

To Our Fellow Shareholders, Employees And Customers

2018 was a successful year for Hill-Rom, highlighted by strong momentum in our core* business and financial results that exceeded expectations. This performance reflects the value of our diversified portfolio and our ongoing commitment to execute on our strategic priorities, drive sustainable growth, and deliver on our long-range financial commitments with disciplined execution. Our achievements in 2018 also reflect the talents, dedication and commitment of our 10,000 employees and a strong leadership team.

Looking forward, we will build on this success by **advancing our category leadership** with **differentiated, innovative healthcare solutions, expanding our geographic presence in emerging markets, and transforming the portfolio** to enhance outcomes and value for patients, caregivers and shareholders.

In this letter, my first to shareholders, I would like to highlight our 2018 financial results and innovation successes, and provide a look ahead to what we are confident is a bright future for our company.

2018 Financial Highlights

STRONG REVENUE AND EARNINGS GROWTH

Worldwide revenue in fiscal year increased to \$2.85 billion, driven by 3 percent core revenue growth. Domestic revenue of \$1.96 billion advanced 4 percent and revenue outside the U.S. of \$892 million increased 4 percent. Importantly, core revenue accelerated in the second half of 2018 to 4 percent from 2 percent in the first half of the year. Our reported earnings of \$3.73 per diluted share compared to \$1.99 per diluted share in the prior-year period. On an adjusted basis, earnings of \$4.75 per diluted share rose 23 percent from \$3.86 per diluted share in the prior-year period. *(You can find adjustments to GAAP earnings at the end of this letter.)*

EXPANDED OPERATING MARGIN

We have made great progress improving our profitability, and I am pleased to report that in fiscal 2018 gross margin expanded by 90 basis points to 49 percent, while operating margin improved 20 basis points to 10.2 percent. On an adjusted basis, gross margin expanded by 70 basis points to 49 percent and operating margin expanded by 100 basis points to 17.3 percent. *Our adjusted operating margin performance reflects a 550-basis-point expansion in the last three years.*

RECORD-SETTING CASH FLOW

Fiscal 2018 operating cash flow of \$395 million increased \$84 million, or 27 percent, compared to 2017, a record for our company. Free cash flow of \$306 million was 43 percent higher than 2017, three times higher than the level we generated just a few years ago. Finally, we have improved our financial leverage by reducing debt levels by \$337 million to a debt-to-EBITDA ratio of 3.2. In fiscal 2018, we returned \$66 million to shareholders through dividends and share repurchases.

\$2.85 Billion
WORLDWIDE REVENUE

\$4.75
ADJUSTED EARNINGS
PER SHARE

17.3%
ADJUSTED OPERATING
MARGIN

\$395 Million
OPERATING CASH FLOW

*Core revenue excludes foreign currency, divestitures and non-strategic assets the company has exited.



Hill-Rom's LINQ™ mobile securely connects members of the care team to each other, to their patients, and to patient information in real-time.

Innovation Fuels Our Growth

Supporting Hill-Rom's strategies and financial performance were several achievements aimed at advancing Hill-Rom's innovation, transforming the portfolio, reinvesting in our growth and expanding our capabilities to deliver sustainable value to shareholders. Highlights include:

- Achieving over **\$300 million in new product revenue** during fiscal 2018. Products that contributed to this achievement include our Centrella® Smart+ bed, Integrated Table Motion for the da Vinci® Xi® Surgical System, the Connex® Spot Monitor and the Monarch™ Airway Clearance System.
- Advancing Hill-Rom's "Vision for All" campaign by enhancing awareness and promoting the early detection of amblyopic risk in children and other vision conditions in adult patients with the **Spot™ Vision Screener**; and making diabetic retinopathy screening simple and affordable in the primary care setting with the **Welch Allyn® RetinaVue® 100 Imager**.
- Expanding the company's clinical workflow solutions and communication platforms with the release of **LINQ™ mobile**, a smartphone application that securely connects members of the care team to each other, to their patients, and to patient information in real-time.
- Introducing the **TruSystem® 7500 MR Neuro Surgical Table**, which integrates with the IMRIS MR Neuro tabletop to support better patient treatment and optimize the surgical workflow.



- Optimizing the product portfolio with the divestiture of assets related to our third-party rental business, and wind-down of the third-party surfaces business, in addition to other transformation efforts that are freeing up significant funds to invest in our growth. Specific areas targeted for investment include emerging markets, especially Asia, and our digital solutions.
- Finalizing the company's business optimization plans focused on driving operating efficiencies, improving the cost structure, and generating approximately \$50 million in pre-tax savings over the next several years. This initiative provides the opportunity to reinvest savings, and align resources with key priority growth areas in new products and emerging market expansion.
- Launching **Hill-Rom for Humanity**, our new corporate social investment platform, through which we direct our charitable and volunteer activities, as well as our actions to further improve our environmental sustainability.



- Expanding our capabilities with several key leadership appointments. In the last few months we welcomed Barbara Bodem to Hill-Rom as our new CFO, and Andreas Frank took on a new role as president of Front Line Care. Mark Wallwork joined to lead Asia Pacific, and we've earmarked investments for market expansion activities in China. We appointed a new head of corporate strategy and development, Mary Kay Ladone, to help us invest for growth. And we've strengthened our digital leadership with the appointments of Anjana Harve as chief information officer and Richard Marritt as chief marketing officer.

I am proud of our accomplishments, and the dedication demonstrated by our employees, each one of whom is focused on our mission of enhancing outcomes for patients and caregivers. As we continue with Hill-Rom's transformation, we enter 2019 with confidence in our ability to deliver core revenue growth acceleration, margin expansion and enhanced profitability with innovative healthcare solutions for our customers and their patients.

Hill-Rom's Bright Future

OUR CATEGORY LEADERSHIP STRATEGY

We are making progress in strengthening the durability of our revenue growth with our portfolio diversification efforts and expect the contribution from new products to total more than \$400 million in 2019. We are particularly excited by our digital technologies and investment opportunities, which will support a transformative new growth vector for the company, and our efforts in geographic expansion.

To cite one innovation example: We believe that our leadership in hospital beds, vital signs measurement, patient monitoring and clinical communications uniquely positions Hill-Rom to enable the digital environment with a synchronized communications platform to improve patient outcomes at the point of care. We continue to pursue investments in technology to access and analyze critical information at the bedside, and provide that information where and when it is needed.

We will continue to innovate, and achieve our category leadership goals, by increasing our R&D spending at a higher rate than revenue growth. We are committed to meeting, and solving, the challenges confronted by patients, caregivers and our customers, with unique, differentiated healthcare solutions to reduce complications and costs.

2019 FINANCIAL EXPECTATIONS

For fiscal 2019, we expect core revenue growth to accelerate to 4 to 5 percent, and we expect all three businesses to achieve core growth in the 4 to 5 percent range. Core revenue excludes foreign currency, divestitures, and non-strategic assets the company may exit, including the Surgical Solutions international OEM business.

On the profitability side, we expect adjusted gross margin to expand by approximately 50 basis points, and once again expect adjusted operating margin expansion of approximately 100 basis points. This translates to an anticipated double-digit growth in pretax income, and expected adjusted earnings of \$5.08 to \$5.16 per diluted share.

From a cash flow perspective, we project operating cash flow of approximately \$430 million. With capital expenditures of approximately \$100 million, we expected free cash flow to total \$330 million for the full year.

Looking Ahead



We are confident that in 2019 we will deliver core revenue growth acceleration, margin expansion and enhanced profitability, as we remain focused on our overall mission of enhancing outcomes for patients and caregivers while creating value for our shareholders. Learn more about our strategy and progress at hill-rom.com.

JOHN P. GROETELAARS
PRESIDENT AND CHIEF EXECUTIVE OFFICER
January 2019

Reconciliation of GAAP to Operating Income

	Year Ended September 30, 2018					Year Ended September 30, 2017				
	Gross Margin	Operating Margin ¹	Income Before Income Taxes	Income Tax Expense	Diluted EPS	Gross Margin	Operating Margin ¹	Income Before Income Taxes	Income Tax Expense	Diluted EPS
GAAP Basis	49.0%	10.2%	\$197.2	(\$55.2)	\$3.73	48.1%	10.0%	\$183.0	\$50.7	\$1.99
Adjustments:										
Acquisition and integration costs	—%	0.4%	11.1	3.0	0.12	0.2%	0.9%	23.5	9.7	0.21
Acquisition-related intangible asset amortization	—%	3.8%	106.9	28.2	1.16	—%	4.0%	108.4	34.2	1.10
Field corrective actions	—%	—%	—	—	—	—%	—%	—	(0.2)	—
Litigation settlements and expenses	—%	0.2%	5.8	1.5	0.06	—%	(0.3)%	5.7	2.1	0.05
Special charges	—%	2.7%	77.6	21.1	0.84	—%	1.9%	37.4	4.8	0.49
Foreign tax law change	—%	—%	1.6	79.2	(1.15)	—%	—%	—	(2.2)	0.03
Gain on disposition	—%	—%	(1.0)	—	(0.01)	—%	—%	(1.0)	(0.4)	(0.01)
Adjusted Basis	49.0%	17.3%	\$399.2	\$77.8	\$4.75	48.3%	16.3%	\$357.0	\$98.7	\$3.86

¹ Total does not add due to rounding.