
	2021	2020	2019
Operating Activities			
Net income	\$ 248.5	\$ 223.0	\$ 152.2
Adjustments to reconcile net income to net cash, cash equivalents and restricted cash provided by operating activities:			
Depreciation and amortization of property, plant, equipment and software	77.2	69.8	72.4
Acquisition-related intangible asset amortization	108.6	109.0	122.4
Amortization of debt discounts and issuance costs	3.7	4.0	7.1
Loss on extinguishment of debt	9.8	15.6	3.0
Benefit for deferred income taxes	(32.0)	(19.0)	(18.8)
Loss on disposal of property, equipment, intangible assets and impairments	0.4	2.7	3.4
Stock compensation	45.6	38.4	34.4
Other operating activities	24.3	27.1	28.3
Change in working capital excluding cash, current debt, acquisitions and dispositions:			
Trade accounts receivable	(67.6)	71.3	(62.3)
Inventories	17.1	(91.8)	(0.9)
Other current assets	24.4	(14.8)	15.7
Trade accounts payable	1.9	24.0	13.2
Accrued expenses and other liabilities	37.6	15.4	28.8
Other assets and liabilities	(23.4)	7.0	2.5
Net cash, cash equivalents and restricted cash provided by operating activities	476.1	481.7	401.4
Investing Activities			
Purchases of property, plant, equipment and software	(92.1)	(105.9)	(73.4)
Proceeds on sale of property and equipment	2.4	2.5	2.9
Payment for acquisition of businesses, net of cash acquired	(369.0)	(28.4)	(303.4)
Payments for acquisition of intangible assets	(30.0)	—	(17.1)
Payments for acquisition of investments	—	—	(26.6)
Proceeds on sale of businesses	—	0.8	166.6
Other investing activities	1.5	(0.2)	2.0
Net cash, cash equivalents and restricted cash used in investing activities	(487.2)	(131.2)	(249.0)
Financing Activities			
Proceeds from borrowing on long-term debt	—	—	1,000.0
Payments of long-term debt	(50.1)	(50.1)	(1,038.5)
Borrowings on Revolving Credit Facility	870.0	190.0	420.0
Payments on Revolving Credit Facility	(355.0)	(270.0)	(340.0)
Borrowings on Securitization Facility	60.6	17.7	5.5
Payments on Securitization Facility	(47.2)	(45.5)	(5.5)
Borrowings on Note Securitization Facility	91.3	32.6	68.9
Payments on Note Securitization Facility	(91.3)	(21.2)	(62.7)
Proceeds from issuance of senior unsecured notes	—	—	425.0
Payment of debt issuance costs	—	—	(12.7)
Prepayment premium on redemption of 5.00% Notes and 5.75% Notes	(7.5)	(12.2)	—
Redemption of 5.00% Notes and 5.75% Notes	(300.0)	(425.0)	—
Cash dividends	(62.0)	(58.0)	(55.4)
Proceeds on exercise of stock options	10.5	8.6	14.5
Stock repurchases for stock award withholding obligations	(9.5)	(16.5)	(4.7)
Stock repurchases in the open market	(130.7)	(54.1)	(117.2)
Other financing activities	7.5	8.7	7.5
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	(13.4)	(695.0)	304.7
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(0.2)	7.2	(6.3)
Net Cash Flows	(24.7)	(337.3)	450.8
Cash, Cash Equivalents and Restricted Cash:			
At beginning of period	296.5	633.8	183.0
At end of period	\$ 271.8	\$ 296.5	\$ 633.8

See Notes to Consolidated Financial Statements



STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(In millions, except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Issued	Amount					
Balance as of September 30, 2018	\$ 88,457,634	\$ 4.4	\$ 602.9	\$ 1,876.2	\$ (113.0)	\$ (754.3)	\$ 1,616.2
Cumulative effect of ASC 606 adoption, net of tax of \$4.8	—	—	—	(4.9)	—	—	(4.9)
Cumulative effect of ASU 2016-16 adoption, net of tax of \$0.2	—	—	—	(5.6)	—	—	(5.6)
Reclassification due to ASU 2018-02 adoption	—	—	—	5.4	(5.4)	—	—
Net Income	—	—	—	152.2	—	—	152.2
Other comprehensive income (loss), net of tax of \$7.0	—	—	—	—	(64.1)	—	(64.1)
Dividends (\$0.83 per common share)	—	—	0.5	(55.9)	—	—	(55.4)
Stock repurchases for stock award withholding obligations	—	—	—	—	—	(4.7)	(4.7)
Stock repurchases in the open market	—	—	—	—	—	(117.2)	(117.2)
Stock compensation on equity-classified awards	—	—	33.9	—	—	—	33.9
Stock option exercises	—	—	2.6	—	—	11.9	14.5
Distribution of stock awards	—	—	(7.7)	—	—	7.7	—
Shares issued under employee stock purchase plan	—	—	5.2	—	—	3.2	8.4
Balance as of September 30, 2019	88,457,634	4.4	637.4	1,967.4	(182.5)	(853.4)	1,573.3
Net Income	—	—	—	223.0	—	—	223.0
Other comprehensive income (loss), net of tax of \$9.6	—	—	—	—	2.3	—	2.3
Dividends (\$0.87 per common share)	—	—	0.5	(58.5)	—	—	(58.0)
Stock repurchases for stock award withholding obligations	—	—	—	—	—	(16.5)	(16.5)
Stock repurchases in the open market	—	—	—	—	—	(54.1)	(54.1)
Stock compensation on equity-classified awards	—	—	37.8	—	—	—	37.8
Stock option exercises	—	—	2.9	—	—	5.7	8.6
Distribution of stock awards	—	—	(17.1)	—	—	17.1	—
Shares issued under employee stock purchase plan	—	—	5.5	—	—	3.9	9.4
Other	—	—	—	0.3	—	—	0.3
Balance as of September 30, 2020	88,457,634	4.4	667.0	2,132.2	(180.2)	(897.3)	1,726.1
Cumulative effect of ASU 2016-13 adoption, net of tax of \$0.8	—	—	—	(2.2)	—	—	(2.2)
Net Income	—	—	—	248.5	—	—	248.5
Other comprehensive income (loss), net of tax of \$ (10.7)	—	—	—	—	44.2	—	44.2
Dividends (\$0.94 per common share)	—	—	0.6	(62.6)	—	—	(62.0)
Stock repurchases for stock award withholding obligations	—	—	—	—	—	(9.5)	(9.5)
Stock repurchases in the open market	—	—	—	—	—	(130.7)	(130.7)
Stock compensation on equity-classified awards	—	—	44.5	—	—	—	44.5
Stock option exercises	—	—	3.5	—	—	7.0	10.5
Distribution of stock awards	—	—	(14.5)	—	—	14.5	—
Shares issued under employee stock purchase plan	—	—	6.5	—	—	3.8	10.3
Balance as of September 30, 2021	88,457,634	\$ 4.4	\$ 707.6	\$ 2,315.9	\$ (136.0)	\$ (1,012.2)	\$ 1,879.7

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

Note 1. Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Presentation and Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hillrom and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. Where our ownership interest is less than 100%, the noncontrolling interests are reported in our Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

Prior Period Reclassification

During fiscal year ended September 30, 2020, we presented Acquisition-related intangible asset amortization as a separate line item on our Statements of Consolidated Income for all periods presented. Acquisition-related intangible asset amortization was previously included in Selling and administrative expenses. Additionally, we no longer present Gross Profit as a subtotal on our Statements of Consolidated Income.

The following table presents Acquisition-related intangible asset amortization and Selling and administrative expenses, excluding the Acquisition-related intangible asset amortization, for the fiscal year ended September 30, 2019.

(In millions)

	Year Ended September 30, 2019	
Selling and administrative expense, previously reported	\$	941.0
Less: Acquisition-related intangible asset amortization		(122.4)
Selling and administrative expense, currently reported	\$	818.6

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense in the period. Actual results could differ from those estimates. Examples of such estimates include, but are not limited to, our allowance for doubtful accounts receivable, inventory reserves, accrued warranties, the impairment of intangible assets and goodwill, use of the spot yield curve approach for pension expense, income taxes and commitments and contingencies. See below for more information.

Proposed Acquisition by Baxter

On September 1, 2021, Hillrom, Baxter, and Merger Sub entered into the Merger Agreement, pursuant to which, on the terms and subject to the conditions set forth therein, Merger Sub will be merged with and into Hillrom, with Hillrom surviving the Merger as a wholly owned subsidiary of Baxter. Under the terms of the Merger Agreement, which has been unanimously approved by Hillrom's Board of Directors, Baxter will acquire all outstanding shares of Hillrom for \$156.00 per share in cash, for a total equity value of approximately \$10.5 billion. The Merger is expected to close by early 2022, subject to receipt of specified regulatory approvals and other customary closing conditions.

Government Programs Related to COVID-19

On March 25, 2020, the U.S. government approved the Coronavirus Aid, Relief and Economic Security ("CARES") Act to provide economic stimulus to address the impact of the pandemic. The governments in certain other non-U.S. countries have also approved legislation in their jurisdictions to address the impact of the pandemic. We evaluated our eligibility and assessed the conditions and requirements of participation in many programs. For the programs in which we elected to participate, we recognized \$0.5 million and \$3.2 million in government grants and cost abatements associated with state aid within the Statement of Consolidated Income for the fiscal years ended September 30, 2021 and 2020. In addition, we deferred the payment of the employer share of the U.S. Federal Insurance Contributions Act ("FICA") tax totaling \$21.7 million within the Consolidated Balance Sheet, of which \$10.8 million must be repaid in both December 31, 2021 and December 31, 2022, respectively, in accordance with the CARES Act within the Consolidated Balance Sheet. We continue to evaluate what impact, if any, the CARES Act, or any similar legislation in other non-U.S. jurisdictions, may have on our results of operations.

Cash and Cash Equivalents

We consider deposits with banks as well as investments in marketable securities with original maturity of three months or less at date of purchase to be cash equivalents.

Trade Accounts Receivable

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

Within rental revenue, domestic third-party payers' reimbursement process requires extensive documentation, which has had the effect of slowing both the billing and cash collection cycles relative to the rest of the business, and therefore, increasing total accounts receivable. Because of the extensive documentation required and the requirement to settle a claim with the primary payer prior to billing the secondary and/or patient portion of the claim, the collection period for a claim in a portion of our business may, in some cases, be extended.

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

Inventories

During the fourth quarter of 2021, we changed our method of accounting for inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method for the remaining of our inventory that was valued using LIFO. We believe that this change in accounting is preferable as it will provide a consistent, uniform, costing method for all inventories across the Company, improves comparability with peers, and better reflects the current value of inventories at the balance sheet date. Prior consolidated financial statements have not been retrospectively adjusted due to immateriality. The cumulative pre-tax effect of

this change in accounting principle of approximately \$6.8 million was recorded as an increase in Inventories, net of reserves and a decrease to Cost of goods sold for the fiscal year ended September 30, 2021.

Inventories consist of the following:

(In millions)

	Year Ended September 30	
	2021	2020
Inventories, net of reserves:		
Finished products	\$ 153.7	\$ 167.6
Work in process	53.3	48.4
Raw materials	112.4	136.0
Total Inventories, net of reserves	\$ 319.4	\$ 352.0

We record reserves 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.

Property, Plant and Equipment

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

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

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

Total depreciation expense during fiscal years ended September 30, 2021, 2020 and 2019 was \$62.8 million, \$60.6 million and \$62.1 million. The major components of property, plant and equipment and the related accumulated depreciation were as follows:

(In millions)

	Year Ended September 30			
	2021		2020	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 15.9	\$ 4.8	\$ 16.9	\$ 4.4
Buildings and building equipment	210.4	105.0	208.2	95.4
Machinery and equipment	437.2	325.5	416.3	303.4
Equipment leased to others	212.3	152.4	216.8	148.9
Total	\$ 875.8	\$ 587.7	\$ 858.2	\$ 552.1

Goodwill

Goodwill represents the excess of the purchase price paid over the estimated fair value of the net assets acquired and liabilities assumed in the acquisition of a business. Goodwill is not amortized, but is tested for impairment at least annually or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. See Note 4. Goodwill and Intangible Assets for further information.

Fair Value Measurements

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

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

We record cash and cash equivalents, as disclosed on our Consolidated Balance Sheets, as Level 1 instruments and certain other investments and derivatives as Level 2 instruments as they are not actively quoted. Refer to Note 5. Financing Agreements for disclosure of our debt instrument fair values.

Warranties and Guarantees

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

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

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

The following summarizes accrued product warranty activity for the fiscal years ended September 30, 2021 and 2020:

(In millions)

	Year Ended September 30	
	2021	2020
Balance at the beginning of the period	\$ 30.8	\$ 29.7
Provision for warranties in the period	22.5	18.3
Warranty claims incurred in the period	(23.8)	(17.5)
Foreign currency translation adjustment	0.1	0.3
Balance at the end of the period	<u>\$ 29.6</u>	<u>\$ 30.8</u>

Accrued Rebates

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

Retirement Plans

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

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

Environmental Liabilities

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

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

Self-Insurance

We are generally self-insured up to certain stop-loss limits for certain employee health benefits, including medical, drug and dental. Our policy is to estimate reserves based upon several factors including known claims, estimated incurred but not reported claims and outside actuarial analysis, which are based on historical information along with certain assumptions about future events. Such estimated reserves are classified as Other current liabilities and Other long-term liabilities in the Consolidated Balance Sheets. Refer to Note 15. Commitments and Contingencies for further information.

Treasury Stock

Treasury stock consists of our common shares that have been issued, but subsequently reacquired. We account for treasury stock purchases under the cost method. When these shares are reissued, we use an average-cost method to determine cost. The difference between proceeds and the cost basis of the treasury stock is recorded to Additional paid-in capital.

Revenue Recognition — Sales and Rentals

Revenue is presented in the Consolidated Statements of Income net of sales discounts and allowances, GPO fees, price concessions, rebates and customer returns for products sales and rental revenue services.

Disaggregation of Revenue

The Company disaggregates revenue recognized from contracts with customers by geography and reportable segments consistent with the way in which management operates and views the business. See Note 14. Segment Reporting for the presentation of the Company's revenue disaggregation.

Performance Obligations & Transaction Price Determination

Revenue is recognized as performance obligations are satisfied, either at a point in time or over time, driven by the nature of the performance obligation that is contracted to be provided to our customers. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the contract. Revenue is measured as the

amount of consideration we expect to receive in exchange for satisfying the performance obligations. Certain of our contracts have multiple performance obligations. A contract's transaction price is allocated to the distinct performance obligations and recognized as revenue when, or as, each performance obligation is satisfied. We allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

The majority of our product sales revenue is recognized at a point in time, primarily based on the transfer of title, except in circumstances where we are also required to install the equipment, for which revenue is recognized upon customer acceptance of the installation. Performance obligations involving the provision of services and revenue from rental usage of our products are recognized over the time period specified in the contractual arrangement with the customer.

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

Deferred Contract Costs

Certain costs associated with obtaining or fulfilling a contract with a customer (collectively referred to as "deferred contract costs") are capitalized until such time as the related performance obligations are completed and the related revenue is recognized. Deferred contract costs are recorded as Other current assets and Other assets.

Costs to obtain a contract are primarily comprised of sales commissions paid upon receipt of a purchase order for certain products, primarily care communications. Commissions are expensed commensurate with the timing of revenue recognition, which is generally 1 to 36 months.

Costs to fulfill a contract includes equipment, installation and other costs directly related to certain performance obligations not completed. These costs primarily relate to our care communications products and other construction projects that require installation or ongoing service maintenance. These costs are expensed commensurate with the timing of revenue recognition, which is generally 6 to 24 months.

The following table summarizes deferred contract cost balances for the fiscal year ended September 30, 2021:

(In millions)

	September 30, 2021			Statement of Consolidated Income Classification
	Ending Balance	Amortization		
Costs to obtain a contract				
Other current assets	\$ 9.8	\$ (6.5)		Selling and administrative expenses
Other assets	2.5	—		
Costs to fulfill a contract				
Other current assets	\$ 22.0	\$ (76.4)		Cost of goods sold
Other assets	6.0	—		

Contract Balances

Contract liabilities represent deferred revenues that arise as a result of cash received from customers at inception of contracts or where the timing of billing for services precedes satisfaction of our performance obligations. Such remaining performance obligations represent the portion of the contract price for which work has not been performed and are primarily related to our installation and service contracts. These contract liabilities are recorded in Deferred revenue and Other long-term liabilities. We expect to satisfy the majority of the remaining performance obligations and recognize revenue related to installation and service contracts within 6 to 24 months.

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

The contract liability balance represents the transaction price allocated to the remaining performance obligations. The following table summarizes contract liability activity for the fiscal year ended September 30, 2021.

<i>(In millions)</i>	Contract Liabilities
Balance at the beginning of the period	\$ 138.1
Deferred revenue acquired	1.1
New revenue deferrals	543.4
Revenue recognized upon satisfaction of performance obligations	(546.5)
Foreign currency translation adjustment	2.4
Balance at the end of the period	\$ 138.5

Accounting & Practical Expedient Elections

We account for shipping and handling activities as fulfillment costs within Cost of goods sold. These activities are not considered to be a separate performance obligation. Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between us and our customers, including but not limited to sales taxes, use taxes and value added taxes, are excluded from revenue and cost.

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

Cost of Net Revenue

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

Research and Development Costs

Research and development costs relate primarily to internal costs for salaries and direct overhead expenses as well as the cost of outside vendors to conduct R&D activities. These costs are expensed as incurred. In addition, certain costs for software development technology held for sale are capitalized as intangibles when technological feasibility in the software is established and are amortized over a period of three years to five years once the software is ready for its intended use. The amounts capitalized during fiscal years ended September 30, 2021, 2020 and 2019 were approximately \$10.1 million, \$15.3 million and \$8.0 million.

Comprehensive Income

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

Foreign Currency

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

Stock-Based Compensation

We account for stock-based compensation under fair value provisions. Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. We estimate forfeitures on stock-based compensation, which are based on historical and expected forfeiture rates. In order to determine the fair value of stock options on the date of grant, we utilize a Binomial model. In order to determine the fair value of other performance-based stock awards on the date of grant, we utilize a Monte Carlo model. Inherent in these models are assumptions related to a volatility factor, expected life, risk-free interest rate, dividend yield and expected forfeitures. The risk-free interest rate is based on factual data derived from public sources. The volatility factor, expected life, dividend yield and expected forfeiture assumptions require judgment utilizing historical information, peer data and future expectations. Restricted stock units (“RSUs”) are measured based on the fair market price of our common stock on the date of grant, as reported by the New York Stock Exchange, multiplied by the number of units granted. See Note 13. Common Stock for further details.

Income Taxes

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

As of fiscal year ended September 30, 2021, we had valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to certain foreign deferred tax attributes that are not expected to be utilized. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

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

Derivative Instruments and Hedging Activity

We use derivative financial instruments to manage the economic impact of fluctuations in currency exchange and interest rates. Derivative financial instruments related to currency exchange rates include forward purchase and sale agreements that generally have terms no greater than 12 months. Additionally, interest rate swaps and cross-currency interest rate swaps are sometimes used to convert some or all of our long-term debt to either a fixed or variable rate.

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

Recently Adopted Accounting Guidance

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

We adopted ASC 842 effective October 1, 2019 using the optional transition method approach. We elected the package of practical expedients, which applies to both lessees and lessors, to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases.

As a lessee, the adoption of the guidance on October 1, 2019 resulted in the recognition of ROU assets of \$82.5 million and lease liabilities of \$85.8 million, which all related to operating leases. The ROU assets were lower than the lease liabilities due to the derecognition of deferred rent balances of \$3.3 million. As a lessor, there was no impact as a result of the adoption. We did not recognize any adjustment to the comparative period presented in the financial statements in accordance with our adoption method. The guidance did not have a material impact on our Statements of Consolidated Income.

See Note 7. Leases for further information on the impacts of ASC 842.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This standard eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit’s carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. ASU 2017-04 is effective for our first quarter of fiscal 2021 and requires a prospective transition method. Early adoption is permitted. We early adopted this standard in the first quarter of fiscal year ended September 30, 2020 and the guidance did not have a material impact on our Consolidated Financial Statements.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. The purpose of the standard is to allow the use of the OIS rate based on the SOFR for hedge accounting purposes, which allows entities to designate changes in the fair values of fixed-rate financial assets or liabilities attributable to the OIS rate as the hedged risk. The amendment recognizes the OIS rate based on the SOFR as likely London Interbank Offered Rate (“LIBOR”) replacements and supports the marketplace transition by adding the new reference rate as a benchmark rate. We adopted this standard in the first quarter of fiscal year ended September 30, 2020. The adoption of this ASU did not impact our financial statements as we have not yet utilized the OIS rate based on the SOFR for borrowings under our lending arrangements or as a benchmark rate for hedge accounting purposes. In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The purpose of the standard is to provide guidance for the effects of the marketplace transition from LIBOR to a new reference rate as a benchmark rate. ASU 2020-04 is optional and is effective for a limited period of time from March 12, 2020 through December 31, 2022. We will continue to monitor, assess, and plan for the phase out of LIBOR.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (“ASC 606”)*, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted the new standard in the first quarter of fiscal year ended September 30, 2019 using the modified retrospective approach. The cumulative effect of initially applying ASC 606 was an adjustment to decrease the opening Retained earnings by \$4.9 million, which is net of a \$4.8 million tax effect, as of October 1, 2018.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses of Financial Instruments* and has subsequently issued related amendments, collectively referred to as “Topic 326”. Topic 326 requires entities to measure credit losses for financial assets measured at amortized cost based on expected losses rather than incurred losses. This adoption primarily impacted our trade accounts receivables. Under the current expected credit loss model, we review receivables for collectability based on an assessment of various factors, including historical collection experience for each receivable type and expectations of forward-looking loss estimates, and individual receivables are also reviewed for collectability based on unique circumstances. Any adjustments made to our historical loss experience reflect current differences in asset-specific risk characteristics, including, customer type (public or government entity versus private entity) and geographic location of the customer. We adopted ASU 2016-13 in the first quarter of fiscal year ended September 30, 2021 using the modified retrospective transition method with a cumulative effect adjustment directly to retained earnings. The cumulative effect of applying Topic 326 was an increase to the allowance for credit losses of \$3.0 million and deferred tax assets of \$0.8 million with a corresponding decrease to the opening balance of Retained earnings of \$2.2 million

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

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

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The purpose of the standard is to improve the overall usefulness of fair value disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU 2018-13 requires the application of the prospective method of transition (for only the most recent interim or annual period presented in the initial fiscal year of adoption) to the new disclosure requirements for (1) changes in unrealized gains and losses included in other comprehensive income and (2) the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 also requires prospective application to any modifications to disclosures made because of the change to the requirements for the narrative description of measurement uncertainty. The effects of all other amendments made by ASU 2018-13 must be applied retrospectively to all periods presented. We adopted ASU 2018-13 in the first quarter of fiscal year ended September 30, 2021. The adoption of ASU 2018-13 had no impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The purpose of the standard is to improve the overall usefulness of defined benefit pension and other postretirement plan disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. We adopted ASU 2018-14 retrospectively in the fourth quarter of fiscal year ended September 30, 2021. The adoption had no material impact on our Consolidated Financial Statements as it modifies disclosure requirements only. See Note 8. Retirement and Postretirement Benefit Plans for further details.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement to be consistent with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We adopted ASU 2018-15 in the first quarter of fiscal year ended September 30, 2021 using the prospective transition method approach. The Company’s cloud computing hosting arrangements are primarily information technology agreements that support the Company’s operations and infrastructure. The adoption of ASU 2018-15 did not have a significant impact on our Consolidated Financial Statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. The purpose of the standard is to (1) clarify that transactions between participants in a collaborative agreement should be accounted for under Topic 606 and (2) add unit-of-account guidance in Topic 808 to align with Topic 606. We retrospectively adopted ASU 2018-18 in the first quarter of fiscal year ended September 30, 2021. The adoption of ASU 2018-18 had no impact on our Consolidated Financial Statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2021-01 is an extension of ASU 2020-04 disclosed in our 2020 Form 10-K. ASU 2021-01 clarifies the scope and guidance of Topic 848 and allows derivatives impacted by the changing of interest rates used for margin payments, discounting, or contract price alignment to qualify for certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting. ASU 2021-01 is optional and is effective for a limited period of time through December 31, 2022. As of September 30, 2021, this standard has no impact on our Consolidated Financial Statements. We will continue to monitor, assess and plan for the phase out of LIBOR.

Recently Issued Accounting Guidance

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The purpose of the standard is to remove certain exceptions to the general principles of *Topic 740: Income Taxes* in order to reduce the cost and complexity of its application and to maintain or improve the usefulness of the information provided to users of financial statements. ASU 2019-12 is effective for our first quarter of fiscal year end September 30, 2022 and will be applied either retrospectively or prospectively depending on the specific Topic 740 exception affected. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption on our Consolidated Financial Statements.

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

Note 2. Supplementary Financial Statement Information

Supplemental Balance Sheet Information

Investments

During fiscal year ended September 30, 2021, we transferred a portion of our non-marketable equity investment that was valued at cost of \$25.5 million to EarlySense. See Note 3. Business Combinations for further information.

During fiscal year ended September 30, 2020, we sold an equity investment with a carrying value of \$3.1 million and recognized a loss of \$0.3 million and recognized an impairment loss of \$1.7 million on a cost method investment. These losses were recorded as a component of Investment income (expense) and other, net.

As of September 30, 2021 and 2020, investments totaling \$22.3 million and \$49.0 million were recorded as a component of Other assets.

Supplemental Cash Flow Information

(In millions)

	Year Ended September 30		
	2021	2020	2019
Cash paid for income taxes	\$ 56.8	\$ 88.0	\$ 54.4
Cash paid for interest	57.1	72.4	91.8
Non-cash investing activities:			
Change in capital expenditures not paid	\$ (12.5)	\$ 4.9	\$ 8.0
Sale of equity method investment	—	2.1	\$ —
Non-cash consideration in exchange for asset acquisition:			
Preferred securities investment	25.5	—	—
Forgiveness of a prepaid performance obligation	1.8	—	—
Total non-cash investing activities:	<u>\$ 14.8</u>	<u>\$ 7.0</u>	<u>\$ 8.0</u>
Non-cash financing activities:			
Treasury stock issued under stock compensations plans	\$ 25.4	\$ 26.7	\$ 22.7
Distribution of shares issued under stock-based compensation plans	40.1	30.0	15.4

Note 3. Business Combinations

Business Acquisitions

Assets acquired and liabilities assumed in a business combination are recorded at their estimated fair values on the date of acquisition. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if the purchase price exceeds the estimated net fair value or as a bargain purchase gain on the income statement if the purchase price is less than the estimated net fair value. The allocation of the purchase price may be modified up to one year after the acquisition date as more information is obtained about the fair value of assets acquired and liabilities assumed.

During fiscal years ended September 30, 2021, 2020 and 2019, we acquired the following companies:

Fiscal Year	Company Name	Description of the Business	Description of the Acquisition
2021	Bardy	Developer and supplier of cardiac arrhythmia monitoring devices located in the United States.	Purchased all of the outstanding equity interest.
2020	Excel Medical	Clinical communications software company located in the United States	Purchased all of the outstanding equity interest.
2020	Connecta	Clinical communications software company based in Mexico.	Purchased the multiplatform medical device integration and connectivity software programs, products, and solutions of the company.
2020	Videomed ¹	Developer of integrated video solutions in operating rooms located in Italy.	Purchased all of the outstanding equity interest.
2019	Voalte	Clinical communications software company located in the United States.	Purchased all of the outstanding equity interest.
2019	Breathe	Developer and manufacturer of a patented wearable, non-invasive ventilation technology that supports improved patient mobility, which is located in the United States.	Purchased all of the outstanding equity interest.

¹ On July 21, 2020, we acquired the remaining 74% outstanding equity interest in Videomed for total aggregate consideration of \$10.7 million. As a result of the transaction, the previously held 26% equity investment was adjusted to reflect the fair value as of the acquisition date and a gain of \$3.0 million was recognized in Investment income (expense) and other, net for the fiscal year ended September 30, 2020. The fair value of the previously held equity investment was estimated using the discounted cash flow method of the income approach that incorporated a discount for the lack of marketability.

The following tables summarize additional details for each acquisition that closed during fiscal years ended September 30, 2021, 2020, and 2019:

(In millions)

	Company Name	
	Bardy	
Acquisition Details:		
Date of acquisition	August 6, 2021	
Cash paid	\$	369.0
Contingent consideration ¹		65.2
Total consideration ²	\$	434.2
Contingent consideration payable based upon mid-point of commercial milestones: ³	\$	130.5

Segment information: Front Line Care

The following summarizes the fair value of assets acquired and liabilities assumed for each fiscal 2021 acquisition: ⁴		
Trade accounts receivable	\$	10.4
Inventories		4.5
Other current assets		0.3
Property, plant and equipment		2.3
Goodwill ⁵		383.8
Developed technology ⁶		10.0
Trade name ⁶		5.0
Customer relationships ⁶		2.0
Other assets		31.5
Trade accounts payable		(4.1)
Deferred revenue		(1.1)
Other current liabilities		(5.6)
Other long-term liabilities		(4.8)
Total purchase price, net of cash acquired	\$	434.2

Acquisition costs for the fiscal year ended September 30, 2021:

Acquisition and integration costs recognized in Selling and administrative expenses ⁷	\$	24.4
Indemnity claim settlement recognized in Investment income (expense) and other, net ⁸	\$	32.5

¹ This amount represents the fair value of the contingent consideration on the acquisition date. The fair value adjustment related to Bardy contingent consideration subsequent to acquisition was not significant for the fiscal year ended September 30, 2021.

² The purchase price for the fiscal year ended September 30, 2021 acquisitions are subject to post-closing adjustments. The impact to reported revenue and net income in fiscal 2021 was not significant.

³ The contingent consideration will be payable if commercial milestones defined in the merger agreement are achieved within the first two calendar years starting with the calendar year in which the transaction is closed. The contingent consideration payable for the first calendar year in which the transaction closes will equal (i) 50% of the revenue generated if less than \$45.0 million, (ii) 100% of the revenue generated if such revenue is between \$45.0 million and \$57.0 million, and (iii) 150% of revenue generated if greater than \$57.0 million during calendar year 2021. The contingent consideration payable for the second calendar year will equal (i) 50% of the revenue generated if such revenue is less than \$70.0 million, (ii) 100% of the revenue generated if such revenue is between \$70.0 million and \$89.0 million, and (iii) 125% of the revenue generated if such revenue is greater than \$89.0 million during the calendar year 2022.

In order to determine the fair value of the contingent consideration, we utilize a Monte Carlo model. Inherent in this model is an assumption related to revenue growth rate.

⁴ The fair values of assets acquired and liabilities assumed are still considered to be preliminary. The values reflect net working capital and fair value adjustments as of the fiscal year ended September 30, 2021. We do not expect further adjustments to be significant.

⁵ Goodwill recognized reflect the value associated with enhancing synergies and accelerating our leadership in ambulatory cardiac monitoring technologies and custom data solutions. Goodwill in connection with the Bardy acquisition is not deductible for tax purposes in the United States.

⁶ Useful lives for the acquired intangible assets range from 8 years to 13 years.

⁷ Acquisition and integration costs include legal and professional fees, consulting and other costs related to the closing and integration of Bardy.

⁸ On January 29, 2021, the Medicare Administrative Contractor, Novitas Solutions ("Novitas"), published newly established, Category 1 reimbursement rates applicable to the Current Procedural Terminology ("CPT") codes 93241, 93243, 93245 and 93247 for the extended holter cardiac monitoring category. As a result of the unexpected Novitas reimbursement rate reduction, on February 21, 2021, Hillrom asserted that a "Company Material Adverse Effect" occurred, and therefore the closing conditions were not satisfied. On February 28, 2021, Bardy filed a complaint against Hillrom in the Court of Chancery of the State of Delaware seeking, among other things, specific performance to compel Hillrom to close the transaction. Following a trial conducted during May 5-7, 2021, on July 9, 2021, the Court of Chancery of the State of Delaware ordered Hillrom to proceed with the closing of the Bardy Transaction, denying Hillrom's claim of a "Company Material Adverse Effect". The litigation expenses related to the court proceedings are included in Selling and administrative expenses and the settlement payments of (i) \$24.1 million related to an indemnity claim settlement payment and (ii) \$8.4 million in related to accrued interest, subject to further adjustments as set forth under the terms of the merger agreement are included in Investment income (expense) and other, net for the fiscal year ended September 30, 2021.

(In millions)

	Company Name		
	Excel Medical	Connecta	Videomed
Acquisition Details:			
Date of acquisition	January 10, 2020	May 18, 2020	July 21, 2020
Cash paid	\$ 13.1	\$ 7.5	\$ 7.8
Contingent consideration	6.1	0.2	2.9
Total consideration ¹	\$ 19.2	\$ 7.7	\$ 10.7
Contingent consideration payable up to: ²	\$ 15.0	\$ 4.0	\$ 3.7
Segment information:			
	Patient Support Systems	Front Line Care	Surgical Solutions
The following summarizes the fair value of assets acquired and liabilities assumed for each fiscal 2020 acquisition:			
Trade accounts receivable	\$ 0.6	\$ —	\$ 2.5
Inventories	0.2	—	0.9
Other current assets	0.1	—	0.2
Goodwill ³	9.9	4.8	10.1
Developed technology ⁴	10.9	2.9	4.4
Other assets	0.1	—	0.6
Trade accounts payable	—	—	(1.2)
Deferred revenue	(2.1)	—	(0.2)
Other current liabilities	(0.5)	—	(1.2)
Other long-term liabilities	—	—	(2.4)
Fair value of assets acquired and liabilities assumed	19.2	7.7	13.7
Less: Fair value adjustment of previously held investment	—	—	(3.0)
Total purchase price, net of cash acquired	\$ 19.2	\$ 7.7	\$ 10.7
Acquisition costs for the fiscal year ended September 30, 2021			
Acquisition and integration costs recognized in Selling and administrative expenses ⁵	\$ (3.8)	\$ (0.1)	\$ 0.3
Acquisition costs for the fiscal year ended September 30, 2020:			
Acquisition and integration costs recognized in Selling and administrative expenses ⁵	\$ 2.2	\$ 0.3	\$ 0.4

¹ The purchase price for the fiscal year ended September 30, 2020 acquisitions are considered final.

² The contingent consideration will be payable if commercial milestones defined in the sale and purchase agreements are achieved within the specified time period following the date of the acquisition. For Excel Medical, Connecta and Videomed, the specified time periods are 2 years, 3.5 years and 2 years.

³ Goodwill recognized in our acquisitions is attributable to the following:

Excel Medical - Accelerating our leadership in care communications platform and advancing our digital and mobile communications platform and capabilities.

Connecta - Advancing connected care in Mexico as well as creating lower cost opportunities to expand to other emerging markets.

Videomed - Expanding our operating room integration platform and our market leadership in advancing connected care.

Goodwill in connection with the Excel Medical and Connecta acquisitions is deductible for tax purposes in the United States. Goodwill for the Videomed acquisition is not deductible for tax purposes in Italy.

⁴ Useful lives for the acquired developed technology intangible assets range from 5 years to 10 years.

⁵ Acquisition and integration costs recognized for Excel Medical during fiscal year ended September 30, 2021 and 2020 include a gain of \$3.9 million and expense of \$1.4 million related to fair value adjustments to contingent consideration. The reduction in the contingent consideration obligation is due to the reduced likelihood of certain milestones being met. The fair value adjustment related to Connecta and Videomed contingent consideration were not significant for the fiscal year ended September 30, 2021 and 2020. During fiscal year ended September 30, 2021, we paid \$2.0 million in cash as contingent consideration associated with the acquisition of Excel Medical.

(In millions)

	Company Name	
	Voalte	Breathe
Acquisition Details:		
Date of acquisition	April 1, 2019	September 3, 2019
Cash paid	\$ 175.8	\$ 127.6
Contingent consideration	5.2	—
Total consideration	\$ 181.0	\$ 127.6
Contingent consideration payable up to: ²	\$ 15.0	\$ —
Segment information:		
	Patient Support Systems	Front Line Care
Acquisition costs for the fiscal year ended September 30, 2021:		
Acquisition and integration costs recognized in Selling and administrative expenses ¹	\$ 0.4	\$ 0.3
Acquisition and integration costs recognized in Special charges	—	—
Acquisition costs for the fiscal year ended September 30, 2020:		
Acquisition and integration costs recognized in Selling and administrative expenses ¹	\$ (8.4)	\$ 2.5
Acquisition and integration costs recognized in Special charges	—	3.1
Acquisition costs for the fiscal year ended September 30, 2019:		
Acquisition and integration costs recognized in Selling and administrative expenses ¹	\$ 12.1	\$ 6.4
Acquisition and integration costs recognized in Special charges	—	1.7

¹ There were no acquisition and integration costs recognized related to fair value adjustments of contingent consideration related to Voalte during fiscal year ended September 30, 2021. Acquisition and integration costs recognized during fiscal year ended September 30, 2020 and 2019 include a gain of \$8.4 million and expense of \$3.2 million related to fair value adjustments to contingent consideration. Hillrom did not pay any contingent consideration as the commercial milestones were not met within 1 year of the acquisition date.

Proposed Acquisition by Baxter

See Note 1. Summary of Significant Accounting Policies for further information.

Epiphany Cardiography Products, LLC

On November 4, 2021, we closed on the acquisition of Epiphany Cardiography Products, LLC (“Epiphany”), a company that offers an interoperable connectivity solution capable of supporting more than 260 unique devices from more than 80 manufacturers and integrating across all major Electronic Medical Record (EMR) vendors. Purchase consideration was \$38.0 million, subject to certain post-closing adjustments. The results of Epiphany will be included in the Front Line Care segment from the date of acquisition. It is not practical to disclose the preliminary purchase price allocation for this transaction given the short period of time between the acquisition date and the filing of this report.

Asset Acquisitions

On January 28, 2021, we acquired the contact-free continuous monitoring intellectual property and technology from EarlySense in exchange for cash of \$30.0 million, a portion of our non-marketable equity investment in EarlySense of \$25.5 million at cost and forgiveness of a prepayment of approximately \$1.8 million. The investment was transferred to EarlySense on April 27, 2021 after certain conditions outlined in the purchase agreement were satisfied. Additionally, contingent consideration of up to \$10.0 million will be payable if commercial milestones defined in the purchase agreement are achieved through September 2023.

The value of the acquired intangible asset recorded upon close of the transaction was \$59.4 million, which included estimated contingent consideration of \$2.4 million. The intangible asset acquired is presented in Other intangible assets and software, net and is amortized over the expected useful life of the technology of 8 years. The liability for the contingent consideration is included in Other long-term liabilities. Revenues generated from this asset acquisition are recorded within the Patient Support Systems segment.

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

Dispositions

On August 2, 2019, we completed a disposition to sell certain of our surgical consumable products and related assets for a purchase price of \$166.6 million, which is net of cash and working capital adjustments. During fiscal year ended September 30, 2019, we recorded a pre-tax loss on this disposition of \$15.9 million, including transaction costs of \$4.0 million, in Investment income (expense) and other, net. During fiscal year ended September 30, 2020, we recorded an additional loss of \$4.2 million related to this transaction primarily due to income taxes. This disposition did not have a significant effect on our operations or financial results, and, therefore, has not been reported as a discontinued operation.

Note 4. Goodwill and Intangible Assets

Goodwill

As discussed in Note 14. Segment Reporting, we operate in three reportable business segments. Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded and is reallocated as necessary based on the composition of reporting units over time. Once goodwill is assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The following summarizes goodwill activity by reportable segment:

<i>(In millions)</i>	Patient Support Systems	Front Line Care	Surgical Solutions	Total
Balances as of September 30, 2019				
Goodwill	\$ 640.5	\$ 1,424.7	\$ 208.5	\$ 2,273.7
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net as of September 30, 2019	167.7	1,424.7	208.5	1,800.9
Changes in Goodwill in the period:				
Goodwill related to acquisitions	10.6	4.4	10.0	25.0
Currency translation effect	2.4	3.5	3.7	9.6
Balances as of September 30, 2020				
Goodwill	653.5	1,432.6	222.2	2,308.3
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net as of September 30, 2020	180.7	1,432.6	222.2	1,835.5
Changes in Goodwill in the period:				
Goodwill related to acquisitions	(0.6)	383.8	0.1	383.3
Currency translation effect	(0.8)	3.9	(0.2)	2.9
Balances as of September 30, 2021				
Goodwill	652.1	1,820.3	222.1	2,694.5
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net as of September 30, 2021	\$ 179.3	\$ 1,820.3	\$ 222.1	\$ 2,221.7

Testing for goodwill 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 for impairment was performed as of April 30, 2021 and did not result in any impairment.

The below table summarizes our changes in goodwill related to the acquisitions that occurred during fiscal years ended September 30, 2021, 2020 and 2019. Refer to Note 3. Business Combinations for further information regarding these acquisitions.

	Company Name					
	Voalte	Breathe	Excel Medical	Connecta	Videomed	Bardy
Date of Acquisition	April 1, 2019	September 3, 2019	January 10, 2020	May 18, 2020	July 21, 2020	August 6, 2021
Segment assigned Goodwill	Patient Support Systems	Front Line Care	Patient Support Systems	Front Line Care	Surgical Solution	Front Line Care
Percentage of Goodwill assigned to segment	100%	100%	100%	100%	100%	100%

For the fiscal year ended September 30, 2019, we completed a disposition to sell certain of our surgical consumable products and related assets. All goodwill associated with this disposition was included in our Surgical Solutions segment. Refer to Note 3. Business Combinations for further information.

Intangible Assets

Intangible assets are stated at cost and consist predominantly of software, patents, acquired technology, trademarks, trade names and acquired customer relationship assets. With the exception of certain indefinite-lived trade names, our intangible assets are amortized on a straight-line basis over periods generally ranging from 1 to 20 years and our capitalized software costs are amortized on a straight-line basis over periods ranging from 3 to 10 years.

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

(In millions)

	September 30			
	2021		2020	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer relationships	\$ 638.1	\$ 416.9	\$ 633.2	\$ 358.7
Trademarks and trade names	50.0	32.5	45.3	25.7
Developed technology	297.8	153.3	287.9	116.5
Software ¹				
Software for internal use	161.3	127.6	159.3	119.2
Software to be sold	73.8	33.3	55.1	29.5
Other ²	86.0	25.5	25.8	17.7
Total definite-lived	\$ 1,307.0	\$ 789.1	\$ 1,206.6	\$ 667.3
Indefinite-lived ³	437.4	—	437.4	—
Total identifiable intangible assets	\$ 1,744.4	\$ 789.1	\$ 1,644.0	\$ 667.3

¹ Software consists mainly of capitalized costs associated with internal use software, including applicable costs associated with the implementation and upgrade of our enterprise resource planning systems. In addition, software includes capitalized development costs for software products to be sold. Software amortization expense was \$14.4 million, \$9.2 million and \$10.3 million for the fiscal years ended September 30, 2021, 2020 and 2019 and was primarily included in Selling and administrative expenses.

² Other intangible assets primarily comprised of patents, non-competition agreements and intellectual property rights.

³ Indefinite-lived intangible assets represent primarily the Welch Allyn trade name with a carrying value of \$434.0 million as of September 30, 2021 and 2020.

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 the indefinite-lived intangible asset below its carrying amount. The annual evaluation of indefinite-lived intangible assets was performed as of April 30, 2021 and did not result in any impairment.

Amortization expense for definite-lived intangible assets for the fiscal years ended September 30, 2021, 2020 and 2019 was \$123.0 million, \$118.2 million and \$132.7 million. Amortization expense for definite-lived intangible assets is expected to approximate the following for each of the next five fiscal years and thereafter:

<i>(In millions)</i>	Amount	
2022	\$	120.7
2023		100.9
2024		85.6
2025		66.7
2026		54.8
2027 and beyond		89.2

Note 5. Financing Agreements

Total debt consists of the following:

<i>(In millions)</i>	September 30, 2021	September 30, 2020
Current portion of long-term debt	\$ 50.1	\$ 50.1
Securitization Facility	95.6	82.2
Note Securitization Facility	90.0	90.0
Total Short-term borrowings	<u>\$ 235.7</u>	<u>\$ 222.3</u>
Revolving credit facility, matures August 2024	\$ 515.0	\$ —
Senior secured Term Loan A, long-term-portion, matures August 2024	\$ 846.7	895.4
Senior unsecured 5.00% notes due on February 15, 2025	\$ —	297.5
Senior unsecured 4.375% notes due on September 17, 2027	\$ 420.3	419.5
Unsecured 7.00% debentures due on February 15, 2024	\$ 13.4	13.4
Unsecured 6.75% debentures due on December 15, 2027	\$ 29.7	29.7
Other	\$ 0.1	0.2
Total Long-term debt	<u>\$ 1,825.2</u>	<u>\$ 1,655.7</u>
Total debt	<u>\$ 2,060.9</u>	<u>\$ 1,878.0</u>

Short-Term Borrowings

Securitization Facilities

On April 23, 2021, we renewed our 364-day accounts receivable securitization program (the “Securitization Facility”) with certain financial institutions for borrowings up to \$110.0 million. Additionally, we renewed our 364-day facility for borrowings up to \$90.0 million (the “Note Securitization Facility”) on April 23, 2021. The terms and conditions of the renewed April 2021 facilities are substantially similar to the expired April 2020 facilities. Under the terms of each the Securitization Facility and Note Securitization Facility, certain of our accounts receivable secure the amounts borrowed and cannot be used to pay our other debts or liabilities. The amount of permissible borrowings outstanding is determined based on the amount of qualifying accounts receivable at any point in time. Borrowings outstanding under the renewed Securitization Facility and Note Securitization Facility bear interest at 1-month U.S. LIBOR plus the applicable margin of 0.78% and 0.90% 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.

As of September 30, 2021, the weighted average interest rate on Short-Term borrowings was 0.97%.

Long-Term Debt

As of September 30, 2021, there were \$515.0 million outstanding borrowings on the Revolving Credit Facility and available borrowing capacity was \$675.0 million after giving effect to the \$9.9 million of outstanding standby letters of credit. As of

September 30, 2020, there were no outstanding borrowings on the Revolving Credit Facility, and available borrowing capacity was \$1,191.0 million after giving effect to \$9.0 million of outstanding standby letters of credit.

In August 2019, we entered into a senior credit agreement (the “Senior Credit Agreement”) for purposes of refinancing our then-existing senior secured credit facilities maturing in 2021 (the “Prior Senior Secured Credit Facilities”). The Prior Senior Secured Credit Facilities consisted of a senior secured term loan facility (“2021 TLA Facility”) with an original principal amount of \$1,462.5 million and a Senior Secured Revolving Credit Facility (“2021 Revolving Credit Facility”) providing borrowing capacity of up to \$700.0 million, both maturing in September 2021. During fiscal year ended September 30, 2019, we paid the outstanding balance of \$1,038.4 million on the 2021 TLA Facility.

The Senior Credit Agreement consists of two facilities as follows:

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

In connection with the refinancing of the Prior Senior Secured Credit Facilities, we recorded \$3.3 million in Loss on extinguishment of debt primarily related to the debt issuance costs previously capitalized for the 2021 TLA Facility during fiscal year ended September 30, 2019. We capitalized debt issuance costs of \$2.5 million in connection with the 2024 TLA Facility and \$3.7 million in connection with the 2024 Revolving Credit Facility.

The Senior Credit Agreement facilities bear interest at variable rates which currently approximate 1.4%. These interest rates are based primarily on LIBOR, but under certain conditions could also be based on the U.S. Federal Funds Rate or the U.S. Prime Rate, at our option. We are able to voluntarily prepay outstanding loans under the 2024 TLA Facility at any time. We made the required minimum payments of \$50.0 million on the 2024 TLA Facility during both fiscal years ended September 30, 2021 and 2020.

The following table summarizes the maturities of the 2024 TLA Facility for the fiscal years ending September 30, 2022 through 2024:

<i>(In millions)</i>	Amount
2022	\$ 50.0
2023	75.0
2024	775.0

Long-Term Debt Redemption

On May 20, 2021, we redeemed the senior unsecured 5.00% notes due February 15, 2025 for \$300.0 million using cash on hand and funds borrowed from both Securitization Facilities and the Revolving Credit Facility. During the year ended September 30, 2021, we recorded a loss on extinguishment of debt of \$9.8 million, which was comprised of a \$7.5 million prepayment premium and \$2.3 million of debt issuance costs previously capitalized.

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

Fair Value

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 Securitization Facility, Note Securitization Facility, 2024 TLA Facility, and 2024 Revolving Credit Facility approximate fair value.

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

<i>(In millions)</i>	September 30, 2021	September 30, 2020
Senior unsecured 5.00% notes due on February 15, 2025	\$ —	\$ 310.1
Senior unsecured 4.375% notes due on September 15, 2027	445.4	441.2
Unsecured debentures	48.6	48.0
Total	\$ 494.0	\$ 799.3

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 Senior Notes were based on quoted prices for similar liabilities. These fair value measurements were classified as Level 2, as described in Note 1. Summary of Significant Accounting Policies.

Debt Covenants

The facilities provided by the Senior Credit Agreement are held with a syndicate of banks, which includes 13 institutions. Our general corporate assets, with exceptions including those of certain of our subsidiaries, collateralize these obligations. The Senior Credit Agreement contains financial covenants that specify a maximum secured net leverage ratio and a minimum interest coverage ratio. These financial covenants are measured at the end of each quarter. The required maximum secured net leverage ratio is 3.00x and the required minimum interest coverage ratio is 4.00x. As of September 30, 2021, we were in compliance with all debt covenants under our financing agreements.

Note 6. Derivative Instruments and Hedging Activity

We are exposed to various market risks, including fluctuations in interest rates and variability in foreign currency exchange rates. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. We employ cash flow hedges, net investment hedges, and other derivative instruments not designated for hedge accounting to manage these risks.

Cash Flow Hedges

To manage our exposure to market risk from fluctuations in interest rates, we enter into interest rate swaps that are designated as cash flow hedges. As of September 30, 2021 and September 30, 2020, we had interest rate swap agreements with an aggregate notional amount of \$750.0 million to hedge the variability of cash flows through August 2024 associated with a portion of the variable interest rate payments on outstanding borrowings under our Senior Credit Agreement.

We are subject to variability in foreign currency exchange rates due to our international operations. We enter into currency exchange contracts that are designated as cash flow hedges 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, 2021, we had no outstanding currency exchange contracts. As of September 30, 2020, the notional amount of outstanding currency exchange contracts was \$64.4 million. The maximum length of time over which we hedge transaction exposures is generally 12 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 underlying transaction affects earnings.

Net Investment Hedges

As of September 30, 2021 and 2020, we had cross-currency swap agreements, with an aggregate notional amount of \$198.3 million to hedge the variability of U.S. dollar-Euro exchange rates through July 2023. These cross-currency swaps are designated as net investment hedges of subsidiaries using Euro as their functional currency.

We assess hedge effectiveness under the spot-to-spot method and record changes in fair value attributable to the translation of foreign currencies through Accumulated other comprehensive income (loss). The remaining changes in fair value are related to

interest earned on cross-currency swaps and are amortized through Interest expense, which was income of \$5.2 million for both the fiscal year ended September 30, 2021 and 2020.

Undesignated Derivative Instruments

We use forward contracts to mitigate the foreign exchange revaluation risk associated with recorded monetary assets and liabilities that are denominated in a non-functional currency. These derivative instruments are not formally designated as hedges and the terms of these instruments generally do not exceed one month. As of September 30, 2021 and 2020, we had forward contracts not designated as hedges with aggregate notional amounts of \$116.4 million and \$169.9 million. The following table summarizes unrealized and realized gains and losses for forward contracts not designated as hedges, which are recorded in Investment income (expense) and other, net.

(In millions)

	Year Ended September 30	
	2021	2020
Unrealized gains (losses)	\$ (0.5)	\$ —
Realized gains (losses)	(5.1)	3.0

Fair Value

We classify fair value measurements on our derivative instruments as Level 2. The estimated fair values of our derivative instruments are described in the table below:

(In millions)

Derivative Instruments	September 30, 2021	September 30, 2020	Consolidated Balance Sheet Classification
Interest Rate Swaps	\$ (22.2)	\$ (46.3)	Other current liabilities
Currency Exchange Contracts	—	(0.4)	Other current liabilities
Cross-Currency Swaps	8.5	9.7	Other assets
Undesignated Forward Contracts	0.4	—	Other assets
Undesignated Forward Contracts	(1.0)	—	Other current liabilities
Total	<u>\$ (14.3)</u>	<u>\$ (37.0)</u>	

Note 7. Leases

Hillrom as the Lessee

We determine if an arrangement is a lease or contains a lease at contract inception. We lease real estate, automobiles, and equipment under various operating leases. A lease liability and ROU asset is recognized for operating leases with terms greater than one year at the lease commencement date. The lease liability is measured as the present value of all remaining fixed payments calculated using our estimated secured incremental borrowing rate. The ROU asset is measured as the sum of the lease liability and any initial indirect costs incurred, less any lease incentives received. We use our estimated secured incremental borrowing rate as most lease agreements do not specify an interest rate. Our lease agreements include leases that have both lease and non-lease components. We elected to account for lease components and the associated non-lease components as a single lease component.

Our leases have remaining lease terms of approximately 1 year to 8 years. Many of our real estate and equipment leases include options to renew. Renewal periods are generally not included when calculating the remaining lease term unless we are reasonably certain to exercise a renewal option based on beneficial terms or significance of the leased asset to our operations.

Expense for operating leases and leases with a term of one year or less is recognized on a straight-line basis over the lease term. Lease expense is recorded in Cost of goods sold or Selling and administrative expenses based on the purpose of the leased asset. The following table summarizes our lease expense:

<i>(In millions)</i>	September 30, 2021	September 30, 2020
Operating lease expense	\$ 27.2	\$ 27.8
Short-term leases and variable lease payments	11.9	11.5
Total	\$ 39.1	\$ 39.3

The following table summarizes the balance sheet classification of our operating leases and amounts of the ROU asset and lease liability:

<i>(In millions)</i>	September 30, 2021	September 30, 2020	Consolidated Balance Sheet Classification
Right-of-use assets	\$ 68.5	\$ 72.3	Other assets
Current lease liabilities	22.7	22.8	Other current liabilities
Non-current lease liabilities	50.6	54.4	Other long-term liabilities

The following table summarizes our supplemental information related to operating leases:

Supplemental information:	September 30, 2021	September 30, 2020
Weighted-average discount rate	3.14 %	3.30 %
Weighted-average remaining lease term in years	4.41	4.48
Cash Flow information (In millions):		
Operating cash flows paid for amounts included in the measurement of lease liabilities	\$ 27.0	\$ 27.6
Right of use assets obtained in exchange for new lease liabilities	\$ 18.2	\$ 16.6

The following table summarizes the maturities of our operating leases as of September 30, 2021:

<i>(In millions)</i>	Amount
2022	\$ 24.6
2023	18.9
2024	12.5
2025	8.2
2026	6.3
Thereafter	8.7
Total lease payments	79.2
Less: imputed interest	(5.9)
Total lease liability	\$ 73.3

Disclosures Related to Periods Prior to Adopting the New Lease Guidance

Future minimum payments under non-cancellable operating leases (excluding executory costs) aggregating \$47.8 million for manufacturing facilities, warehouse distribution centers, service centers, sales offices, automobiles, and other equipment consisted of the following as of the fiscal year ended September 30, 2021:

<i>(In millions)</i>		Amount
2022	\$	15.7
2023		11.1
2024		6.4
2025 and beyond		14.6

Rental expense during fiscal year ended September 30, 2019 was \$39.8 million.

Hillrom as the Lessor

We make certain products available to customers under short-term lease arrangements. Rental usage of these products is provided as an alternative to product sales and is short-term in nature. Products primarily include smart beds, including, but not limited to, bariatric, critical care, maternal, and home care beds, as well as other surfaces. These lease arrangements provide our customers with our products during periods of peak demand or often times for specialty purposes. Additionally, we provide wearable, non-invasive ventilation products to patients covered by monthly medical insurance reimbursements, which are considered month-to-month leasing arrangements. Income arising from these lease arrangements where we are the lessor is recognized within Rental revenue. We accounted for these lease arrangements as operating leases.

Note 8. Retirement and Postretirement Benefit Plans

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

Retirement Plans

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

Effect on Operations

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

(In millions)

	Year Ended September 30			Statements of Consolidated Income Classification
	2021	2020	2019	
Service cost	\$ 1.7	\$ 1.8	\$ 1.8	Cost of goods sold
Service cost	3.4	3.4	2.7	Selling and administrative expenses
Interest cost	7.4	8.7	12.5	Investment income (expense) and other, net
Expected return on plan assets	(11.8)	(14.0)	(14.8)	Investment income (expense) and other, net
Amortization of unrecognized prior service cost, net	0.1	—	0.1	Investment income (expense) and other, net
Amortization of net loss	6.3	6.9	2.4	Investment income (expense) and other, net
Net periodic benefit cost	7.1	6.8	4.7	
Settlement loss ¹	—	8.5	—	Investment income (expense) and other, net
Special termination benefits ²	3.3	0.5	—	Special charges
Net pension expense	<u>\$ 10.4</u>	<u>\$ 15.8</u>	<u>\$ 4.7</u>	

¹ On March 9, 2020, we transferred pension assets totaling \$40.6 million to purchase annuity contracts for a certain population of retirees with a third-party insurance company. As a result, we recognized a non-cash settlement loss of \$8.5 million for the fiscal year ended September 30, 2020, which is recorded as a component of Investment income (expense) and other, net in the Consolidated Statements of Income.

² In September 2020, we offered certain employees in the United States the option to participate in a voluntary early retirement plan. The employees who accepted the offer received special termination benefits, which were recorded as a component of Special charges in the Consolidated Statements of Income. See Note 10. Special Charges for further information.

Obligations and Funded Status

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

(In millions)

	Year Ended September 30	
	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 371.8	\$ 380.4
Service cost	5.1	5.2
Interest cost	7.4	8.7
Actuarial (gain) loss ¹	(10.7)	28.7
Benefits paid	(12.6)	(12.6)
Acquisition ²	—	3.5
Plan settlements	(0.2)	(44.2)
Special termination benefits	3.3	0.5
Exchange rate (gain) loss	(0.3)	1.6
Benefit obligation at end of year	<u>363.8</u>	<u>371.8</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	291.7	310.6
Actual return on plan assets	21.8	33.4
Employer contributions	1.2	1.0
Benefits paid	(12.6)	(12.6)
Acquisition ²	—	3.5
Plan settlements	(0.2)	(44.2)
Fair value of plan assets at end of year	<u>301.9</u>	<u>291.7</u>
Funded status and net amounts recognized	<u>\$ (61.9)</u>	<u>\$ (80.1)</u>
Amounts recorded in the Consolidated Balance Sheets:		
Accrued pension benefits, current portion	\$ (1.4)	\$ (1.5)
Accrued pension benefits, long-term	(60.5)	(78.6)
Net amount recognized	<u>\$ (61.9)</u>	<u>\$ (80.1)</u>

¹ For the fiscal year ended September 30, 2021, the increase in Actuarial (gain) loss is primarily due to the change in the yield curve.

² Represents the plan assets and obligations assumed as part of the defined benefit retirement plan of Excel Medical, which was acquired on January 10, 2020, and subsequently settled and terminated as of September 30, 2020.

In addition to the amounts above, net actuarial losses of \$37.8 million and prior service costs of \$0.3 million, less the tax effect of \$10.0 million are included as components of Accumulated other comprehensive income (loss) as of September 30, 2021. In addition to the amounts above, net actuarial losses of \$64.9 million and prior service costs of \$0.4 million, less the tax effect of \$16.3 million, are included as components of Accumulated other comprehensive income (loss) as of September 30, 2020.

Accumulated Benefit Obligation

The accumulated benefit obligation for all defined benefit pension plans was \$348.3 million and \$352.1 million as of September 30, 2021 and 2020. Selected information for our plans, including plans with accumulated benefit obligations exceeding plan assets, was as follows:

(In millions)

	September 30, 2021			September 30, 2020		
	PBO	ABO	Plan Assets	PBO	ABO	Plan Assets
Master plan	\$ 337.1	\$ 323.6	\$ 301.9	\$ 343.2	\$ 325.7	\$ 291.7
International plans	21.3	19.3	—	23.0	20.8	—
Supplemental executive plan	5.4	5.4	—	5.6	5.6	—
	<u>\$ 363.8</u>	<u>\$ 348.3</u>	<u>\$ 301.9</u>	<u>\$ 371.8</u>	<u>\$ 352.1</u>	<u>\$ 291.7</u>

Actuarial Assumptions

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

	2021	2020	2019
Weighted average assumptions to determine benefit obligations at the measurement date:			
Discount rate for obligation	2.9%	2.7%	3.2%
Rate of compensation increase	2.6%	2.6%	2.6%
Weighted average assumptions to determine benefit cost for the year:			
Discount rate for expense	2.7%	3.2%	4.2%
Expected rate of return on plan assets	4.5%	5.3%	5.5%
Rate of compensation increase	2.6%	2.6%	3.0%

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

Plan Assets

The weighted average asset allocations of our master defined benefit retirement plan as of September 30, 2021 and 2020, by asset category, along with target allocations, are as follows:

	2021 and 2020 Target Allocation	2021 Actual Allocation	2020 Actual Allocation
Equity securities	31%-37%	33.7%	34%
Fixed income securities	63%-69%	66.3%	66%
Total		<u>100%</u>	<u>100%</u>

We have a Plan Committee that sets investment guidelines with the assistance of an external consultant. These guidelines are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Plan Committee also oversees the investment allocation process and monitors asset performance. As pension liabilities are long-term in nature, we employ a long-term total return approach to maximize the long-term rate of return on plan assets for a prudent

level of risk. Target allocations are guidelines, not limitations, and plan fiduciaries may occasionally approve allocations above or below a target range or elect to rebalance the portfolio within the targeted range.

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

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

Fair Value Measurements of Plan Assets

Cash as part of plan assets was \$3.2 million and \$2.1 million as of September 30, 2021 and 2020 and was classified as a Level 1 financial instrument.

The following table summarizes these assets by category:

(In millions)

	Year Ended September 30	
	2021	2020
Equities		
U.S. companies	\$ 52.0	\$ 49.7
International companies	49.5	48.9
Fixed income securities	197.2	191.0
Total plan assets at fair value, excluding cash	\$ 298.7	\$ 289.6

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

Cash Flows

Our U.S. master defined benefit plan is funded in excess of 89%, as measured under the requirements of the Pension Protection Act of 2006, and therefore we expect that the plan will not be subject to the “at risk” funding requirements of this legislation.

During fiscal years ended September 30, 2021 and 2020, we contributed cash of \$1.2 million and \$1.0 million, respectively, to our defined benefit retirement plans. We will not be required to contribute to our master defined benefit retirement plan during the fiscal year ended September 30, 2022 due to the current funding level; however, minimal contributions will be required for our unfunded plans.

Estimated Future Benefit Payments

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

(In millions)

	Pension Benefits
2022	\$ 14.9
2023	14.6
2024	15.4
2025	16.1
2026	16.6
2027-2031	94.2

Defined Contribution Savings Plans

We have defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security in retirement by providing employees with an incentive to make regular savings. Our contributions to the plans are based on eligibility and employee contributions. Expense under these plans for the fiscal years ended September 30, 2021, 2020 and 2019 was \$31.6 million, \$31.9 million and \$29.0 million.

Postretirement Health Care Plans

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

The net periodic benefit cost related to postretirement health care plans has not been significant for the fiscal years ended September 30, 2021, 2020 or 2019. In September 2020, we offered certain employees in the United States the option to participate in a voluntary early retirement plan. The employees who accepted the offer received special termination benefits of \$0.1 million and \$0.4 million for the fiscal years ended September 30, 2021 and 2020, which were recorded as a component of Special charges in the Consolidated Statements of Income.

The change in the accumulated postretirement benefit obligation was as follows:

	Year Ended September 30	
	2021	2020
<i>(In millions)</i>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 12.2	\$ 12.7
Service cost	0.1	0.1
Interest cost	0.1	0.2
Actuarial loss (gain)	1.8	(0.4)
Benefits paid	(1.8)	(1.0)
Retiree contributions	0.4	0.2
Special termination benefits	0.1	0.4
Benefit obligation at end of year	<u>\$ 12.9</u>	<u>\$ 12.2</u>
Amounts recorded in the Consolidated Balance Sheets:		
Accrued benefits obligation, current portion	\$ 2.0	\$ 1.6
Accrued benefits obligation, long-term	10.9	10.6
Net amount recognized	<u>\$ 12.9</u>	<u>\$ 12.2</u>

In addition to the amounts above, net actuarial gains of \$7.5 million and prior service credits of \$0.3 million, less the tax effect of \$2.0 million are included as components of Accumulated other comprehensive income (loss) as of September 30, 2021. Net actuarial gains of \$10.9 million and prior service credits of \$0.4 million, less the tax effect of \$2.9 million are included as components of Accumulated other comprehensive (loss) as of September 30, 2020.

The below table summarizes the discount rates used in accounting for our postretirement plans:

	September 30		
	2021	2020	2019
Discount rate used to determine:			
Net periodic benefit cost for the postretirement health care plans	1.6 %	2.6 %	4.0 %
Benefit obligation	2.0 %	1.8 %	3.0 %

As of September 30, 2021, the health care cost trend rates for the plans were generally assumed to be in the ranges of 5.6% to 6.0%, trending down to a rate of 4.5% over the long-term.

We fund the postretirement health care plans as benefits are paid and current plan benefits are expected to require contributions of approximately \$2.1 million during fiscal year end September 30, 2022 and approximately \$1.0 million per fiscal year thereafter.

Note 9. Other Comprehensive Income

The following tables represent the changes in Other comprehensive income (loss) and Accumulated other comprehensive income (loss) by component for the fiscal years ended September 30, 2021, 2020 and 2019.

(In millions)

	Year Ended September 30, 2021						Accumulated other comprehensive income (loss)		
	Other comprehensive income (loss)						Beginning balance	Net activity	Ending balance ²
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax				
Derivative instruments designated as hedges ¹ :									
Currency exchange contracts	\$ 3.7	\$ (3.3)	\$ 0.4	\$ (0.1)	\$ 0.3	\$ (0.3)	\$ 0.3	\$ —	
Interest rate swaps	37.9	(13.8)	24.1	(5.5)	18.6	(35.7)	18.6	(17.1)	
Cross-currency swaps	(1.3)	—	(1.3)	0.3	(1.0)	6.7	(1.0)	5.7	
Derivative instruments designated as hedges total	\$ 40.3	\$ (17.1)	\$ 23.2	\$ (5.3)	\$ 17.9	\$ (29.3)	\$ 17.9	\$ (11.4)	
Foreign currency translation adjustment	9.0	—	9.0	—	9.0	(110.7)	9.0	(101.7)	
Change in pension and postretirement defined benefit plans	0.8	21.9	22.7	(5.4)	17.3	(40.2)	17.3	(22.9)	
Total	\$ 50.1	\$ 4.8	\$ 54.9	\$ (10.7)	\$ 44.2	\$ (180.2)	\$ 44.2	\$ (136.0)	

(In millions)

	Year Ended September 30, 2020						Accumulated other comprehensive income (loss)		
	Other comprehensive income (loss)						Beginning balance	Net activity	Ending balance
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax				
Derivative instruments designated as hedges ¹ :									
Currency exchange contracts	\$ 1.9	\$ (2.6)	\$ (0.7)	0.2	\$ (0.5)	\$ 0.2	\$ (0.5)	\$ (0.3)	
Interest rate swaps	(35.4)	(4.2)	(39.6)	9.1	(30.5)	(5.2)	(30.5)	(35.7)	
Cross-currency swaps	(7.2)	—	(7.2)	1.7	(5.5)	12.2	(5.5)	6.7	
Derivative instruments designated as hedges total	\$ (40.7)	\$ (6.8)	\$ (47.5)	11.0	\$ (36.5)	\$ 7.2	\$ (36.5)	\$ (29.3)	
Foreign currency translation adjustment	34.7	—	34.7	—	34.7	(145.4)	34.7	(110.7)	
Change in pension and postretirement defined benefit plans	0.9	4.6	5.5	(1.4)	4.1	(44.3)	4.1	(40.2)	
Total	\$ (5.1)	\$ (2.2)	\$ (7.3)	\$ 9.6	\$ 2.3	\$ (182.5)	\$ 2.3	\$ (180.2)	

(In millions)

Year Ended September 30, 2019

	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)			
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Impacts of ASU 2018-02 Adoption as of October 1, 2018	Net activity	Ending balance
Derivative instruments designated as hedges ¹ :									
Currency exchange contracts	\$ (0.6)	\$ 0.6	\$ —	\$ —	\$ —	\$ 0.2	\$ —	\$ —	\$ 0.2
Interest rate swaps	(24.8)	(6.8)	(31.6)	7.3	(24.3)	18.3	0.8	(24.3)	(5.2)
Cross-currency swaps	18.0	—	18.0	(4.1)	13.9	(1.7)	—	13.9	12.2
Derivative instruments designated as hedges total	\$ (7.4)	\$ (6.2)	\$ (13.6)	\$ 3.2	\$ (10.4)	\$ 16.8	\$ 0.8	\$ (10.4)	\$ 7.2
Foreign currency translation adjustment	(40.1)	—	(40.1)	—	(40.1)	(105.3)	—	(40.1)	(145.4)
Change in pension and postretirement defined benefit plans	(19.4)	2.0	(17.4)	3.8	(13.6)	(24.5)	(6.2)	(13.6)	(44.3)
Total	\$ (66.9)	\$ (4.2)	\$ (71.1)	\$ 7.0	\$ (64.1)	\$ (113.0)	\$ (5.4)	\$ (64.1)	\$ (182.5)

¹ See Note 6. Derivative Instruments and Hedging Activity for information regarding our hedging strategies

² The estimated net amount of gains and losses reported in Accumulated other comprehensive income (loss) related to our derivative instruments designated as hedges as of September 30, 2021 that are expected to be reclassified into earnings within the next 12 months is expense of \$4.1 million.

The following table represents the items reclassified out of Accumulated other comprehensive income (loss) and the related tax effects for the fiscal years ended September 30, 2021, 2020 and 2019:

(In millions)

	Year Ended September 30								
	2021			2020			2019		
	Amount reclassified	Tax effect	Net of tax	Amount reclassified	Tax effect	Net of tax	Amount reclassified	Tax effect ⁴	Net of tax
Derivative instruments designated as hedges:									
Currency exchange contracts ¹	\$ (3.3)	\$ 0.8	\$ (2.5)	\$ (2.6)	\$ 0.5	\$ (2.1)	\$ 0.6	\$ (0.2)	\$ 0.4
Interest rate swaps ²	(13.8)	3.2	(10.6)	(4.2)	1.0	(3.2)	(6.8)	1.6	(5.2)
Derivative instruments designated as hedges total	\$ (17.1)	\$ 4.0	\$ (13.1)	\$ (6.8)	\$ 1.5	\$ (5.3)	\$ (6.2)	\$ 1.4	\$ (4.8)
Change in pension and postretirement defined benefit plans ³	\$ 21.9	\$ (5.4)	\$ 16.5	\$ 4.6	\$ (1.4)	\$ 3.2	\$ 2.0	\$ (2.4)	\$ (0.4)

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

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

³ Reclassified from Accumulated other comprehensive income (loss) into Cost of goods sold and Investment income (expense) and other, net. These components are included in the computation of net periodic pension expense.

⁴ As a result of the adoption of ASU 2018-02, we reclassified \$5.4 million from Accumulated other comprehensive income (loss) to Retained earnings.

Note 10. Special Charges

Special charges are incurred in connection with various transformative initiatives, exit activities, and organizational changes to improve our business alignment and cost structure. Although these charges are infrequent and unusual in nature, additional Special charges are expected to be incurred. It is not practicable to estimate the amount of these future expected costs until such time as the evaluations are complete. The following table summarizes the Special charges recognized for the fiscal years ended September 30, 2021, 2020 and 2019.

(In millions)

Special Charges	Year Ended September 30		
	2021	2020	2019
Global information technology transformation	\$ 12.0	\$ 15.9	\$ 1.3
Workforce reduction plan	25.6	6.7	—
Integration-related activities	9.2	13.1	19.8
Site consolidation and other cost optimization activities, including related severance cost	0.6	5.8	7.3
Total Special Charges	\$ 47.4	\$ 41.5	\$ 28.4

Global Information Technology Transformation

In fiscal 2019, management initiated a global information technology transformation, including rationalizing and transforming our enterprise resource planning software solutions and other complementary information technology systems. In addition to the expenses noted in the table above, \$17.4 million and \$22.0 million was capitalized as software in Other intangible assets and software, net for the fiscal years ended September 30, 2021 and 2020.

The objective of this initiative is to consolidate and streamline our key workstreams that interact with customers and vendors and support our financial reporting processes while maintaining the security of our data. The solutions designed under this initiative will be implemented over the next four to six years.

Workforce Reduction Plan

On September 15, 2020, we committed to a workforce reduction plan as part of the continued business optimization initiatives to advance our strategy and growth platforms and improve our operations and cost structure. The workforce reduction plan includes a voluntary retirement program and involuntary severance actions. For the fiscal years ended September 30, 2021 and 2020, we incurred \$25.6 million and \$6.7 million related to this initiative within Special charges.

Integration-Related Activities

We incurred costs, including severance and benefit costs, associated with business realignment and integration activities focused on reducing complexity, increasing efficiency, and improving our cost structure. We acquired several businesses during fiscal years ended September 30, 2021 and 2020 as disclosed within Note 3. Business Combinations for which we also continue to incur integration-related costs and severance costs.

Site Consolidation and Other Cost Optimization Activities, Including Related Severance Cost

We continue to streamline our operations and simplify our supply chain by transforming and consolidating certain manufacturing and distribution operations.

For all accrued severance and other benefit charges described above, we record reserves within Other current liabilities. The following table summarizes the reserve activity for severance and other benefits for the fiscal years ended September 30, 2021 and 2020:

(In millions)

Balance as of September 30, 2019	\$	8.5
Expenses		14.6
Cash Payments		(11.1)
Reversals		(0.7)
Balance as of September 30, 2020	\$	11.3
Expenses		23.7
Cash Payments		(27.1)
Reversals		—
Balance as of September 30, 2021	\$	7.9

Note 11. Income Taxes

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

(In millions)

	Year Ended September 30		
	2021	2020	2019
Income before income taxes:			
Domestic	\$ 145.0	\$ 137.0	\$ 122.5
Foreign	157.8	134.2	86.1
Total	<u>\$ 302.8</u>	<u>\$ 271.2</u>	<u>\$ 208.6</u>
Income tax expense:			
Current provision			
U.S. Federal	\$ 55.5	\$ 38.1	\$ 51.0
State	13.1	10.8	6.0
Foreign	17.7	18.3	18.2
Total current provision	<u>86.3</u>	<u>67.2</u>	<u>75.2</u>
Deferred provision:			
U.S. Federal	(25.5)	(15.6)	(12.0)
State	(4.8)	(2.8)	(2.5)
Foreign	(1.7)	(0.6)	(4.3)
Total deferred provision	<u>(32.0)</u>	<u>(19.0)</u>	<u>(18.8)</u>
Income tax expense	<u>\$ 54.3</u>	<u>\$ 48.2</u>	<u>\$ 56.4</u>

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

(In millions)

	Year Ended September 30					
	2021		2020		2019	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
U.S. Federal income tax ¹	\$ 63.6	21.0 %	\$ 57.0	21.0 %	\$ 43.8	21.0 %
State income tax ²	7.3	2.4	4.1	1.5	3.3	1.6
Foreign income tax ³	(17.9)	(5.9)	(15.0)	(5.5)	(10.1)	(4.9)
Application of federal research tax credits	(7.7)	(2.6)	(6.2)	(2.3)	(5.6)	(2.7)
Application of foreign tax credits	(9.5)	(3.2)	(11.6)	(4.3)	(0.1)	—
Valuation of tax attributes	1.2	0.4	5.0	1.9	2.2	1.1
Foreign inclusions	10.3	3.5	7.7	2.9	—	—
Excess tax benefits from share based awards	(1.5)	(0.5)	(4.7)	(1.7)	(5.2)	(2.5)
U.S. tax reform transition tax	—	—	—	—	(1.0)	(0.5)
Foreign-derived intangible income deduction	(9.9)	(3.4)	(7.8)	(2.9)	(4.3)	(2.0)
Global intangible low-taxed income inclusion	7.6	2.6	12.6	4.6	9.6	4.6
Disposition of subsidiary	—	—	4.1	1.5	18.2	8.7
Current period change in uncertain tax positions	—	—	—	—	4.6	2.2
Non-deductible transaction costs ⁴	6.8	2.3	—	—	—	—
Other, net	4.0	1.3	3.0	1.1	1.0	0.4
Income tax expense	\$ 54.3	17.9 %	\$ 48.2	17.8 %	\$ 56.4	27.0 %

¹ At statutory rate.

² Net of U.S. Federal benefit.

³ U.S. Federal tax rate differential.

⁴ Non-deductible costs related to the acquisition of Bardy, including the indemnity claim settlement and accrued interest. See Note 3. Business Combinations for further information.

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

<i>(In millions)</i>	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Deferred tax assets:		
Employee benefit accruals	\$ 58.1	\$ 48.3
Inventory	15.2	14.7
Net operating loss carryforwards	93.3	69.7
Tax credit carryforwards	26.4	26.4
Lease liabilities	18.3	18.8
Other, net	36.5	36.2
	<u>247.8</u>	<u>214.1</u>
Less: Valuation allowance	(53.0)	(50.8)
Total deferred tax assets	<u>194.8</u>	<u>163.3</u>
Deferred tax liabilities:		
Depreciation	(14.6)	(19.2)
Amortization	(190.5)	(201.0)
Lease Assets	(17.1)	(17.6)
Other, net	(5.6)	(5.6)
Total deferred tax liabilities	<u>(227.8)</u>	<u>(243.4)</u>
Deferred tax liability - net	<u>\$ (33.0)</u>	<u>\$ (80.1)</u>

As of September 30, 2021, we had \$40.7 million of deferred tax assets related to operating loss carryforwards in foreign jurisdictions that are subject to various carryforward periods with the majority eligible to be carried forward for an unlimited period. Additionally, we had \$43.1 million of deferred tax assets related to U.S. Federal net operating loss (“NOL”) carryforwards, some of which will be carried forward for an unlimited period and some of which will expire between 2022 and 2036 and \$9.5 million of deferred tax assets related to state NOL carryforwards, some of which will be carried forward for an unlimited period and some of which expire between 2022 and 2041. We had \$24.3 million of deferred tax assets related to state tax credits, some of which will be carried forward for an unlimited period and some of which will expire between 2022 and 2031. We had \$1.1 million of deferred tax assets related to capital loss carryforwards which will expire in 2025. We had \$1.7 million of deferred tax assets related to foreign tax credit carryforwards which will expire between 2030 and 2031. We are considering carryback opportunities for the capital loss carryforward and the foreign tax credit carryforward.

The gross deferred tax assets as of September 30, 2021 were reduced by valuation allowances of \$53.0 million primarily related to certain foreign deferred tax attributes and state tax credit carryforwards as it is more likely than not that some portion or all of these tax attributes will not be realized. In evaluating whether it is more likely than not that we would recover our deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies were considered. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances. During fiscal year ended September 30, 2021, the valuation allowance increased by \$2.2 million. The increase related primarily to foreign net operating losses, state net operating losses, and state tax credits and that more likely than not will not be realized.

We operate under tax holidays in both Singapore and Puerto Rico. The Singapore tax holiday is effective through 2024. The Puerto Rico tax holiday is effective through 2025, but we disposed of this operation in fiscal 2019 and thus will not recognize any benefit in the future. Both incentives are conditional on meeting certain employment and/or investment thresholds. The impact of these tax holidays decreased foreign taxes by \$3.9 million for the fiscal year ended September 30, 2021, \$3.3 million for the fiscal year ended September 30, 2020 and \$5.2 million for the fiscal year ended September 30, 2019. The benefit of the tax holidays on net income per diluted share was \$0.06, \$0.05 and \$0.08 during fiscal years ended September 30, 2021, 2020 and 2019.

With regard to our non-U.S. subsidiaries, it is our practice and intention to reinvest the earnings in those businesses, to fund capital expenditures and other operating cash needs. Because the undistributed earnings of non-U.S. subsidiaries are considered to be permanently reinvested, no U.S. deferred income taxes or foreign withholding taxes have been provided on earnings subsequent to the enactment of the Tax Act. As of September 30, 2021, we have approximately \$83.5 million of undistributed

earnings in our non-U.S. subsidiaries that are considered to be permanently reinvested. If such earnings were repatriated, we do not anticipate incurring a significant amount of additional tax expense.

We file a consolidated federal income tax return as well as multiple state, local and foreign jurisdiction tax returns. In the normal course of business, we are subject to examination by the taxing authorities in each of the jurisdictions where we file tax returns. During fiscal year ended September 30, 2021, the U.S. Internal Revenue Service (“IRS”) concluded its audit of fiscal year ended September 30, 2019 and initiated its post-filing examination of the fiscal year ended September 30, 2020 consolidated federal return. We continue to participate in the IRS Compliance Assurance Program (“CAP”) for fiscal year ended September 30, 2021 and fiscal year end September 30, 2022. We are in the application process to remain in the CAP for fiscal year end September 30, 2023. The CAP provides the opportunity for the IRS to review certain tax matters prior to us filing our tax return for the year, thereby reducing the time it takes to complete the post-filing examination. We are also subject to state and local or foreign income tax examinations by taxing authorities for years back to fiscal year ended September 30, 2016.

We also have on-going audits in various stages of completion in several state and foreign jurisdictions, one or more of which may conclude within the next 12 months. Such settlements could involve some or all of the following: the payment of additional taxes and related penalties, the adjustment of certain deferred taxes and/or the recognition of unrecognized tax benefits. The resolution of these matters, in combination with the expiration of certain statutes of limitations in various jurisdictions, make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition by up to \$2.0 million in the next 12 months, excluding interest.

The total amount of gross unrecognized tax benefits as of September 30, 2021, 2020 and 2019 were \$2.7 million, \$3.9 million and \$9.6 million, which includes \$2.5 million, \$3.5 million and \$9.3 million that, if recognized, would impact the effective tax rate in future periods. The remaining amount relates to items which, if recognized, would not impact our effective tax rate.

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

(In millions)

	Year Ended September 30		
	2021	2020	2019
Balance as of October 1	\$ 3.9	\$ 9.6	\$ 6.2
Increases in tax position of prior years	0.2	—	5.8
Settlements with taxing authorities	—	(5.8)	(1.1)
Lapse of applicable statute of limitations	(1.4)	(0.2)	(1.0)
Foreign currency adjustments	—	0.3	(0.3)
Total change	(1.2)	(5.7)	3.4
Balance as of September 30	<u>\$ 2.7</u>	<u>\$ 3.9</u>	<u>\$ 9.6</u>

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Accrued interest and penalties, which are not presented in the rollforward table above, were \$1.2 million, \$1.4 million and \$1.7 million as of September 30, 2021, 2020 and 2019. Related to interest and penalties, we recognized an income tax benefit of \$0.3 million, \$0.4 million, and \$0.4 million as of September 30, 2021, 2020 and 2019.

Note 12. Earnings per Common Share

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

treasury stock acquired, less cumulative shares reissued, have been excluded in determining the average number of shares outstanding.

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

	Year Ended September 30		
	2021	2020	2019
Net Income	\$ 248.5	\$ 223.0	\$ 152.2
Net Income per Basic Common Share	\$ 3.75	\$ 3.35	\$ 2.28
Net Income per Diluted Common Share	\$ 3.72	\$ 3.32	\$ 2.25
Average Basic Common Shares Outstanding	66,204	66,631	66,772
Add: Potential effect of exercise of stock options and other unvested equity awards	643	581	888
Average Diluted Common Shares Outstanding	66,847	67,212	67,660
Shares with anti-dilutive effect excluded from the computation of Diluted EPS	272	342	288

Note 13. Common Stock

Share Repurchases

Under the Board-approved share repurchase program, authorization of \$340.0 million was previously granted to repurchase shares. In September 2019, the Board approved an additional \$170.0 million for repurchases. In July 2021, the Board approved an increase to the share repurchase program in an amount of \$500.0 million. 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. The Merger Agreement places restrictions on our ability to repurchase shares of our common stock. As a result, we do not expect to make repurchases under the common stock repurchase program while the Merger Agreement is in effect. However, we may continue to repurchase shares of our common stock from employees in connection with employee payroll tax withholding for restricted stock distributions. For the fiscal year ended September 30, 2021, we repurchased 1.2 million shares of our common stock in the open market valued at \$130.7 million. For the fiscal year ended September 30, 2020, we repurchased 0.5 million shares of our common stock in the open market valued at \$54.1 million. For the fiscal year ended September 30, 2019, we repurchased 1.2 million shares of our common stock in the open market valued at \$117.2 million. As of September 30, 2021, a cumulative total of \$477.3 million had been used, leaving us with availability of \$532.7 million for future repurchases.

The following table summarizes common stock purchased in connection with employee payroll tax withholding for restricted stock distributions for the following fiscal years:

	Year Ended September 30		
	2021	2020	2019
Total number of shares purchased	99,259	158,521	48,908
Dollar value of shares purchased (<i>in millions</i>)	\$ 9.5	\$ 16.5	\$ 4.7

Stock-Based Compensation

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

The Stock Incentive Plan, which was approved at the 2021 annual meeting of shareholders, replaced the 2002 Stock Incentive Plan. Common shares reserved for issuance under the plan total 3.0 million. As of September 30, 2021, approximately 3.0

million shares were available for future grants under our stock-based compensation plans. We generally settle our stock-based awards with treasury shares. As of September 30, 2021, we had 22.6 million treasury shares available for use to settle stock-based awards.

The stock-based compensation cost that was charged against income for all plans was \$45.6 million, \$38.4 million and \$34.4 million for the fiscal years ended September 30, 2021, 2020 and 2019.

We recognize a tax benefit based on the increase in value from the grant date to the exercise date for stock options and from the grant date to the distribution date for the performance share units and restricted share units. The tax benefit is recorded during the year in which the exercise or distribution occurs. The tax benefit for exercises and distributions for the fiscal years ended September 30, 2021, 2020 and 2019 was \$1.5 million, \$4.7 million, and \$5.2 million.

Options

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

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

	Year Ended September 30		
	2021	2020	2019
Weighted average fair value per share	\$ 23.86	\$ 24.80	\$ 25.28
Valuation assumptions:			
Risk-free interest rate	0.4%	1.6%	3.0%
Expected dividend yield	0.9%	0.8%	0.8%
Expected volatility	32.3%	27.7%	30.5%
Weighted average expected life (years)	4.7	4.7	4.7

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

The following table summarizes transactions under our stock option plans for the fiscal year ended September 30, 2021:

	Weighted Average Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Balance Outstanding as of October 1, 2020	740	\$ 81.14		
Granted	213	94.17		
Exercised	(162)	64.81		
Cancelled/Forfeited	(24)	75.91		
Balance Outstanding as of September 30, 2021	767	\$ 88.39	7.3	\$ 47.3
Exercisable as of September 30, 2021	332	\$ 78.04	5.9	\$ 23.9
Options Expected to Vest	421	96.26	8.3	22.6

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on our closing stock price of \$150.00, as reported by the New York Stock Exchange on September 30, 2021. This amount, which changes continuously

based on the fair value of our common stock, would have been received by the option holders had all option holders exercised their options as of the balance sheet date.

The total intrinsic value of options exercised during fiscal years ended September 30, 2021, 2020 and 2019 was \$7.9 million, \$6.9 million and \$17.7 million.

As of September 30, 2021, there was \$5.2 million of unrecognized compensation expense related to stock options granted under the Stock Incentive Plan. This unrecognized compensation expense does not consider potential forfeitures, and is expected to be recognized over a weighted average period of 2.4 years.

Restricted Stock Units

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

The following table summarizes transactions for our nonvested RSUs for the fiscal year ended 2021:

	Number of Share Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested RSUs as of October 1, 2020	337	\$ 112.41
Granted	297	92.16
Vested	(240)	93.89
Forfeited	(28)	95.38
Nonvested RSUs as of September 30, 2021	366	\$ 109.42

As of September 30, 2021, there was \$20.8 million of total unrecognized compensation expense related to nonvested RSUs granted under the Stock Incentive Plan. This unrecognized compensation expense does not consider potential forfeitures, and is expected to be recognized over a weighted average period of 1.8 years. The total vest date fair value of shares that vested during fiscal years ended September 30, 2021, 2020 and 2019 was \$22.5 million, \$18.1 million and \$16.6 million.

Performance Share Units

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

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

The following table sets forth the weighted average fair value per share for PSUs and the related valuation assumptions used in the determination of those fair values. PSUs granted for the fiscal years ended September 30, 2021, 2020 and 2019 are based on company-specific performance targets, with a total shareholder return collar.

	Year Ended September 30		
	2021	2020	2019
Weighted average fair value per share	\$ 100.15	\$ 110.53	\$ 112.79
Valuation assumptions:			
Risk-free interest rate	0.3%	1.6%	3.0%
Expected volatility	34.7%	23.8%	22.8%

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

The following table summarizes transactions for our nonvested PSUs during fiscal year ended September 30, 2021:

	Number of Share Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested PSUs as of October 1, 2020	165	\$ 111.73
Granted	79	104.36
Vested	(51)	126.55
Forfeited	(10)	108.41
Nonvested PSUs as of September 30, 2021	183	\$ 104.55

As of September 30, 2021, there was \$10.5 million of unrecognized compensation expense related to PSUs granted under the Stock Incentive Plan based on the expected achievement of certain performance targets or market conditions. This unrecognized compensation expense as of September 30, 2021 does not reflect a reduction for our estimate of potential forfeitures and is expected to be recognized over a weighted average period of 1.7 years. The total fair value of shares that vested during fiscal years ended September 30, 2021, 2020 and 2019 was \$6.5 million, \$14.1 million and \$8.0 million.

Note 14. Segment Reporting

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

- **Patient Support Systems** – globally provides an ecosystem of our digital and connected care solutions: devices, software, communications and integration technologies that improve care and deliver actionable insights to caregivers and patients in the acute care setting. Key products include care communications and mobility solutions, connected med-surg and ICU bed systems, sensors and surfaces, safe patient handling equipment and services.
- **Front Line Care** – globally provides integrated patient monitoring and diagnostic technologies – from hospital to home – that enable and support Hillrom’s connected care strategy. Our diverse portfolio includes secure, connected, digital assessment technologies to help diagnose, treat and manage a wide variety of illnesses and diseases, including respiratory therapy, cardiology, vision screening and physical assessment.
- **Surgical Solutions** – globally enables peak procedural performance, connectivity and video integration products that improve collaboration, workflow, safety and efficiency in the operating room, such as surgical video technologies, tables, lights, pendants, precision positioning devices and other accessories.

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

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

Effective in the fiscal year ended September 30, 2020, the allocation of operating costs to each segment was modified to improve the alignment to how management evaluates the performance of each segment. The fiscal year ended September 30, 2019 segment information has been recast to conform to the current presentation. The reclassification did not impact our reported Consolidated Net Revenue or Income Before Income Taxes.

The following summarizes financial results by reportable segment:

(In millions)

	Year Ended September 30		
	2021	2020	2019
Net Revenue - United States:			
Patient Support Systems	\$ 1,162.1	\$ 1,133.6	\$ 1,135.0
Front Line Care	785.7	707.4	700.6
Surgical Solutions	150.4	125.8	221.2
Total net revenue - United States	<u>\$ 2,098.2</u>	<u>\$ 1,966.8</u>	<u>\$ 2,056.8</u>
Net Revenue - Outside of the United States (“OUS”):			
Patient Support Systems	\$ 406.2	\$ 405.5	\$ 355.5
Front Line Care	331.3	317.6	277.5
Surgical Solutions	183.0	191.1	217.5
Total net revenue - OUS	<u>\$ 920.5</u>	<u>\$ 914.2</u>	<u>\$ 850.5</u>
Net Revenue:			
Patient Support Systems	\$ 1,568.3	\$ 1,539.1	\$ 1,490.5
Front Line Care	1,117.0	1,025.0	978.1
Surgical Solutions	333.4	316.9	438.7
Total net revenue	<u>\$ 3,018.7</u>	<u>\$ 2,881.0</u>	<u>\$ 2,907.3</u>
Divisional income:			
Patient Support Systems	\$ 356.1	\$ 332.3	\$ 299.9
Front Line Care	348.8	301.8	266.4
Surgical Solutions	51.6	39.5	61.2
Other operating costs:			
Non-allocated operating costs, administrative costs, and other	308.9	264.4	283.0
Special charges	47.4	41.5	28.4
Operating profit	<u>\$ 400.2</u>	<u>\$ 367.7</u>	<u>\$ 316.1</u>
Interest expense	(65.6)	(74.0)	(89.6)
Loss on extinguishment of debt	(9.8)	(15.6)	(3.3)
Investment income and other, net	(22.0)	(6.9)	(14.6)
Income before income taxes	<u>\$ 302.8</u>	<u>\$ 271.2</u>	<u>\$ 208.6</u>
Depreciation and amortization of property, plant, equipment and intangibles:			
Patient Support Systems	\$ 52.0	\$ 43.5	\$ 36.2
Front Line Care	90.0	95.4	101.9
Surgical Solutions	8.4	7.4	28.4
Corporate	35.4	32.5	28.3
Total depreciation and amortization of property, plant, equipment and intangibles	<u>\$ 185.8</u>	<u>\$ 178.8</u>	<u>\$ 194.8</u>

Geographic Information

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

(In millions)

	Year Ended September 30		
	2021	2020	2019
Net revenue to unaffiliated customers:			
United States	\$ 2,098.2	\$ 1,966.8	\$ 2,056.8
Foreign	920.5	914.2	850.5
Total net revenue	<u>\$ 3,018.7</u>	<u>\$ 2,881.0</u>	<u>\$ 2,907.3</u>
Long-lived assets:			
United States	\$ 217.2	\$ 222.7	\$ 212.5
Foreign	70.9	83.4	84.3
Total long-lived assets	<u>\$ 288.1</u>	<u>\$ 306.1</u>	<u>\$ 296.8</u>

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

Note 15. Commitments and Contingencies

General

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

The Company has received a subpoena from the United States Office of Inspector General for the Department of Health and Human Services (the "DHHS") requesting documents and information related to compliance with the False Claims Act ("FCA") and the Anti-Kickback Statute (the "AKS") by certain of its subsidiaries with respect to the Company's direct to consumer business. The Company has voluntarily contacted DHHS with respect to these matters including its compliance with the FCA and the AKS. The Company is conducting an ongoing internal review and cooperating fully with the DHHS with respect to these matters.

At this stage of the inquiries, the Company is unable to predict the ultimate outcome of these matters or what impact, if any, the outcome of these matters might have on the Company's consolidated financial position, results of operations or cash flows. Violations of the FCA and AKS may result in a range of possible penalties, however, at this time, no claims have been made against the Company.

On January 15, 2021, we entered into a definitive merger agreement with Bardy. On February 21, 2021, as a result of certain unexpected reimbursement rate reductions, Hillrom asserted that a "Company Material Adverse Effect" occurred, and therefore the closing conditions were not satisfied. On February 28, 2021, Bardy filed a complaint against Hillrom in the Court of Chancery of the State of Delaware seeking, among other things, specific performance to compel Hillrom to close the transaction.

Following a trial, on July 9, 2021, the Court of Chancery of the State of Delaware ordered Hillrom to proceed with the closing of the Bardy transaction, denying Hillrom's claim of a "Company Material Adverse Effect" and ending the litigation. Hillrom subsequently closed the Bardy transaction on August 6, 2021. See Note 3. Business Combinations for further information.

As of November 11, 2021, nine lawsuits have been filed by purported Hillrom shareholders in connection with the Merger with Baxter. Each of the lawsuits seeks, among other things, to enjoin Hillrom from consummating the Merger, or in the alternative, rescission of the Merger and/or compensatory damages, as well as attorney's fees. The lawsuits generally allege that the preliminary proxy statement (the "Proxy Statement") filed by Hillrom in connection with the Merger fails to disclose allegedly material information in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. Hillrom believes that the allegations in the complaints are without merit. Additional lawsuits arising out of the Merger may also be filed in the future.

Self-Insurance

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

HILL-ROM HOLDINGS, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

Fiscal years ended September 30, 2021, 2020 and 2019

DESCRIPTION	(In millions)				
	BALANCE AS OF BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS NET OF RECOVERIES	BALANCE AS OF END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
Reserves deducted from assets to which they apply:					
Allowance for possible losses and sales returns - accounts receivable:					
Fiscal Year Ended:					
September 30, 2021	\$ 25.9	\$ 2.4	\$ 5.7	\$ (8.6)	\$ 25.4
September 30, 2020	20.6	8.8	(0.3)	(3.2)	25.9
September 30, 2019	21.8	5.0	0.7	(6.9)	20.6
Valuation allowance against deferred tax assets:					
Fiscal Year Ended:					
September 30, 2021	\$ 50.8	\$ 1.2	\$ 1.1	\$ (0.1)	\$ 53.0
September 30, 2020	45.0	4.6	0.5	0.7	50.8
September 30, 2019	80.2	2.2	4.5	(41.9)	45.0

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

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

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

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer (the “Certifying Officers”), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2021. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and such information is accumulated and communicated to management, including our Certifying Officers and our Board, as appropriate to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Management’s Report on Internal Control Over Financial Reporting

The report of management’s assessment of the effectiveness of our internal control over financial reporting as of September 30, 2021 and the related report of our independent registered public accounting firm are included in Item 8 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the fourth quarter of the fiscal year ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to our Definitive Proxy Statement relating to our 2022 Annual Meeting of Shareholders (the "2022 Proxy Statement"), under the headings "Proposals Requiring Your Vote - Proposal No. 1 - Election of Director Nominees to the Board of Directors to Serve One-Year Terms Expiring at the 2023 Annual Meeting" and "Corporate Governance." Information relating to our executive officers is included in this Form 10-K in Part I, Item 1 under the caption "Information about our Executive Officers."

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the 2022 Proxy Statement, under the headings "Compensation Discussion and Analysis," "Executive Compensation Tables," "Pay Ratio Disclosure," "Director Compensation," and "Corporate Governance."

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

The information required by this Item is incorporated herein by reference to the 2022 Proxy Statement, under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

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 28, 2022, and such information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the 2022 Proxy Statement under the heading "Corporate Governance."

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the 2022 Proxy Statement under the heading "Proposals Requiring Your Vote - Proposal No. 4 - Ratification of the Appointment of PricewaterhouseCoopers LLP as Hillrom's Independent Registered Public Accounting Firm for Fiscal Year 2022."

PART IV

Item 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements

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

(2) Financial Statement Schedules

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

(3) Exhibits

HILL-ROM HOLDINGS, INC.

INDEX TO EXHIBITS

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

- [2.1](#) Agreement and Plan of Merger dated January 15, 2021 by and among Hill-Rom, Inc., Barcelona Merger Sub, Inc., Bardy Diagnostics, Inc. and Fortis Advisors LLC (Incorporated herein by reference to Exhibit 2.1 to the Company’s Form 8-K dated January 19, 2021)
- [2.2](#) Agreement and Plan of Merger, entered into by and among Hill-Rom Holdings, Inc., Baxter International Inc., and Bel Air Subsidiary, Inc., dated as of September 1, 2021 (Incorporated herein by reference to Exhibit 2.1 to the Company’s Form 8-K dated September 2, 2021)
- [3.1](#) Restated and Amended Articles of Incorporation of Hill-Rom Holdings, Inc., as currently in effect (Incorporated herein by reference to Exhibit 3.1 to the Company’s Form 8-K dated March 10, 2010)
- [3.2](#) Amended and Restated Code of By-laws of Hill-Rom Holdings, Inc., as currently in effect (Incorporated herein by reference to Exhibit 3.1 to the Company’s Form 8-K dated November 6, 2020)
- [4.1](#) Indenture dated as of December 1, 1991, between Hill-Rom Holdings, Inc. and Union Bank, N.A. (as successor to LaSalle Bank National Association and Harris Trust and Savings Bank) as Trustee (Incorporated herein by reference to Exhibit (4) (a) to Registration Statement on Form S-3, Registration No. 33-44086)
- [4.2](#) Indenture dated as of February 14, 2017, between Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the Company’s Form 8-K dated February 14, 2017)
- [4.3](#) First Supplemental Indenture dated May 12, 2017, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.7 to the Company’s Form 10-K dated November 17, 2017)
- [4.4](#) Indenture, dated September 19, 2019, among Hill-Rom Holdings, Inc., the subsidiary guarantors party thereto, and Citibank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the Company’s Form 8-K dated September 19, 2019)
- [4.5](#) First Supplemental Indenture dated October 16, 2019, among Hill-Rom Holdings, Inc., the guarantors party thereto, and Citibank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.9 to the Company’s Form 10-K dated November 15, 2019)
- [4.6](#) Second Supplemental Indenture dated May 3, 2019, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.6 to the Company’s Form 10-K dated November 13, 2020)
- [4.7](#) Third Supplemental Indenture dated October 16, 2019, among Hill-Rom Holdings, Inc., the guarantors party thereto, and MUFG Union Bank, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.10 to the Company’s Form 10-K dated November 15, 2019)
- [4.8](#) Description of Securities (Incorporated herein by reference to Exhibit 4.8 to the Company’s Form 10-K dated November 13, 2020)
- [*10.1](#) Hill-Rom Holdings, Inc. Board of Directors’ Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.10 to the Company’s Form 10-Q dated July 13, 2001)
- [*10.2](#) Hill-Rom Holdings, Inc. Director Phantom Stock Plan and form of award (Incorporated herein by reference to Exhibit 10.11 to the Company’s Form 10-Q dated July 13, 2001)

- [*10.3](#) Form of Director Indemnity Agreement (Incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K dated December 23, 2003)
- [*10.4](#) Form of Indemnity Agreement between Hill-Rom Holdings, Inc. and certain executive officers (Incorporated herein by reference to Exhibit 10.9 to the Company's Form 10-K dated December 23, 2003)
- [*10.5](#) Amended and Restated Hill-Rom Holdings, Inc. Stock Incentive Plan, as currently in effect (Incorporated herein by reference to Exhibit 10.30 to the Company's Form 10-K dated November 24, 2009)
- [*10.6](#) Hill-Rom Holdings, Inc. Short-Term Incentive Compensation Plan (Incorporated herein by reference to Exhibit 10.6 to the Company's form 10-K dated November 13, 2020)
- [*10.7](#) Hill-Rom Holdings, Inc. Amended and Restated Supplemental Executive Retirement Plan (Incorporated herein by reference to Exhibit 10.69 to the Company's Form 10-K dated November 16, 2011)
- [*10.8](#) Form of Indemnity Agreement between Hill-Rom Holdings, Inc. and certain executive officers (Incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K dated November 16, 2011)
- [*10.9](#) Form of Limited Recapture Agreement between Hill-Rom Holdings, Inc. and certain of its officers, including Named Executive Officers (Incorporated herein by reference to Exhibit 10.34 to the Company's Form 10-K dated November 20, 2013)
- [*10.10](#) FY 2016 Non-Employee Director Compensation Policy (Incorporated herein by reference to Exhibit 10.31 to the Company's Form 10-K dated November 19, 2015)
- [10.11](#) Credit Agreement dated as of August 30, 2019 among Hill-Rom Holdings, Inc, Welch Allyn, Inc., the other borrowers from time to time party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (Incorporated herein by reference to Exhibit 10.1 the Company's Form 8-K dated August 30, 2019)
- [10.12](#) Loan and Security Agreement dated May 5, 2017, among Hill-Rom Finance Company LLC, as Borrower, the persons from time to time party hereto, as lenders and as Group Agents, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent, and Hill-Rom Company, Inc., as initial Servicer (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 5, 2017)
- [10.13](#) Purchase and Sale Agreement dated May 5, 2017, among Hill-Rom Company, Inc., as an originator and as servicer, other originators from time to time party hereto, as originators, and Hill-Rom Finance Company LLC, as Buyer (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated May 5, 2017)
- [10.14](#) Performance Guaranty dated May 5, 2017, between Hill-Rom Holdings, Inc., the Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, for and on behalf of the Credit Parties and other Secured Parties from time to time under the Loan and Security Agreement, dated as of the date hereof, among Hill-Rom Finance Company LLC, Hill-Rom Company, Inc., as initial servicer, the Administrative Agent and BTMU (Incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated May 5, 2017)
- [*10.15](#) Hill-Rom Holdings, Inc. Employee Stock Purchase Plan, as amended and restated as of July 1, 2017 (Incorporated herein by reference to Exhibit 10.22 to the Company's Form 10-K dated November 16, 2018)
- [*10.16](#) Form of Non-Qualified Stock Option Agreement for employees hired prior to August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.30 to the Company's Form 10-K dated November 17, 2017)
- [*10.17](#) Form of Non-Qualified Stock Option Agreement for employees hired on and after August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.31 to the Company's Form 10-K dated November 17, 2017)

- [*10.18](#) Form of Non-Qualified Stock Option Agreement (CEO version), under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.32 to the Company's Form 10-K dated November 17, 2017)
- [*10.19](#) Form of Restricted Stock Unit Award Agreement for employees hired prior to August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.33 to the Company's Form 10-K dated November 17, 2017)
- [*10.20](#) Form of Restricted Stock Unit Award Agreement for employees hired on and after August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.34 to the Company's Form 10-K dated November 17, 2017)
- [*10.21](#) Form of Restricted Stock Unit Award Agreement (CEO version), under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.35 to the Company's Form 10-K dated November 17, 2017)
- [*10.22](#) Form of Performance-Based Restricted Stock Unit Award Agreement for employees hired prior to August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.36 to the Company's Form 10-K dated November 17, 2017)
- [*10.23](#) Form of Performance-Based Restricted Stock Unit Award Agreement for employees hired on and after August 1, 2016, under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.37 to the Company's Form 10-K dated November 17, 2017)
- [*10.24](#) Form of Performance-Based Restricted Stock Unit Award Agreement (CEO version), under the Amended and Restated Hill-Rom Holdings, Inc.'s Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.38 to the Company's Form 10-K dated November 17, 2017)
- [10.25](#) Amendment No. 1 to Loan and Security Agreement, dated as of May 4, 2018, among Hill-Rom Company, Inc., as initial servicer, Hill-Rom Finance Company LLC, as borrower, and MUFG Bank, Ltd., (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd.), as Group Agent, as Committed Lender and as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 4, 2018)
- [10.26](#) Amendment No. 1 to Purchase and Sale Agreement, dated as of May 4, 2018, among Hill-Rom Company, Inc., as initial servicer, each of the Originators party to the Purchase and Sale Agreement, as originators, and Hill-Rom Finance Company LLC, as buyer (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated May 4, 2018)
- [10.27](#) Master Framework Agreement, dated as of May 4, 2018, by and among MUFG Bank, Ltd., as buyer, Hill-Rom Company, Inc., Hill-Rom Manufacturing, Inc., and each additional seller from time to time party thereto, as sellers, and Hill-Rom Company, as agent for the sellers (Incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated May 4, 2018)
- [10.28](#) 1996 SIFMA Master Repurchase Agreement, including Annex I thereto, (as amended thereby), dated as of May 4, 2018, between Hill-Rom Company, Inc. and MUFG Bank, Ltd (Incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated May 4, 2018)
- [10.29](#) 1996 SIFMA Master Repurchase Agreement, including Annex I thereto, (as amended thereby), dated as of May 4, 2018, between Hill-Rom Manufacturing, Inc. and MUFG Bank, Ltd (Incorporated herein by reference to Exhibit 10.5 to the Company's Form 8-K dated May 4, 2018)
- [10.30](#) Guaranty, dated as of May 4, 2018, between Hill-Rom Holdings, Inc., and MUFG Bank, Ltd., as buyer under the Master Framework Agreement (Incorporated herein by reference to Exhibit 10.6 to the Company's Form 8-K dated May 4, 2018)

- [10.31](#) Amendment No. 3 to Loan and Security Agreement, dated as of May 3, 2019, among Hill-Rom Company, Inc., as initial servicer, Hill-Rom Finance Company LLC, as borrower, and MUFG Bank, Ltd., (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd.), as Group Agent, as Committed Lender and as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 3, 2019)
- [10.32](#) Amendment No. 1 to Master Framework Agreement, dated as of May 3, 2019, by and among MUFG Bank, Ltd., as buyer, Hill-Rom Company, Inc., Hill-Rom Manufacturing, Inc., and each additional seller from time to time party thereto, as sellers, and Hill-Rom Company, as agent for the sellers (Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated May 3, 2019)
- [*10.33](#) Letter Agreement executed March 21, 2018 between Hill-Rom Holdings, Inc. and Richard M. Wagner (Incorporated herein by reference to Exhibit 10.1 filed with the Company's Form 8-K dated May 10, 2018)
- [*10.34](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and John P. Groetelaars dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.43 to the Company's Form 10-K dated November 16, 2018)
- [*10.35](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Deborah Rasin dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.44 to the Company's Form 10-K dated November 16, 2018)
- [*10.36](#) Amended and Restated Change in Control Agreement between Hill-Rom Holdings, Inc. and John P. Groetelaars dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.47 to the Company's Form 10-K dated November 16, 2018)
- [*10.37](#) Change in Control Agreement between Hill-Rom Holdings, Inc. and Barbara Bodem with an effective date of December 3, 2018 (Incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated November 27, 2018)
- [*10.38](#) Form of Amended and Restated Change in Control Agreement dated November 16, 2018, between Hill-Rom Holdings, Inc. and certain of its officers, including Messrs. Amy Dodrill, Mary Kay Ladone, Andreas Frank, Paul Johnson, Kenneth Meyers, Richard Wagner, and Ms. Deborah Rasin (Incorporated herein by reference to Exhibit 10.48 to the Company's Form 10-K dated November 16, 2018)
- [*10.39](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Andreas Frank dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.49 to the Company's Form 10-K dated November 16, 2018)
- [*10.40](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Paul Johnson dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.50 to the Company's Form 10-K dated November 16, 2018)
- [*10.41](#) Amended and Restated Employment Agreement between Hill-Rom Holdings, Inc. and Kenneth Meyers dated November 16, 2018 (Incorporated herein by reference to Exhibit 10.51 to the Company's Form 10-K dated November 16, 2018)
- [10.42](#) Residential Lease Agreement between Hill-Rom Holdings, Inc. and Andreas Frank dated May 1, 2019 (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q dated August 2, 2019)
- [*10.43](#) Employment Agreement between Hill-Rom Holdings, Inc. and Mary Kay Ladone with an effective date of December 3, 2018 (Incorporated herein by reference to Exhibit 10.43 to the Company's Form 10-K dated November 13, 2020)
- [*10.44](#) Employment Agreement between Hill-Rom Holdings, Inc. and Barbara Bodem with an effective date of December 3, 2018 (Incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated November 27, 2018)

*10.45	Employment Agreement between Hill-Rom Holdings, Inc. and Amy Dodrill with an effective date of June 1, 2019 (Incorporated herein by reference to Exhibit 10.45 to the Company's Form 10-K dated November 13, 2020)
10.46	Amendment No. 4 to Loan and Security Agreement, dated as of April 27, 2020, among Hill-Rom Company, Inc., as initial servicer, Hill-Rom Finance Company LLC, as borrower, and MUFG Bank, Ltd., (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd.), as Group Agent, as Committed Lender and as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 filed with the Company's Form 8-K dated April 27, 2020)
10.47	Amendment No. 2 to Master Framework Agreement, dated as of April 27, 2020, by and among MUFG Bank, Ltd., as buyer, Hill-Rom Company, Inc., Hill-Rom Manufacturing, Inc., and each additional seller from time to time party thereto, as sellers, and Hill-Rom Company, as agent for the sellers (Incorporated herein by reference to Exhibit 10.2 filed with the Company's Form 8-K dated April 27, 2020)
10.48	Amendment No. 1 to Hill-Rom Company Master Repurchase Agreement, dated as of April 27, 2020, by and among MUFG Bank, Ltd., as buyer, and Hill-Rom Company, Inc., as seller (Incorporated herein by reference to Exhibit 10.3 filed with the Company's Form 8-K dated April 27, 2020)
10.49	Amendment No. 1 to Hill-Rom Manufacturing Master Repurchase Agreement, dated as of April 27, 2020, by and among MUFG Bank, Ltd., as buyer, and Hill-Rom Manufacturing, Inc., as seller (Incorporated herein by reference to Exhibit 10.4 filed with the Company's Form 8-K dated April 27, 2020)
*10.50	Form of Addendum to Form of Limited Recapture Agreement between Hill-Rom Holdings, Inc. and certain of its officers, including Named Executive Officers (Incorporated herein by reference to Exhibit 10.50 to the Company's Form 10-K dated November 13, 2020)
*10.51	Addendum to the Amended and Restated Employment Agreement between Kenneth F. Meyers and Hill-Rom Holdings, Inc. dated as of November 30, 2020 (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q dated February 5, 2021)
*10.52	Hill-Rom Holdings, Inc. 2021 Stock Incentive Plan (Incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K dated March 11, 2021)
*10.53	This First Amendment to the Amended and Restated Change in Control Agreement by and between Hill-Rom Holdings, Inc. and certain of its officers, including, John Groetelaars, Barbara Bodem, Deborah Rasin, Amy Dodrill, Andreas Frank, Mary Kay Ladone, Paul Johnson, Cheryl James, Rick Wagner (Incorporated herein by reference to Exhibit 10.53 to the Company's Form 10-K dated November 12, 2021)
18	Preferability Letter on Change in Accounting Principle
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document

101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL document and contained in Exhibit 101)

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

HILL-ROM HOLDINGS, INC.

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

Date: November 12, 2021

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

/s/ William G. Dempsey

William G. Dempsey
Chair of the Board

/s/ Felicia F. Norwood

Felicia F. Norwood
Director

/s/ John P. Groetelaars

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

/s/ James R. Giertz

James R. Giertz
Director

/s/ Barbara W. Bodem

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

/s/ William H. Kucheman

William H. Kucheman
Director

/s/ Richard M. Wagner

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

/s/ Gregory J. Moore

Gregory J. Moore
Director

/s/ Nancy M. Schlichting

Nancy M. Schlichting
Director

/s/ Gary L. Ellis

Gary L. Ellis
Director

/s/ Stacy Enxing Seng

Stacy Enxing Seng
Director

/s/ Mary Garrett

Mary Garrett
Director

Date: November 12, 2021

FIRST AMENDMENT TO THE CIC AGREEMENT

This First Amendment (this "Amendment") to the Amended and Restated Change in Control Agreement by and between Hill-Rom Holdings, Inc. (the "Company") and the executive whose name is set forth on the signature page hereto (the "Executive"), dated as of the date set forth on the signature page hereto (the "CIC Agreement"), is effective as of September 1, 2021 (the "Effective Date").

WHEREAS, the Company and the Executive wish to amend the CIC Agreement in connection with the merger (the "Merger") contemplated by the Agreement and Plan of Merger among the Company, Baxter International Inc. and the other party named therein (the "Merger Agreement").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Effective Date. This Amendment is hereby effective as of the Effective Date. Notwithstanding the foregoing, without any action required by the Company or the Executive, if the Merger Agreement is terminated in accordance with its terms without the consummation of the Merger, this Amendment shall be automatically revoked on the date on which the Merger Agreement is terminated, and the CIC Agreement shall remain in full force and effect as if the CIC Agreement had not been amended pursuant to this Amendment.
2. Amendment. Section 3 of the CIC Agreement is hereby deleted and replaced in its entirety with the following:
 - “3. Section 4999 Excise Tax Gross-Up.

(a) In the event it shall be determined that any payment, benefit or distribution (or combination thereof) by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, hereinafter collectively referred to as the "Excise Tax"), Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes, including, without limitation, any income and employment taxes (including any interest and penalties imposed with respect to such taxes) and the Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments and payable by the Executive, to the extent necessary to put the Executive in the same after-tax position as if no such Excise Tax had been imposed upon the Payments.

(b) Subject to the provisions of Section 3(c), all determinations required to be made under this Section 3, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Compensation & Benefits Advisory Services, LLC (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the

Company. The Company may, prior to the change in ownership or effective control (within the meaning of Section 280G of the Code), appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 3, shall be paid by the Company to Executive, subject to required tax withholding, within seven (7) days after the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall so indicate to Executive in writing. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 3(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order to effectively contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 3(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive

agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that if Executive is required to extend the statute of limitations to enable the Company to contest such claim, Executive may limit this extension solely to such contested amount.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 3(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company complying with the requirements of Section 3(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 3(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of the Gross-Up Payment required to be paid.”

3. Effect of Amendment. Except as expressly modified herein, the CIC Agreement shall remain in full force and effect in accordance with its terms.

[Signature Page Follows]



Board of Directors
130 E. Randolph St. Suite 1000
Chicago, IL, USA 60601

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to Hill-Rom Holdings, Inc. (the "Company") Annual Report on Form 10-K for the year ended September 30, 2021 (the "Form 10-K") pursuant to Item 601 of Regulation S-K.

We have audited the consolidated financial statements included in the Form 10-K and issued our report thereon dated November 12, 2021. Note 1 to the financial statements describes a change in accounting principle from the last-in, first-out ("LIFO") method to the first-in first-out ("FIFO") method of determining inventory cost. It should be understood that the preferability of one acceptable method of accounting over another for determining inventory cost has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-K, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, a change to a preferable accounting principle in conformity with Accounting Standards Codification 250, Accounting Changes and Error Corrections.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

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

All subsidiaries of the Company as of September 30, 2021 are wholly-owned Indiana corporations, unless otherwise noted.

Subsidiaries of Hill-Rom Holdings, Inc.

Eagle Acquisition Sub B.V., a Netherlands corporation
Hill-Rom, Inc.

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

Welch Allyn, Inc., a New York corporation

Subsidiaries of Hill-Rom, Inc.

Advanced Respiratory, Inc., a Minnesota corporation
Allen Medical Systems, Inc.
Hillrom Global Sourcing LLC, a Delaware limited liability company
Hill-Rom Services, Inc.
Voalte, Inc., a Delaware corporation
Breathe Technologies, Inc., a Delaware corporation
Bardy Diagnostics, Inc., a Delaware corporation

Subsidiary of Bardy Diagnostics, Inc.

BDx Solutions, Inc., a Delaware corporation

Subsidiary of Allen Medical Systems, Inc.

AMATECH Corporation

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

Hill-Rom Company, Inc.

Subsidiaries of Hill-Rom Company, Inc.

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

Jointly owned subsidiary of Hill-Rom Holdings, Inc. and Hillrom Asia Holdings Pte. Ltd.

Hillrom Investment Holdings Pte. Ltd., a Singapore corporation

Subsidiary of Hillrom Asia Holdings Pte. Ltd.

Hillrom Philippines Corporation, a Philippines corporation
Hillrom Medical Technology Shanghai Co. Ltd., a China corporation

Subsidiary of Hillrom Investment Holdings Pte. Ltd.

Hillrom Finance Ltd., a Cayman Islands limited company
Hill-Rom (Barbados) Society with Restricted Liability, a Barbados Restricted Liability Society

Subsidiary of Hill-Rom Services, Inc.

Hill-Rom Manufacturing, Inc.

Subsidiaries of Hill-Rom Manufacturing, Inc.

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

Subsidiaries of Hill-Rom International, Inc.

Hill-Rom Pty, Ltd., an Australia corporation
Hill-Rom Asia Limited, a Hong Kong corporation
Hill-Rom Japan KK, a Japan corporation
Hill-Rom (Thailand) Company Limited, a Thailand limited company

Hill-Rom Chile SpA, a Chile corporation

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

Subsidiary of Hill-Rom Asia Limited
Hill-Rom Shanghai Co., a China corporation

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

Jointly owned subsidiary of Hill-Rom EU LLC, Welch Allyn International Holdings, Inc., and Hillrom Investment Holdings Pte. Ltd.
Hill-Rom (Luxembourg) General Partner Ltd. S.á r.l., a Cayman Islands corporation

Subsidiaries of Hill-Rom (Luxembourg) General Partner Ltd. S.á r.l.
Hill-Rom International S.á r.l./B.V., a Luxembourg corporation
Hill-Rom Mexico Holdings, B.V., a Netherlands corporation
Hillrom Finance II Ltd., a Cayman Islands limited company
Hill-Rom Ltd., a United Kingdom corporation
Mortara Instrument Europe S.r.l., an Italian limited liability company
Welch Allyn UK Ltd., a United Kingdom corporation
Welch Allyn Coop Holdings, LLC, a Delaware limited liability company

Jointly owned by Hill-Rom (Luxembourg) General Partner Ltd. SARL and Eagle Acquisition Sub BV
HR Europe B.V., a Netherlands corporation

Subsidiary of HR Europe, B.V.
Hill-Rom Holdings Netherlands, B.V., a Netherlands corporation

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

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

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

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

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

Jointly owned subsidiary of Hill-Rom Holdings Netherlands B.V. and HR Europe BV
Trumpf Medizin Systeme GmbH & Co. KG, a Germany partnership

Subsidiary of Trumpf Medizin Systeme GmbH & Co. KG
Trumpf Medical Systems (Taicang) Co., Limited, a China corporation

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

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

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

Subsidiaries of Hill-Rom S.á r.l.
Hill-Rom AB, a Sweden corporation
Hill-Rom Iberia S.L., a Spain corporation
Hill-Rom SAS, a France corporation
Hill-Rom, S.p.A, an Italy corporation

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

Subsidiary of Liko AB
Hill-Rom Verwaltung GmbH, a Germany corporation

Jointly owned subsidiary of Liko AB and Eagle Acquisition Sub B.V.
Hill-Rom Holding GmbH & Co. KG, a Germany partnership

Subsidiary of Hill-Rom Holding GmbH & Co. KG
Hill-Rom GmbH, a Germany corporation

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

Subsidiaries of Welch Allyn International Holdings, Inc.
Welch Allyn B.V., a Netherlands corporation
Welch Allyn France, S.a r.l., a France corporation
Welch Allyn Japan K.K., a Japan corporation
Welch Allyn Malaysia SDN, Bhd, a Malaysia corporation
Welch Allyn Singapore Pte, Ltd., a Singapore corporation
Welch Allyn South Africa Pty, Ltd., a South Africa corporation
Welch Allyn UK Ltd., a United Kingdom corporation

Subsidiary of Mortara Instrument Europe S.r.l.
Welch Allyn GmbH, a German corporation

Videomed S.r.l., an Italy corporation

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

Jointly owned subsidiary of Hill-Rom (Luxembourg) General Partner Ltd. SARL. and Welch Allyn Coop Holdings, LLC
Welch Allyn International Holdings Cooperatief, U.A., a Netherlands cooperative

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

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

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

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

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

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-254169, 333-157341, 333-157338, 333-88354, 333-49669, and 333-88328) of Hill-Rom Holdings, Inc. of our report dated November 12, 2021 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
November 12, 2021

CERTIFICATIONS

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

I, John P. Groetelaars, certify that:

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

Date: November 12, 2021

/s/ John P. Groetelaars

John P. Groetelaars

President and Chief Executive Officer

CERTIFICATIONS

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

I, Barbara W. Bodem, certify that:

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

Date: November 12, 2021

/s/ Barbara W. Bodem

Barbara W. Bodem

Senior Vice President and Chief Financial Officer

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

In connection with the Annual Report on Form 10-K of Hill-Rom Holdings, Inc. (the "Company") for the year ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John P. Groetelaars, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ John P. Groetelaars

John P. Groetelaars

President and Chief Executive Officer

November 12, 2021

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

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

In connection with the Annual Report on Form 10-K of Hill-Rom Holdings, Inc. (the "Company") for the year ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barbara W. Bodem, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Barbara W. Bodem

Barbara W. Bodem

Senior Vice President and Chief Financial Officer

November 12, 2021

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