CRADLE TO GRAVE NO MORE

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ABSTRACT

During the summer of 2006, Franklin Mutual Advisers LLC filed a Schedule 13D indicating that it had a 7% stake in Hillenbrand Industries, Inc (HB). Subsequently, Michael Embler, Franklin's chief investment officer, in a July 7th letter to the Hillenbrand Industries board, praised Batesville's performance but called Hill-Rom's performance disappointing and suggested spinning off the former. Franklin Mutual Advisers LLC had been a major Hillenbrand Industries shareholder for three years, but up till now it had been a passive investor. Mr. Embler went further describing Hill-Rom's performance "extremely disappointing" and urged the company to spin off Batesville Casket in an effort to bring more value to shareholders.

Hillenbrand Industries publicly announced that they were retaining Citigroup and Goldman Sachs as advisors and investigating the strategic advantage of a corporate restructuring at its August 9, 2006 earnings conference call. The market responded by moving the stock up 9%. With the help of its financial advisors, Hillenbrand's board of directors and senior leadership evaluated a range of strategic alternatives. These included continuing of Hillenbrand's current operating structure, the sale of one or both of its businesses, returning cash to shareholders through an increase in balance sheet leverage, and the spin-off of or split off of one of its businesses. On October 26, 2006, management and the board announced that the separation of Hillenbrand's current operations into two publicly-traded companies merits further, more detailed consideration as a means to position Hillenbrand's market-leading healthcare and funeral services businesses for sustained growth and value creation.

One analyst responding to the Hillenbrand announcement said, "Batesville is a good cash generator and might be worth more as a stand-alone company. Even given financial variability due to material prices—steel, lumber, gasoline and energy—casket making is a reasonably predictable business, and demographics are definitely going their way." A recent seller of approximately 1% of HB's shares related that his firm's sale was predicated on the trends toward cremation versus casket use and the potential consolidation in the industry. He felt HB was going up against bigger, smarter competitors. Another analyst argued that Hillenbrand was a viable takeover target given its value saying, "HB has lot of cash and not a lot of debt and probably would be a good acquisition candidate if there were any bigger companies that could possibly buy them." Moreover, Hillenbrand's negligible debt load of $355 million, cash on hand of $255 million and solid cash flow made it a strong candidate for an LBO.

The primary objective of this case is corporate valuation. Students will be asked to first value Hillenbrand Industries as it existed prior to the announcement of the corporate restructuring. This would be followed by subsequent valuations of the two separate companies slit off in the corporate restructuring to assess the potential for value creation. The case audience for this case is senior level courses and for first year graduate students.