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<<Bhupender Bohra, Analyst, Jefferies LLC>>

Good morning guys. Welcome to the Jeffries 13th Industrial Conference here. We have the next presentation from Hillenbrand. We have the CEO, Joe Raver; and CFO, Kristina Cerniglia. And I am Bhupender Bohra here. I cover the diversified industrial stocks at Jefferies. So, Joe, please take it off.

<<Joe Raver, President, Chief Executive Officer & Director>>

Thank you, Bhupender. I appreciate it. All right, good morning everyone. Hope you're doing well. Thanks for attending. We'll go through in probably about 20 or 25 minutes and we'll have some time for questions, but if you raise your hand if I catch your eye, I will – we can do questions along the way as well.

All right, I think everybody does this slide first, but I'll say some things today about the future that may not necessarily come true and they may be impactful. I do like the one part of this though is I encourage you to read our 10-K where we do spend quite a bit of time trying to outline the risks of the business and then we have to update that through any changes in the 10-Qs. So for more information about the risks, I would encourage you to look at the 10-K and 10-Qs.

Okay, so I'll start with just a high-level view of our company's strategy and an overview of the company. We are a Midwestern company based in Batesville, Indiana. Our market cap right now is about $2.3 billion and we have about a little over 6,000 employees around the world, sales of about $1.5 billion or $1.6 billion. These are 2016 numbers, really strong free cash flow last year. If any of you listen to our third quarter call, you will also know that we had our fiscal third quarter call, we were experiencing really solid strong cash flows again this year.

With a decent dividend yield and we've been growing the business and we're really a transformation story, which I'll talk a little bit more about, but we've been growing the business over the last several years. If you look at us today, in 2008, we were 100% Batesville Casket Company. Today, we're about two thirds process equipment through acquisition and some organic growth and then by geography we're much more dispersed geographically with Batesville, it's really 100% North America. It's all the United States and Canada for the most part. Our Process Equipment Group has a much more balanced revenue profile from a geographic standpoint.

In terms of our high-level strategy, we are a transformation story returning ourselves or transforming ourselves from a casket company into a global diversified industrial business. I highlighted the word world-class. I think the market views us as a global diversified industrial business today. We've been at it now for five or six, seven years and we spend a lot of time on the process equipment side of our business rather than the Batesville side of the business in terms of talking to investors.

I highlighted the words world-class. Our focus today is to really try to become a world-class company and achieve world-class metrics. And so I'll talk a little bit more about how we're doing that inside our business. And then we want to continue to use M&A to accelerate our transformation. So we've done a couple of deals in the last eighteen months or so, but I think as many of you know multiples are high right now. And so on the M&A side, it's been a little bit slower, but we're really focused on both organic growth as well as M&A.

We have a really strong financial foundation and we've been developing the home brand operating model. It's grown out of Batesville's Lean manufacturing and we've sort of extended and continued to build that operating model and I'll spend a little bit of time on that when we get into the presentation. And again, it's to drive – and we've used it to drive and you've seen operational efficiencies and growth. And then finally, as I said, reinvest both organically and inorganically.

I think what's a little bit new for us as some of you have seen us present in the last couple of years is we really – when we started out our M&A strategy, it was really an M&A strategy because we were always investing outside of the caskets. But I think more recently, we've really transitioned to a profitable growth strategy and M&A is one of those components. And so we've really been focused for the last eighteen months or so, taking actions and thinking about how to build leadership positions in our core markets and extend those leadership positions and then invest in your adjacencies.

So close to home, but in areas where we think we have a competitive advantage and have good market trends and growth rates. So you'll hear a little bit more about that as I go through the presentation. Okay, this is a very simple chart. And really what this is intended to do is to sort of show you the portfolio at a very high-level and how we think about the portfolio. And so on the bottom right there you see the Batesville business. It's a great business, right. I mean it's a highly concentrated market at two of us – two competitors have about 70% of the volume in the industry. It's very profitable. It's a fantastic company, well run company. The challenges it's in a very difficult market.

So it's in a declining burial casket market. The business is a high fixed cost business, which has its own challenges. And so, we're really looking to maintaining our margins on the Batesville side of the business, which is no short pipe and then grow the process equipment side of the business. And what I would tell you is if you look at what we've done over the last, I'll say, three or four years, we've done a pretty good job increasing the margins on the process equipment side of the business. What we have not done as good a job on is growing those businesses organically.

We have a better growth profile this year and as we head into the second half of our final quarter of – we had a good third quarter in terms of growth and we head into the fourth quarter with a really strong backlog position, but that's where we've been focused on the process equipment side as we've done a decent job on the margin part of the business. We have been focused more on trying to make sure we get the organic growth in this side of the business to continue to drive to the bottom line.

So when I became CEO about four years ago, I went out with my management team and we did sort of a deep dive on the best diversified industrial businesses that we could find. So we went out. We find global diversified industrials all those words are important and we looked at what metrics they look at, what best-in-class metrics did look like, how they operated their businesses. And one of the things that we found which is really interesting to me was that they all used – all the successful ones had some sort of a business system or an operating model.

And a lot of people talk a lot about that, but very few people do it very well. I will tell you today, we don't do it very well, right. We have a lot of work to do to build a great sort of thing Danaher type business system, but that's our aspiration is to do that. The interesting thing that we found was not everybody had to be like Danaher, right. Roper looked really different and they call there's a governance model, right. And don't even have a spouse continuous improvement program. There's no Lean or Six Sigma. That's a company-wide initiative, but yet they were very successful.

If you look at Danaher, everybody knows about the Danaher business system, a relatively diversified business, but it is embedded in their culture and it's very focused on lean. And so, one of my first sort of tasks as a CEO is to improve margins and we use the development of this operating model to drive those margins. At its core it's a Lean business system, right. We've – Batesville casket has used the Toyota production system if you ever went into one of our plants, right, caskets oddly look kind of like cars, right. It's a pace line. You build right to the line and you assemble. And so we've got a lot of years of experience in the Toyota production system.

So we really continue to build out this model around talent, around strategy. We've brought more tools in around 80:20 in pricing and some other tools to build out the system. In our last call, happy to announce, we just hired a new Vice President of the Hillenbrand operating model. Great credentials a guy who has both P&L experience as a GM and perhaps more importantly spent nine years at Danaher in the DBS office. So really understands what world-class looks like.

And we went to a total re-write, I mean we sort of built our system to a large extent on trying to make work for us, parts and pieces where other people did and a lot of that is some of the stuff that Danaher does. So – but we'll continue to evolve that system and build it into a critical capability in a competitive weapon as we go forward. And again, I think, you've seen people ask how do I see – everybody talks about a model, how do I see this in your business. Last three or four years, we've really seen margins improved and now our challenge is to use the system to help grow the top-line as well.

Okay, a little bit about our Process Equipment Group. This business has – all these businesses in the Process Equipment Group are pretty similar in one way, which is they typically have sort of a core technology that they can gets engineered and then some applications expertise. So it's really easy to make a feeder. It's really hard to make a feeder that can move onion powder very well and consistently, right. And it's really easier to make a feeder, but it's really hard to make a feeder that feeds pharmaceutical ingredients at 20 grams an hour with lots of precision. That's what we do.

So we do sort of core basic technology. I mean, it's not high-tech. There's typically a core technology, but our secret sauce is then we apply that to solve customers' problems. They tend to be niche businesses, tend to be a small part of the overall cost of the system for the customer. The price of failure is really high. And so, those are the kinds of industries that are businesses that we're involved in. We love businesses with recurring revenue. For almost all of our businesses that means replacement parts, consumable parts and service, we recently bought a rubber valve company, which is a little bit different. It has a high degree of recurring revenue, but you replace the whole valve. So you just call and say here's the spec.

So it doesn't show up quite the same way, but it still has probably 40% recurring revenue, but most of our businesses are right around that, a third of our business is recurring revenue and spare parts. Of course, it's the most profitable part of our business as well. Highly diversified customer base, we served a wide range of customers. One of the nice things is in all of our businesses we tend to have the blue chip customers. We serve Frito Lay, Mars, Exxon, Dow, Sinopec. We really deal with some of the largest customers and the most well-known customers in the world.

And if we can do extrusion systems for Exxon – ExxonMobil at 100 tons an hour, this gives us a lot of credibility when we're going and talk to somebody who wants to do 20 tons an hour and is a smaller company. So good customer base.

And then good megatrends, right. We're trying to be in businesses where we get sort of a little bit higher than GDP type growth, plastics is one of the large part of our business benefits from increased technology, rising middle-class. I mean the middle-class is what population doesn't really consume plastics, middle-class consumes plastics, and energy and all those things that we're involved with.

You can see our revenues are relatively sort of evenly split. We've seen a shift between Asia and the Americas over the last few years as we've done a lot more large projects associated with polyethylene and polypropylene in North America due to the shale gas availability and big investments in plastics plants here and petrochemical plants here in the United States.

Here's a little bit of our performance. You can see what the issue is there, the decline in 2013 in EBITDA margin is an acquisition. You can see we've grown EBITDA margins reasonably, nicely on pace to have a nice growth in EBITDA margin in the side of the business. Again this year our issue has been top line. So this year we've done a better job in the top line. Quite frankly, we've had markets move against us the last couple of years, we're starting to come out of that. But at the end of the day we still can do a better job growing the top line organically.

And we expect sort of mid-single digit organic revenue growth in the Process Equipment side of the business. And then EBITDA margins, we gave guidance between 30 basis points and 80 basis points of expansion in '17. We have a bit higher mix of large projects which have lower margins in '17.

You know it's funny I get questions lot about our portfolio. But if you think about, we have the casket business, which is pretty clear to people. Our Process Equipment business, we're really a plastics and petrochemicals business. Most of our volume is in plastics and petrochemicals, we do, do mining and minerals, it's mostly soft minerals, so it's potash, it's coal, it's those kinds of things that we do on the mining side. We do quite a bit in processed food and that's sort of not ag so much as really processed food. So think about things that are extruded, or where you have to feed precisely. So its granola bars, its potato chips, it's cereals that you buy, things that you buy in the grocery store.

If you go down to snack food aisle and the cereal aisle in any grocery store, our equipment, our feeders are pneumatic conveying and our extrusion equipment is involved in a really high percentage of all those brands and those products that you see in the grocery store in the processed food side. And then we do some valves, and pumps, and water and wastewater, as well as in mining. And so – but at the end of the day our business is really driven by plastics and petrochemicals on the Process Equipment side of the business.

Just quickly on the Batesville side. So the funeral industry, does not have a lot of products in the funeral industry? So you can see the products on the top chart there and caskets is the biggest chunk of that, caskets is also a very profitable part of that. And then the Batesville revenue is at the end of the day we are a casket company. So we do cremation products, we do websites and other kinds of products, but at the end of the day we are a burial casket company. It's a long-term business we tend to get a higher mix of products, we play at the higher end of the products, we tend to have a much more profitable business than our competitors. And we are the industry leader in volume, in revenue and profitability.

Just one quick thing about the market, is that the number two and number three player got together a couple years ago, so Matthews bought Aurora. We get a lot of questions from investors is that a good thing or a bad thing. It certainly makes them a more formidable competitor as number two and three get together, have a more significant market share. On the flip side of that their business is pretty similar to ours in terms of their product mix, their distribution system, the way they manufacture caskets, et cetera. And so we're – it's a relatively similar public company competitor and they're taking capacity out. Its part of their synergies – is to take capacity out.

And so we believe over the long run, it's actually good, it's an industry that has overcapacity and so rationally taking capacity out would be good for the industry over the long run, which they appear to be doing. And of course we've been doing that over the years, as well as demand shrinks and we get much more efficient in the footprints that we have or footprint that we have today.

So again this is a business where we work hard to maintain flat revenues in the declining market, maintain our EBITDA margins, done a pretty decent job the last few years of doing it. This is a high, very high ROIC business, strong margins. And in this business we are all about lean and taking cost out. So we think about taking cost out both structurally by reducing shift in closing plants which we consolidated some operations this past year, as well as just everyday continuous improvement across the entire business to improve our efficiency.

The chart on the upper right. So this is a long-term chart, you can see that's from 2010 to 2030. We do this chart out about 50 years, 60 years, we've been doing it for a long-time. Couple of things, the death rate will go up as baby boomers die over the next couple of decades. But that will be required because the cremation rate is also rising. So that cremation rate goes up 130 basis points, 140 basis points a year. You get a slight increase in deaths and you get this flat to slightly declining industry. As an example in our third quarter we saw a decline in the burial casket market. Cremation rate active, we think predictably. It was that deaths were actually – we believe that there was estimation that believe that deaths were actually down year-over-year. So it'll bounce around a little bit quarter-to-quarter and even year-to-year based on the flu season, et cetera. But we believe that's the long-term trend.

Really I think the important piece about this trend is when people think about a declining industry, this is not prints to digital, where it's going to accelerate, right. There's – it's a predictable trend. This cremation rate has risen like this along a substitution curve in entire countries like the UK and is saturated and then in individual states. So Washington, Oregon some of those states have pretty much saturated on the cremation rate. And so it's predictable, it would take something, well we've never seen anything that would make it really jump off the curve. I don't even – like even if the pope was cremated, I'm not sure that it would change the cremation rate that much in the United States. And no one can really tell you exactly why the cremation rate is the way it is. But we've seen in other countries, we've seen in states and when you add it all up you sort of get this predictable curve.

So whilst it's a declining – a declining industry what we like to say is there is a lot of area under that curve, right. So there are going to be a lot of caskets sold in North America this goes out to 2030, but you can extend that out even farther. So there are a lot of caskets that will be sold, we're going to make sure that we're continuing to get our fair share of that and maintaining profitability. Again it's a great business, a very defensible business, but a tough business, given the declining market.

I'm right on schedule here. Capital allocation strategy, just a little bit about our capital allocation strategy. We feel like we have a pretty balanced capital allocation strategy. Our businesses don't use a lot of CapEx, we are constantly working to sort of reduce our asset base and minimize the amount of CapEx that we need. Most of our CapEx is sort of maintenance CapEx, but we are absolutely not afraid to invest in the business where there's an opportunity. But it's typically less than 2% of revenue.

We deploy about two thirds of our free cash flow, our target is to deploy about two thirds of that towards acquisitions and then paying down debt to maintain leverage. We talk about leverage guardrails, we like to stay between 1.7 and 2.7 debt to EBITDA. If we get above 2.7, we try not to do that, or it has to be a really special acquisition and then we'd focus on paying debt down really fast. If we get below 1.7, we still believe we have enough capacity to execute our strategy. So we would likely start to buy share shares back at an accelerated pace. So that's 1.7 to 2.7 and that's gross debt to EBITDA.

We repurchased shares to offset dilution is our goal. And then we pay about $50 million in dividends a year, which is about a third of our free cash flow on average over time, which is really a nice yield of about 2.3% right now. So again a pretty balanced capital allocation strategy we do maintain an investment grade rating. And that's nice, because we can invest during the down cycle if there are attractive opportunities during the down cycle.

Alright, so finally, my last slide. I think we have a great company. And I think we have a great company that's getting better every day. We're working hard to make it every day. It's a transformation story, I think, we're over the hump of about two thirds of our revenues from the Process Equipment Group sort of mid-single-digit growth is the target. We've continued to expand margins by leveraging our operating model and have turned that now more towards organic growth tools to try to build a culture of growth.

We have great brands, we typically lead are the number one, one or two in our niche markets and so we do get good economics from that strong balance sheet. Again we've done, I think, a pretty good job of growing margins in this business on the Process Equipment side, maintaining them on the basal side. And then we're we trying to be thoughtful about how to return capital to shareholders to be smart about capital allocation.

Alright, one last little plug that I'll make before we go to Q&A is we will be holding an Investor Day on December 12 in New York. It will be in Midtown and we will provide more details about that later, but it's been a few years since we've done an Investor Day and so we're excited to share more detail about our strategy, give investors more exposure to some of our other senior executives from around the world, including our Hillenbrand Operating Model Vice President. So we expect it will be a great day, so we'd love to have you all attend.

Okay with that I'm like right on time for questions.

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