

Rexnord Corp  
Form 10-K  
May 17, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 March 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35475

---

REXNORD CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

20-5197013

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

247 Freshwater Way, Suite 300, Milwaukee, Wisconsin

53204

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (414) 643-3739

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

Title of Each Class

Name of Each Exchange of  
Which Registered

Common Stock \$.01 par value

The New York Stock  
Exchange

Depository Shares, each representing a 1/20th interest in a share of 5.75% Series A

The New York Stock

Mandatory Convertible Preferred Stock, \$.01 par value

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 Section 15(d) of the Exchange 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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

Edgar Filing: Rexnord Corp - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of September 30, 2016, the end of the Registrant's second fiscal quarter, the aggregate market value of the shares of common stock (based upon the \$21.41 closing price on the New York Stock Exchange on September 30, 2016) held by non-affiliates (excludes shares reported as beneficially owned by then-current directors and executive officers - does not constitute an admission as to affiliate status) was approximately \$2,193.2 million.

As of May 12, 2017, there were 103,661,298 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Annual Report on Form 10-K incorporates by reference certain information from the Proxy Statement for the Registrant's fiscal 2018 annual meeting of stockholders, to be held on or about July 27, 2017, which proxy statement will be subsequently filed.

---

Table of Contents

TABLE OF CONTENTS

Part I

Item 1.	<u>Business</u>	<u>4</u>
Item 1A.	<u>Risk Factors</u>	<u>13</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>22</u>
Item 2.	<u>Properties</u>	<u>23</u>
Item 3.	<u>Legal Proceedings</u>	<u>24</u>
Item 4.	<u>Mine Safety Disclosure</u>	<u>24</u>
	<u>Executive Officers of the Registrant</u>	<u>24</u>

Part II

Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>26</u>
Item 6.	<u>Selected Financial Data</u>	<u>28</u>
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>46</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>90</u>
Item 9A.	<u>Controls and Procedures</u>	<u>90</u>
Item 9B.	<u>Other Information</u>	<u>90</u>

Part III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>91</u>
Item 11.	<u>Executive Compensation</u>	<u>91</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>91</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>91</u>
Item 14.	<u>Principal Accounting Fees and Services</u>	<u>91</u>

Part IV

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	<u>92</u>
Item 16.	<u>Form 10-K Summary</u>	<u>92</u>

Table of Contents

PART I

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of the federal securities laws that involve risks and uncertainties. Forward-looking statements include statements we make concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information and, in particular, appear in Items 1, 1A and 7 hereof. When used in this report, the words “estimates,” “expects,” “anticipates,” “projects,” “forecasts,” “plans,” “believes,” “foresees,” “seeks,” “likely,” “may,” “should,” “goal,” “target” or “intends” and variations of these words or similar expressions (or the negative versions of any such words) are intended to identify forward-looking statements. All forward-looking statements are based upon information available to us on the date of this report.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this report in the Items identified above. Some of the factors that we believe could affect our results include:

- the impact of our indebtedness;
- our competitive environment;
- general economic and business conditions, market factors and our exposure to customers in cyclical industries;
- the effect of local, national and international economic, credit and capital market conditions on the economy in general, and on our customers and the industries in which we operate in particular;
- risks associated with our international operations;
- the loss of any significant customer;
- dependence on independent distributors;
- increases in cost of our raw materials and our possible inability to increase product prices to offset such increases;
- impact of weather on the demand for our products;
- changes in technology and manufacturing techniques;
- performance, and potential failure, of our information and data security systems;
- the costs of environmental compliance and/or the imposition of liabilities under environmental, health and safety laws and regulations;
- legislative, regulatory and legal developments involving taxes;
- the costs associated with asbestos claims and other potential product liability;
- the costs related to strategic acquisitions or divestitures or the integration of recent and future acquisitions into our business;
- our access to available and reasonable financing on a timely basis;
- changes in governmental laws and regulations, or the interpretation or enforcement thereof, including for environmental matters;
- reliance on intellectual property;
- work stoppages by unionized employees;
- loss of key personnel;
- changes in pension funding requirements;
- potential impairment of goodwill and intangible assets; and
- the other factors set forth herein, including those set forth under “Risk Factors” in Part I Item 1A.

There are likely other factors that could cause our actual results to differ materially from the results referred to in the forward-looking statements. All forward-looking statements attributable to us apply only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to publicly update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events, except as required by law.



Table of Contents

ITEM 1. BUSINESS.

Our Company

Rexnord Corporation, a Delaware corporation incorporated in 2006, is a growth-oriented, multi-platform industrial company with what we believe are leading market shares and highly-trusted brands that serve a diverse array of global end markets. We currently operate our business in two strategic platforms - Process & Motion Control and Water Management, both of which have expanded significantly by means of acquisitions of other companies or operations; see "Acquisitions and Divestitures" below for further information as to recent transactions. Our heritage of innovation and specification have allowed us to provide highly-engineered, mission-critical solutions to customers for decades and affords us the privilege of having long-term, valued relationships with market leaders. We operate our Company in a disciplined way and the Rexnord Business System ("RBS") is our operating philosophy. Grounded in the spirit of continuous improvement, RBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of our business.

Our strategy is to build the Company around multiple, global strategic platforms that participate in end markets with sustainable growth characteristics where we are, or have the opportunity to become, the industry leader. We have a track record of acquiring and integrating companies and expect to continue to pursue strategic acquisitions within our existing platforms that will expand our geographic presence, broaden our product lines, and allow us to move into adjacent markets. Over time, we may add strategic platforms to our Company.

We believe that we have one of the broadest portfolios of highly engineered, mission and project-critical Process & Motion Control products for industrial, consumer goods, and aerospace applications worldwide. Our Process & Motion Control portfolio includes products and services used to safely, reliably and efficiently solve a wide range of demanding process and discrete automation and motion control applications. Our Water Management platform is a leader in the multi-billion dollar, specification-driven, commercial and institutional construction market for water management products as well as municipal water and wastewater treatment markets. Our Water Management product portfolio includes building and site water management solutions used primarily in nonresidential construction and retrofit end markets and engineered flow control products for the municipal water and wastewater treatment market worldwide.

Our products are generally "specified" or requested by end users across both of our strategic platforms as a result of our products' reliable performance in demanding environments, our custom application engineering capabilities, and our ability to provide global customer support. Typically, our Process & Motion Control products are initially incorporated into products sold by original equipment manufacturers ("OEMs") or sold to end users as critical components in large, complex systems where the cost of failure or downtime is high, and thereafter replaced through industrial distributors as they are consumed or require replacement.

The demand for our Water Management products is primarily driven by new infrastructure, the retrofit of existing structures to make them more energy and water efficient, commercial and institutional construction, and, to a lesser extent, residential construction. We believe we have become a market leader in the industry by developing innovative products that meet the stringent third-party regulatory, building, and plumbing code requirements and by subsequently achieving specification of our products into projects and applications.

We are led by an experienced, high-caliber management team that employs RBS as a proven operating philosophy to drive excellence and world-class performance in all aspects of our business by focusing on the "Voice of the Customer" process and ensuring superior customer satisfaction. Our footprint encompasses 45 principal Process & Motion Control manufacturing, warehouse, and repair facilities and 24 principal Water Management manufacturing and warehouse facilities located around the world which allow us to meet the needs of our increasingly global customer base as well as our distribution channel partners.

Unless otherwise noted, "Rexnord," "we," "us," "our" and the "Company" means Rexnord Corporation and its consolidated subsidiaries. Our fiscal year is the year ending March 31 of the corresponding calendar year. For example, our fiscal year 2017, or fiscal 2017, means the period from April 1, 2016 to March 31, 2017.



Table of Contents**RBS**

RBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of our business. RBS is based on the following principles: (1) strategy deployment (a long-term strategic planning process that determines annual improvement priorities and the actions necessary to achieve those priorities); (2) measuring our performance based on customer satisfaction, or the “Voice of the Customer;” (3) involvement of all our associates in the execution of our strategy; and (4) a culture that embraces Kaizen, the Japanese philosophy of continuous improvement. We believe applying RBS can yield superior growth, quality, delivery and cost positions relative to our competition, resulting in enhanced profitability and ultimately the creation of stockholder value. As we have applied RBS over the past several years, we have experienced significant improvements in growth, productivity, cost reduction and asset efficiency and believe there are substantial opportunities to continue to improve our performance as we continue to apply RBS.

**Our Platforms**

Below is a summary of our net sales by segment and geographic region of origination (dollars in millions):

	Year Ended March 31, 2017			
	United States	Europe	Rest of World	Total Net Sales
Process & Motion Control	\$753.6	\$218.9	\$162.2	\$1,134.7
% of net sales	66.4	% 19.3	% 14.3	% 100.0
Water Management	566.7	113.7	103.1	783.5
% of net sales	72.3	% 14.5	% 13.2	% 100.0
Consolidated	\$1,320.3	\$332.6	\$265.3	\$1,918.2
% of net sales	68.9	% 17.3	% 13.8	% 100.0

See more information regarding our segments and our sales by geography within Item 8, Note 20 Business Segment Information.

**Process & Motion Control**

Our Process & Motion Control platform designs, manufactures, markets and services a broad range of specified, highly-engineered mechanical components used within complex systems where our customers' reliability requirements and costs of failure or downtime are high. The Process & Motion Control portfolio includes motion control products, shaft management products, aerospace components, and related value-added services. Our products and services are marketed and sold globally under widely recognized brand names, including Rexnord®, Rex®, FlatTop®, Falk®, Link-Belt® and Cambridge®. We sell our Process & Motion Control products and services into a diverse group of attractive end markets, including food and beverage, aerospace, mining, petrochemical, energy and power generation, cement and aggregates, forest and wood products, agriculture, and general industrial and automation applications. We have established long-term relationships with OEMs and end users serving a wide variety of industries. As a result of our long-term relationships with OEMs and end users, we have created a significant installed base for our Process & Motion Control products, which are consumed or worn in use and have a relatively predictable replacement cycle. We believe this replacement dynamic drives recurring maintenance, repair, and operations (“MRO”) demand for our products. We estimate that approximately half of our Process & Motion Control net sales are to distributors, who provide an aftermarket channel to primarily serve OEM and end-user MRO demand generated by the installed base of our products through approximately 2,300 distribution points across 110 countries.

Most of our products are critical components in large scale manufacturing processes, where the cost of component failure and resulting down-time is high. Many customer facilities have a range of requirements and applications for multiple products across our expansive product portfolio. We believe our reputation for superior quality, reliability, application expertise, and ability to meet lead time expectations are highly valued by our customers, as demonstrated by their preference to specify and purchase Rexnord brand products when it is time to replace an installed Rexnord product, or “like-for-like” product replacements. We believe this replacement dynamic for our products, our focus on capturing first-fit installations, our significant installed base, and our global supply chain and manufacturing footprint enables us to achieve premium pricing, world-class customer satisfaction, recurring revenue generation, and a



competitive advantage.

5

---

## Table of Contents

### Water Management

Our Water Management platform designs, procures, manufactures, and markets products that provide and enhance water quality, safety, flow control and conservation. The Water Management product portfolio includes professional grade water control and safety, water distribution and drainage, finish plumbing, and site works products for primarily nonresidential buildings and flow control products for water and wastewater treatment infrastructure markets. Our products are marketed and sold under widely recognized brand names, including Zurn®, Wilkins®, GA®, Green Turtle® and VAG®.

Over the past century, the businesses that comprise our Water Management platform have established themselves as innovators and leading designers, manufacturers and distributors of highly engineered products and solutions that control the flow, delivery, treatment and conservation of water to the infrastructure, institutional, and commercial construction and, to a lesser extent, the residential construction end markets. Segments of the infrastructure end market include: municipal water and wastewater, transportation, and hydropower. Segments of the institutional construction end market include government, health care, and education. Segments of the commercial construction end market include: lodging, retail, dining, sports arenas, and warehouse/office. The demand for our Water Management products is primarily driven by new infrastructure, the retrofit of existing structures (to make them more energy and water efficient), and new commercial and institutional building construction.

Our Water Management products are principally specification-driven and project-critical and typically represent a low percentage of the overall project cost. We believe these characteristics, coupled with our extensive distribution network, create a high level of end-user loyalty for our products and allow us to maintain leading market shares in the majority of our product lines. We believe we have become a market leader in the industry by meeting the stringent country specific regulatory, building, and plumbing code requirements and subsequently achieving specification of our products into projects and applications. The majority of these stringent testing and regulatory approval processes are completed through the Foundation for Cross-Connection Control and Hydraulic Research at the University of Southern California, the International Association of Plumbing and Mechanical Officials (“IAPMO”), the National Sanitation Foundation (“NSF”), the Plumbing and Drainage Institute (“PDI”), the Underwriters Laboratories (“UL”), Factory Mutual (“FM”), the American Waterworks Association (“AWWA”), Deutscher Verein des Gas- und Wasserfaches e.V. (“DVGW”), Umwelt Bundesamt (“UBA”), Water Regulations Advisory Scheme (“WRAS”), ANCOR Groupe (“NF”), Direction générale de la Santé (“ACS”), and Keurings Instituut voor Waterleiding Artikelen (“KIWA”) prior to the commercialization of our products.

Our Water Management platform has an extensive sales and marketing network spanning 50 countries, which consists of approximately 1,100 independent sales representatives across 200 sales agencies in addition to 240 direct sales and marketing associates who work with local engineers, contractors, builders, and architects to specify our products for use in construction projects. Specifically, it has been our experience that, once an architect, engineer, contractor, or owner has specified our product with satisfactory results, that person will generally continue to use our products in future projects. The inclusion of our products with project specifications, combined with our ability to innovate, engineer, and deliver products and systems that save time and money for engineers, contractors, builders, and architects has resulted in growing demand for our products. Our distribution model is predicated upon maintaining high product availability near our customers. We believe that this model provides us with a competitive advantage as we are able to meet our customer demand with local inventory at significantly reduced lead times as compared to others in our industry.

### Our Markets

We evaluate our competitive position in our markets based on available market data, relevant benchmarks compared to our relative peer group, and industry trends. We generally do not participate in segments of our served markets that have been commoditized or in applications that do not require differentiation based on product quality, reliability and innovation. In both of our platforms, we believe the end markets we serve span a broad and diverse array of commercial and industrial end markets with solid fundamental long-term growth characteristics.

### Process & Motion Control Market

The market for Process & Motion Control products is very fragmented with most participants having single or limited product lines and serving specific geographic markets. While there are numerous competitors with limited product offerings, there are only a few national and international competitors of a size comparable to us. While we compete with certain domestic and international competitors across a portion of our product lines, we do not believe that any one competitor directly competes with us across each of our product line categories. The industry's customer base is broadly diversified across many sectors of the economy. We believe that growth in the Process & Motion Control market is closely tied to overall growth in industrial production which we believe has fundamental and significant long-term growth potential. In addition, we believe that through innovating to meet the changes in customer demands and focusing on higher growth end-markets, Process & Motion Control can grow at rates faster than overall United States industrial production.

## Table of Contents

The Process & Motion Control market is also characterized by the need for sophisticated engineering experience, the ability to design and produce a broad number of niche products with short lead times, and long-standing customer relationships. We believe entry into our markets by competitors with lower labor costs, including foreign competitors, will be limited due to the fact that we manufacture highly specialized niche products that are critical components in large-scale manufacturing processes. In addition, we believe there is an industry trend of customers increasingly consolidating their vendor bases, which we believe should allow suppliers with broader product offerings, such as ourselves, to capture additional market share.

### Water Management Market

The markets in which our Water Management platform participates are relatively fragmented with competitors across a broad range of industries, sectors, and product lines. Although competition exists across all of our Water Management businesses, we do not believe that any one competitor directly competes with us across all of our product lines. We believe that our served markets are growing long term at relatively strong rates, and that the growing demand for water conservation, quality, and safety can potentially support market growth above that of overall United States industrial production. We believe that we can continue to grow our platform at rates above the growth rate of the overall market and the growth rate of our competition, by focusing our efforts and resources towards end markets that have above-average growth characteristics.

We believe the areas of the Water Management industry in which we compete are tied to growth in infrastructure, commercial, and institutional construction, which we believe have significant long-term growth fundamentals. Historically, the infrastructure, commercial, and institutional construction sectors have been more stable and less vulnerable to down-cycles than the residential construction industry. Compared with residential construction cycles, downturns in infrastructure, commercial, and institutional construction have been shorter and less severe, and upturns have lasted longer and had higher peaks in terms of spending as well as units and square footage. In addition, we believe that water management manufacturers with innovative products, like ours, are able to grow at a faster pace than the broader infrastructure, commercial, and institutional construction markets, as well as mitigate cyclical downturns.

The Water Management industry's specification-driven end-markets require manufacturers to work closely with engineers, contractors, builders, and architects in local markets to design specific applications on a project-by-project basis. As a result, building and maintaining relationships with architects, engineers, contractors and builders, who specify products for use in construction projects, and having flexibility in design and product innovation are critical to compete effectively in the market. Companies with a strong network of such relationships have a competitive advantage. Specifically, it has been our experience that, once an engineer, contractor, builder, or architect has specified our product with satisfactory results, that person often will continue to use our products in future projects.

### Our Products

#### Process & Motion Control Products

Our Process & Motion Control products are generally critical components in the machinery or plant in which they operate, yet they typically account for a low percentage of an end user's total production cost. We believe, because the costs associated with a Process & Motion Control product failure to the end user can be substantial, end users in most of the markets we serve focus on Process & Motion Control products with superior quality, reliability, and availability, rather than considering price alone, when making a purchasing decision. We believe that the key to success in our industry is to develop and maintain a reputation for quality and reliability, as well as create and maintain an extensive distribution network, which we believe leads to a strong preference to replace products "like-for-like" while driving recurring MRO revenues and linking first-fit specifications to market share gain. Our leading Process & Motion Control brands include Rexnord, Rex, Addax®, Euroflex®, Falk, FlatTop, Cambridge, Link-Belt, Omega®, PSI®, Shafer®, Stearns®, Highfield®, Thomas®, and Tollok®.

#### Motion Control Products

We are a leading manufacturer and supplier of highly engineered mechanical power transmission components used to affect and control material movement within heavy-duty process automation and discrete automation applications.

Our motion control products include table top conveying chain and related accessories, metal conveying and engineered woven metals, gearing & gear drives, conveying equipment, industrial chain, and custom assemblies. Our FlatTop highly-engineered table top conveyor chain and related conveyor system accessories are used in discrete automation applications such as high-speed beverage-filling operations and is primarily sold to the food and beverage processing and packaging, consumer products, warehousing and distribution, automotive, and parts processing industries. Our gear drives reduce the output speed and increase the torque from an electronic motor or engine to the level required to drive a particular piece of equipment or an element of a larger mechanical system (such as a conveyor system). We produce a wide range of heavy, medium, and light-duty gear drives for bulk and unit material handling, mixing, pumping, and general gearing applications. Our conveying equipment components and industrial chain products are used primarily in heavy-duty process automation applications in numerous industries, including mining, construction and agricultural equipment, forest and wood products, cement and aggregates processing and hydrocarbon processing.

## Table of Contents

In fiscal 2017, we purchased Cambridge International Holdings Corp. ("Cambridge"), which is one of the world's largest suppliers of metal conveying and engineered woven metal solutions, primarily used in food processing end markets, as well as in architectural, packaging and filtration applications. We also produce custom-engineered, application-specific miniature gearboxes and motion control assemblies and components that are supplied to a variety of end markets, including aerospace and defense, medical equipment, robotics, semiconductor, instrumentation, and satellite communications.

### Shaft Management Products

We are a leading manufacturer and supplier of highly engineered mechanical power transmission components used to control, support, and protect rotating shafts within process automation and discrete automation applications. Rotating shafts transmit system power to the moving elements in machinery and equipment. Our shaft management products include couplings, torque limiters, electromagnetic clutches and brakes, industrial bearings, and shaft locking assemblies. Couplings are primarily used in high-speed, high-torque applications and are the interface between two shafts that permit power to be safely and efficiently transmitted from one shaft to the other. Torque limiters, clutches, and brakes are used in machinery applications to safely control shaft engagement and stopping. Industrial bearings are components that support, guide and reduce the friction of motion between fixed and moving machine parts. We primarily produce mounted bearings, which are offered in a variety of specialized housings to suit specific industrial applications, and generally command higher margins than unmounted bearings. Shaft locking assemblies are used to secure machine shafts to hubs through a mechanical interference fit that eliminates shaft backlash and improves transmission of high torques and axial loads. Our shaft management products are used in a wide range of end markets that include food and beverage, mining, energy and power generation, aggregates processing, pulp and paper, steel, chemical, forest and wood products, agricultural equipment, and general industrial and automation.

### Aerospace Components

We supply our aerospace components primarily to the commercial and military aircraft end markets for use in door systems, engine accessories, engine controls, engine mounts, flight control systems, gearboxes, landing gear and rotor pitch controls. The majority of our sales are to engine and airframe OEMs that specify our aerospace bearing and mechanical seal products for their aircraft and turbine engine platforms, often based on proprietary designs, capabilities, and solutions. We also supply highly specialized gears and related products through our aerospace-focused build-to-print manufacturing operations.

### Water Management Products

Water Management products tend to be project-critical, highly-engineered and high value-add and typically are a low percentage of overall project cost. We believe the combination of these features creates a high level of end-user loyalty, reinforced by our investments in developing innovative new product solutions. Demand for these products is influenced by regulatory, building and plumbing code requirements. Many Water Management products must meet the stringent country-specific regulatory, building, and plumbing code requirements prior to the commercialization of our products (such as IAPMO, NSF, UL, FM, PDI, AWWA, DVGW, UBA, WRAS, NF, ACS, and KIWA). In addition, many of these products must meet detailed specifications set by water management engineers, contractors, builders, and architects. Among our leading brands are Zurn, Wilkins, and VAG.

### Water Safety, Quality, and Flow Control Products

Our water safety, quality, and flow control products are sold under the Zurn and Wilkins brand names and encompass a wide range of valve products, distribution and drainage products, and site works products. Key valve products include backflow preventers, fire system valves, pressure reducing valves, and thermostatic mixing valves. These highly-specified and engineered flow control devices protect and control the potable water supply and emergency water supply within a building or site. Designed to meet the stringent requirements of independent test labs, such as the Foundation for Cross Connection Control and Hydraulic Research at USC, NSF, UL and FM, they are sold into commercial, institutional, and industrial new construction and retrofit applications as well as the fire protection, waterworks, and irrigation end markets.

Engineered water distribution solutions that protect human health and gravity drainage products that protect the environment are sold under the Zurn brand and are typically required in the early stages of a construction or retrofit

project, when potable water and non-potable water distribution and drainage systems are installed. Specification drainage products include point drains (such as roof drains and floor drains), hydrants, fixture carrier systems, and chemical drainage systems that are used to control storm water, process water, and potable water in various commercial, institutional, industrial, civil, and irrigation applications. Water distribution products include PEX piping, valves, fittings, and installation tools. PEX tubing is manufactured from cross-linked polyethylene and is designed for high temperature and pressure fluid distribution piping applications for both potable water and radiant heating systems in the residential and nonresidential construction industries. These systems are engineered to meet stringent NSF and ASTM standards helping water professionals provide safe and efficient building and site water management solutions.

## Table of Contents

Site works products are commonly installed within a building or on a site to manage storm water and wastewater. Linear drainage systems are used to capture and direct storm water in a wide variety of commercial, institutional, industrial, and transportation infrastructure applications. Our wastewater pre-treatment products include oil and grease interceptors and separators, acid neutralization systems, and remote monitoring systems and are marketed under the Zurn and Green Turtle brands. Interceptors are used to separate and capture fats, oils, and greases from wastewater before it is discharged into the municipal wastewater collection system. Our proprietary designs are primarily fabricated from fiberglass reinforced polyester, which we believe is gaining market share from traditional concrete products due to its reliability, service life, ease of service, and lowest cost of ownership. Applications include restaurants and institutional foodservice operations, office buildings, hotels, entertainment venues, schools, grocery and convenience stores, airports, vehicle service garages, and fleet operations and maintenance facilities; acid neutralization systems are primarily used in schools, hospitals, and laboratories.

### Water Conservation Products

Water conservation products are typically required in the latter stages of a construction or retrofit project, when interior spaces are being outfitted with fixtures, valves, and faucets. Zurn's finish plumbing products include manual and sensor-operated flush valves marketed under the Aquaflush®, AquaSense®, and AquaVantage® names and heavy duty commercial faucets marketed under the AquaSpec® name. Innovative water conserving fixtures are marketed under the EcoVantage® and Zurn One® names. These products are commonly used in office buildings, schools, hospitals, airports, sports facilities, convention centers, shopping malls, restaurants, and industrial production buildings. The Zurn One Systems® integrate valve and/or faucet products with fixtures into complete, easily customizable plumbing systems, and thus provide a valuable time and cost-saving means of delivering commercial and institutional bathroom fixtures. The EcoVantage fixture systems promote water-efficiency and low consumption of water that deliver savings for building owners in new construction and retrofit bathroom fixture installations.

### Water and Wastewater Infrastructure Products

Our water and wastewater products are primarily sold under the VAG, GA, and Wilkins brand names and are used to control the flow of water and wastewater throughout the water cycle from raw water through collection, storage, distribution, and wastewater treatment. These products are highly specified, designed, and engineered; many include proprietary design features that provide differentiated component performance and enhanced system reliability. Products include automatic control valves, check valves, air valves, butterfly valves, hydrants, actuation systems, and other specialized products for municipal, industrial, and hydropower applications. Our comprehensive product range is primarily sold into the growing and less-cyclical water supply and treatment markets worldwide.

### Acquisitions and Divestitures

Mergers and acquisitions are a critical part of the Rexnord growth strategy. Our strategy is to build around our global strategic platforms by acquiring leading industrial manufacturing companies in attractive markets, with businesses that we believe will benefit from RBS to increase customer satisfaction, revenue growth and operating margins. In our last three fiscal years, we have completed several acquisitions within our Process & Motion Control and Water Management platforms focused on expanding our product portfolio and global presence in the end markets we serve; those acquisitions are further described below. The respective purchase prices for these transactions are stated net of cash acquired and excludes transaction costs. Pro forma financial information has not been presented for any of these acquisitions as the net effects were neither significant nor material to Rexnord's results of operations or financial position.

#### Process & Motion Control

June 1, 2016 - We acquired Cambridge, which has operations in Cambridge, Maryland and Matamoros, Mexico. Cambridge is one of the world's largest suppliers of metal conveying and engineered woven metal solutions, primarily used in food processing end markets, as well as in architectural, packaging and filtration applications, for a cash purchase price of \$213.4 million.

January 12, 2015 - We acquired Euroflex Transmissions (India) Private Limited ("Euroflex"), an India-based supplier of high performance disc couplings used in power generation, gas compression and industrial process machinery applications, for a cash purchase price of \$76.0 million.



Edgar Filing: Rexnord Corp - Form 10-K

October 30, 2014 - We acquired Tollok S.p.A. ("Tollok"), an Italy-based supplier of highly engineered shaft locking devices for the power generation and process industries, as well as general industrial applications, for a cash purchase price of \$39.2 million.

Water Management

April 15, 2014 - We acquired Green Turtle Technologies Ltd., Green Turtle Americas Ltd. and Filamat Composites Inc. (collectively, "Green Turtle"), a Canada-based manufacturer of branded fiberglass oil and grease separators and traps, for a total cash purchase price of \$27.7 million.

## Table of Contents

In addition to making acquisitions, we from time to time review our operations to determine whether it would be in our interest to divest of certain non-core or non-strategic businesses. Information regarding divestitures within our Process & Motion Control and Water Management platforms during the last three fiscal years are included below.

### Process & Motion Control

During fiscal 2015, we ceased operations in our non-core Mill Products business, which conducted its operations in the United States and Australia. Historical results associated with this business are presented as a discontinued operation in our consolidated financial statements. Refer to Item 8, Note 4 Discontinued Operations for additional information.

### Water Management

During fiscal 2016, we decided to exit product lines sold under the Rodney Hunt Fontaine® tradename ("RHF"), which resulted in the recognition of various non-cash charges related to the impairment of property and equipment, impairment of intangible assets and other exit-related costs. As of the end of fiscal 2017, the exit of the RHF product line was substantially complete. Refer to Item 8, Note 5 Restructuring and Other Similar Charges for additional information.

## Customers

### Process & Motion Control Customers

Our Process & Motion Control components are either incorporated into products sold by OEMs or sold to end users for their MRO requirements either directly in certain regions or, more commonly, through industrial distributors as aftermarket products. While approximately 48% of our Process & Motion Control net sales are through our distribution partners, OEMs and end users ultimately drive the demand for our Process & Motion Control products. With approximately 2,300 distributor locations worldwide, we have one of the most extensive distribution networks in the industry. The largest of our Process & Motion Control industrial distributors, which is also our largest customer, accounted for approximately 8.4%, 8.4%, and 8.9% of consolidated net sales during the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

Rather than serving as passive conduits for delivery of product, our industrial distributors participate in the overall competitive dynamic in the Process & Motion Control industry. Industrial distributors play a role in determining which of our Process & Motion Control products are stocked at their distributor centers and branch locations and, consequently, are most readily accessible to MRO buyers, and the price at which these products are sold.

We market our Process & Motion Control products both to OEMs and directly to end users to create preference of our products through end-user specification. We believe this customer preference is important in differentiating our Process & Motion Control products from our competitors' products, and preserves our ability to create channel partnerships where distributors will recommend Rexnord products to OEMs and end users. In some instances, we have established a relationship with the end user such that we, the end user, and the end user's preferred distributor enter into a trilateral agreement whereby the distributor will purchase our Process & Motion Control products and stock them for the end user. We believe our extensive product portfolio positions us to benefit from the trend towards rationalizing suppliers by industrial distributors.

### Water Management Customers

Our water safety, quality, flow control, and conservation products are sold for new construction, remodeling, and retrofit applications to customers in our commercial construction, institutional, infrastructure, and residential construction end markets and are distributed through independent sales representatives, plumbing wholesalers, and industry-specific distributors in the foodservice, industrial, janitorial, and sanitation industries. Our independent sales representatives work with architects, engineers, building owners and operators, contractors, and builders, to specify our water safety, quality, flow control and conservation products for their use and with wholesalers to assess and meet the needs of building contractors in construction projects. They also combine knowledge of our products' installation methods and delivery availability with knowledge of the local markets to provide contractors with value-added service. We use approximately 1,100 independent sales representatives, along with a network of regional distribution

centers and third-party warehouses, to provide our customers with same-day service and quick response times. Water and infrastructure end users primarily consist of municipalities. Our independent sales representatives, as well as approximately 240 direct sales and marketing associates, work with these end users, as well as their general contractors and engineering firms, to provide them with the engineered solutions that meet their needs. VAG, GA, and Wilkins benefit from strong brand recognition in the industry, which is further bolstered by a strong customer propensity to replace “like-for-like” products.

## Table of Contents

In addition to our domestic Water Management manufacturing facilities, we have maintained a global network of independent sources that manufacture high quality, lower-cost component parts for our commercial, institutional, infrastructure, and residential products. These sources fabricate parts to our specifications using our proprietary designs, which enables us to focus on product engineering, assembly, testing, and quality control. By closely monitoring these sources and through extensive product testing, we are able to maintain product quality and be a cost-competitive producer of commercial and institutional products.

### Product Development

The majority of our new product development begins with our extensive “Voice of the Customer” operating philosophy. We have a team of approximately 340 engineers and technical employees who are organized by product line. Each of our product lines has technical staff responsible for product development and application support. The Rexnord Innovation Center provides additional support through enhanced capabilities and specialty expertise that can be utilized for product innovation and new product development. The Rexnord Innovation Center is a certified lab comprised of approximately 30 specialists that offers testing capability and design support during the development process to all of our product lines. Our existing pipeline and continued investment in new product development are expected to drive revenue growth as we address key customer needs.

In both of our Process & Motion Control and Water Management platforms, we have demonstrated a commitment to developing technologically advanced products within the industries we serve. In the Process & Motion Control platform, we had approximately 300 United States active patents and approximately 700 active foreign patents as of March 31, 2017. In addition, we thoroughly test our Process & Motion Control products to ensure their quality, understand their wear characteristics and improve their performance. These practices have enabled us, together with our customers, to develop reliable and functional Process & Motion Control solutions. In our Water Management platform, we had approximately 100 United States active patents and approximately 100 foreign active patents as of March 31, 2017. Product innovation is crucial in the commercial and institutional plumbing products markets because new products must continually be developed to meet specifications and regulatory demands. Zurn's plumbing products are known in the industry for such innovation. During fiscal 2017, 2016 and 2015 our total investment in research, development and engineering was \$38.3 million, \$37.2 million, and \$38.8 million, respectively, or approximately 2% of net sales.

### Suppliers and Raw Materials

The principal materials used in our Process & Motion Control and Water Management manufacturing processes are commodities and components available from numerous sources. The key materials used in our Process & Motion Control manufacturing processes include: sheet, plate and bar steel, castings, forgings, high-performance engineered plastic and a variety of components. Within our Water Management platform, we purchase a broad range of materials and components throughout the world in connection with our manufacturing activities that include: bar steel, brass, castings, copper, zinc, forgings, plate steel, high-performance engineered plastic and resin. Our global sourcing strategy is to maintain alternate sources of supply for our important materials and components wherever possible within both our Process & Motion Control and Water Management platforms. Historically, we have been able to successfully source materials, and consequently are not dependent on a single source for any significant raw material or component. As a result, we believe there is a readily available supply of materials in sufficient quantity from a variety of sources to serve both our short-term and long-term requirements. Additionally, we have not experienced any significant shortage of our key materials and have not historically engaged in hedging transactions for commodity supplies. We generally purchase our materials on the open market. However, in certain situations we have found it advantageous to enter into contracts for certain commodity purchases. Although currently we are not a party to any unconditional purchase obligations, including take-or-pay contracts or through-put contracts, these contracts generally have had one to five-year terms and have contained competitive and benchmarking clauses to ensure competitive pricing.

### Backlog

Our backlog of unshipped orders was \$434 million and \$409 million as of March 31, 2017 and March 31, 2016, respectively. As of March 31, 2017, approximately 15% of our backlog was scheduled to ship beyond fiscal 2018. Also, see Item 1A Risk Factors of this report for more information on the risks associated with backlog.

#### Seasonality

We do not experience significant seasonality of demand for our Process & Motion Control products, although sales generally are slightly higher during our fourth fiscal quarter as our customers spend against recently approved capital budgets and perform maintenance and repairs in advance of spring and summer activity. Our Process & Motion Control end markets also do not experience significant seasonality of demand.

## Table of Contents

Demand for our Water Management products is primarily driven by commercial construction activity, remodeling, and retrofit opportunities, and to a lesser extent, new home starts as well as water and wastewater infrastructure expansion for municipal, industrial, and hydropower applications. Accordingly, weather has an impact on the seasonality of certain end markets. With the exception of our remodeling and retrofit opportunities, weather is an important variable as it significantly impacts construction. Spring and summer months in the United States and Europe represent the main construction season for increased construction in the commercial, institutional, and infrastructure markets, as well as new housing starts. As a result, sales generally decrease slightly in the third and fourth fiscal quarters as compared to the first two quarters of the fiscal year. The autumn and winter months generally impede construction and installation activity.

Our business also depends upon general economic conditions and other market factors beyond our control, and we serve customers in cyclical industries. As a result, our operating results could be negatively affected during economic downturns. See Item 1A Risk Factors of this report for more information on the risks associated with general economic conditions.

### Employees

As of March 31, 2017, we had approximately 8,000 employees, of whom approximately 4,000 were employed in the United States. Approximately 300 of our United States employees are represented by labor unions. We are currently party to four collective bargaining agreements in the United States and expect one collective bargaining agreement to expire in the first half of fiscal 2018. The remaining three collective bargaining agreements have expiration dates that range from November 2017 through October 2019. Additionally, approximately 1,900 of our employees reside in Europe, where trade union membership is common. We believe we have a strong relationship with our employees, including those represented by labor unions.

### Environmental Matters

Our operations and facilities worldwide are subject to extensive laws and regulations related to pollution and the protection of the environment, health and safety, including those governing, among other things, emissions to air, discharges to water, the generation, handling, storage, treatment and disposal of hazardous wastes and other materials, and the remediation of contaminated sites. A failure by us to comply with applicable requirements or the permits required for our operations could result in civil or criminal fines, penalties, enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Some environmental laws and regulations impose requirements to investigate and remediate contamination on present and former owners and operators of facilities and sites, and on a potentially responsible party (“PRP”) for sites to which such parties may have sent waste for disposal. Such liability can be imposed without regard to fault and, under certain circumstances, may be joint and several, resulting in one PRP being held responsible for the entire obligation.

Liability may also include damages to natural resources. On occasion we are involved in such investigations and/or cleanup, and also have been or could be named as a PRP in environmental matters.

### Additional Information

The address of our principal executive office is 247 Freshwater Way, Milwaukee, Wisconsin 53204. Our phone number is (414) 643-3739. Our internet website address is [www.rexnord.com](http://www.rexnord.com). We make available free of charge, on or through our internet website, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission (the “SEC”), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements on Schedule 14A, as well as amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Copies of any materials that we file with the SEC can also be obtained free of charge through the SEC's website at [www.sec.gov](http://www.sec.gov). The SEC's Public Reference Room can be contacted at 100 F Street, N.E., Washington, D.C. 20549, or by calling 1-800-732-0330. In addition, the (i) charters

for the Audit, Nominating and Corporate Governance, and Compensation Committees of our Board of Directors; (ii) our Corporate Governance Guidelines; and (iii) our Code of Business Conduct and Ethics are also available on our website. We will also post any amendments to these documents, or information about any waivers granted to directors or executive officers with respect to the Code of Ethics, on our website. Our website and the information contained on or connected to that site are not incorporated by reference into this Form 10-K.

Table of Contents

ITEM 1A. RISK FACTORS.

We have identified the following material risks to our business. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us, or those risks we currently view to be immaterial, may also materially and adversely affect our business, financial condition or results of operations. In addition, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 for a further discussion of some of the factors that could affect future results. If any of these risks materialize, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

Strategic Risks

Strategic risk relates to the Company's business plans and strategies, including the risks associated with: competitive threats; the global macro-environment in which we operate; international uncertainties; restructuring initiatives; mergers and acquisitions; protection of intellectual property; and other risks, including customer concentration, reliance on independent distributors and retention of key personnel.

The markets in which we sell our products are highly competitive; an inability to effectively compete may adversely affect

our financial conditions and results of operations.

We operate in highly competitive markets in both of our platforms. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate. Some of our competitors are larger and may have greater financial and other resources than we do, and our competitors may adopt more aggressive sales policies and devote greater resources to the development, promotion and sale of their products than we do, all of which could result in a loss of customers and in turn adversely affect our results of operations.

We operate in highly fragmented markets within the Process & Motion Control platform. As a result, we compete against numerous companies. Competition in our business lines is based on a number of considerations, including product performance, cost of transportation in the distribution of products, brand reputation, quality of client service and support, product availability and price. Additionally, some of our larger customers continue to attempt to reduce the number of vendors from which they purchase in order to increase their efficiency. If we are not selected to become one of these preferred providers, we may lose access to certain sections of the markets in which we compete. Our customers increasingly demand a competitively priced broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, we will need to invest continuously in manufacturing, customer service and support, marketing and our distribution networks. We cannot assure that we will have sufficient resources to continue to make these investments or that we will maintain our competitive position within each of the markets we serve.

Within the Water Management platform, we compete against both large international and national rivals, as well as many regional competitors. Significant competition in any of the markets in which the Water Management platform operates could result in substantial downward pressure on product pricing and our profit margins, thereby adversely affecting the Water Management financial results. Furthermore, we cannot provide assurance that we will be able to maintain or increase the current market share of our products successfully in the future.

We may be unable to realize intended benefits from our ongoing supply chain optimization and footprint repositioning initiatives, restructuring and divestiture efforts, and as a result our profitability may be hurt or our business otherwise might be adversely affected.

In order to operate more efficiently and control costs, we undertake from time to time restructuring plans, which can include global facility consolidations, product rationalizations, workforce reductions and other cost reduction initiatives. We also choose to divest operations which we no longer believe are additive or complementary to our platforms or strategic direction. These plans are intended to reduce operating costs, to modify our footprint to reflect changes in the markets we serve, to reflect changes in business focus and/or to address overall manufacturing overcapacity, including as a result of acquisitions. We may undertake further restructuring actions, workforce reductions or divestitures in the future. These types of activities are complex. If we do not successfully manage our current restructuring activities, or any other restructuring activities or divestitures that we may undertake in the future,



expected efficiencies, benefits and cost savings might be delayed or not realized, and our operations and business could be disrupted.

Table of Contents

In addition, as a result of such actions, we expect to incur restructuring expenses and other charges, which may be material, and may exceed our estimates. Several factors could cause restructuring or divestiture activities to adversely affect our business, financial condition and results of operations. These include potential disruption of our operations and other aspects of our business. Employee morale and productivity could also suffer or result in unintended employee attrition. These activities require substantial management time and attention and may divert management from other important work or result in a failure to meet operational targets. Divestitures may also give rise to obligations to buyers or other parties that could have a financial effect after the transaction is completed. Moreover, we could encounter changes to, or delays in executing, any restructuring or divestiture plans, any of which could cause further disruption and additional unanticipated expense.

General economic and financial market weakness, as well as overall challenging market cycles, may adversely affect our financial condition or results of operations.

Our business operations have been adversely affected from time to time by volatility and weaknesses in the global economy and financial markets. A weakening of current conditions or a future downturn may adversely affect our future results of operations and financial condition. Weak, challenging or volatile economic conditions in the end markets, businesses or geographic areas in which we sell our products could reduce demand for products and result in a decrease in sales volume for a prolonged period of time, which would have a negative impact on our future results of operations.

Our financial performance depends, in large part, on conditions in the markets that we serve in the U.S. and the global economy generally. Some of the industries we serve are highly cyclical, such as the aerospace, energy and industrial equipment industries. We have undertaken cost reduction programs as well as diversified our markets to mitigate the effects of economic downturns; however, such programs may be unsuccessful. Any sustained weakness in demand or downturn or uncertainty in the economy generally would materially reduce our net sales and profitability.

For example, sales to the construction industry are driven by trends in commercial and residential construction, housing starts and trends in residential repair and remodeling. Consumer confidence, weather conditions, mortgage rates, credit standards and availability of consumer credit and income levels play a significant role in driving demand in commercial and residential construction, repair and remodeling sector. A drop or weakness in consumer confidence, prolonged adverse weather conditions, lack of availability or increased cost of credit, credit standards or unemployment could delay a recovery of commercial and residential construction levels and have a material adverse effect on our business, financial condition, results of operations or cash flows. This may express itself in substantial downward pressure on product pricing and our profit margins, thereby adversely affecting our financial results.

Additionally, some of our products are used in the energy, mining and cement and aggregates markets. Reductions and volatility in the prices of petroleum-related products and certain other mined raw materials costs have adversely affected the energy and mining industries, reducing their capital investments and the demand for certain of our products. Some customers may defer or cancel anticipated expenditures, projects or expansions until such time as these projects will be profitable based on the underlying cost of commodities compared to the cost of the project.

Weakness in those markets may also affect pricing of our products that are sold for use in those markets.

Volatility and disruption of financial markets could limit the ability of our customers to obtain adequate financing to maintain operations and may cause them to terminate existing purchase orders, reduce the volume of products they purchase from us in the future or impact their ability to pay their receivables. Adverse economic and financial market conditions may also cause our suppliers to be unable to meet their commitments to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing or eliminating the amount of trade credit available to us.

Our international operations are subject to uncertainties, which could adversely affect our business, financial condition, results of operations or cash flows.

Our business is subject to certain risks associated with doing business internationally. A significant portion of our sales are international; approximately 31% of our total net sales in fiscal 2017 originated outside of the U.S.

Additionally, we have significant manufacturing operations outside of the U.S. Accordingly, our future results could

be harmed by a variety of factors relating to global operations, including:

- fluctuations in currency exchange rates, particularly fluctuations in the Euro against the U.S. dollar;

foreign exchange controls;

- tariff increases or other trade protection measures;

compliance with export controls, import and export licensing requirements, and other trade compliance regulations;

changes in tax laws;

interest rates;

differences in business practices in various countries;

## Table of Contents

• changes and differences in regulatory requirements in countries in which we operate or make sales;  
• differing labor regulations, practices and standards;  
• requirements relating to withholding taxes on remittances and other payments by subsidiaries;  
• restrictions on our ability to own or operate subsidiaries, make investments, move operations or acquire new businesses in these jurisdictions;  
• political or economic instability relating to the "Brexit" process in the United Kingdom;  
• restrictions under U.S. tax laws and other laws on our ability to repatriate dividends from our foreign subsidiaries; and  
• exposure to liabilities under anti-corruption laws in various countries, including the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA").

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could have a material adverse effect on our international operations and, consequently, our business, financial condition, results of operations or cash flows.

The loss or financial instability of any significant customer or customers accounting for our backlog could adversely affect our business, financial condition, results of operations or cash flows.

A substantial part of our business is concentrated with a few customers, and we have certain customers that are significant to our business. During fiscal 2017, our top 20 customers accounted for approximately 35.6% of our consolidated net sales, and our largest customer accounted for 8.4% of our consolidated net sales. The loss of one or more of these customers or other major customers, or a deterioration in our relationship with any of them could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our contracted backlog is comprised of future orders for our products from a broad number of customers. Defaults by any of the customers that have placed significant orders with us could have a significant adverse effect on our net sales, profitability and cash flow. Our customers may in the future default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons deriving from the general economic environment or circumstances affecting those customers in particular. If a customer defaults on its obligations to us, it could have a material adverse effect on our backlog, business, financial condition, results of operations or cash flows. As of March 31, 2017, approximately 15% of our backlog was scheduled to ship beyond fiscal 2018.

We rely on independent distributors. Termination of one or more of our relationships with any of our key independent distributors or an increase in the distributors' sales of our competitors' products could have a material adverse effect on our business, financial condition, results of operations or cash flows.

In addition to our own direct sales force, we depend on the services of independent distributors to sell our Process & Motion Control products and provide service and aftermarket support to our OEMs and end users. We rely on an extensive distribution network, with nearly 2,300 distributor locations nationwide; however, for fiscal 2017, approximately 23% of our Process & Motion Control net sales were generated through sales to three of our key independent distributors, the largest of which accounted for 14% of Process & Motion Control net sales. Within Water Management, we depend on 1,100 independent sales representatives and approximately 60 third-party warehouses to distribute our products; however, for fiscal 2017, our three key independent distributors generated approximately 29% of our Water Management net sales with the largest accounting for 17% of Water Management net sales.

The loss of one of our key distributors or of a substantial number of our other distributors or an increase in the distributors' sales of our competitors' products to our customers could have a material adverse effect on our business, financial condition, results of operations or cash flows.

An inability to identify, or effectively integrate, acquisitions could adversely affect our business, financial condition, results of operations or cash flows.

Acquisitions are part of our growth strategy. In fiscal 2017, we acquired Cambridge. We cannot ensure that suitable acquisition candidates will be identified and acquired in the future, that the financing of any such acquisition will be available on satisfactory terms, that we will be able to complete any such acquisition, that we will be able to

successfully integrate any acquired business or operations, or that we will be able to accomplish our strategic objectives as a result of any such acquisition. Nor can we ensure that our acquisition strategies will be successfully received by customers or achieve their intended benefits.

## Table of Contents

Acquisitions are often undertaken to improve the operating results of either or both of the acquirer and the acquired company and we cannot ensure that we will be successful in this regard. We cannot provide any assurance that we will be able to fully realize the intended benefits from our acquisitions. We have encountered, and may encounter, various risks in acquiring other companies including the possible inability to integrate an acquired business into our operations, potential failure to realize anticipated benefits, diversion of management's attention, issues in customer transitions, potential inadequacies of indemnities and other contractual remedies and unanticipated problems, risks or liabilities, including environmental, some or all of which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

The inability to adequately protect intellectual property, or defend against infringement claims brought against us, could adversely affect our business.

We attempt to protect our intellectual property through a combination of patent, trademark, copyright and trade secret protection, as well as third-party nondisclosure and assignment agreements. We cannot assure that any of our applications for protection of our intellectual property rights will be approved and maintained or that our competitors will not infringe or successfully challenge our intellectual property rights. We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we require employees, consultants and advisors to enter into confidentiality agreements. We cannot assure that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure. If we are unable to maintain the proprietary nature of our technologies, our ability to sustain margins on some or all of our products may be affected, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. In addition, in the ordinary course of our operations, from time to time we pursue and are pursued in potential litigation relating to the protection of certain intellectual property rights, including some of our more profitable products. An adverse ruling in any such litigation could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Terrorism, conflicts and wars may materially adversely affect our business, financial condition and results of operations.

As a global company with a large international footprint, we are subject to increased risk of damage or disruption to us, our employees, facilities, partners, suppliers, distributors, resellers or customers due to acts of terrorism, political conflicts and wars, in multiple locations around the world. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential actions, conflicts or wars have created, and will continue to create, economic and political uncertainties. In addition, as a global company with headquarters and significant operations located in the U.S., actions against or by the U.S. may particularly impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, they could result in disruptions to our operations, decreases in demand for our products, difficulty or impossibility in delivering products to our customers or receiving components from our suppliers, delays and inefficiencies in our supply chain and risks to our employees, resulting in, among other things, temporarily closed facilities, travel restrictions or longer-term disruptions, any of which could adversely affect our business, financial condition, results of operations and cash flows.

### Operational Risks

Operational risk relates to risks arising from innovation, systems, processes, and external or internal events that affect the operation of our businesses. It includes product life cycle and execution; information management and data protection and security, including cyber security; supply chain and business disruption; and other risks, including human resources and employee relations.



## Table of Contents

If we are unable to effectively manage risks associated with changing technology, product innovation and new product development, manufacturing techniques, distribution channels and business continuity, we may be at a competitive disadvantage.

The successful implementation of our business strategy requires us to continuously evolve our existing products and introduce new products to meet customers' needs in the industries we serve. Our products are characterized by stringent performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. If we fail to meet these requirements, our business could be at risk. We believe that our customers rigorously evaluate their suppliers on the basis of a number of factors, including product quality, price competitiveness, technical and manufacturing expertise, development and product design capability, new product innovation, reliability and timeliness of delivery, operational flexibility, customer service and overall management. Our success will depend on our ability to continue to meet our customers' changing specifications with respect to these criteria. We cannot ensure that we will be able to address technological advances or introduce new products that may be necessary to remain competitive within our businesses. We cannot ensure that we can adequately protect any of our own technological developments to produce a sustainable competitive advantage. Furthermore, we may be subject to business continuity risk in the event of an unexpected loss of a material facility or operation. We cannot ensure that we can adequately protect against such a loss.

Increases in the cost or availability of raw materials could adversely affect our business, financial condition, results of operations or cash flows.

Our manufacturing processes depend on third parties for raw materials, in particular bar steel, brass, castings, copper, forgings, high-performance engineered plastic, plate steel, resin, sheet steel and zinc, as well as petroleum and other carbon-based fuel products. While we strive to maintain alternative sources for most raw materials, our business is subject to the risk of price fluctuations, inefficiencies in the event of a need to change our suppliers, and delays in the delivery of and potential unavailability of our raw materials. Any such price fluctuations or delays, if material, could harm our profitability or operations. In addition, the loss of a substantial number of suppliers could result in material cost increases or reduce our production capacity.

We do not typically enter into hedge transactions to reduce our exposure to purchase price risks and cannot ensure that we would be successful in recouping these increases if these risks were to materialize. In addition, if we are unable to continue to purchase our required quantities of raw materials on commercially reasonable terms, or at all, or if we are unable to maintain or enter into our purchasing contracts for our larger commodities, our business operations could be disrupted and our profitability could be impacted in a material adverse manner.

The ongoing updates to our Enterprise Resource Planning (“ERP”) systems, as well as failures of our data security and information technology infrastructure and cyber security, could cause substantial business interruptions and/or adversely affect our business.

Utilizing a phased approach, we continue to update our ERP systems across both our Process & Motion Control and Water Management platforms. If these updates are unsuccessful, we could incur substantial business interruptions, including the inability to perform routine business transactions, which could have a material adverse effect on our financial performance. Further, these updates may not result in the benefits we intend or be implemented on a timely basis.

In addition, we depend heavily on information technology infrastructure to manage our business objectives and operations, support our customers' requirements and protect sensitive information. There have been significant and increasing instances of data and security breaches, malicious interference with technology systems and industrial espionage involving companies in numerous industries. While we have taken steps to maintain and enhance adequate data security and address these risks and uncertainties by implementing additional security technologies, internal controls, network and data center resiliency, redundancy and recovery processes and by securing insurance, these measures may be inadequate. As a result, any inability by us to successfully manage our information systems, or respond effectively to any attack on or interference with our systems, including matters related to system and data security, privacy, reliability, compliance, performance and access, problems related to our systems caused by natural



disasters, security breaches or malicious attacks, and any inability of these systems to fulfill their intended business purpose, could impede our ability to record or process orders, manufacture and ship in a timely manner, account for and collect receivables, protect sensitive data of the Company, our customers, our employees, our suppliers and other business partners, comply with our third party obligations of confidentiality and care, or otherwise carry on business in the normal course. Any such events could require significant costly remediation beyond levels covered by insurance and could cause us to lose customers and/or revenue, require us to incur significant expense to remediate, including as a result of legal or regulatory claims or proceedings, or damage our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

## Table of Contents

Our inability to attract and retain key personnel may adversely affect our business.

Our success depends on our ability to recruit, retain and develop highly-skilled management and key personnel.

Competition for these persons in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel, or to effectively implement successions to existing personnel. If we fail to retain and recruit the necessary personnel or arrange for successors to key personnel, our business could materially suffer.

Weather could adversely affect the demand for products in our Water Management platform and decrease our net sales.

Demand for our Water Management products is primarily driven by commercial construction activity, remodeling and retrofit opportunities, and to a lesser extent, new home starts as well as water and wastewater infrastructure expansion for municipal, industrial and hydropower applications. Weather is an important variable affecting financial performance as it significantly impacts construction activity. Adverse weather conditions, such as prolonged periods of cold or rain, blizzards, hurricanes and other severe weather patterns, could delay or halt construction and remodeling activity, which could have a negative effect on our business. For example, an unusually severe winter can lead to reduced construction activity and magnify the seasonal decline in our Water Management net sales and earnings during the winter months. In addition, a prolonged winter season can delay construction and remodeling plans and hamper the typical seasonal increase in net sales and earnings during the spring months.

Disruptions caused by labor disputes or organized labor activities could adversely affect our business or financial results.

As of March 31, 2017, we had approximately 8,000 employees. Approximately 300 of our United States employees are represented by labor unions and approximately 1,900 of our employees reside in Europe, where trade union membership is common. Although we believe that our relations with our employees are strong, if our unionized workers were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations, which could interfere with our ability to deliver products on a timely basis and could have other negative effects, such as decreased productivity and increased labor costs. In addition, if a greater percentage of our workforce becomes unionized as a result of legal or regulatory changes which may make union organizing easier, or otherwise, our costs could increase and our efficiency be affected in a material adverse manner, negatively impacting our business and financial results. Further, many of our direct and indirect customers and their suppliers, and organizations responsible for shipping our products, have unionized workforces and their businesses may be impacted by strikes, work stoppages or slowdowns, any of which, in turn, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

## Financial Risks

Financial risk relates to our ability to meet our financial obligations. It includes our highly leveraged capital structure, compliance with debt covenants, access to liquidity and restrictive credit agreements.

Our debt levels could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, inhibit us from making beneficial acquisitions and prevent us from making debt service payments.

Although we reduced our long-term debt in fiscal 2017, we are still a highly leveraged company. Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt will depend on a range of economic, competitive and business factors, many of which are outside our control. Our business may not generate sufficient cash flow from operations to meet our debt service and other obligations, and currently anticipated cost savings and operating improvements may not be realized on schedule, or at all. If we are unable to meet our expenses and debt service and other obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity. We may not be able to refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations or to refinance our obligations

on commercially reasonable terms would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our substantial indebtedness could also have other important consequences with respect to our ability to manage and grow our business successfully, including the following:

- it may limit our ability to borrow money for our working capital, capital expenditures, strategic initiatives, acquisitions or other purposes;
- it may make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under our credit agreement and our other indebtedness;
- a substantial portion of our cash flow from operations will be dedicated to the repayment of our indebtedness and so will not be available for other purposes;

## Table of Contents

it may limit our flexibility in planning for, or reacting to, changes in our operations or business, or in taking advantage of strategic opportunities;

we are and will continue to be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;

- it may make us more vulnerable to downturns in our business or the economy;

it may restrict us from making strategic acquisitions or divestitures, introducing new technologies or exploiting business opportunities; and

along with the financial and other restrictive covenants in the documents governing our indebtedness, among other things, may limit our ability to borrow additional funds, make acquisitions or capital expenditures, acquire or dispose of assets or take certain of the actions mentioned above, any of which could restrict our operations and business plans. Furthermore, a substantial portion of our indebtedness, including the senior secured credit facilities and borrowings outstanding under our accounts receivable securitization facility, bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates. In addition, our hedging arrangements may not protect us to the extent we expect. See Item 7A, Quantitative and Qualitative Disclosures About Market Risk for additional information. Also, in spite of the limitations in our credit agreement, we may still incur significantly more debt, which could intensify the risks described above on our business, results and financial condition. For more information about our indebtedness, see Item 8, Note 11 Long-Term Debt.

Our credit agreement imposes significant operating and financial restrictions, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our credit agreement contains various covenants that limit or prohibit our ability, among other things, to:

incur or guarantee additional indebtedness;

- pay dividends on our capital stock or redeem, repurchase, retire or make distributions in respect of our capital stock or subordinated indebtedness or make other restricted payments;
- make certain loans, acquisitions, capital expenditures or investments;
- sell certain assets, including stock of our subsidiaries;
- enter into sale and leaseback transactions;
- create or incur liens;
- consolidate, merge, sell, transfer or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

Our credit agreement contains covenants that restrict our ability to take certain actions, such as incurring additional debt, if we are unable to meet defined specified financial ratios, which could result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. Failure to comply with certain covenants of the credit agreement could result in a default under our debt agreements. For more information, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.

The restrictions contained in the credit agreement could:

limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans;

restrict our ability to repurchase shares of our common stock;

adversely affect our ability to finance our operations, to enter into strategic acquisitions, to fund investments or other capital needs or to engage in other business activities that would be in our interest; and

limit our access to the cash generated by our subsidiaries.

Upon the occurrence of an event of default under the credit agreement, the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under the senior secured credit facilities could proceed against the collateral granted to them to secure the senior secured credit facilities on a

first- priority lien basis. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, such acceleration could have a material adverse effect on our business, financial condition, results of operations or cash flows. For a more detailed description of the limitations on our ability to incur additional indebtedness, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources".

## Table of Contents

Our goodwill and intangible assets are valued at an amount that is high relative to our total assets and in excess of our stockholders equity.

As of March 31, 2017, our goodwill and intangible assets totaled \$1,318.2 million and \$558.6 million, respectively, and represent a substantial portion of our assets. These assets result from our acquisitions, representing the excess of cost over the fair value of the tangible net assets we have acquired. We assess at least annually whether there has been impairment in the value of our goodwill and indefinite-lived intangible assets. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes to the use of our assets, changes in the structure of our business, divestitures, market capitalization declines, or increases in associated discount rates may impair our goodwill and other intangible assets. Any determination requiring the impairment of goodwill or intangible assets would negatively affect our results of operations, particularly in the period in which we take any related charges, and financial condition.

Our required cash contributions to our pension plans may increase further and we could experience a material change in the funded status of our defined benefit pension plans and the amount recorded in our consolidated balance sheets related to those plans. Additionally, our pension costs could increase in future years.

The funded status of the defined benefit pension plans depends on such factors as asset returns, market interest rates, legislative changes and funding regulations. If the returns on the assets of any of our plans were to decline in future periods, if market interest rates were to decline, if the Pension Benefit Guaranty Corporation (“PBGC”) were to require additional contributions to any such plans as a result of acquisitions or if other actuarial assumptions were to be modified, our future required cash contributions and pension costs to such plans could increase. Any such increases could have a material and adverse effect on our business, financial condition, results of operations or cash flows.

The need to make contributions, which may be substantial, to such plans may reduce the cash available to meet our other obligations, including our obligations under our credit agreement or to meet the needs of our business. In addition, the PBGC may terminate our U.S. defined benefit pension plans under limited circumstances, including in the event the PBGC concludes that the risk may increase unreasonably if such plans continue. In the event a U.S. defined benefit pension plan is terminated for any reason while it is underfunded, we could be required to make an immediate payment to the PBGC of all or a substantial portion of such plan's underfunding, as calculated by the PBGC based on its own assumptions (which might result in a larger obligation than that based on the assumptions we have used to fund such plan), and the PBGC could place a lien on material amounts of our assets.

Our ability to pay dividends on our mandatory convertible preferred stock may be limited.

Payment of dividends on our mandatory convertible preferred stock in the future will be determined by our board of directors in its sole discretion and will depend on business conditions, our financial condition, earnings and liquidity, and other factors. Our failure to pay such dividends could harm our reputation and our ability to obtain future financing or capital.

We are a holding company and depend upon distributions of cash from our subsidiaries to fund our cash needs, including dividends on the mandatory convertible preferred stock. Our credit agreement contains limitations on the ability of our subsidiaries to pay dividends or make distributions to us. In the event that our credit agreement restricts our ability to obtain cash from our subsidiaries needed to pay dividends in cash on our mandatory convertible preferred stock, we may be unable to pay dividends in cash on the mandatory convertible preferred stock.

In addition, under Delaware law, our board of directors may declare dividends on our capital stock only to the extent of our statutory “surplus,” or, if there is no such surplus, out of our net profits for the then current and/or immediately preceding fiscal year. Further, even if we are permitted under our contractual obligations and Delaware law to pay cash dividends on the mandatory convertible preferred stock, we may not have sufficient cash to pay dividends in cash on the mandatory convertible preferred stock.

If, upon mandatory conversion or an early conversion at the option of a holder, we have not declared and paid all or any portion of the accumulated and unpaid dividends payable on the mandatory convertible preferred stock for specified periods, the applicable conversion rate will be adjusted so that converting holders receive an additional number of shares of common stock having a market value generally equal to the amount of such accumulated and unpaid dividends, subject to limitations. This issuance of additional common stock to satisfy the accumulated and

unpaid dividends payable on the mandatory convertible preferred stock, or generally upon its conversion, could negatively impact our share price.

#### Legal and Compliance Risks

Legal and compliance risk relates to risks arising from conformity with external policies and procedures, government and regulatory compliance, and ongoing environment and legal proceedings. These include customer driven policies, government and regulatory requirements and environmental health and safety litigation. These types of risks may impose additional cost on us or cause us to have to change our business models or practices.

## Table of Contents

Our failure to comply with government regulations and requirements, third-party certification requirements and customer-driven policies and standards, including those related to social responsibility, could adversely affect our reputation, business and results of operations.

In addition to complying with laws and applicable government regulations and requirements, prevailing industry standards, competitive pressures and/or our customers may require us to comply with further quality, social responsibility, or other business policies or standards, before customers and prospective customers commence, or continue, doing business with us. These expectations, policies and standards may be more restrictive than current laws and regulations as well as our own pre-existing policies; they may be customer-driven, established by the industry sectors in which we operate or imposed by third-party organizations.

Our compliance with these policies, standards and third party certification requirements could be costly and could in some cases require us to change the way in which we operate. In addition, if we fail to comply, or if our compliance increases our costs and/or restricts our ability to do business as compared to our competitors that do not adhere to such standards, we could experience an adverse effect on our customer relationships, reputation, operations, cost structure and/or profitability.

We are subject to changes in legislative, regulatory and legal developments involving taxes.

We are subject to U.S. federal and state, and other countries' and jurisdictions', income, payroll, property, sales and use, fuel, and other types of taxes. Changes in tax rates, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities may require significant judgment in determining the appropriate provision and related accruals for these taxes; and as a result, such changes could result in substantially higher taxes and, therefore, could have a significant adverse effect on our results or operations, financial conditions and liquidity. In this regard, the U.S., the European Union and member states along with numerous other countries are currently engaged in establishing fundamental changes to tax laws affecting the taxation of multinational corporations. Currently, a significant amount of our revenue is generated from customers located outside of the United States, and an increasingly greater portion of our assets and employees are located outside of the U.S. United States income tax and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. However, current U.S. tax laws may provide significant impediments to and tax expense upon repatriating funds, if we would determine to do so in the future. Future legislation may substantially reduce (or have the effect of substantially reducing) our ability to defer U.S. taxes on profit permanently reinvested outside the United States. Additionally, any such developments in the U.S. or in other countries could have a negative impact on our ability to compete in the global marketplace.

We may incur significant costs for environmental compliance and/or to address liabilities under environmental laws and regulations.

Our operations and facilities worldwide are subject to extensive laws and regulations related to pollution and the protection of the environment, health and safety, including those governing, among other things, emissions to air, discharges to water, the generation, handling, storage, treatment and disposal of hazardous wastes and other materials, and the remediation of contaminated sites. A failure by us to comply with applicable requirements or the permits required for our operations could result in civil or criminal fines, penalties, enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Some environmental laws and regulations impose requirements to investigate and remediate contamination on present and former owners and operators of facilities and sites, and on potentially responsible parties ("PRPs") for sites to which such parties may have sent waste for disposal. Such liability can be imposed without regard to fault and, under certain circumstances, may be joint and several, resulting in one PRP being held responsible for the entire obligation.

Liability may also include damages to natural resources. On occasion we are involved in such investigations and/or cleanup, and also have been or could be named as a PRP in environmental matters.



The discovery of additional contamination, including at acquired facilities, the imposition of more stringent environmental, health and safety laws and regulations, including cleanup requirements, disputes with our insurers or the insolvency of other responsible parties could require us to incur significant capital expenditures or operating costs materially in excess of our accruals. Future investigations we undertake may lead to discoveries of contamination that must be remediated, and decisions to close facilities may trigger remediation requirements that are not currently applicable. We may also face liability for alleged personal injury or property damage due to exposure to hazardous substances used or disposed of by us, contained within our current or former products, or present in the soil or groundwater at our current or former facilities. We could incur significant costs in connection with such liabilities. See Item 8, Note 18 Commitments and Contingencies for additional information.

Table of Contents

Certain subsidiaries are subject to litigation, including numerous asbestos and product liability claims, which could adversely affect our business, financial condition, results of operations or cash flows.

Certain subsidiaries are co-defendants in various lawsuits in a number of U.S. jurisdictions alleging personal injury as a result of exposure to asbestos that was used in certain components of our products. The uncertainties of litigation and the uncertainties related to insurance and indemnification coverage make it difficult to accurately predict the ultimate financial effect of these claims. If our insurance or indemnification coverage is not adequate to cover our potential financial exposure, or the actual number or value of asbestos-related claims differs materially from our existing estimates, we could incur material costs that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

In addition, we may be subject to product liability claims if the use of our products, or the exposure to our products or their raw materials, is alleged to have resulted in injury or other adverse effects. We currently maintain product liability insurance coverage but we cannot assure that we will be able to obtain such insurance on commercially reasonable terms in the future, if at all, or that any such insurance will provide adequate coverage against claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. In addition, our business depends on the strong brand reputation we have developed; if this reputation is damaged as a result of a product liability claim, it may be difficult to maintain our pricing positions and market share with respect to our products. An unsuccessful product liability defense could have a material adverse effect on our business, financial condition, results of operations or cash flows. See Item 8, Note 18 Commitments and Contingencies for additional details.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

Table of Contents

## ITEM 2. PROPERTIES.

Within Process & Motion Control, as of March 31, 2017, we had 45 principal manufacturing, warehouse and repair facilities as set forth below:

Location (1)	Number of Facilities	Total Square Feet	
		Owned	Leased
North America	25	2,765,000	876,000
Europe	9	442,000	168,000
Asia	6	292,000	39,000
South America	2	77,000	15,000
Africa	1	80,000	—
Australia	2	—	63,000

(1) Excludes 361,000 square feet related to five facilities that have closed or are closing as a result of our ongoing supply chain optimization and footprint repositioning initiatives.

Within Water Management, as of March 31, 2017, we had 24 principal manufacturing and warehouse facilities as set forth below:

Location (2)	Number of Facilities	Total Square Feet	
		Owned	Leased
North America	18	917,000	746,000
Europe	2	506,000	356,000
Asia	2	79,000	265,000
Africa	1	—	22,000
Australia	1	—	29,000

(2) Excludes 460,000 square feet related to two facilities that are closing as a result of our ongoing supply chain optimization and footprint repositioning initiatives.

We believe our Process & Motion Control and Water Management properties are suitable for their respective operations and provide sufficient capacity for our current and future anticipated needs.

Table of Contents

## ITEM 3. LEGAL PROCEEDINGS.

Information with respect to our legal proceedings is contained in Item 8, Note 18 Commitments and Contingencies.

## ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

\* \* \*

## Executive Officers of the Registrant

The following table sets forth information concerning our executive officers as of the date of this report:

Name	Age	Position(s)	In Current Position(s) since
Todd A. Adams	46	President, Chief Executive Officer and Director	2009
Mark W. Peterson	45	Senior Vice President and Chief Financial Officer	2011
Sudhanshu Chhabra	51	President - Consumer Goods - PMC and Regional Executive India and Middle East	2016
Rodney Jackson	47	Senior Vice President-Business and Corporate Development	2014
George J. Powers	50	Chief Human Resources Officer	2015
Matthew J. Stillings	46	Group Executive, President - Water Management Platform	2016
Craig G. Wehr	52	Group Executive, President - Zurn	2013
Patricia M. Whaley	58	Vice President, General Counsel and Secretary	2002
Kevin J. Zaba	50	Group Executive, President - Process & Motion Control Platform	2016

Information about the business experience of our executive officers during at least the past five fiscal years is as follows:

Todd A. Adams became our President and Chief Executive Officer in 2009. Mr. Adams joined us in 2004 as Vice President, Treasurer and Controller; he has also served as Senior Vice President and Chief Financial Officer from 2008 to 2009 and as President of the Water Management platform in 2009.

Mark W. Peterson became our Senior Vice President and Chief Financial Officer in 2011. Mr. Peterson previously served as Vice President and Controller of Rexnord from 2008 to 2011 and as a Rexnord Divisional CFO from 2006 to 2008. Mr. Peterson is a certified public accountant.

Sudhanshu Chhabra became President – Consumer Goods - Process & Motion Control Platform in July 2016. Mr. Chhabra joined Rexnord in 2014 as President & Regional Executive for India and the Middle East. Prior to joining Rexnord, Mr. Chhabra served in various positions with Danaher Corporation, a diversified manufacturer, since 2005, most recently as President – Asia, Gilbarco Veeder-Root Inc. in 2014 and as Managing Director – India, Gilbarco Veeder-Root Inc. from 2007 to 2013. Prior to his service with Danaher, Mr. Chhabra served in various roles with Eaton Corporation, Cummins Engine Company and SKF Bearings.

Rodney Jackson became Senior Vice President – Business & Corporate Development in 2014. Prior to joining Rexnord, Mr. Jackson was a member of Danaher Corporation’s Corporate Development team, most recently as Vice President of Corporate Development and M&A lead for its product identification and motion platforms. Prior to joining Danaher in 2007, Mr. Jackson served in various roles of increasing responsibility with Pentair and worked in investment banking at Goldman Sachs. Mr. Jackson started his career at Arthur Andersen.

George J. Powers became our Chief Human Resources Officer in January 2015. Prior to joining Rexnord, Mr. Powers served in various positions with Schneider Electric, a global energy management company, since 1993, most recently as Senior Vice President, Human Resources – Global Solutions Division, from 2013 to 2015, and as Senior Vice President, Human Resources & Administration – North America Operating Division from 2008 to 2012.

Matthew J. Stillings became Group Executive and President of our Water Management Platform in October 2016. Prior to joining Rexnord, Mr. Stillings held various positions with increasing responsibility at IDEX Corporation, a manufacturer of pumps, flow meters and other fluidic systems and components and engineered products, serving as

Senior Vice President, Group Executive from 2014 through September 2016, as President, Energy & Fuels Group and President, IDEX India from 2011 until 2014, and as President, Micropump Inc. and President, Trebor International Inc. from 2008 until 2011.

Table of Contents

Craig G. Wehr became President of our Zurn Group in 2013. Mr. Wehr previously served in various positions with Zurn Industries LLC since 1993, including as Vice President / General Manager of Zurn Specification Drain Operations from 2011 to 2012 and as Zurn Group Vice President of Sales and Marketing from 2007 to 2011. Patricia M. Whaley became our Vice President, General Counsel and Secretary in 2002. Ms. Whaley previously served in various legal positions of increasing responsibility with Rexnord and its prior parent corporations, including as Division Senior Counsel for the Automation Systems Division of Invensys plc and corporate counsel for BTR Inc. Kevin J. Zaba became President of our Process & Motion Control Platform in April 2016. He also served as the President of our Power Transmission Group from 2014 to 2016. Prior to joining Rexnord, Mr. Zaba served in various positions with Rockwell Automation, Inc., a leader in industrial automation and information, since 2004, most recently as Vice President – Solutions, Services & Sales in 2014, as Vice President / General Manager – Control & Visualization Products Business from 2011 to 2014 and as Managing Director – Systems and Solutions Asia Pacific Region from 2008 to 2011.

Table of Contents

PART II

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

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “RXN.” The following table sets forth for the indicated period the high and low sales prices per share for our common stock on the NYSE:

Fiscal 2016	High	Low
First quarter	\$27.73	\$23.42
Second quarter	\$24.32	\$16.60
Third quarter	\$20.98	\$16.33
Fourth quarter	\$20.63	\$14.04

Fiscal 2017	High	Low
First quarter	\$22.97	\$18.38
Second quarter	\$22.50	\$18.97
Third quarter	\$22.17	\$15.80
Fourth quarter	\$24.55	\$19.69

As of May 12, 2017, there were 5 holders of record of our common stock. We believe the number of beneficial owners of our common stock exceeds 1,900.

Dividend Policy

We did not pay any dividends on our common stock in fiscal 2017 or 2016. We currently intend to retain all future earnings attributable to Rexnord common shareholders, if any, for use in the operation of our business and to fund future growth. In addition, our preferred stock and our credit agreement limits our ability to pay dividends or other distributions on our common stock. The decision whether to pay dividends will be made by our Board of Directors in light of conditions then existing, including factors such as our results of operations, financial condition and requirements, business conditions and covenants under any applicable borrowing agreements and other contractual arrangements.

Issuer Purchases of Equity Securities

Refer to Item 8, Note 19 Public Offering and Common Stock Repurchases for information related to our fiscal 2016 share repurchases. There were no shares repurchased in the fourth quarter of fiscal 2017.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required is incorporated by reference from Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Table of Contents

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return of our common stock with the Standard & Poor's (the "S&P") 500 Index and the S&P 1500 Industrial Index for the five-year period ended March 31, 2017. We chose the S&P 1500 Industrial Index because a portion of our Performance Stock Units are measured relative to the total shareholder return of this index. Refer to Item 8, Note 15 Stock-Based Compensation for additional information. The graph assumes the value of the investment in our common stock and each index was \$100 on March 30, 2012 and that all dividends were reinvested. The shareholder return shown on the graph below is not necessarily indicative of future performance and the indices included do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of Rexnord's stock.

	3/12	3/13	3/14	3/15	3/16	3/17
Rexnord Corporation	\$ 100.00	\$ 100.62	\$ 137.35	\$ 126.49	\$ 95.83	\$ 109.38
S&P 500 Index	\$ 100.00	\$ 111.41	\$ 132.93	\$ 146.82	\$ 146.24	\$ 167.75
S&P 1500 Industrial Index	\$ 100.00	\$ 113.69	\$ 141.37	\$ 150.17	\$ 150.13	\$ 175.45



Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA.

The following table of selected historical financial information is based on our consolidated financial statements, including those included elsewhere in this Form 10-K. This data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data. Our fiscal year is the year ending on March 31 of the corresponding calendar year. For example, our fiscal year 2017, or fiscal 2017, means the period from April 1, 2016 to March 31, 2017. The Statements of Operations, Other Data and Balance Sheet Data are derived from our audited financial statements.

(in millions, except share and per share amounts)	Year Ended March 31, 2017 (1)	Year Ended March 31, 2016	Year Ended March 31, 2015 (2)	Year Ended March 31, 2014 (3)	Year Ended March 31, 2013 (4)
Statements of Operations:					
Net sales	\$1,918.2	\$1,923.8	\$2,050.2	\$ 2,034.3	\$ 1,943.5
Cost of sales	1,250.2	1,258.6	1,304.0	1,280.9	1,226.9
Gross profit	668.0	665.2	746.2	753.4	716.6
Selling, general and administrative expenses	413.2	385.7	415.1	419.1	398.4
Zurn PEX loss contingency (5)	—	—	—	—	10.1
Restructuring and other similar charges	31.6	34.9	12.9	8.4	8.6
Actuarial (gain) loss on pension and postretirement benefit obligations	(2.6	) 12.9	59.4	2.7	5.5
Amortization of intangible assets	42.1	57.4	55.1	50.8	51.1
Income from operations	183.7	174.3	203.7	272.4	242.9
Non-operating (expense) income:					
Interest expense, net	(88.7	) (91.4	) (87.9	) (109.1	) (153.3
Loss on the extinguishment of debt (6)	(7.8	) —	—	(133.2	) (24.0
Other (expense) income, net (7)	(5.2	) 3.1	(7.2	) (15.1	) (2.9
Income from continuing operations before income taxes	82.0	86.0	108.6	15.0	62.7
Provision (benefit) for income taxes	7.9	17.1	16.8	(10.0	) 15.4
Net income from continuing operations	74.1	68.9	91.8	25.0	47.3
(Loss) income from discontinued operations, net of tax (8)	—	(1.4	) (8.0	) 4.6	2.8
Net income	74.1	67.5	83.8	29.6	50.1
Non-controlling interest loss	—	(0.4	) —	(0.6	) —
Net income attributable to Rexnord	74.1	67.9	83.8	30.2	50.1
Dividends on preferred stock	(7.3	) —	—	—	—
Net income attributable to Rexnord common stockholders	\$66.8	\$67.9	\$83.8	\$ 30.2	\$ 50.1
Basic net income (loss) per share attributable to Rexnord common stockholders:					
Continuing operations	\$0.65	\$0.69	\$0.90	\$ 0.26	\$ 0.49
Discontinued operations	\$—	\$(0.01	) \$(0.08	) \$ 0.05	\$ 0.03
Net income	\$0.65	\$0.67	\$0.82	\$ 0.31	\$ 0.52
Diluted income (loss) per share attributable to Rexnord common stockholders:					
Continuing operations	\$0.64	\$0.67	\$0.88	\$ 0.25	\$ 0.47

Edgar Filing: Rexnord Corp - Form 10-K

Discontinued operations	\$—	\$(0.01 )	\$(0.08 )	\$ 0.05	\$ 0.03
Net income	\$0.64	\$0.66	\$0.80	\$ 0.30	\$ 0.50
Weighted-average number of common shares outstanding (in thousands):					
Basic	102,753	100,841	101,530	98,105	95,972
Effect of dilutive stock options	2,031	2,469	3,197	3,213	3,894
Diluted	104,784	103,310	104,727	101,318	99,866
Other Data:					
Net cash provided by (used for):					
Operating activities	195.1	219.0	245.9	190.8	144.5
Investing activities	(264.0 )	(45.2 )	(177.3 )	(163.8 )	(81.8 )
Financing activities	79.9	(56.3 )	(17.4 )	(210.3 )	165.7
Depreciation and amortization of intangible assets	105.4	115.4	112.2	106.9	110.9
Capital expenditures	54.5	52.1	48.8	52.2	60.1

Table of Contents

(in millions)	March 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Cash and cash equivalents	\$490.1	\$484.6	\$370.3	\$339.0	\$524.1
Working capital (9)	777.8	771.7	694.6	700.0	666.7
Total assets	3,539.3	3,354.8	3,409.3	3,371.3	3,455.5
Total debt (10)	1,622.7	1,920.1	1,940.0	1,959.8	2,113.3
Stockholders' equity	1,070.6	588.0	552.7	562.1	428.5

Consolidated financial data as of and for the year ended March 31, 2017 reflects the acquisition of Cambridge  
(1) subsequent to June 1, 2016. As a result, the comparability of the operating results for the period presented is affected by the revaluation of the assets acquired and the liabilities assumed on the date of the acquisition.

Consolidated financial data as of and for the year ended March 31, 2015 reflects the acquisition of Green Turtle  
(2) subsequent to April 15, 2014, Tollok subsequent to October 30, 2014 and Euroflex subsequent to January 12, 2015. As a result, the comparability of the operating results for the period presented is affected by the revaluation of the assets acquired and the liabilities assumed on the respective dates of the acquisitions.

Consolidated financial data as of and for the year ended March 31, 2014 reflects the acquisition of Klamflex Pipe  
(3) Couplings Ltd. subsequent to April 26, 2013, Micro Precision Gear Technology Limited subsequent to August 21, 2013, L.W. Gemmell subsequent to August 30, 2013, and Precision Gear Holdings, LLC subsequent to December 16, 2013. As a result, the comparability of the operating results for the period presented is affected by the revaluation of the assets acquired and the liabilities assumed on the respective dates of the acquisitions.

Consolidated financial data as of and for the year ended March 31, 2013 reflects the acquisition of Cline  
(4) Acquisition Corp. subsequent to December 13, 2012 and excludes the assets associated with a divestiture of an engineered chain business located in Shanghai, China on December 18, 2012. As a result, the comparability of the operating results for the period presented is affected by the revaluation of the assets acquired and the liabilities assumed on the date of the acquisition and the assets divested on the date of that divestiture.

In the year ended March 31, 2013, we recognized a \$10.1 million incremental charge related to a legal settlement  
(5) reached in connection with litigation associated with alleged failure or anticipated failure of Zurn brass fittings.

During fiscal 2017, we recognized a \$7.8 million loss on the debt extinguishment associated with the term debt  
(6) refinancing and debt prepayments, which was comprised of \$5.4 million of refinancing related costs, as well as a non-cash write-off of unamortized original issue discount and debt issuance costs associated with previously outstanding debt of \$2.4 million. Refer to Item 8, Note 11 Long-Term Debt for additional information. In the year ended March 31, 2014, we recognized a \$133.2 million loss on the extinguishment of debt, which consisted of a \$109.9 million bond tender premium paid to holders of our former 8.50% Notes as a result of the tender offer and redemption, third party transaction costs of \$5.3 million and a \$14.0 million non-cash write-off of deferred financing fees and net original issue discount associated with the extinguished, then-existing term loan debt. In addition, we recognized a \$4.0 million loss associated with the \$150.0 million prepayment under our former credit agreement.

Other (expense) income, net includes the impact of foreign currency transactions and other miscellaneous expenses  
(7) and income. See Item 7, Management Discussion and Analysis of Financial Condition and Results of Operations, for further information.

In fiscal 2015, we discontinued the Mill Products business. In fiscal 2013, we completed the sale of a non-core  
(8) engineered chain business located in Shanghai, China. Accordingly, the results of operations for both have been reported as discontinued operations in the consolidated statements of operations for all periods presented.

(9) Working capital represents total current assets less total current liabilities.

(10) Total debt represents long-term debt, net of an unamortized original issue discount and deferred financing costs, plus the current portion of long-term debt.



Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of results of operations and financial condition includes periods prior to the acquisitions of Green Turtle Technologies Ltd., Green Turtle Americas Ltd., and Filamat Composites Inc. (collectively "Green Turtle"), Tollok S.p.A. ("Tollok"), Euroflex Transmissions (India) Private Limited ("Euroflex"), and Cambridge International Holdings Corp. ("Cambridge"). Our financial performance includes Green Turtle subsequent to April 15, 2014, Tollok subsequent to October 30, 2014, Euroflex subsequent to January 12, 2015, and Cambridge subsequent to June 1, 2016. Accordingly, the discussion and analysis does not reflect the impact of Green Turtle, Tollok, Euroflex, and Cambridge transactions prior to the respective closing date.

In addition, the following discussion of results of operations and financial condition exclude our former non-core business that manufactured ring gears and pinions utilized for crushing machinery applications in the mining sector ("Mill Products"). We exited the Mill Products business during fiscal 2015 and accordingly all results of operations and financial condition associated with Mill Products have been reclassified to discontinued operations.

You should read the following discussion of our financial condition and results of operations together with Item 6, Selected Financial Data and Item 8, Financial Statements and Supplementary Data. Our fiscal year ends on March 31 of each calendar year. For example, our fiscal year 2017, or fiscal 2017, means the period from April 1, 2016 to March 31, 2017.

This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" in Item 1A of this report. Actual results may differ materially from those contained in any forward-looking statements. See also "Cautionary Notice Regarding Forward-Looking Statements" found elsewhere in this report.

The information contained in this section is provided as a supplement to the consolidated financial statements and the related notes included elsewhere in this Form 10-K to help provide an understanding of our financial condition, changes in our financial condition and results of our operations. This section is organized as follows:

Company Overview. This section provides a general description of our business.

Financial Statement Presentation. This section provides a brief description of certain items and accounting policies that appear in our financial statements and general factors that impact these items.

Critical Accounting Estimates. This section discusses the accounting policies and estimates that we consider to be important to our financial condition and results of operations and that require significant judgment and estimates on the part of management in their application.

Recent Accounting Pronouncements. This section cites to the discussion of new or revised accounting pronouncements and standards in Note 2 to the consolidated financial statements.

Overview of Recent Developments. This section provides a description of the recent events impacting the fiscal 2017 results of operations.

Results of Operations. This section provides an analysis of our results of operations for our fiscal years ended March 31, 2017 and 2016 in each case as compared to the prior period's performance.

Non-GAAP Financial Measures. This section provides an explanation of certain financial measures we use that are not in accordance with U.S. generally accepted accounting principles ("GAAP").

Covenant Compliance. This section provides a description of certain restrictive covenants with which our credit agreement require us to comply.

Liquidity and Capital Resources. This section provides an analysis of our cash flows for our fiscal years ended March 31, 2017, 2016 and 2015, as well as a discussion of our indebtedness and its potential effects on our liquidity.

Tabular Disclosure of Contractual Obligations. This section provides a discussion of our commitments as of March 31, 2017.

Quantitative and Qualitative Disclosures about Market Risk. This section discusses our exposure to potential losses arising from adverse changes in interest rates and commodity prices.



## Table of Contents

### Company Overview

We are a growth-oriented, multi-platform industrial company with what we believe are leading market shares and highly-trusted brands that serve a diverse array of global end markets. Currently, our business is comprised of two platforms, Process & Motion Control and Water Management. Our heritage of innovation and specification have allowed us to provide highly-engineered, mission-critical solutions to customers for decades and affords us the privilege of having long-term, valued relationships with market leaders. We operate our Company in a disciplined way and the Rexnord Business System (“RBS”) is our operating philosophy. Grounded in the spirit of continuous improvement, RBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of our business.

Our strategy is to build the Company around multiple, global strategic platforms that participate in end markets with sustainable growth characteristics where we are, or have the opportunity to become, the industry leader. We have a track record of acquiring and integrating companies and expect to continue to pursue strategic acquisitions within our existing platforms that will expand our geographic presence, broaden our product lines, and allow us to move into adjacent markets. Over time, we may add strategic platforms to our Company.

Refer to Item 1, Business for additional information.

### Financial Statement Presentation

The following paragraphs provide a brief description of certain items and accounting policies that appear in our financial statements and general factors that impact these items.

**Net Sales.** Net sales represent gross sales less deductions taken for sales returns and allowances and incentive rebate programs.

**Cost of Sales.** Cost of sales includes all costs of manufacturing required to bring a product to a ready for sale condition. Such costs include direct and indirect materials, direct and indirect labor costs, including fringe benefits, supplies, utilities, depreciation, insurance, pension and postretirement benefits, information technology costs and other manufacturing related costs.

The largest component of our cost of sales is cost of materials, which represented approximately 37% of net sales in fiscal 2017. The principal materials used in our Process & Motion Control manufacturing processes are commodities that are available from numerous sources and include sheet, plate and bar steel, castings, forgings, high-performance engineered plastics and a wide variety of other components. Within Water Management, we purchase a broad range of materials and components throughout the world in connection with our manufacturing activities. Major raw materials and components include bar steel, brass, castings, copper, forgings, high-performance engineered plastic, plate steel, resin, sheet plastic and zinc. We have a strategic sourcing program to significantly reduce the number of direct and indirect suppliers we use and to lower the cost of purchased materials. The next largest component of our cost of sales is direct and indirect labor, which represented approximately 15% of net sales in fiscal 2017.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses primarily includes sales and marketing, finance and administration, engineering and technical services and distribution. Our major cost elements include salary and wages, fringe benefits, pension and postretirement benefits, insurance, depreciation, advertising, travel and information technology costs.

### Critical Accounting Estimates

The methods, estimates and judgments we use in applying our critical accounting policies have a significant impact on the results we report in our consolidated financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. Within the

context of these critical accounting policies, we are not currently aware of any reasonably likely event that would result in materially different amounts being reported.

In addition to the accounting policies disclosed in Note 1 to the consolidated financial statements, we believe the following accounting policies are the most critical to us in that they are important to our financial statements and they require difficult, subjective and/or complex judgments in the preparation of our consolidated financial statements.

31

---



Table of Contents

Revenue recognition. Net sales are recorded upon transfer of title and risk of product loss to the customer. Net sales relating to any particular shipment are based upon the amount invoiced for the delivered goods less estimated future rebate payments and sales returns which are based upon historical experience. Revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. Other than a standard product warranty, there are no other significant post-shipment obligations.

Receivables. Receivables are stated net of allowances for doubtful accounts of \$10.6 million at March 31, 2017 and \$8.9 million at March 31, 2016. We evaluate the collectability of our receivables and establish the allowance for doubtful accounts based on a combination of specific customer circumstances and historical write-off experience. Credit is extended to customers based upon an evaluation of their financial position. Generally, advance payment is not required. Allowances for doubtful accounts established are recorded within Selling, general and administrative expenses within the consolidated statements of operations.

Inventory. Inventories are stated at the lower of cost or market. Market is determined based on estimated net realizable values. Approximately 60% of the Company's total inventories as of March 31, 2017 and 2016 were valued using the "last-in, first-out" (LIFO) method. All remaining inventories are valued using the "first-in, first-out" (FIFO) method. In some cases we have determined a certain portion of our inventories are excess or obsolete. In those cases, we write down the value of those inventories to their net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. The total write-down of inventories charged to expense was \$7.6 million, \$9.5 million and \$5.2 million, during fiscal 2017, 2016 and 2015, respectively.

Purchase accounting and business combinations. Assets acquired and the liabilities assumed as part of a business combination are recognized separately from goodwill at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. We review and consider input from outside specialists, if and when appropriate, and use estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date. We may refine these estimates during the measurement period which may be up to one year from the acquisition date. As a result, during the measurement period, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset recorded to goodwill. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in our consolidated statements of operations.

Impairment of intangible assets and tangible fixed assets. The carrying value of long-lived assets, including amortizable intangible assets and tangible fixed assets, are evaluated for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment of amortizable intangible assets and tangible fixed assets is generally determined by comparing projected undiscounted cash flows to be generated by the asset, or group of assets, to its carrying value. If impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted. Determination of the fair value requires various estimates including internal cash flow estimates generated from the asset, quoted market prices and appraisals as appropriate to determine fair value. Actual results could vary from these estimates.

Our recorded goodwill and indefinite lived intangible assets are not amortized but are tested annually for impairment or whenever circumstances indicate that impairment may exist using a discounted cash flow methodology based on future business projections and a market value approach. The estimated fair value of the Company's reporting units is dependent on several significant assumptions, including its weighted average cost of capital (discount rate), future earnings and cash flow projections.

In connection with our ongoing supply chain optimization and footprint repositioning initiatives, we have taken several actions to consolidate existing manufacturing facilities and rationalize our product offerings. These actions require us to assess whether the carrying amount of impacted long-lived assets will be recoverable as well as whether the remaining useful lives of such assets require adjustment. During fiscal 2017 and 2016 we recognized impairment charges associated with these fixed assets of \$1.5 million and \$6.6 million, respectively. While we did not recognize any impairment charges associated with intangible assets related to these initiatives during fiscal 2017, we recognized \$10.9 million of impairment charges associated with intangible assets during fiscal 2016, which were recorded in

Restructuring and other similar charges.

See Item 8, Note 5 Restructuring and Other Similar Costs for more information. The impairment of fixed assets and intangible assets was determined utilizing Level 3 inputs within the Fair Value hierarchy, and the Company reviewed and considered input from outside specialists, when appropriate. Refer to Note 13, Fair Value Measurements for additional information.

Retirement benefits. We have significant pension and post-retirement benefit income and expense and assets/liabilities that are developed from actuarial valuations. These valuations include key assumptions regarding discount rates, expected return on plan assets, mortality rates and the current health care cost trend rate. We consider current market conditions in selecting these assumptions. Changes in the related pension and post-retirement benefit income/costs or assets/liabilities may occur in the future due to changes in the assumptions and changes in asset values.

## Table of Contents

We recognize the net actuarial gains or losses in excess of unrecognized gain or loss exceeding 10 percent of the greater of the market-related value of plan assets or the plan's projected benefit obligation at re-measurement (the "corridor") in the Corporate segment operating results during the fourth quarter of each fiscal year (or upon any re-measurement date). During fiscal 2017, we recognized a non-cash actuarial gain of \$2.6 million and non-cash actuarial losses of \$12.9 million and \$59.4 million, in fiscal years 2016 and 2015, respectively, in connection with re-measurements of the plan. Net periodic benefit costs recorded on a quarterly basis are primarily comprised of service and interest cost, amortization of unrecognized prior service cost and the expected return on plan assets. See Item 8, Note 16 Retirement Benefits for additional information.

The obligation for postretirement benefits other than pension also is actuarially determined and is affected by assumptions including the discount rate and expected future increase in per capita costs of covered postretirement health care benefits. Changes in the discount rate and differences between actual and assumed per capita health care costs may affect the recorded amount of the expense in future periods.

Income taxes. We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and recording the related deferred tax assets and liabilities.

We assess our income tax positions and record tax liabilities for all years subject to examination based upon management's evaluation of the facts and circumstances and information available at the reporting dates. For those income tax positions where it is more-likely-than-not that a tax benefit will be sustained upon the conclusion of an examination, we have recorded the largest amount of tax benefit having a cumulatively greater than 50% likelihood of being realized upon ultimate settlement with the applicable taxing authority, assuming that it has full knowledge of all relevant information. For those tax positions which do not meet the more-likely-than-not threshold regarding the ultimate realization of the related tax benefit, no tax benefit has been recorded in the financial statements. In addition, we have provided for interest and penalties, as applicable, and record such amounts as a component of the overall income tax provision. As of March 31, 2017 and 2016, our liability for unrecognized tax benefits was \$18.1 million and \$15.6 million, respectively.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, net operating losses ("NOLs"), tax credit and other carryforwards. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. As a result of this review, we continue to maintain a partial valuation allowance against certain foreign NOL carryforwards and other related deferred tax assets, as well as certain state NOL carryforwards. As of March 31, 2017 and 2016, valuation allowances of \$27.7 and \$27.2 million were recorded against our deferred tax assets. See Item 8, Note 17 Income Taxes for additional information.

Commitments and Contingencies. We are subject to proceedings, lawsuits and other claims related to environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. We determine the amount of accruals needed, if any, for each individual issue based on our professional knowledge and experience and discussions with legal counsel. The required accruals may change in the future due to new developments in each matter, the ultimate resolution of each matter or changes in approach, such as change in strategy.

Accruals are recorded on our consolidated balance sheets to reflect our contractual liabilities relating to warranty commitments to our customers. We provide warranty coverage at various lengths and terms to our customers depending on standard offerings and negotiated contractual agreements. We accrue an estimate for warranty expense at the time of sale based on historical warranty return rates and repair costs. Should future warranty experience differ materially from our historical experience, we may be required to record additional warranty accruals which could have a material adverse effect on our results of operations in the period in which these additional accruals are required.

As noted in Item 8, Note 18 Commitments and Contingencies, certain Water Management subsidiaries are subject to asbestos litigation. As a result, we have recorded a liability for pending and potential future asbestos claims, as well as a receivable for insurance coverage of such liability. The valuation of our potential asbestos liability was based on the number and severity of future asbestos claims, future settlement costs, and the effectiveness of defense strategies and

settlement initiatives.

We estimate that our available insurance to cover our potential asbestos liability as of the end of fiscal 2017 is greater than our potential asbestos liability. This conclusion was reached after considering our experience in asbestos litigation, the insurance payments made to date by our insurance carriers, existing insurance policies, the industry ratings of the insurers and the advice of insurance coverage counsel with respect to applicable insurance coverage law relating to the terms and conditions of those policies. We used these same considerations when evaluating the recoverability of our receivable for insurance coverage of potential asbestos claims.

33

---

Table of Contents

## Recent Accounting Pronouncements

See Item 8, Note 2 Significant Accounting Policies regarding recent accounting pronouncements.

## Overview of Recent Developments

## Restructuring and Other Similar Costs

During fiscal 2017, we continued to execute various restructuring actions. These initiatives were intended to drive efficiencies and reduce operating costs while also modifying our footprint to reflect changes in the markets we serve, the impact of acquisitions on our overall manufacturing capacity and the refinement of our overall product portfolio. These restructuring actions primarily resulted in workforce reductions, impairment of related manufacturing facilities, equipment and intangible assets, lease termination costs, and other facility rationalization costs. We expect to continue executing initiatives to optimize our operating margin and manufacturing footprint as well as select product-line rationalizations. As such, we expect further expenses related to workforce reductions, potential impairment of assets, lease termination costs, and other facility rationalization costs.

We recorded restructuring charges of \$31.6 million, \$34.9 million and \$12.9 million during the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

## Product Line Divestiture

During fiscal 2016, we made the decision to exit the non-strategic RHF flow control gate product line.

For purposes of comparison in the following discussion of Results of Operations, the net sales and operating losses for the RHF product line for the years ended March 31, 2017, 2016, and 2015 are presented below:

	Year Ended			
	March 31,	March 31,	Change	%
	2017	2016		Change
Net sales	\$14.7	\$39.0	\$(24.3)	(62.3)%
Loss from operations	(16.4)	(42.8)	26.4	61.7%

	Year Ended			
	March 31,	March 31,	Change	%
	2016	2015		Change
Net sales	\$39.0	\$41.6	\$(2.6)	(6.3)%
Loss from operations	(42.8)	(12.7)	(30.1)	(237.0)%

Table of Contents

## Results of Operations

Fiscal Year Ended March 31, 2017 Compared with the Fiscal Year Ended March 31, 2016:

Net sales

(Dollars in Millions)

	Year Ended		Change	% Change
	March 31, 2017	March 31, 2016		
Process & Motion Control	\$1,134.7	\$1,100.3	\$34.4	3.1 %
Water Management	783.5	823.5	(40.0 )	(4.9 )%
Consolidated	\$1,918.2	\$1,923.8	\$(5.6 )	(0.3 )%

## Process &amp; Motion Control

Process & Motion Control net sales were \$1,134.7 million in fiscal 2017, up 3% year over year. Excluding a 7% increase from the acquisition of Cambridge and a 1% unfavorable impact from foreign currency translation, core net sales declined 3%. Core sales to OEM and end-user customers across several of our industrial process end markets were lower than the prior year, which partially offset the positive sales growth in our industrial distribution channels and our consumer-facing and aerospace end markets.

## Water Management

Water Management net sales were \$783.5 million in fiscal 2017, a 5% decline year over year. Water Management core net sales, which excludes a 3% adverse impact associated with the exit of the Rodney Hunt Fontaine (“RHF”) product line, decreased 2% during fiscal 2017. The decrease in core net sales is primarily the result of the timing of project shipments to our global water and wastewater infrastructure end markets, which more than offset stable demand in our nonresidential construction end markets.

Income (loss) from operations

(Dollars in Millions)

	Year Ended		Change	% Change
	March 31, 2017	March 31, 2016		
Process & Motion Control	\$134.9	\$146.8	\$(11.9)	(8.1 )%
% of net sales	11.9 %	13.3 %	(1.4 )%	
Water Management	85.1	72.8	12.3	16.9 %
% of net sales	10.9 %	8.8 %	2.1 %	
Corporate	(36.3 )	(45.3 )	9.0	(19.9)%
Consolidated	\$183.7	\$174.3	\$9.4	5.4 %
% of net sales	9.6 %	9.1 %	0.5 %	

## Process &amp; Motion Control

Process & Motion Control income from operations for fiscal 2017 was \$134.9 million, or 11.9% of net sales. Income from operations as a percentage of net sales decreased by 140 basis points year over year primarily as a result of incremental investments in our innovation, market expansion and footprint repositioning actions. Fiscal year 2017 also included an incremental 70 basis point impact for accelerated depreciation of certain assets, as well as the impact of acquisition-related fair value adjustments.

## Water Management

Water Management income from operations was \$85.1 million in fiscal 2017 and \$72.8 million in fiscal 2016. Income from operations increased 210 basis points to 10.9% of net sales due to the exit of the RHF product line and lower related restructuring costs, partially offset by the impact of lower sales year over year, increased investment in our innovation and market expansion initiatives and less favorable project mix.



Table of Contents

## Corporate

Corporate expenses were \$36.3 million in fiscal 2017 and \$45.3 million in fiscal 2016. The decrease in corporate expenses is primarily associated with reduced expense year over year as a result of a fourth quarter adjustment to reflect an actuarial gain on pension and postretirement obligations (as compared to a loss in fiscal 2016), partially offset by higher year-over-year compensation-related costs (primarily stock-based compensation).

## Interest expense, net

Interest expense, net was \$88.7 million in fiscal 2017 compared to \$91.4 million in fiscal 2016. The year-over-year decrease in interest expense is a result of lower outstanding borrowings in fiscal 2017 following the \$95.0 million voluntary prepayment made on our term loan during the first quarter of fiscal 2017 and the \$195.0 million prepayment made on our term loan in connection with the term loan refinancing completed in the third quarter of fiscal 2017, partially offset by the impact of the interest rate swaps being outstanding for all of fiscal 2017 compared to six months in fiscal 2016. See Item 8, Note 12 Derivative Financial Instruments and Item 8, Note 11 Long-Term Debt for more information.

## Loss on extinguishment of debt

During fiscal 2017, we completed a refinancing of our term loan facility. Upon completion of this transaction, we recognized a pre-tax loss of \$7.8 million in accordance with ASC 470-50 Debt - Modifications and Extinguishments, which was comprised of \$5.4 million of re-financing-related costs, as well as a non-cash write-off of unamortized debt issuance costs associated with previously outstanding debt of \$2.4 million. See Item 8, Note 11 Long-Term Debt for more information.

## Other (expense) income, net

Other (expense) income, net for fiscal 2017 was \$5.2 million of expense and consisted of foreign currency transaction losses of \$3.7 million and other miscellaneous expenses of \$1.5 million. Other (expense) income, net for fiscal 2016 was \$3.1 million of income, which resulted primarily from an \$8.4 million CDSOA anti-dumping settlement. See Item 8, Note 6 Recovery Under Continued Dumping and Subsidy Offset Act ("CDSOA") for more information. This settlement income was partially offset by foreign currency transaction losses of \$3.0 million, losses on the sale of property, plant and equipment of \$0.6 million and other miscellaneous losses of \$1.7 million.

## Provision for income taxes

The income tax provision in fiscal 2017 was \$7.9 million, or an effective tax rate of 9.6%. The provision recorded was below the U.S. federal statutory rate of 35% primarily due to excess tax benefits associated with share-based payments (in conjunction with the early adoption of ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting; see Item 8, Note 2 Significant Accounting Policies), the recognition of net tax benefits associated with U.S. research and development credits, the recognition of a worthless stock and bad debt deduction for U.S. income tax purposes relating to an insolvent foreign subsidiary and the recognition of excess U.S. foreign tax credits, partially offset by the recognition of income tax expense relating to various foreign income tax audits. The income tax provision in fiscal 2016 was \$17.1 million or an effective tax rate of 19.9%. The provision recorded was below the U.S. federal statutory rate of 35% due to the recognition of certain foreign-related branch losses for U.S. income tax purposes, the reduction in the overall state effective rate applied to the Company's net deferred tax liabilities and the recognition of certain, previously unrecognized income tax benefits due to the lapse of the applicable statutes of limitations, partially offset by the increase in the valuation allowance recorded against certain foreign net operating loss carryforwards and related deferred tax assets in which the realization of such benefits was no longer deemed more-likely-than-not.

## Net income from continuing operations attributable to Rexnord common stockholders

Our net income attributable to Rexnord common stockholders in fiscal 2017 was \$66.8 million compared to \$69.3 million in fiscal 2016 due to the factors described above. Diluted income per share attributable to Rexnord common stockholders was \$0.64 in fiscal 2017 compared to \$0.67 in fiscal 2016. Fiscal 2017 earnings per share of common stock also reflect the effect of dividends paid on shares of cumulative preferred stock, which were paid for part of fiscal 2017.

## Loss from discontinued operations, net of tax, attributable to Rexnord common stockholders



We had no impact from discontinued operations on our fiscal 2017 financial statements, compared to a \$1.4 million loss in fiscal 2016. The loss from discontinued operations was related to the discontinuance of the non-core Mill Products business within our Process & Motion Control platform during fiscal 2015. See Item 8, Note 4 Discontinued Operations for more information.

Table of Contents

Fiscal Year Ended March 31, 2016 Compared with the Fiscal Year Ended March 31, 2015

Net sales

(Dollars in Millions)

	Year Ended		Change	% Change
	March 31, 2016	March 31, 2015		
Process & Motion Control	\$1,100.3	\$1,230.2	\$(129.9)	(10.6)%
Water Management	823.5	820.0	3.5	0.4%
Consolidated	\$1,923.8	\$2,050.2	\$(126.4)	(6.2)%

## Process &amp; Motion Control

Process & Motion Control net sales for the year ended March 31, 2016 decreased 10.6% from fiscal 2015 to \$1,100.3 million. Core net sales (which excludes 2% growth from acquisitions and a 4% adverse impact from foreign currency translation) declined 9% as growth in our Aerospace and food and beverage end markets was more than offset by the adverse demand across several of our process industry end markets coupled with the related de-stocking within our corresponding distribution channels during the first half of fiscal 2016.

## Water Management

Water Management net sales for the year ended March 31, 2016 increased 0.4% from the prior year to \$823.5 million. Core net sales (which excludes a 4% adverse impact from foreign currency translation and a 1% adverse impact associated with the exit of our RHF product line) increased 5% as a result of favorable demand trends across the majority of our end markets as well as the timing of project shipments to our water and wastewater infrastructure end markets.

Income (loss) from operations

(Dollars in Millions)

	Year Ended		Change	% Change
	March 31, 2016	March 31, 2015		
Process & Motion Control	\$146.8	\$219.6	\$(72.8)	(33.2)%
% of net sales	13.3%	17.9%	(4.6)%	
Water Management	72.8	79.0	(6.2)	(7.8)%
% of net sales	8.8%	9.6%	(0.8)%	
Corporate	(45.3)	(94.9)	49.6	52.3%
Consolidated	\$174.3	\$203.7	\$(29.4)	(14.4)%
% of net sales	9.1%	9.9%	(0.8)%	

## Process &amp; Motion Control

Process & Motion Control income from operations for fiscal 2016 was \$146.8 million compared to \$219.6 million for fiscal 2015. Operating income as a percentage of net sales decreased 460 basis points to 13.3% in fiscal 2016 as a result of reduced absorption on lower year-over-year sales, adverse product mix associated with lower sales to our U.S. general industrial end markets and incremental investments in our market expansion and supply chain optimization and footprint repositioning initiatives.

## Water Management

Water Management income from operations for fiscal 2016 was \$72.8 million compared to \$79.0 million in fiscal 2015. Operating income as a percentage of net sales decreased 80 basis points to 8.8% in fiscal 2016 compared to fiscal 2015. Excluding the incremental year-over-year loss from operations of RHF and the absence of the fiscal 2015 charge to establish reserves for accounts receivable and inventory related to a Venezuelan customer, Water Management operating income as a percentage of net sales increased by 210 basis points to 14.7% related to the benefit of core volume growth and RBS-driven productivity gains and efficiencies.



Table of Contents

## Corporate

Corporate expenses were \$45.3 million in fiscal 2016 compared to \$94.9 million in fiscal 2015. The year over year decrease was primarily driven by the recognition of \$12.9 million non-cash actuarial pension and other postretirement losses in fiscal 2016 compared to the recognition of \$59.4 million of non-cash actuarial losses in fiscal 2015. The recognition of higher non-cash actuarial losses in fiscal 2015 was driven primarily by the adoption of the updated mortality assumptions released by the Society of Actuaries in fiscal 2015, lower discount rates used in performing our annual re-measurement of our pension and post-retirement obligations and the completion of a lump sum settlement associated with our domestic non-union defined benefit plan. See Item 8, Note 16 Retirement Benefits to the consolidated financial statements for additional information. The remaining decrease in Corporate expenses from fiscal 2015 to fiscal 2016 was due to project-related expenses.

## Interest expense, net

Interest expense, net was \$91.4 million in fiscal 2016 compared to \$87.9 million in fiscal 2015. The year over year increase in interest expense reflects the partial year impact of our interest rate swaps becoming effective in the third quarter of fiscal 2016. These interest rate swaps raised our effective interest rate by approximately 1.55% on \$650.0 million of our term loans during the second half of fiscal 2016. See Item 8, Note 11 Long-Term Debt to the consolidated financial statements for more information.

## Other (expense) income, net

Other (expense) income, net for fiscal 2016 was \$3.1 million of income, which resulted primarily from an \$8.4 million CDSOA anti-dumping settlement. This settlement income was partially offset by foreign currency transaction losses of \$3.0 million, losses on the sale of property, plant and equipment of \$0.6 million and other miscellaneous losses of \$1.7 million. Other expense, net for fiscal 2015 was \$7.2 million which consisted of foreign currency transaction losses of \$1.5 million, \$1.4 million of losses on the sale of property, plant and equipment and other miscellaneous losses of \$4.3 million.

## Provision for income taxes

The income tax provision in fiscal 2016 was \$17.1 million or an effective tax rate of 19.9%. The provision recorded was below the U.S. federal statutory rate of 35% due to the recognition of certain foreign-related branch losses for U.S. income tax purposes, the reduction in the overall state effective rate applied to the Company's net deferred tax liabilities and the recognition of certain, previously unrecognized income tax benefits due to the lapse of the applicable statutes of limitations, partially offset by the increase in the valuation allowance recorded against certain foreign net operating loss carryforwards and related deferred tax assets in which the realization of such benefits was no longer deemed more-likely-than-not. The income tax provision in fiscal 2015 was \$16.8 million or an effective tax rate of 15.5%. The provision recorded was below the U.S. federal statutory rate of 35% due to the accrual of foreign income taxes at rates which were generally below the U.S. federal statutory rate, the recognition of certain foreign-related branch losses for U.S. income tax purposes, the reduction in the valuation allowance recorded against certain foreign tax credit and state net operating loss carryforwards in which the realization of such benefits was now deemed more-likely-than-not and the recognition of certain, previously unrecognized income tax benefits due to the lapse of the applicable statutes of limitations, partially offset by certain one-time costs associated with a change to the U.S. income tax entity classification of a foreign subsidiary.

## Net income from continuing operations attributable to Rexnord common stockholders

Our net income attributable to Rexnord common stockholders in fiscal 2016 was \$69.3 million compared to \$91.8 million in fiscal 2015 due to the factors described above. Diluted net income per share from continuing operations in fiscal 2016 was \$0.67, compared to \$0.88 in fiscal 2015. Comparability between periods is impacted by the anti-dilutive effect of the fiscal 2016 decrease in average outstanding shares primarily resulting from our fiscal 2016 repurchase of 1,552,500 shares of our common stock.

## Loss from discontinued operations, net of tax, attributable to Rexnord common stockholders

Our loss from discontinued operations, net of tax was \$1.4 million for fiscal 2016 compared to \$8.0 million in fiscal 2015. The loss from discontinued operations is related to the discontinuance of the non-core Mill Products business during fiscal 2015. See Item 8, Note 4 Discontinued Operations to the consolidated financial statements for more

information.

38

---

## Table of Contents

### Non-GAAP Financial Measures

Non-GAAP financial measures are intended to supplement and not replace financial measures prepared in accordance with GAAP.

#### Core sales

Core sales excludes the impact of acquisitions (such as the Cambridge acquisition), divestitures (such as the RHF product line exit) and foreign currency translation. Management believes that core sales facilitates easier and more meaningful comparisons of our net sales performance with prior and future periods and to our peers. We exclude the effect of acquisitions and divestitures because the nature, size and number of acquisitions and divestitures can vary dramatically from period to period and between us and our peers, and can also obscure underlying business trends and make comparisons of long-term performance difficult. We exclude the effect of foreign currency translation from this measure because the volatility of currency translation is not under management's control.

#### EBITDA

EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA is presented because it is an important supplemental measure of performance and it is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. EBITDA is also presented and compared by analysts and investors in evaluating our ability to meet debt service obligations. Other companies in our industry may calculate EBITDA differently. EBITDA is not a measurement of financial performance under U.S. GAAP and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of operating performance or any other measures of performance derived in accordance with U.S. GAAP. Because EBITDA is calculated before recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a measure of discretionary cash available to invest in the growth of the business.

#### Adjusted EBITDA

Adjusted EBITDA (as described below in "Covenant Compliance") is an important measure because, under our credit agreement, our ability to incur certain types of acquisition debt and certain types of subordinated debt, make certain types of acquisitions or asset exchanges, operate our business and make dividends or other distributions, all of which will impact our financial performance, is impacted by our Adjusted EBITDA, as our lenders measure our performance with a net first lien leverage ratio by comparing our senior secured bank indebtedness to our Adjusted EBITDA (see "Covenant Compliance" for additional discussion of this ratio, including a reconciliation to our net income). We reported net income available to Rexnord common shareholders in the year ended March 31, 2017 of \$66.8 million and Adjusted EBITDA for the same period of \$346.5 million. See "Covenant Compliance" for a reconciliation of Adjusted EBITDA to GAAP net income.

#### Covenant Compliance

Our credit agreement, which governs our senior secured credit facilities, contains, among other provisions, restrictive covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales, affiliate transactions, capital expenditures and the maintenance of certain financial ratios. Payment of borrowings under the credit agreement may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of a representation or warranty, certain non-payments or defaults under other indebtedness, covenant defaults, events of bankruptcy and a change of control. Certain covenants contained in the credit agreement restrict our ability to take certain actions, such as incurring additional debt or making acquisitions, if we are unable to meet certain maximum net first lien leverage ratios of 7.75 to 1.0 and, with respect to our revolving facility, also require us to remain at or below a maximum total net leverage ratio of 6.75 to 1.0 as of the end of each fiscal quarter (it was 3.33 to 1.0 at March 31, 2017). Failure to comply with these covenants could limit our long-term growth prospects by hindering our ability to borrow under the revolver, to obtain future debt and/or to make acquisitions.

Table of Contents

“Adjusted EBITDA” is the term we use to describe EBITDA as defined and adjusted in our credit agreement, which is net income, adjusted for the items summarized in the table below. Adjusted EBITDA is intended to show our unleveraged, pre-tax operating results and therefore reflects our financial performance based on operational factors, excluding non-operational, non-cash or non-recurring losses or gains. In view of our debt level, it is also provided to aid investors in understanding our compliance with our debt covenants. Adjusted EBITDA is not a presentation made in accordance with GAAP, and our use of the term Adjusted EBITDA varies from others in our industry. This measure should not be considered as an alternative to net income, income from operations or any other performance measures derived in accordance with GAAP. Adjusted EBITDA has important limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. For example, Adjusted EBITDA does not reflect: (a) our capital expenditures, future requirements for capital expenditures or contractual commitments; (b) changes in, or cash requirements for, our working capital needs; (c) the significant interest expenses, or the cash requirements necessary to service interest or principal payments, on our debt; (d) tax payments that represent a reduction in cash available to us; (e) any cash requirements for the assets being depreciated and amortized that may have to be replaced in the future; or (f) the impact of earnings or charges resulting from matters that we and the lenders under our credit agreement may not consider indicative of our ongoing operations. In particular, our definition of Adjusted EBITDA allows us to add back certain non-cash, non-operating or non-recurring charges that are deducted in calculating net income, even though these are expenses that may recur, vary greatly and are difficult to predict and can represent the effect of long-term strategies as opposed to short-term results.

In addition, certain of these expenses can represent the reduction of cash that could be used for other corporate purposes. Further, although not included in the calculation of Adjusted EBITDA below, the measure may at times allow us to add estimated cost savings and operating synergies related to operational changes ranging from acquisitions or dispositions to restructurings, and/or exclude one-time transition expenditures that we anticipate we will need to incur to realize cost savings before such savings have occurred.

The calculation of Adjusted EBITDA under our credit agreement as of March 31, 2017 is presented in the table below. However, the results of such calculation could differ in the future based on the different types of adjustments that may be included in such respective calculations at the time.

Set forth below is a reconciliation of net income attributable to Rexnord common stockholders to Adjusted EBITDA for the periods indicated below.

(in millions)	Year Ended March 31, 2017
Net income attributable to Rexnord common stockholders	\$66.8
Interest expense, net	88.7
Provision for income taxes	7.9
Depreciation and amortization	105.4
EBITDA	\$268.8
Adjustments to EBITDA:	
Restructuring and other similar charges (1)	31.6
Stock-based compensation expense	13.4
LIFO income (2)	(2.3 )
Acquisition-related fair value adjustment	4.3
Loss on the extinguishment of debt	7.8
Actuarial gain on pension and postretirement benefit obligations	(2.6 )
Loss on RHF product line exit (3) (excluding restructuring and related charges)	12.2
Dividends on preferred stock	7.3
Other, net (4)	6.0
Subtotal of adjustments to EBITDA	\$77.7
Adjusted EBITDA	\$346.5

Edgar Filing: Rexnord Corp - Form 10-K

Pro forma adjustment for acquisitions (5)	\$4.5
Pro forma Adjusted EBITDA	\$351.0
Consolidated indebtedness (6)	\$1,169.9
Total net leverage ratio (7)	3.33

Represents restructuring costs comprised of workforce reductions, impairment of related manufacturing facilities, (1) equipment and intangible assets, lease termination costs, and other facility rationalization costs. See Item 8, Note 3, Restructuring and Other Similar Charges for more information.

(2) Last-in first-out (LIFO) inventory adjustments are excluded in calculating Adjusted EBITDA as defined in our credit agreement.



Table of Contents

During fiscal 2016, we made the decision to exit the non-strategic RHF flow control gate product line within our (3) Water Management platform. The operating loss (excluding restructuring and related charges included in their respective adjusting lines above) is not included in Adjusted EBITDA in accordance with our credit agreement.

(4) Other, net consists of:

	Year ended March 31, 2017
(in millions)	
Other expense (income)	
Loss on foreign currency transactions	\$ 3.7
Other miscellaneous expenses	1.5
Total other expense	5.2
Plus: Other non-cash charges	0.8
Total other, net	\$ 6.0

Represents a pro forma adjustment to include the Adjusted EBITDA related to the acquisition of Cambridge as (5) permitted by our credit agreement. The pro forma adjustment includes the period from April 1, 2016 through the date of the acquisition. See Item 8, Note 3 Acquisitions for more information.

Our credit agreement defines our consolidated indebtedness as the sum of all indebtedness (other than letters of credit or bank guarantees, to the extent undrawn) consisting of indebtedness for borrowed money and capitalized (6) lease obligations, less unrestricted cash, which was \$452.8 million (as defined by the credit agreement) at March 31, 2017.

(7) Our credit agreement defines the total net leverage ratio as the ratio of consolidated indebtedness (as described above) to Adjusted EBITDA for the trailing four fiscal quarters.

## Table of Contents

### Liquidity and Capital Resources

Our primary sources of liquidity are available cash and cash equivalents, cash flow from operations, and borrowing availability under our \$265.0 million revolving credit facility and our \$100.0 million accounts receivable securitization program.

As of March 31, 2017, we had \$490.1 million of cash and cash equivalents and \$345.8 million of additional borrowing capacity (\$250.4 million of available borrowings under our revolving credit facility and \$95.4 million available under our accounts receivable securitization program). As of March 31, 2017, the available borrowings under our credit facility and accounts receivable securitization were reduced by \$19.2 million due to outstanding letters of credit. As of March 31, 2016, we had \$484.6 million of cash and approximately \$343.9 million of additional borrowing capacity (\$243.9 million of available borrowings under our revolving credit facility and \$100.0 million available under our accounts receivable securitization program). As of March 31, 2016, the available borrowings under our credit facility were reduced by \$21.1 million due to outstanding letters of credit.

Both our revolving credit facility and accounts receivable securitization program are available to fund our working capital requirements, capital expenditures and other general corporate purposes.

### Cash Flows

Net cash provided by operating activities in fiscal 2017 was \$195.1 million compared to \$219.0 million in fiscal 2016. The decrease in cash flows from operations is primarily driven by higher year-over-year cash restructuring payments, partially offset by incremental cash provided by trade working capital. Fiscal 2016 operating cash flow also included the benefit of \$8.4 million from the CDSOA anti-dumping settlement receipt that did not recur in fiscal year 2017.

Cash used for investing activities was \$264.0 million in fiscal 2017 compared to \$45.2 million in fiscal 2016.

Investing activities in fiscal 2017 included \$213.7 million of net cash used primarily to fund the Cambridge acquisition in the first quarter of fiscal 2017, whereas fiscal 2016 included \$1.1 million in cash receipts associated with finalizing working capital related to the Euroflex acquisition. We invested \$54.5 million in capital expenditures in fiscal year 2017 compared to \$52.1 million in fiscal year 2016.

Cash provided by financing activities was \$79.9 million in fiscal 2017 compared to cash used for financing activities of \$56.3 million in fiscal 2016. During fiscal 2017, we received \$389.7 million of proceeds from the closing of our preferred stock issuance on December 7, 2016, net of underwriting discounts, commissions and other direct costs of the offering (see Item 8, Note 19 Public Offering and Common Stock Repurchases for more information). The proceeds were partially offset by \$310.7 million of net debt payments, primarily for voluntary prepayments on our Term Loan of \$195.0 million in connection with the preferred stock issuance, as well as our earlier voluntary prepayment of \$95.0 million on our-then existing Term Loan (see Item 8, Note 11 Long-Term Debt for more information). Fiscal 2017 includes \$11.0 million of cash proceeds associated with stock option exercises. During fiscal 2017, we also settled the deferred acquisition payment associated with the fiscal 2015 acquisition of Tollok and paid \$4.4 million of dividends on mandatory preferred shares. Cash used for financing activities in fiscal 2016 consisted of \$40.0 million of cash used to repurchase outstanding shares of our common stock under our board-authorized stock repurchase program (see Item 8, Note 19 Public Offering and Common Stock Repurchases for more information). In addition, we made \$19.5 million of principal payments on our term loans and \$5.9 million of other payments on short-term debt (inclusive of the \$1.3 million redemption of our 8.875% senior notes). These uses of cash were partially offset by \$5.1 million of proceeds from stock option exercises and \$4.0 million related to the excess tax benefit on the option exercises.

Net cash provided by operating activities in fiscal 2016 was \$219.0 million compared to \$245.9 million in fiscal 2015. The decrease in operating cash was primarily driven by reduced operating profit on lower net sales and higher cash income taxes, partially offset by the CDSOA anti-dumping settlement receipt and the benefit of lower trade working capital.

Cash used for investing activities was \$45.2 million in fiscal 2016 compared to \$177.3 million in fiscal 2015.

Investing activities in fiscal 2016 included the receipt of \$1.1 million in cash associated with finalizing working capital related to the Euroflex acquisition whereas fiscal 2015 included \$138.2 million of net cash used to fund the acquisitions of Euroflex, Tollok and Green Turtle. See Item 8, Note 3 Acquisitions for additional information. We

invested \$52.1 million in capital expenditures in fiscal 2016 compared to \$48.8 million in fiscal 2015. Cash used for financing activities was \$56.3 million in fiscal 2016, as described above, compared to \$17.4 million in fiscal 2015. The cash used for financing activities in fiscal 2015 consisted of \$19.8 million principal payments on our term loans and \$4.5 million of other net debt payments. The cash used by financing activities in fiscal 2015 also includes \$5.8 million related to the excess tax benefit on stock option exercises and \$1.1 million of proceeds on stock option exercises.

Table of Contents

## Tabular Disclosure of Contractual Obligations

The table below lists our contractual obligations at March 31, 2017 by period when due:

(in millions)	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Term loans (1)	\$1,602.4	\$16.1	\$32.2	\$32.2	\$1,521.9
Other long-term debt (2)	38.7	0.4	14.5	0.3	23.5
Interest on long-term debt obligations (3)	443.9	76.8	161.9	169.2	36.0
Purchase commitments	155.8	143.9	11.5	0.4	—
Operating lease obligations	77.3	17.5	27.5	14.1	18.2
Pension and post-retirement plans (4)	77.7	10.0	23.0	44.7	n/a
Totals	\$2,395.8	\$264.7	\$270.6	\$260.9	\$1,599.6

(1) Excludes an unamortized original issue discount and debt issuance costs of \$17.9 million at March 31, 2017.

(2) Includes \$37.4 million of financing related to the Company's participation in the New Market Tax Credit incentive program. Excludes unamortized debt issuance costs of \$0.5 million at March 31, 2017.

(3) Interest on long-term debt obligations represents the cash interest expense using a LIBOR-based forecast.

(4) Represents expected pension and post-retirement contributions and benefit payments to be paid directly by us.

(4) Contributions and benefit payments beyond fiscal 2022 cannot be reasonably estimated.

No provision has been made for United States federal income taxes related to approximately \$176.5 million of undistributed earnings of foreign subsidiaries that are considered to be permanently reinvested; see Item 8, Note 17 Income Taxes for further information.

We may be required to make significant cash outlays related to our unrecognized tax benefits, including interest and penalties. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits, including interest and penalties and federal tax benefits where applicable, of \$18.1 million as of March 31, 2017, have been excluded from the contractual obligations table above. See Item 8, Note 17 Income Taxes for more information related to our unrecognized tax benefits.

Our pension and post-retirement benefit plans are discussed in detail in Item 8, Note 16 Retirement Benefits. The pension plans provide for monthly pension payments to eligible employees upon retirement. Other post-retirement benefits consist of retiree medical plans that cover a portion of employees in the United States that meet certain age and service requirements and other post-retirement benefits for employees at certain foreign locations. See Item 1A, Risk Factors for more information.

Table of Contents

## Indebtedness

As of March 31, 2017 we had \$1,622.7 million of total indebtedness outstanding as follows (in millions):

	Total Debt at March 31, 2017	Short-term Debt and Current Maturities of Long-Term Debt	Long-term Portion
Term loans (1)	\$1,584.5	\$ 16.1	\$ 1,568.4
Other subsidiary debt (2)	38.2	0.4	37.8
Total	\$1,622.7	\$ 16.5	\$ 1,606.2

(1) Includes unamortized original issue discount and debt issuance costs of \$17.9 million at March 31, 2017.

(2) Includes \$36.9 million of financing related to the Company's participation in the New Market Tax Credit incentive program and unamortized debt issuance costs of \$0.5 million.

See Item 8, Note 11 Long-Term Debt for a description of our outstanding indebtedness.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet or non-consolidated special-purpose entities.

## Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk during the normal course of business from changes in foreign currency exchange rates and interest rates. The exposure to these risks is managed through a combination of normal operating and financing activities and derivative financial instruments in the form of foreign currency forward contracts, interest rate swaps, and interest rate caps to cover certain known foreign currency transactional risks, as well as identified risks due to interest rate fluctuations.

## Foreign Currency Exchange Rate Risk

Our exposure to foreign currency exchange rates relates primarily to our foreign operations. For our foreign operations, exchange rates impact the U.S. Dollar ("USD") value of our reported earnings, our investments in the subsidiaries and the intercompany transactions with the subsidiaries. See Item 1A, Risk Factors for more information. We have operations in the European Union, a portion of which are located in the United Kingdom ("U.K."). The June 2016 U.K. vote to exit from the European Union ("Brexit") led to a significant decline in the U.K. Pound late in the first quarter of fiscal 2017; beyond the currency effects to date, which have not been material, we have not yet determined what effect, if any, Brexit may have on our business and results of operations.

Approximately 31% of our sales originated outside of the United States in fiscal 2017. Revenues and expenses denominated in foreign currencies are translated into USD at the end of the fiscal period using the average exchange rates in effect during the period. Consequently, as the value of the USD changes relative to the currencies of our major markets, particularly those that are Euro-based, our reported results may vary significantly.

Fluctuations in currency exchange rates also impact the USD amount of our stockholders' equity. The assets and liabilities of our non-U.S. subsidiaries are translated into USD at the exchange rates in effect at the end of the fiscal periods. As of March 31, 2017, stockholders' equity decreased by \$12.8 million from March 31, 2016 as a result of foreign currency translation adjustments. If the USD had strengthened by an additional 10% as of March 31, 2017, the result would have decreased stockholders' equity by approximately \$56.7 million.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could adversely affect our international operations and, consequently, our operating results.

At March 31, 2017, we had entered into certain foreign currency forward contracts. These foreign currency forward contracts were not accounted for as cash flow hedges in accordance with ASC 815, Derivatives and Hedging ("ASC 815"), and as such were marked to market through earnings. We believe that a hypothetical 10% adverse change in the foreign currency exchange rates would have resulted in a \$3.0 million increase in the fair value of foreign exchange

forward contracts as of March 31, 2017.

**Interest Rate Risk**

We utilize a combination of short-term and long-term debt to finance our operations and are exposed to interest rate risk on these debt obligations.

44

---

Table of Contents

A substantial portion of our indebtedness, including indebtedness under the senior secured credit facilities bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates. As of March 31, 2017, our outstanding borrowings under the term loan facility were \$1,584.5 million (net of \$17.9 million unamortized original issue discount and debt issuance costs) and bore an effective interest rate of 3.88%, determined as London Interbank Offered Rate ("LIBOR") (subject to a 1.0% floor) plus an applicable margin of 2.75%. The weighted-average interest rate for our term loan from the date of its refinancing through March 31, 2017, was 3.77% determined as LIBOR (subject to a 1.0% floor) plus an applicable margin of 2.75%.

In fiscal 2014, we entered into three forward-starting interest rate swaps to hedge the variability in future cash flows associated with a portion of the variable-rate term loans. The forward-starting interest rate swaps convert \$650.0 million of the variable-rate term loans to a weighted average fixed interest rate of 2.55% plus the applicable margin (and inclusive of a 1.0% LIBOR floor). Those interest rate swaps became effective beginning on September 28, 2015 with a maturity of September 27, 2018. In fiscal 2015, we entered into two interest rate caps in order to mitigate exposure to increasing interest rates on variable-rate interest loans. The interest rate caps were effective beginning as of October 24, 2014, with a maturity of October 24, 2018, and cap the interest on \$750.0 million of our variable-rate interest loans at 3.0%, plus the applicable margin. The existing interest rate swaps and interest rate caps together have effectively hedged approximately 87% of our outstanding variable rate term loans with a weighted average interest rate that cannot exceed 2.79% plus the applicable margin of 2.75%.

Our net income would be affected by changes in market interest rates on our variable-rate obligations (which comprises approximately 98% of our total indebtedness). As discussed above, our term loan facilities are subject to a 1.0% LIBOR floor. Therefore, a 100 basis point increase in the March 31, 2017 market interest rate would increase interest expense under our term loan facility by approximately \$9.5 million on an annual basis. An additional 100 basis point increase in the LIBOR rate would add approximately \$8.4 million of annual interest expense under our term loan facility.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information with respect to the Company's market risk is contained under the caption "Quantitative and Qualitative Disclosures About Market Risk" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements included in this Form 10-K include the accounts of Rexnord Corporation and subsidiaries (collectively, the "Company").

Index to Financial Statements

Rexnord Corporation and Subsidiaries

Consolidated Financial Statements

As of March 31, 2017 and 2016 and

for the years ended March 31, 2017, 2016, and 2015

Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm 47

Consolidated Balance Sheets 49

Consolidated Statements of Operations 50

Consolidated Statements of Comprehensive Income (Loss) 50

Consolidated Statements of Stockholders' Equity 51

Consolidated Statements of Cash Flows 52

Notes to Consolidated Financial Statements 53



Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Rexnord Corporation

We have audited the accompanying consolidated balance sheets of Rexnord Corporation as of March 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended March 31, 2017. Our audits also included the financial statement schedule listed in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rexnord Corporation at March 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Rexnord Corporation's internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated May 17, 2017 expressed an unqualified opinion thereon.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for share-based payments to employees as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," effective April 1, 2016.

/s/ ERNST & YOUNG LLP  
Milwaukee, Wisconsin  
May 17, 2017

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Rexnord Corporation

We have audited Rexnord Corporation's internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the "COSO criteria"). Rexnord Corporation's management is responsible 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 Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, Rexnord Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Rexnord Corporation as of March 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2017 of Rexnord Corporation and our report dated May 17, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin  
May 17, 2017

48

---

Table of Contents

Rexnord Corporation and Subsidiaries  
 Consolidated Balance Sheets  
 (in Millions, except share amounts)

	March 31, 2017	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$490.1	\$484.6
Receivables, net	322.9	317.6
Inventories	314.9	327.2
Other current assets	50.2	46.7
Total current assets	1,178.1	1,176.1
Property, plant and equipment, net	400.9	397.2
Intangible assets, net	558.6	520.9
Goodwill	1,318.2	1,193.8
Other assets	83.5	66.8
Total assets	\$3,539.3	\$3,354.8
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of debt	\$16.5	\$20.2
Trade payables	197.8	200.8
Compensation and benefits	54.3	54.0
Current portion of pension and postretirement benefit obligations	4.3	5.0
Other current liabilities	127.4	124.4
Total current liabilities	400.3	404.4
Long-term debt	1,606.2	1,899.9
Pension and postretirement benefit obligations	174.4	195.5
Deferred income taxes	208.8	186.0
Other liabilities	79.0	81.0
Total liabilities	2,468.7	2,766.8
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000,000 shares authorized; shares issued and outstanding: 103,600,540 at March 31, 2017 and 101,435,762 at March 31, 2016	1.0	1.0
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; shares of 5.75% Series A Mandatory Convertible Preferred Stock issued and outstanding: 402,500 at March 31, 2017 and 0 at March 31, 2016	0.0	—
Additional paid-in capital	1,262.1	856.2
Retained deficit	(55.5 )	(129.6 )
Accumulated other comprehensive loss	(137.0 )	(139.0 )
Total Rexnord stockholders' equity	1,070.6	588.6
Non-controlling interest	—	(0.6 )
Total stockholders' equity	1,070.6	588.0
Total liabilities and stockholders' equity	\$3,539.3	\$3,354.8

See notes to consolidated financial statements.



Table of Contents

Rexnord Corporation and Subsidiaries  
 Consolidated Statements of Operations  
 (in Millions, except share and per share amounts)

	Year Ended		
	March 31, 2017	March 31, 2016	March 31, 2015
Net sales	\$1,918.2	\$1,923.8	\$2,050.2
Cost of sales	1,250.2	1,258.6	1,304.0
Gross profit	668.0	665.2	746.2
Selling, general and administrative expenses	413.2	385.7	415.1
Restructuring and other similar charges	31.6	34.9	12.9
Actuarial (gain) loss on pension and postretirement benefit obligations	(2.6 )	12.9	59.4
Amortization of intangible assets	42.1	57.4	55.1
Income from operations	183.7	174.3	203.7
Non-operating (expense) income:			
Interest expense, net	(88.7 )	(91.4 )	(87.9 )
Loss on the extinguishment of debt	(7.8 )	—	—
Other (expense) income, net	(5.2 )	3.1	(7.2 )
Income from continuing operations before income taxes	82.0	86.0	108.6
Provision for income taxes	7.9	17.1	16.8
Net income from continuing operations	74.1	68.9	91.8
Loss from discontinued operations, net of tax	—	(1.4 )	(8.0 )
Net income	74.1	67.5	83.8
Non-controlling interest loss	—	(0.4 )	—
Net income attributable to Rexnord	74.1	67.9	83.8
Dividends on preferred stock	(7.3 )	—	—
Net income attributable to Rexnord common stockholders	\$66.8	\$67.9	\$83.8
Basic net income (loss) per share attributable to Rexnord common stockholders:			
Continuing operations	\$0.65	\$0.69	\$0.90
Discontinued operations	\$—	\$(0.01 )	\$(0.08 )
Net income	\$0.65	\$0.67	\$0.82
Diluted income (loss) per share attributable to Rexnord common stockholders:			
Continuing operations	\$0.64	\$0.67	\$0.88
Discontinued operations	\$—	\$(0.01 )	\$(0.08 )
Net income	\$0.64	\$0.66	\$0.80
Weighted-average number of common shares outstanding (in thousands):			
Basic	102,753	100,841	101,530
Effect of dilutive stock options	2,031	2,469	3,197
Diluted	104,784	103,310	104,727

Rexnord Corporation and Subsidiaries  
 Consolidated Statements of Comprehensive Income (Loss)  
 (in Millions)

	Year Ended		
	March 31, 2017	March 31, 2016	March 31, 2015
Net income attributable to Rexnord	\$74.1	\$ 67.9	\$ 83.8
Other comprehensive income (loss):			

Edgar Filing: Rexnord Corp - Form 10-K

Foreign currency translation adjustments	(12.8 )	(10.0 )	(84.3 )
Unrealized gain (loss) on interest rate derivatives, net of tax	7.4	(4.3 )	(10.9 )
Change in pension and other postretirement defined benefit plans, net of tax	7.4	5.5	(11.2 )
Other comprehensive income (loss), net of tax	2.0	(8.8 )	(106.4 )
Non-controlling interest loss	—	(0.4 )	—
Total comprehensive income (loss)	\$76.1	\$ 58.7	\$ (22.6 )

See notes to consolidated financial statements.

50

---

Table of Contents

Rexnord Corporation and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
(in Millions)

	Common Stock	Preferred Stock (1)	Additional Paid-In Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock (2)	Non-control- ling interest (3)	Total Stockholders' Equity (Deficit)
Balance at March 31, 2014	\$ 1.0	\$ —	\$872.7	\$(281.3)	\$ (23.8 )	\$ (6.3 )	\$ (0.2 )	\$ 562.1
Comprehensive income (loss):								
Net income	—	—	—	83.8	—	—	—	83.8
Foreign currency translation adjustments	—	—	—	—	(84.3 )	—	—	(84.3 )
Unrealized loss on interest rate derivatives, net of \$4.2 million	—	—	—	—	(10.9 )	—	—	(10.9 )
income tax benefit	—	—	—	—	—	—	—	—
Change in pension and other postretirement defined benefit plans, net of \$4.3 million	—	—	—	—	(11.2 )	—	—	(11.2 )
income tax benefit	—	—	—	—	—	—	—	—
Total comprehensive income (loss)	—	—	—	83.8	(106.4 )	—	—	(22.6 )
Stock-based compensation expense	—	—	6.3	—	—	—	—	6.3
Exercise of stock options	—	—	1.1	—	—	—	—	1.1
Tax benefit on stock option exercises	—	—	5.8	—	—	—	—	5.8
Balance at March 31, 2015	\$ 1.0	\$ —	\$885.9	\$(197.5)	\$ (130.2 )	\$ (6.3 )	\$ (0.2 )	\$ 552.7
Comprehensive income (loss):								
Net income	\$ —	\$ —	\$—	\$67.9	\$ —	\$—	\$ (0.4 )	\$ 67.5
Foreign currency translation adjustments	—	—	—	—	(10.0 )	—	—	(10.0 )
Unrealized loss on interest rate derivatives, net of \$2.6 million	—	—	—	—	(4.3 )	—	—	(4.3 )
income tax benefit	—	—	—	—	—	—	—	—
Change in pension and other postretirement defined benefit plans, net of \$3.0 million	—	—	—	—	5.5	—	—	5.5
income tax expense	—	—	—	—	—	—	—	—
Total comprehensive income (loss)	—	—	—	67.9	(8.8 )	—	(0.4 )	58.7
Stock-based compensation expense	—	—	7.5	—	—	—	—	7.5
Common stock repurchased and canceled (4)	—	—	(40.0 )	—	—	—	—	(40.0 )
Exercise of stock options	—	—	5.1	—	—	—	—	5.1
Cancellation of treasury stock (2)	—	—	(6.3 )	—	—	6.3	—	—
Tax benefit on stock option exercises	—	—	4.0	—	—	—	—	4.0



Edgar Filing: Rexnord Corp - Form 10-K

Balance at March 31, 2016	\$ 1.0	\$ —	\$ 856.2	\$(129.6)	\$ (139.0 )	\$ —	\$ (0.6 )	\$ 588.0
Comprehensive income (loss):								
Net income	\$ —	\$ —	\$ —	\$ 74.1	\$ —	\$ —	\$ —	\$ 74.1
Foreign currency translation adjustments	—	—	—	—	(12.8 )	—	—	(12.8 )
Change in unrealized loss on interest rate derivatives, net of \$4.3 million income tax expense	—	—	—	—	7.4	—	—	7.4
Change in pension and other postretirement defined benefit plans, net of \$4.4 million income tax expense	—	—	—	—	7.4	—	—	7.4
Total comprehensive income	—	—	—	74.1	2.0	—	—	76.1
Acquisition of non-controlling interest	—	—	(0.9 )	—	—	—	0.6	(0.3 )
Preferred stock issuance, net (1)	—	—	389.7	—	—	—	—	389.7
Preferred stock dividends	—	—	(7.3 )	—	—	—	—	(7.3 )
Stock-based compensation expense	—	—	13.4	—	—	—	—	13.4
Exercise of stock options	—	—	11.0	—	—	—	—	11.0
Balance at March 31, 2017	\$ 1.0	\$ 0.0	\$ 1,262.1	\$(55.5 )	\$ (137.0 )	\$ —	\$ —	\$ 1,070.6

On December 7, 2016, the Company issued 8,050,000 depository shares, each of which represents a 1/20th interest (1) in a share of 5.75% Series A Mandatory Convertible Preferred Stock (the "Series A Preferred Stock"), for an offering price of \$50 per depository share. Shares of Series A Preferred Stock have a par value of \$0.01 per share.

(2) During fiscal 2016, the Company canceled all outstanding shares held in treasury stock and returned such shares to the status of authorized but unissued shares.

Represents a 49% non-controlling interest in a Water Management joint venture. During the first quarter of fiscal (3) 2017, the Company acquired the remaining non-controlling interest for a cash purchase price of \$0.3 million. See Note 3 for additional information.

(4) During fiscal 2016, the Company repurchased and canceled 1,552,500 shares of common stock at a total cost of 40.0 million at an average price of 25.76. Refer to Note 19 for additional information regarding the stock repurchase program.

See notes to consolidated financial statements.

Table of Contents

Rexnord Corporation and Subsidiaries  
 Consolidated Statements of Cash Flows  
 (in Millions)

	Year Ended		
	March 31,	March 31,	March 31,
	2017	2016	2015
Operating activities			
Net income	\$74.1	\$ 67.5	\$ 83.8
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	63.3	58.0	57.1
Amortization of intangible assets	42.1	57.4	55.1
Amortization of deferred financing costs	2.4	2.0	2.1
Non-cash asset impairment	1.5	17.5	—
Loss on dispositions of property, plant and equipment	0.2	0.6	3.0
Deferred income taxes	(18.4 )	(13.9 )	(36.9 )
Non-cash charge for disposal of discontinued operations	—	1.5	9.7
Actuarial (gain) loss on pension and post retirement benefit obligations	(2.6 )	12.9	59.4
Other non-cash (credits) charges	(1.0 )	9.6	(9.8 )
Loss on extinguishment of debt	7.8	—	—
Stock-based compensation expense	13.4	7.5	6.4
Changes in operating assets and liabilities:			
Receivables	(5.8 )	1.5	6.1
Inventories	22.5	37.7	(15.2 )
Other assets	(9.2 )	7.5	0.1
Accounts payable	(5.3 )	(32.4 )	3.7
Accruals and other	10.1	(15.9 )	21.3
Cash provided by operating activities	195.1	219.0	245.9
Investing activities			
Expenditures for property, plant and equipment	(54.5 )	(52.1 )	(48.8 )
Acquisitions, net of cash acquired	(213.7 )	1.1	(138.2 )
Proceeds from dispositions of property, plant and equipment	4.2	5.8	0.5
Proceeds from divestiture, net of cash	—	—	9.2
Cash used for investing activities	(264.0 )	(45.2 )	(177.3 )
Financing activities			
Proceeds from borrowings of debt	1,590.3	0.9	0.1
Repayments of long-term debt	(1,885.8 )	(19.5 )	(19.8 )
Proceeds from borrowings of short-term debt	16.1	—	11.5
Repayments of short-term debt	(19.5 )	(5.9 )	(16.1 )
Payment of debt issuance costs	(11.8 )	(0.9 )	—
Deferred acquisition payment	(5.7 )	—	—
Proceeds from issuance of preferred stock, net of direct offering costs	389.7	—	—
Payment of preferred stock dividends	(4.4 )	—	—
Proceeds from exercise of stock options	11.0	5.1	1.1
Repurchase of Company common stock	—	(40.0 )	—
Excess tax benefit on exercise of stock options	—	4.0	5.8
Cash provided by (used for) financing activities	79.9	(56.3 )	(17.4 )
Effect of exchange rate changes on cash and cash equivalents	(5.5 )	(3.2 )	(19.9 )

Edgar Filing: Rexnord Corp - Form 10-K

Increase in cash and cash equivalents	5.5	114.3	31.3
Cash and cash equivalents at beginning of period	484.6	370.3	339.0
Cash and cash equivalents at end of period	\$490.1	\$ 484.6	\$ 370.3

See notes to consolidated financial statements.

52

---

Table of Contents

Rexnord Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
March 31, 2017

1. Basis of Presentation and Description of Business

The consolidated financial statements included herein have been prepared by Rexnord Corporation ("Rexnord" or the "Company"), in accordance with accounting principles generally accepted in the United States ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the consolidated financial statements include all adjustments necessary for a fair presentation of the financial position and the results of operations for the periods presented.

The Company

Rexnord is a growth-oriented, multi-platform industrial company with what it believes to be leading market shares and highly-trusted brands that serve a diverse array of global end markets. The Company's heritage of innovation and specification have allowed it to provide highly-engineered, mission-critical solutions to customers for decades and affords the privilege of having long-term, valued relationships with market leaders. The Company operates in a disciplined way and its Rexnord Business System ("RBS") is the operating philosophy. Grounded in the spirit of continuous improvement, RBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of its business. The Company currently operates its business in two platforms - Process & Motion Control and Water Management. The Process & Motion Control platform designs, manufactures, markets and services a comprehensive range of specified, highly-engineered mechanical components used within complex systems where our customers' reliability requirements and costs of failure or downtime are high. The Process & Motion Control portfolio includes motion control products, shaft management products, aerospace components, and related value-added services. The Water Management platform designs, procures, manufactures, and markets products that provide and enhance water quality, safety, flow control and conservation. The Water Management product portfolio includes professional grade water control and safety, water distribution and drainage, finish plumbing, and site works products for primarily nonresidential buildings and flow control products for water and wastewater treatment infrastructure markets.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Net sales are recorded upon transfer of title and risk of product loss to the customer. Net sales relating to any particular shipment are based upon the amount invoiced for the delivered goods less estimated future rebate payments and sales returns which are based upon the Company's historical experience. Revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known; historically, revisions to estimates have not been significant. Other than a standard product warranty, there are no other significant post-shipment obligations. The Company classifies shipping and handling fees billed to customers as net sales and the corresponding costs are classified as cost of sales in the consolidated statements of operations.

Stock-Based Compensation

The Company accounts for stock based compensation in accordance with Accounting Standards Codification ("ASC") 718, Accounting for Stock Compensation ("ASC 718"). ASC 718 requires compensation costs related to stock-based payment transactions to be recognized in the financial statements. Generally, compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the requisite service period, generally as the awards vest. See further discussion of the Company's equity plans in Note 15, Stock-Based Compensation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

53

---

Table of Contents

## Receivables

Receivables are stated net of allowances for doubtful accounts of \$10.6 million at March 31, 2017 and \$8.9 million at March 31, 2016. The Company evaluates the collectability of its receivables and establishes the allowance for doubtful accounts based on a combination of specific customer circumstances and historical write-off experience. Credit is extended to customers based upon an evaluation of their financial position. Generally, advance payment is not required. Allowances for doubtful accounts established are recorded within Selling, general and administrative expenses within the consolidated statements of operations.

## Significant Customers

The Company's largest customer accounted for 8.4%, 8.4% and 8.9% of consolidated net sales for the years ended March 31, 2017, 2016 and 2015, respectively. Receivables related to this customer at March 31, 2017 and 2016 were \$12.3 million and \$8.1 million, respectively.

## Inventories

Inventories are comprised of material, direct labor and manufacturing overhead, and are stated at the lower of cost or market. Market is determined based on estimated net realizable values. The Company's total inventories valued using the "last-in, first-out" (LIFO) method was 60% and 64% at March 31, 2017 and 2016, respectively. All remaining inventories are valued using the "first-in, first-out" (FIFO) method.

In some cases, the Company has determined a certain portion of inventories are excess or obsolete. In those cases, the Company writes down the value of those inventories to their net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are more or less favorable than those projected by management, adjustments to established inventory reserves may be required. The total write-down of inventories charged to expense was \$7.6 million, \$9.5 million and \$5.2 million, during fiscal 2017, 2016 and 2015, respectively.

## Property, Plant and Equipment

Property, plant and equipment are initially stated at cost. Depreciation is provided using the straight-line method over 10 to 30 years for buildings and improvements, 5 to 10 years for machinery and equipment and 3 to 5 years for computer hardware and software. Where appropriate, the depreciable lives of certain assets may be adjusted to reflect a change in the use of those assets, or depreciation may be accelerated in the case of an eventual asset disposal. The Company recognized accelerated depreciation of \$9.6 million, \$2.5 million, and zero during fiscal 2017, 2016, and 2015, respectively. Accelerated depreciation is recorded within Cost of sales in the consolidated statements of operations. Maintenance and repair costs are expensed as incurred.

## Goodwill and Intangible Assets

Intangible assets consist of acquired trademarks and tradenames, customer relationships (including distribution network) and patents. The customer relationships, patents, and certain tradenames are being amortized using the straight-line method over their estimated useful lives of 7 to 20 years, 3 to 15 years, and 3 to 15 years, respectively. Where appropriate, the lives of certain intangible assets may be adjusted to reflect a change in the use of those assets, or amortization may be accelerated in the case of a known intangible asset discontinuation. Goodwill, trademarks and certain tradenames have indefinite lives and are not amortized. However, the goodwill and intangible assets are tested annually for impairment using a discounted cash flow and market value approach analysis and may be tested more frequently if any triggering events occur that would reduce the recoverability of the asset.

## Impairment of Long-Lived Assets

The carrying value of long-lived assets, including amortizable intangible assets and tangible fixed assets, are evaluated for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment of amortizable intangible assets and tangible fixed assets is generally determined by comparing projected undiscounted cash flows to be generated by the asset, or group of assets, to its carrying value. If impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted accordingly. The Company recognized impairment charges associated with these assets during fiscal 2017 and 2016, in the amount of \$1.5 million and \$17.5 million, respectively. There were no impairment charges impacting continuing operations during fiscal 2015. The impairment was determined utilizing Level 3 inputs within the Fair Value hierarchy, and the Company reviewed and considered input from outside specialists, when appropriate. Refer to Note 13 Fair Value Measurements for additional information. Actual results could vary from

these estimates.

54

---

Table of Contents

## Product Warranty

The Company offers warranties on the sales of certain of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The following table presents changes in the Company's product warranty liability during each of the periods presented (in millions):

	Year Ended March 31, 2017	Year Ended March 31, 2016	Year Ended March 31, 2015
Balance at beginning of period	\$ 6.8	\$ 6.8	\$ 8.0
Acquired obligations	0.4	—	—
Charged to operations	3.9	2.8	1.8
Claims settled	(3.6 )	(2.8 )	(3.0 )
Balance at end of period	\$ 7.5	\$ 6.8	\$ 6.8

## Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Accounting for Income Taxes ("ASC 740"). Deferred income taxes are provided for future tax effects attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating losses, tax credits and other applicable carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be actually paid or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of continuing operations in the period that includes the date of enactment.

The Company regularly reviews its deferred tax assets for recoverability and provides a valuation allowance against its deferred tax assets if, based upon consideration of all positive and negative evidence, the Company determines that it is more-likely-than-not that a portion or all of the deferred tax assets will ultimately not be realized in future tax periods. Such positive and negative evidence would include review of historical earnings and losses, anticipated future earnings, the time period over which the temporary differences and carryforwards are anticipated to reverse and implementation of feasible, prudent tax planning strategies.

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and recording the related deferred tax assets and liabilities. In the ordinary course of the Company's business, there is inherent uncertainty in quantifying the ultimate tax outcome of all of the numerous transactions and required calculations relating to the Company's tax positions. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of ASC 740. An unrecognized tax benefit represents the difference between the recognition of benefits related to uncertain tax positions for income tax reporting purposes and financial reporting purposes. The Company has established a reserve for interest and penalties, as applicable, for uncertain tax positions; it is recorded as a component of the overall income tax provision.

The Company is subject to periodic income tax examinations by domestic and foreign income tax authorities. Although the outcome of income tax examinations is always uncertain, the Company believes that it has appropriate support for the positions taken on its income tax returns and has adequately provided for potential income tax assessments. Nonetheless, the amounts ultimately settled relating to issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

See Note 17 Income Taxes for additional information.

## Per Share Data

Basic net income (loss) per share from continuing and discontinued operations attributable to Rexnord common stockholders is computed by dividing net income from continuing operations and (loss) from discontinued operations attributable to Rexnord common stockholders, respectively, by the corresponding weighted average number of common shares outstanding for the period. Diluted net income (loss) per share from continuing and discontinued



operations attributable to Rexnord common stockholders is computed based on the weighted average number of common shares outstanding increased by the number of incremental shares that would have been outstanding if the potential dilutive shares were issued through the exercise of outstanding stock options to purchase common shares, except when the effect would be anti-dilutive. The computation for diluted net income per share for the fiscal years ended March 31, 2017, 2016 and 2015 excludes 4.6 million, 2.9 million and 1.3 million shares due to their anti-dilutive effects, respectively. The computation for diluted net income per share also does not include shares of preferred stock that are convertible into a weighted average of 5.8 million common shares for the fiscal year ended March 31, 2017.

Table of Contents

The following table presents the basis for income per share computations (in millions, except share amounts):

	Year Ended		
	March 31, 2017	March 31, 2016	March 31, 2015
Numerator:			
Net income from continuing operations	\$ 74.1	\$ 68.9	\$ 91.8
Less: Non-controlling interest loss	—	(0.4 )	—
Less: Dividends on preferred stock	7.3	—	—
Income from continuing operations attributable to Rexnord common stockholders	66.8	69.3	91.8
Loss from discontinued operations	—	(1.4 )	(8.0 )
Net income attributable to Rexnord common stockholders	\$ 66.8	\$ 67.9	\$ 83.8
Denominator:			
Weighted average common shares outstanding, basic	102,753	100,841	101,530
Effect of dilutive common shares equivalents	2,031	2,469	3,197
Weighted average common shares outstanding, dilutive	104,784	103,310	104,727

## Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss, net of tax, for the fiscal years ending March 31, 2017, 2016 and 2015 are as follows (in millions):

	Interest Rate Derivatives	Foreign Currency Translation	Pension and Postretirement Plans	Total
Balance at March 31, 2014	\$ (1.7 )	\$ 7.8	\$ (29.9 )	\$(23.8 )
Other comprehensive loss before reclassifications	(10.9 )	(84.3 )	(14.1 )	(109.3 )
Amounts reclassified from accumulated other comprehensive loss	—	—	2.9	2.9
Net current period other comprehensive loss	(10.9 )	(84.3 )	(11.2 )	(106.4 )
Balance at March 31, 2015	\$ (12.6 )	\$ (76.5 )	\$ (41.1 )	\$(130.2)
Other comprehensive (loss) income before reclassifications	(4.3 )	(10.0 )	6.7	(7.6 )
Amounts reclassified from accumulated other comprehensive loss	—	—	(1.2 )	(1.2 )
Net current period other comprehensive (loss) income	(4.3 )	(10.0 )	5.5	(8.8 )
Balance at March 31, 2016	\$ (16.9 )	\$ (86.5 )	\$ (35.6 )	\$(139.0)
Other comprehensive income (loss) before reclassifications	1.1	(12.8 )	9.2	(2.5 )
Amounts reclassified from accumulated other comprehensive loss	6.3	—	(1.8 )	4.5
Net current period other comprehensive income (loss)	7.4	(12.8 )	7.4	2.0
Balance at March 31, 2017	\$ (9.5 )	\$ (99.3 )	\$ (28.2 )	\$(137.0)

Table of Contents

The following table summarizes the amounts reclassified from accumulated other comprehensive loss to net income during the fiscal years ending March 31, 2017, 2016 and 2015 (in millions):

	Year Ending March 31, 2017	Year Ending March 31, 2016	Year Ending March 31, 2015	Income Statement Line Item
Pension and postretirement plans				
Amortization of prior service credit	\$ (1.9 )	\$ (1.9 )	\$ (1.7 )	Selling, general and administrative expenses
Lump Sum Settlement	—	—	6.5	Actuarial (gain) loss on pension and postretirement benefit obligations
Curtailment	(1.0 )	—	—	Actuarial (gain) loss on pension and postretirement benefit obligations
Provision (benefit) for income taxes	1.1	0.7	(1.9 )	
Total, net of income taxes	\$ (1.8 )	\$ (1.2 )	\$ 2.9	

## Interest rate derivatives

Net realized losses on interest rate hedges	\$ 10.2	\$ —	\$ —	Interest expense, net
Benefit for income taxes	(3.9 )	—	—	
Total, net of income taxes	\$ 6.3	\$ —	\$ —	

## Derivative Financial Instruments

The Company is exposed to certain financial risks relating to fluctuations in foreign currency exchange rates and interest rates. The Company selectively uses foreign currency forward contracts and interest rate derivatives to manage its foreign currency and interest rate risks. All hedging transactions are authorized and executed pursuant to defined policies and procedures which prohibit the use of financial instruments for speculative purposes. For the derivative instruments designated and qualifying as effective hedging instruments under ASC 815, Accounting for Derivative Instruments and Hedging Activities ("ASC 815"), the changes in the fair value of the effective portion of the instrument are recognized in accumulated other comprehensive loss whereas any changes in the fair value of a derivative instrument that is not designated or does not qualify as an effective hedge are recorded in other non-operating expense. See Note 12 Derivative Financial Instruments for further information regarding the classification and accounting of such instruments.

## Financial Instrument Counterparties

The Company is exposed to credit losses in the event of non-performance by counterparties to its financial instruments. The Company anticipates, however, that counterparties will be able to fully satisfy their obligations under these instruments. The Company places cash and temporary investments and foreign currency and interest rate swap and cap contracts with various high-quality financial institutions. Although the Company does not obtain collateral or other security to support these financial instruments, it does periodically evaluate the credit-worthiness of each of its counterparties.

## Foreign Currency Translation

Assets and liabilities of subsidiaries operating outside of the United States with a functional currency other than the U.S. dollar are translated into U.S. dollars using exchange rates at the end of the respective period. Revenues and expenses of such entities are translated at average exchange rates in effect during the respective period. Foreign currency translation adjustments are included as a component of accumulated other comprehensive loss. The Company periodically enters into foreign currency forward contracts to mitigate foreign currency volatility on certain intercompany and external cash flows expected to occur. See Note 12 Derivative Financial Instruments for additional information. Currency transaction losses are included in other expense (income), net in the consolidated statements of operations and totaled \$3.7 million, \$3.0 million and \$1.5 million for the years ended March 31, 2017, 2016 and 2015, respectively.

## Advertising Costs

Advertising costs are charged to selling, general and administrative expenses on the consolidated statements of operations as incurred and amounted to \$10.6 million, \$9.2 million, and \$10.4 million for the years ended March 31, 2017, 2016 and 2015, respectively.

Table of Contents

## Research, Development and Engineering Costs

Research, development and engineering costs are charged to selling, general and administrative expenses on the consolidated statements of operations as incurred and for the years ended March 31, 2017, 2016 and 2015 amounted to the following (in millions):

	Year Ended March 31, 2017	Year Ended March 31, 2016	Year Ended March 31, 2015
Research and development costs	\$ 11.1	\$ 12.4	\$ 12.8
Engineering costs	27.2	24.8	26.0
Total	\$ 38.3	\$ 37.2	\$ 38.8

## Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and temporary investments, forward currency contracts and trade accounts receivable.

## Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). The amendments in ASU 2017-04 allow companies to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for the beginning of the Company's fiscal 2021, with early adoption permitted, and must be applied prospectively. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company elected to early adopt this standard in the first quarter of fiscal 2017. The impact of the adoption of this standard resulted in the following:

The Company recorded a benefit of \$7.6 million within income tax expense for the fiscal year ended March 31, 2017, related to the net excess tax benefit on stock options, restricted stock units and performance stock units. Prior to adoption, these amounts would have been recorded as a reduction of additional paid-in capital. This change may create volatility in the Company's effective tax rate.

The Company properly no longer reclassifies the excess tax benefit from operating activities to financing activities in the consolidated statements of cash flows. The Company elected to apply this change prospectively and thus prior periods have not been adjusted.

The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of its diluted earnings per share for the fiscal year ended March 31, 2017. This increased the diluted weighted average common shares outstanding by approximately 0.3 million shares.

In February 2015, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to recognize lease assets and lease liabilities for all leases on the balance sheets. ASU 2016-02 is effective beginning for the Company's fiscal 2020 and interim periods included therein on a modified retrospective basis. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Under existing guidance, net realizable value is one of several calculations needed to measure inventory at lower of cost or market and as such, the new guidance reduces the complexity in measurement. ASU 2015-11 is effective for the Company's first quarter of fiscal 2018, with early adoption permitted, and must be applied

prospectively. The adoption of ASU 2015-11 is not expected to have an impact on the consolidated financial statements.

58

---

Table of Contents

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. The new guidance requires the service cost component of net periodic benefit cost to be presented in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period with only the service cost component eligible for capitalization in assets. Other components of the net periodic benefit cost are to be stated separately from the line item(s) that includes the service cost and outside of operating income. The standard is required to be adopted for annual periods beginning after December 15, 2017, including interim periods within that annual period, which is the Company's fiscal year 2019. The amendment is to be applied retrospectively. The Company has not yet evaluated the impact of adoption of this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") in order to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The guidance specifies revenue should be recognized in an amount that reflects the consideration the company expects to be entitled to in exchange for the transfer of promised goods or services to customers. The guidance provides a five-step process that entities should follow in order to achieve that core principal. ASU 2014-09 will be effective for the Company on April 1, 2018. Companies can use either a full retrospective or modified retrospective method to adopt the standard. Under the full retrospective method, the requirements of the new standard are applied to contracts for each prior reporting period presented and the cumulative effective of applying the standard is recognized in the earliest period presented. Under the modified retrospective method, prior periods are not updated to be presented on an accounting basis that is consistent with information for fiscal 2019. Rather, a cumulative adjustment for the effects of applying the new standard to periods prior to fiscal 2019 is recorded to retained earnings as of April 1, 2018. The Company has not yet selected which approach to apply but is anticipating using the modified retrospective approach.

The Company is assessing the impact of the new standard on its business by reviewing its current accounting policies and practices, including detailed reviews of customer contracts, to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts. The Company will provide additional disclosure as its ongoing assessment progresses.

### 3. Acquisitions

#### Fiscal Year 2017

On June 1, 2016, the Company acquired Cambridge International Holdings Corp. ("Cambridge") for a cash purchase price of \$213.4 million. The purchase price consisted of an enterprise value of \$210.0 million, excluding transaction costs and net of cash acquired, plus additional consideration of \$3.4 million related to the acquisition of certain tax benefits and real property classified as held for sale at the acquisition date. Subsequently, during fiscal 2017 the Company received a cash payment of \$0.7 million from the sellers in connection with finalizing the acquisition date trade working capital, which is reflected in the additional consideration above. Cambridge, with operations in Cambridge, Maryland and Matamoros, Mexico, is one of the world's largest suppliers of metal conveying and engineered woven metal solutions, primarily used in food processing end markets, as well as in architectural, packaging and filtration applications. The acquisition of Cambridge expanded the Company's presence in consumer-driven end markets in the Process & Motion Control platform.

The Company's results of operations include the acquired operations subsequent to June 1, 2016. Pro-forma results of operations and certain other U.S. GAAP disclosures related to the Cambridge acquisition have not been presented because they are not material to the Company's consolidated statements of operations and consolidated balance sheet. The acquisition of Cambridge was accounted for as a business combination and recorded by allocating the purchase price to the fair value of assets acquired and liabilities assumed at the acquisition date. The excess of the acquisition purchase price over the fair value assigned to the assets acquired and liabilities assumed was recorded as goodwill. Since the initial purchase price allocation, the Company increased goodwill by \$3.1 million in connection with the establishment of income tax positions and the refinement of the fair value assigned to acquired fixed and intangible assets within the opening balance sheet, partially offset by the aforementioned payment received from the sellers in

connection with finalizing the acquisition date trade working capital. After incorporating the changes described above, the purchase price allocation resulted in non-tax deductible goodwill of \$129.4 million, other intangible assets of \$80.6 million (includes tradenames of \$16.8 million, customer relationships of \$58.3 million and patents of \$5.5 million) and other net assets of \$3.4 million. The purchase price allocation remains preliminary and subject to final valuation adjustments that will be completed within the one year period following the acquisition date.

During fiscal 2017 the Company acquired the remaining non-controlling interest in a Water Management joint venture for a cash purchase price of approximately \$0.3 million, net of cash acquired and excluding transaction costs. The acquisition of the remaining minority interest was not material to the Company's consolidated statements of operations or financial position.



Table of Contents

## Fiscal Year 2015

On January 12, 2015, the Company acquired Euroflex Transmissions (India) Private Limited ("Euroflex") for a cash purchase price of \$76.0 million. Euroflex, based in Hyderabad, India, is a supplier of high performance disc couplings used in power generation, gas compression and industrial process machinery applications. The acquisition of Euroflex added complementary product lines to the Company's existing Process & Motion Control platform.

On October 30, 2014, the Company acquired Tollok S.p.A. ("Tollok"), a supplier of highly engineered shaft locking devices for the power generation and process industries, as well as general industrial applications. The purchase price was \$39.2 million, which was comprised of \$33.4 million that was paid at closing, \$3.4 million of deferred purchase price payable in fiscal 2017 and additional consideration, not to exceed \$3.8 million, in 2 years following the acquisition. During fiscal 2017 the Company paid \$5.7 million to settle the aforementioned acquisition-related obligations. Tollok, based in Ferrara, Italy, added complementary product lines to the Company's existing Process & Motion Control platform.

On April 15, 2014, the Company acquired Green Turtle Technologies Ltd., Green Turtle Americas Ltd. and Filamat Composites Inc. (collectively "Green Turtle") for a total cash purchase price of \$27.7 million. Green Turtle, based in Toronto, Ontario, and Charlotte, North Carolina, is a manufacturer of branded fiberglass oil and grease separators and traps. This acquisition broadened the product portfolio of the Company's existing Water Management platform.

The Company's results of operations include the acquired operations subsequent to the respective acquisition dates. The acquisitions of Green Turtle, Tollok and Euroflex were not material to the Company's consolidated financial statements. Pro-forma results of operations and certain other U.S. GAAP disclosures related to the acquisitions during the fiscal year ended March 31, 2015 have not been presented because they are not significant to the Company's consolidated statements of operations and financial position.

The fiscal 2015 acquisitions were accounted for as business combinations and recorded by allocating the purchase price of the acquisitions to the fair value of the assets acquired and liabilities assumed at the respective acquisition date. The excess of the acquisition purchase price over the fair value assigned to the assets acquired and liabilities assumed was recorded as goodwill. During the fiscal year ended March 31, 2016, the Company adjusted the purchase price allocation by reducing goodwill by \$4.8 million in connection with the finalization of Euroflex and Tollok acquisition date working capital, refinement of the fair value assigned to acquired intangible assets and establishment of income tax positions within the opening balance sheet. After incorporating the changes described above, the purchase price allocation resulted in non-tax deductible goodwill of \$69.9 million, other intangible assets of \$71.4 million and other net assets of \$1.6 million.

## 4. Discontinued Operations

There was no discontinued operations activity during fiscal 2017. In fiscal 2015 the Company ceased all operations related to its former Mill Products business, which conducted its operations in the United States and Australia and was a component of the Process & Motion Control operating segment. As a result, the Company met the criteria to present this business as a discontinued operation. Accordingly, the results of operations of the Mill Products business are reported as discontinued operations in the consolidated statements of operations. The consolidated statements of cash flows for the fiscal years ended March 31, 2016 and 2015 have not been adjusted to separately disclose cash flows related to discontinued operations.

The following table summarizes the results of the Mill Products business included within loss from discontinued operations, net of tax on the consolidated statements of operations (in millions):

	Year Ended	
	March 31, 2016	March 31, 2015
Net sales	\$—	\$34.1
Loss from operations before income taxes	(2.2 )	(10.9 )
Benefit for income taxes	(0.8 )	(2.9 )
Net loss from discontinued operations	\$(1.4 )	\$(8.0 )

Net loss per share from discontinued operations:

Basic	\$(0.01)	\$(0.08)
Diluted	\$(0.01)	\$(0.08)

60

---

Table of Contents

In exiting the Mill Products business in fiscal 2015, the Company agreed to sell certain assets associated with the business for aggregate cash consideration of approximately \$9.2 million and the remaining assets and liabilities of the discontinued operation were adjusted to reflect their net realizable value. The exit of Mill Products resulted in the Company recording a net charge of \$9.7 million, consisting of a \$3.8 million impairment loss associated with property, plant and equipment, \$4.1 million impairment of goodwill allocated to the discontinued operation and other exit related costs of \$1.8 million.

During fiscal 2016, the Company disposed most of the assets originally classified as Other current assets on the consolidated balance sheets. However, after actively marketing the remaining assets and not being able to find a buyer, the remaining assets were written off, contributing to the loss from discontinued operations noted above.

Table of Contents

## 5. Restructuring and Other Similar Charges

During fiscal 2017, the Company continued to execute various restructuring actions. These initiatives were implemented to drive efficiencies and reduce operating costs while also modifying the Company's footprint to reflect changes in the markets it serves, the impact of acquisitions on the Company's overall manufacturing capacity and the refinement of its overall product portfolio. These restructuring actions primarily resulted in workforce reductions, lease termination costs, and other facility rationalization costs. Management expects to continue executing initiatives to optimize its operating margin and manufacturing footprint as well as select product-line rationalizations. As such, the Company expects further expenses related to workforce reductions, potential impairment or accelerated depreciation of assets, lease termination costs, and other facility rationalization costs. The Company's restructuring plans are preliminary and the full extent of related expenses are not yet estimable.

The following table summarizes the Company's restructuring and other similar costs incurred during the years ended March 31, 2017, 2016 and 2015 by classification of operating segment (in millions):

	Year Ended March 31, 2017			
	Process		Corporate	Consolidated
	& Water			
	Motion	Management		
	Control			
Employee termination benefits	\$16.5	\$ 6.2	\$ —	\$ 22.7
Asset impairment charges (1)	1.5	—	—	1.5
Contract termination and other associated costs (2)	5.4	2.0	—	7.4
Total restructuring and other similar costs	\$23.4	\$ 8.2	\$ —	\$ 31.6

	Year Ended March 31, 2016			
	Process		Corporate	Consolidated
	& Water			
	Motion	Management		
	Control			
Employee termination benefits	\$10.8	\$ 4.2	\$ 0.3	\$ 15.3
Asset impairment charges (1)	1.0	16.5	—	17.5
Contract termination and other associated costs	0.5	1.6	—	2.1
Total restructuring and other similar costs	\$12.3	\$ 22.3	\$ 0.3	\$ 34.9

	Year Ended March 31, 2015			
	Process		Corporate	Consolidated
	& Water			
	Motion	Management		
	Control			
Employee termination benefits	\$7.6	\$ 3.3	\$ —	\$ 10.9
Contract termination and other associated costs	1.2	0.8	—	2.0
Total restructuring and other similar costs	\$8.8	\$ 4.1	\$ —	\$ 12.9

	Restructuring Costs To-date (Period from April 1, 2011 to March 31, 2017)			
	Process		Corporate	Consolidated
	& Water			
	Motion	Management		
	Control			
Employee termination benefits	\$44.3	\$ 19.8	\$ 2.0	\$ 66.1
Asset impairment charges	2.5	16.5	—	19.0

Edgar Filing: Rexnord Corp - Form 10-K

Contract termination and other associated costs	9.8	8.3	—	18.1
Total restructuring and other similar costs	\$56.6	\$ 44.6	\$ 2.0	\$ 103.2

In connection with the ongoing supply chain optimization and footprint repositioning initiatives, the Company has taken several actions to consolidate existing manufacturing facilities and rationalize its product offerings. These actions require the Company to assess whether the carrying amount of impacted long-lived assets will be recoverable as well as whether the remaining useful lives require adjustment. The Company recognized (1) impairment charges associated with these assets during fiscal 2017 and 2016, in the amount of \$1.5 million and \$17.5 million, respectively. The impairment was determined utilizing independent appraisals of the assets, classified as Level 3 inputs within the Fair Value hierarchy. Refer to Note 13 Fair Value Measurements for additional information.

During fiscal 2017, the Company received a \$1.0 million cash payment in connection with the sale of certain Rodney Hunt Fontaine ("RHF") related intellectual property, which was fully impaired during fiscal 2016 when the (2) Company announced its decision to exit the RHF product line. A gain on the disposition of this intellectual property of \$1.0 million was recognized during fiscal 2017 within the Water Management operating segment.

Table of Contents

The Company evaluated the requirements for discontinued operations presentation in connection with the decision to exit its flow-control gate product line and determined the product line did not meet the definition provided within the authoritative literature. Pre-tax loss from operations associated with this non-strategic exit of the RHF product-line were as follows in each of the last three fiscal years:

Years Ended March 31,	Pre-tax Loss	Description
2017	\$(16.3)	Includes other restructuring charges (primarily severance costs) of \$3.8 million
2016	\$(43.1)	Includes asset impairments described above and other restructuring charges (primarily severance costs) of \$16.5 million and \$2.9 million, respectively
2015	\$(14.0)	Includes other restructuring charges (primarily severance costs) of \$2.2 million

The following table summarizes the activity in the Company's accrual for restructuring costs for the fiscal years ended March 31, 2017 and 2016 (in millions):

	Employee termination benefits	Asset impairment charges	Contract termination and other associated costs	Total
Accrued Restructuring Costs, March 31, 2015	\$ 6.7	\$ —	\$ 0.3	\$7.0
Charges	15.3	17.5	2.1	34.9
Cash payments	(11.5 )	—	(2.1 )	(13.6 )
Non-cash charges	—	(17.5 )	—	(17.5 )
Accrued Restructuring Costs, March 31, 2016 (1)	10.5	—	0.3	10.8
Charges	22.7	1.5	7.4	31.6
Cash payments (2)	(20.0 )	—	(6.7 )	(26.7 )
Non-cash charges (3)	(2.2 )	(1.5 )	—	(3.7 )
Accrued Restructuring Costs, March 31, 2017 (1)	\$ 11.0	\$ —	\$ 1.0	\$12.0

(1) The restructuring accrual is included in Other current liabilities on the consolidated balance sheets.

(2) Includes the \$1.0 million cash payment received in conjunction with the aforementioned disposition of RHF-related intellectual property.

Included in Employee termination benefits for the year ended March 31, 2017 is \$2.2 million of contractual termination benefits recognized for enhanced benefits that will be provided to certain employees impacted by the ongoing supply chain optimization and footprint repositioning initiatives. Those amounts are recorded in the Pension and post-retirement benefit obligations within the consolidated balance sheets and are therefore excluded from the restructuring accrual. Refer to Note 16 Retirement Benefits for additional information.

#### 6. Recovery Under Continued Dumping and Subsidy Offset Act ("CDSOA")

The Company, as a producer of ball bearing products in the U.S., participated in the distribution of monies collected by Customs and Border Protection ("CBP") from anti-dumping cases under the CDSOA. Through its participation the Company provided relevant information to CBP regarding historical manufacturing, personnel and development costs for previous calendar years. In February 2006, U.S. legislation ended CDSOA distributions to U.S. manufacturers for imports covered by anti-dumping duty orders entering the U.S. after September 30, 2007. Because monies were collected by CBP until September 30, 2007 and for prior year entries, the Company has received periodic recoveries. In connection with this program, beginning in 2006, CBP began to withhold amounts that would have otherwise been distributed as a result of pending litigation challenging past and future distributions and the administrative operation of the law. Beginning in fiscal 2013, CBP began to distribute these withheld funds to domestic producers. In connection with the distribution of these withheld funds, the Company received a distribution of \$8.4 million during fiscal 2016 from CBP, which was recorded within Other (expense) income, net on the consolidated statements of operations. The Company did not receive any distributions in fiscal 2017 or 2015. As a result of still-pending

litigation, the Company cannot reasonably estimate the amount of CDSOA payments, if any, that it may receive in future years and/or whether it will be required to repay any previously received distributions.

Table of Contents

7. Inventories

The major classes of inventories are summarized as follows (in millions):

	March 31,	
	2017	2016
Finished goods	\$139.9	\$148.4
Work in progress	44.4	55.3
Purchased components	74.0	67.6
Raw materials	47.7	49.3
Inventories at First-in, First-Out ("FIFO") cost	306.0	