

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 1-37654

FORTIVE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-5654583

(I.R.S. employer
identification number)

6920 Seaway Blvd

Everett, WA

(Address of principal executive offices)

98203

(Zip code)

Registrant's telephone number, including area code: (425) 446 - 5000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading symbols	Name of each exchange on which registered
Common stock, par value \$0.01 per share	FTV	New York Stock Exchange
5% Mandatory convertible preferred stock, Series A, par value \$0.01 per share	FTV. PRA	New York Stock Exchange

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

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes x No o

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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. o

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 February 21, 2020 there were 336,415,264 shares of Registrant's common stock outstanding. The aggregate market value of common stock held by non-affiliates of the Registrant as of June 28, 2019 was \$24.1 billion, based upon the closing price of the Registrant's common stock on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's proxy statement for its 2020 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year-end. With the exception of the sections of the 2020 Proxy Statement specifically incorporated herein by reference, the 2020 Proxy Statement is not deemed to be filed as part of this Form 10-K.

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INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Annual Report, in other documents we file with or furnish to the Securities and Exchange Commission (“SEC”), in our press releases, webcasts, conference calls, materials delivered to shareholders and other communications, are “forward-looking statements” within the meaning of the United States federal securities laws. All statements other than historical factual information are forward-looking statements, including without limitation statements regarding: projections of revenue, expenses, profit, profit margins, tax rates, tax provisions, cash flows, pension and benefit obligations and funding requirements, our liquidity position or other financial measures; management’s plans and strategies for future operations, including statements relating to anticipated operating performance, cost reductions, restructuring activities, new product and service developments, competitive strengths or market position, acquisitions, divestitures, separation into two independent, publicly traded companies, strategic opportunities, securities offerings, stock repurchases, dividends and executive compensation; growth, declines and other trends in markets we sell into, including the expected impact of trade and tariff policies; new or modified laws, regulations and accounting pronouncements; outstanding claims, legal proceedings, tax audits and assessments and other contingent liabilities; foreign currency exchange rates and fluctuations in those rates; impact of changes to tax laws; general economic and capital markets conditions; the timing of any of the foregoing; assumptions underlying any of the foregoing; and any other statements that address events or developments that we intend or believe will or may occur in the future. Terminology such as “believe,” “anticipate,” “should,” “could,” “intend,” “will,” “plan,” “expect,” “estimate,” “project,” “target,” “may,” “possible,” “potential,” “forecast” and “positioned” and similar references to future periods are intended to identify forward-looking statements, although not all forward-looking statements are accompanied by such words. Forward-looking statements are based on assumptions and assessments made by our management in light of their experience and perceptions of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the risks and uncertainties set forth under “Item 1A. Risk Factors” in this Annual Report.

Forward-looking statements are not guarantees of future performance and actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Forward-looking statements speak only as of the date of the report, document, press release, webcast, call, materials or other communication in which they are made (or such earlier date as may be specified in such statement). We do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments or otherwise.

PART I

ITEM 1. BUSINESS

General

Fortive Corporation is a diversified industrial technology growth company encompassing businesses that are recognized leaders in attractive markets. Our well-known brands hold leading positions in field solutions, product realization, sensing technologies, health, transportation technologies, and franchise distribution. Our businesses design, develop, service, manufacture and market professional and engineered products, software and services for a variety of end markets, building upon leading brand names, innovative technology and significant market positions. Our research and development, manufacturing, sales, distribution, service and administrative facilities are located in more than 50 countries across North America, Asia Pacific, Europe and Latin America.

We are guided by our shared purpose to deliver essential technology for the people who accelerate progress, and we are united by our culture of continuous improvement and bias for action that embody the Fortive Business System (“FBS”). Through rigorous application of our proprietary FBS set of growth, lean, and leadership tools and processes, we continuously improve business performance in the critical areas of innovation, product development and commercialization, global supply chain, sales and marketing and leadership development. Our commitment to FBS has enabled us to drive customer satisfaction and profitability, generate significant improvements in innovation, growth, and core operating margins. Additionally, FBS has enabled us to execute a disciplined acquisition strategy and expand our portfolio into new and attractive markets furthering our goal of creating long-term shareholder value.

On September 4, 2019, we announced our intention to separate into two independent, publicly traded companies subject to the satisfaction of certain conditions, including obtaining final approval from our Board of Directors. The separation would create (i) an industrial technology company, retaining the Fortive name, with a differentiated portfolio of growth-oriented businesses focused on connected workflow solutions that incorporate advanced sensors, instrumentation, software, data and analytics, and (ii) a global industrial company (“Vontier”) consisting of our Transportation Technologies and Franchise Distribution platforms

with a focus on growth opportunities in the rapidly evolving transportation and mobility markets. The separation is expected to be structured in a tax-efficient manner and completed in the second half of 2020.

On October 1, 2018, we completed the split-off of businesses in our automation and specialty platform (excluding our Hengstler and Dynapar businesses) (the “A&S Business”) to our shareholders who elected to exchange shares of our common stock for all issued and outstanding shares of Stevens Holding Company, Inc. (“Stevens”), the entity we incorporated to hold the A&S Business. The split-off was immediately followed by the merger of Stevens with a subsidiary of Altra Industrial Motion Corp. (“Altra”). Concurrently with the split-off, we sold directly to Altra the remainder of the assets and liabilities of the A&S Business that were not otherwise contributed to Stevens.

Fortive Corporation is a Delaware corporation and was incorporated in 2015 in connection with the separation of Fortive from Danaher Corporation (“Danaher” or “Former Parent”) on July 2, 2016 as an independent, publicly-traded company, listed on the New York Stock Exchange (the “Danaher Separation”).

In this Annual Report, the terms “Fortive” or the “Company” refer to either Fortive Corporation or to Fortive Corporation and its consolidated subsidiaries, as the context requires. Unless otherwise indicated, all amounts in this Annual Report refer to continuing operations.

Reportable Segments

Fortive is comprised of two reportable segments, Professional Instrumentation and Industrial Technologies, each of which is further described below.

Professional Instrumentation

Our Professional Instrumentation segment offers essential products, software and services used to create actionable intelligence by measuring and monitoring a wide range of physical parameters in industrial applications, including electrical current, radio frequency signals, distance, pressure, temperature, turbidity, radiation, and hazardous gases. Furthermore, we offer products, software and services used to provide critical sterilization and disinfection solutions to advance health, safety and compliance. We also offer products that are used in the design, development, manufacturing, testing and advanced calibration of products for electronics and industrial markets. Product offerings include advanced sensors and instrumentation, cloud-based IoT solutions, temperature-sensitive sterilization and disinfection systems, vertical application workflow software, data and analytics to efficiently manage the full lifecycle of assets used in industrial, medical, educational, governmental, and commercial facilities. Customers for these products and services include industrial service, installation and maintenance professionals, designers and manufacturers of electronic devices and instruments, medical technicians and health professionals, safety professionals, commercial property owners, contractors, facility managers and other customers for whom precision, reliability, safety, compliance, integrated workflows and data analytics are critical in their specific applications.

Our Professional Instrumentation segment consists of our Advanced Instrumentation & Solutions, Sensing Technologies, and Advanced Sterilization Products and Censis businesses. Our Advanced Instrumentation & Solutions business was primarily established through the acquisitions of Qualitrol in the 1980s, Fluke Corporation and Pacific Scientific Company in 1998, Tektronix and Invetech in 2007, Keithley Instruments in 2010, eMaint in 2016, Industrial Scientific and Landauer in 2017, Gordian and Accruent in 2018, Intelix and Pruftechnik in 2019 and numerous bolt-on acquisitions. In addition, both Advanced Sterilization Products and Censis were acquired in 2019.

Advanced Instrumentation & Solutions

Our Advanced Instrumentation & Solutions business consists of:

Field Solutions Our field solutions products include a variety of compact professional test tools, thermal imaging and calibration equipment for electrical, industrial, electronic and calibration applications, online condition-based monitoring equipment; portable gas detection equipment, consumables, and software as a service (SaaS) offerings including safety/user behavior, asset management, environmental, health and safety (EHS) quality management and compliance monitoring; subscription-based technical, analytical, and compliance services to determine occupational and environmental radiation exposure; and software, data analytics and services for critical infrastructure in utility, industrial, energy, construction, facilities management, public safety, mining, EHS, and healthcare applications. The instrumentation and sensing products and associated software solutions measure voltage, current, resistance, power quality, frequency, pressure, temperature, radiation, hazardous gas and air quality, among other parameters. Typical users of these products and software include electrical engineers, electricians, electronic technicians, safety professionals, medical technicians, network technicians, first-responders, and industrial service, installation and maintenance professionals. The business also makes and sells instruments, controls and monitoring and maintenance systems used by maintenance departments in utilities and industrial facilities to monitor assets,

including transformers, generators, motors and switchgear. The business also provides physical resource management software with an integrated cloud-based framework for management of commercial property and facilities to extend the lifecycle of assets, facilitate regulatory compliance and reduce safety risks. In addition, the business provides subscription-based construction cost data, software and services for real estate construction and maintenance applications. Products are marketed under a variety of brands, including ACCRUENT, FLUKE, FLUKE BIOMEDICAL, FLUKE NETWORKS, GORDIAN, INDUSTRIAL SCIENTIFIC, INTELEX, LANDAUER, PRUFTECHNIK and QUALITROL.

Product Realization Our product realization services and products help developers and engineers across the end-to-end product creation cycle from concepts to finished products. Our test, measurement and monitoring products are used in the design, manufacturing and development of electronics, industrial, and other advanced technologies. Typical users of these products and services include research and development engineers who design, de-bug, monitor and validate the function and performance of electronic components, subassemblies and end-products. The business also provides a full range of design, engineering and manufacturing services and highly-engineered, modular components to enable conceptualization, development and launch of products in the medical diagnostics, cell therapy and consumer markets. Finally, the business designs, develops, manufactures and markets critical, highly-engineered energetic materials components in specialized vertical applications. Products and services are marketed under a variety of brands, including INVETECH, KEITHLEY, PACIFIC SCIENTIFIC, SONIX and TEKTRONIX.

Competition in the Advanced Instrumentation & Solutions business is based on a number of factors, including the reliability, performance, ruggedness, ease of use, ergonomics and aesthetics of the product, the service provider's relevant expertise with particular technologies and applications, as well as the other factors described under "-Competition." Sales in the business are generally made through independent distributors and direct sales personnel.

Sensing Technologies

Our Sensing Technologies business offers devices that sense, monitor and control operational or manufacturing variables, such as temperature, pressure, level, flow, turbidity, and conductivity. Users of these products span a wide variety of industrial and manufacturing markets, including medical equipment, food and beverage, marine, industrial, off-highway vehicles, building automation, and semiconductors. Our competitive advantage in these markets is based on our ability to apply advanced sensing technologies to a variety of customer needs, many of which are in demanding operating environments. Our modular products and agile supply chain enable rapid customization of solutions for unique operational requirements and which meet the lead-time needs of our customers. Competition in the business is based on a number of factors, including technology, application design expertise, lead time, channels of distribution, brand awareness, as well as the other factors described under "-Competition." Products in this business are marketed under a variety of brands, including ANDERSON-NEGELE, GEMS and SETRA. Sales in the business are generally made through direct sales personnel and independent distributors.

Advanced Sterilization Products and Censis

Our Advanced Sterilization Products ("ASP") business provides critical sterilization and disinfection solutions, including low-temperature hydrogen peroxide sterilization solutions for temperature-sensitive equipment, to advance infection prevention and patient safety in healthcare facilities. Our Censis business provides subscription-based surgical inventory management systems to healthcare facilities to facilitate inventory management and regulatory compliance. Competition in these businesses is based on a number of factors, including technology, scope of integrated functionality and solutions to address a broader range of hospital workflows, reliability, installed base of customers, and brand awareness, as well as the other factors described under "-Competition." Products in this business are marketed under a variety of brands, including ASP, CENSIS, CENSITRAC, EVOTECH, STERRAD, and ENDOCLENS. Sales in these businesses are generally made through direct sales personnel and independent distributors.

Manufacturing facilities of our Professional Instrumentation segment are located in North America, Europe and Asia.

Industrial Technologies

Our Industrial Technologies segment offers critical technical equipment, components, software and services for manufacturing, repair and transportation markets worldwide. We offer a wide range of products spanning advanced environmental sensors, fueling equipment, field payment, hardware, remote management and workflow software, vehicle tracking and fleet management software, signaling solutions for traffic light control and a range of tools for professional auto technicians and tire and wheel repair workshops. Products and services offered serve retail fueling operators, commercial auto-repair businesses, municipal governments and public safety entities and fleet owners/operators, globally.

Our Industrial Technologies segment consists of our Transportation Technologies and Franchise Distribution businesses. Our Transportation Technologies business originated with the acquisition of Veeder-Root in the 1980s and subsequently expanded

through additional acquisitions, including the acquisitions of Gilbarco in 2002, Navman Wireless in 2012, Teletrac in 2013, ANGI Energy Systems in 2014, Global Traffic Technologies in 2016, Orpak Systems in 2017 and numerous bolt-on acquisitions. Our Franchise Distribution business was established through the acquisitions of Matco Tools and Hennessy Industries in 1986.

Manufacturing facilities of our Industrial Technologies businesses are located in North America, Latin America, Europe and Asia.

Transportation Technologies

Our Transportation Technologies business is a leading worldwide provider of solutions and services focused on fuel dispensing, remote fuel management, point-of-sale and payment systems, environmental compliance, vehicle tracking and fleet management, and traffic management. This business consists of:

Retail/Commercial Fueling Our retail/commercial petroleum products include environmental monitoring and leak detection systems; vapor recovery equipment; fuel dispenser systems for petroleum and compressed natural gas; point-of-sale and secure and automated electronic payment technologies for retail petroleum stations; submersible turbine pumps; and remote monitoring and outsourced fuel management software as a service (“SaaS”) offerings, including compliance services, fuel system maintenance, fleet management software solutions, and inventory planning and supply chain support. Typical users of these products include independent and company-owned retail petroleum stations, high-volume retailers, convenience stores, and commercial vehicle fleets. Our retail/commercial petroleum products are marketed under a variety of brands, including ANGI, GASBOY, GILBARCO, GILBARCO AUTOTANK, ORPAK and VEEDER-ROOT.

Telematics Our telematics products include vehicle tracking and fleet management hardware and SaaS solutions that fleet managers use to position and dispatch vehicles, manage fuel consumption and promote vehicle safety, compliance, operating efficiency and productivity. Typical users of these solutions span a variety of industries and include businesses and other organizations that manage vehicle fleets. Our telematics products are marketed under a variety of brands, including TELETRAC NAVMAN.

Customers in this line of business choose suppliers based on a number of factors, including product features, performance and functionality, the supplier’s geographic coverage and the other factors described under “-Competition.” Sales are generally made through independent distributors and our direct sales personnel.

Franchise Distribution

Our Franchise Distribution business consists of:

Professional Tools We manufacture and distribute professional tools, toolboxes and automotive diagnostic equipment and software through our network of franchised mobile distributors, who sell primarily to professional mechanics under the MATCO brand. Professional mechanics typically select tools based on relevant innovative features and the other factors described under “-Competition.”

Wheel Service Equipment We produce a full-line of wheel service equipment including brake lathes, tire changers, wheel balancers, and wheel weights under various brands including the COATS brands. Typical users of these products are automotive tire and repair shops. Sales are generally made through direct sales personnel and independent distributors. Competition in the wheel service equipment business is based on the factors described under “-Competition.”

The following discussion includes information common to both of our segments.

Materials

Our manufacturing operations employ a wide variety of raw materials, including electronic components, steel, plastics and other petroleum-based products, cast iron, aluminum and copper. Prices of oil and gas affect our costs for freight and utilities. We purchase raw materials from a large number of independent sources around the world. Tariffs affect our costs for impacted materials or components we import into the United States. No single supplier is material, although for some components that require particular specifications or qualifications there may be a single supplier or a limited number of suppliers that can readily provide such components. We utilize a number of techniques to address potential disruption in and other risks relating to our supply chain, including in certain cases the use of safety stock, alternative materials and qualification of multiple supply sources. During 2019 we had no raw material shortages that had a material effect on our business. For a further discussion of risks related to the materials and components required for our operations, please refer to “Item 1A. Risk Factors.”

Intellectual Property

We own numerous patents, trademarks, copyrights and trade secrets and licenses to intellectual property owned by others. Although in aggregate our intellectual property is important to our operations, we do not consider any single patent, trademark, copyright, trade secret or license to be of material importance to any segment or to the business as a whole. From time to time we engage in litigation to protect our intellectual property rights. For a discussion of risks related to our intellectual property, please refer to “Item 1A. Risk Factors.” All capitalized brands and product names throughout this document are trademarks owned by, or licensed to, Fortive.

Competition

We believe that we are a leader in many of our served markets. Although our businesses generally operate in highly competitive markets, our competitive position cannot be determined accurately in the aggregate or by segment, since none of our competitors offer all of the same product and service lines or serve all of the same markets as we do. Because of the range of the products and services we sell and the variety of markets we serve, we encounter a wide variety of competitors, including well-established regional competitors, competitors who are more specialized than we are in particular markets, as well as larger companies or divisions of larger companies with substantial sales, marketing, research, and financial capabilities. We face increased competition in a number of our served markets as a result of the entry of competitors based in low-cost manufacturing locations, and increasing consolidation in particular markets. The number of competitors varies by product and service line. Our management believes that we have a market leadership position in most of the markets we serve. Key competitive factors vary among our businesses and product and service lines, but include the specific factors noted above with respect to each particular business and typically also include price, quality, performance, delivery speed, applications expertise, distribution channel access, service and support, technology and innovation, breadth of product, service and software offerings and brand name recognition. For a discussion of risks related to competition, please refer to “Item 1A. Risk Factors.”

Seasonal Nature of Business

General economic conditions impact our business and financial results, and certain of our businesses experience seasonal and other trends related to the industries and end markets that they serve. For example, capital equipment sales are often stronger in the fourth calendar quarter and sales to OEMs are often stronger immediately preceding and following the launch of new products. However, as a whole, we are not subject to material seasonality.

Working Capital

We maintain an adequate level of working capital to support our business needs. There are no unusual industry practices or requirements relating to working capital items in either of our reportable segments. In addition, our sales and payment terms are generally similar to those of our competitors.

Backlog

The following sets forth the unfulfilled orders and annual average contract value of signed contracts for our software as a service product offering attributable to each of our segments as of December 31 (\$ in millions):

	2019	2018
Professional Instrumentation	\$ 780	\$ 747
Industrial Technologies	434	477
Total	<u>\$ 1,214</u>	<u>\$ 1,224</u>

We expect that a majority of the unfilled orders as of December 31, 2019 will be delivered to customers within two to three months of such date. Given the relatively short delivery periods and rapid inventory turnover that are characteristic of most of our products and the shortening of product life cycles, we believe that backlog in 2019 is indicative of short-term revenue performance but not necessarily a reliable indicator of medium or long-term revenue performance.

Employee Relations

As of December 31, 2019, we employed approximately 25,000 persons, of whom approximately 13,000 were employed in the United States and approximately 12,000 were employed outside of the United States. Of our United States employees, approximately 900 were hourly-rated, unionized employees. Outside the United States, we have government-mandated collective bargaining arrangements and union contracts in certain countries, particularly in Europe where certain of our employees are represented by unions and/or works councils. The Company believes that its relationship with employees is good.

Government Contracts

Although the substantial majority of our revenue in 2019 was from customers other than governmental entities, each of our segments has agreements relating to the sale of products to government entities. As a result, we are subject to various statutes and regulations that apply to companies doing business with governments and government-owned entities. For a discussion of risks related to government contracting requirements, please refer to “Item 1A. Risk Factors.”

Regulatory Matters

We face extensive government regulation both within and outside the United States relating to the development, manufacture, marketing, sale and distribution of our products, software and services. The following sections describe certain significant regulations that we are subject to. These are not the only regulations that our businesses must comply with. For a description of the risks related to the regulations that our businesses are subject to, please refer to “Item 1A. Risk Factors.”

Environmental Laws and Regulations

Our operations and properties are subject to laws and regulations relating to environmental protection, including those governing air emissions, water discharges and waste management, and workplace health and safety. For a discussion of the environmental laws and regulations that our operations, products and services are subject to and other environmental contingencies, please refer to Note 16 to the consolidated financial statements included in this Annual Report. For a discussion of risks related to compliance with environmental and health and safety laws and risks related to past or future releases of, or exposures to, hazardous substances, please refer to “Item 1A. Risk Factors.”

Export/Import Compliance

We are required to comply with various U.S. export/import control and economic sanctions laws, such as:

- the International Traffic in Arms Regulations administered by the U.S. Department of State, Directorate of Defense Trade Controls, which, among other things, impose license requirements on the export from the United States of defense articles and defense services listed on the United States Munitions List;
- the Export Administration Regulations administered by the U.S. Department of Commerce, Bureau of Industry and Security, which, among other things, impose licensing requirements on the export, in-country transfer and re-export of certain dual-use goods, technology and software (which are items that have both commercial and military or proliferation applications);
- the regulations administered by the U.S. Department of Treasury, Office of Foreign Assets Control, which implement economic sanctions imposed against designated countries, governments and persons based on United States foreign policy and national security considerations; and
- the import regulations administered by U.S. Customs and Border Protection.

Other nations’ governments have implemented similar export/import control and economic sanction regulations, which may affect our operations or transactions subject to their jurisdictions. For a discussion of risks related to export/import control and economic sanctions laws, please refer to “Item 1A. Risk Factors.”

International Operations

Our products and services are available in markets worldwide, and our principal markets outside the United States are in Europe and Asia. We also have operations around the world, and this geographic diversity allows us to draw on the skills of a worldwide workforce, provides greater stability to our operations, allows us to drive economies of scale, provides revenue streams that may help offset economic trends that are specific to individual economies and offers us an opportunity to access new markets for products. In addition, we believe that our future growth depends in part on our ability to continue developing products and sales models that successfully target high-growth markets.

The manner in which our products and services are sold outside the United States differs by business and by region. Most of our sales in non-U.S. markets are made by our subsidiaries located outside the United States, though we also sell directly from the United States into non-U.S. markets through various representatives and distributors and, in some cases, directly. In countries with low sales volumes, we generally sell through representatives and distributors.

Major Customers

No customer accounted for more than 10% of consolidated sales in 2019, 2018, or 2017.

Available Information

We maintain an internet website at www.fortive.com where we make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after filing such material with, or furnishing such material to, the SEC. Our internet website and the information contained on, or linked from, that website are not incorporated by reference into this Form 10-K.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Annual Report on Form 10-K and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies, such as market conditions, economic conditions, geopolitical events, changes in laws, regulations or accounting rules, fluctuations in interest rates, terrorism, wars or conflicts, major health concerns, natural disasters or other disruptions of expected business conditions. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition.

Risks Related to Our Business

Conditions in the global economy, the markets we serve and the financial markets may adversely affect our business and financial statements.

Our business is sensitive to general economic conditions. Slower global economic growth, actual or anticipated default on sovereign debt, changes in global trade policies, volatility in the currency and credit markets, high levels of unemployment and underemployment, reduced levels of capital expenditures, changes in government fiscal and monetary policies, government deficit reduction and budget negotiation dynamics, sequestration, other austerity measures, political and social instability, natural disasters, terrorist attacks, and other challenges that affect the global economy adversely affect us and our distributors, customers and suppliers, including having the effect of:

- reducing demand for our products, software and services, limiting the financing available to our customers and suppliers, increasing order cancellations and resulting in longer sales cycles and slower adoption of new technologies;
- increasing the difficulty in collecting accounts receivable and the risk of excess and obsolete inventories;
- increasing price competition in our served markets;
- supply interruptions, which could disrupt our ability to produce our products;
- increasing the risk of impairment of goodwill and other long-lived assets, and the risk that we may not be able to fully recover the value of other assets such as real estate and tax assets; and
- increasing the risk that counterparties to our contractual arrangements will become insolvent or otherwise unable to fulfill their contractual obligations which, in addition to increasing the risks identified above, could result in preference actions against us.

In addition, adverse general economic conditions may lead to instability in U.S. and global capital and credit markets, including market disruptions, limited liquidity and interest rate volatility. If we are unable to access capital and credit markets on terms that are acceptable to us or our lenders are unable to provide financing in accordance with their contractual obligations, we may not be able to make certain investments or acquisitions or fully execute our business plans and strategies. Furthermore, our suppliers and customers are also dependent upon the capital and credit markets. Limitations on the ability of customers, suppliers or financial counterparties to access credit at interest rates and on terms that are acceptable to them could lead to insolvencies of key suppliers and customers, limit or prevent customers from obtaining credit to finance purchases of our products and services and cause delays in the delivery of key products from suppliers.

If growth in the global economy or in any of the markets we serve slows for a significant period, if there is significant deterioration in the global economy or such markets, if there is instability in global capital and credit markets, or if improvements in the global economy do not benefit the markets we serve, our business and financial statements could be adversely affected.

Our plans to separate into two independent, publicly traded companies may not be completed on the currently contemplated timeline or at all and may not achieve the intended benefits.

On September 4, 2019, we announced our intention to separate into two independent, publicly traded companies. The separation, if effectuated, will create, (i) an industrial technology company, retaining the Fortive name, with a differentiated portfolio of growth-oriented businesses focused on connected workflow solutions that incorporate advanced sensors, instrumentation, software, data and analytics and (ii) a global industrial company (“Vontier”) consisting of our Transportation Technologies and Franchise Distribution platforms with a focus on growth opportunities in the rapidly evolving transportation and mobility markets.

Our ability to effectuate the separation, the structure of the separation and the anticipated benefits of the separation may be adversely and materially impacted by adverse market conditions, possible delays in obtaining various tax rulings, regulatory approvals or clearances, uncertainty of the financial markets, our business performance and unanticipated delays in establishing infrastructure or processes for Vontier. In addition, the cost and resources required to effectuate the separation may be significantly higher than what we currently anticipate.

Our growth could suffer if the markets into which we sell our products and services decline, do not grow as anticipated or experience cyclicity.

Our growth depends in part on the growth of the markets which we serve, and visibility into our markets is limited (particularly for markets into which we sell through distribution). Our quarterly sales and profits depend substantially on the volume and timing of orders received during the fiscal quarter, which are difficult to forecast. Any decline or lower than expected growth in our served markets could diminish demand for our products and services, which could adversely affect our financial statements. Certain of our businesses operate in industries that may experience periodic, cyclical downturns. In addition, in certain of our businesses, demand depends on customers’ capital spending budgets, and product and economic cycles can affect the spending decisions of these entities. Demand for our products and services is also sensitive to changes in customer order patterns, which may be affected by announced price changes, changes in incentive programs, new product introductions and customer inventory levels. Any of these factors could adversely affect our growth and results of operations in any given period.

We face intense competition and if we are unable to compete effectively, we may experience decreased demand and decreased market share. Even if we compete effectively, we may be required to reduce prices for our products and services.

Many of our businesses operate in industries that are intensely competitive and have been subject to consolidation. Because of the range of the products and services we sell and the variety of markets we serve, we encounter a wide variety of competitors; please see the section entitled “Business-Competition” for additional details. In order to compete effectively, we must retain longstanding relationships with major customers and continue to grow our business by establishing relationships with new customers, continually developing new or enhanced products and services to maintain and expand our brand recognition and leadership position in various product and service categories and penetrating new markets, including high-growth markets. Our failure to compete effectively and/or pricing pressures resulting from competition may adversely impact our financial statements, and our expansion into new markets may result in greater-than-expected risks, liabilities and expenses.

Changes in industry standards and governmental regulations may reduce demand for our products or services or increase our expenses.

We compete in markets in which we and our customers must comply with supranational, federal, state, local and other jurisdictional regulations, such as regulations governing health and safety, the environment and electronic communications, and market standardizations, such as the Europay, MasterCard and Visa (“EMV”) global standard. We develop, configure and market our products and services to meet customer needs created by these regulations and standards. These regulations and standards are complex, change frequently, have tended to become more stringent over time and may be inconsistent across jurisdictions. Any significant change or delay in implementation in any of these regulations or standards (or in the interpretation, application or enforcement thereof) could reduce or delay demand for our products and services, increase our costs of producing or delay the introduction of new or modified products and services, or could restrict our existing activities, products and services. In addition, in certain of our markets our growth depends in part upon the introduction of new regulations or implementation of industry standards on the timeline we expect. In these markets, the delay or failure of governmental and other entities to adopt or enforce new regulations or industry standards, or the adoption of new regulations or industry standards which our products and services are not positioned to address, could adversely affect demand. In addition, regulatory deadlines or industry standard implementation timelines may result in substantially different levels of demand for our products and services from period to period.

Trade relations between China and the United States could have a material adverse effect on our business and financial statements.

We have experienced growth in various end markets in China. During 2019, year-over-year sales from existing businesses grew slightly in China, and sales in China accounted for approximately 8% of our total sales for the year. In addition, we have numerous facilities in China, many of which serve multiple businesses and are used for multiple purposes.

There continues to be significant uncertainty about the future relationship between the United States and China, including with respect to trade policies, treaties, government regulations and tariffs. In particular, there continues to be uncertainty about U.S. foreign trade policy with respect to China. There is a risk of escalation and retaliatory actions between the two countries. In addition, the current administration, certain members of Congress and federal officials have stated that United States may seek to implement more protective trade measures, not just with respect to China but with respect to other countries in the Asia Pacific region as well. Any increased trade barriers or restrictions on global trade, especially trade with China, could adversely impact our business and financial statements.

Any inability to consummate acquisitions at our anticipated rate and at appropriate prices could negatively impact our growth rate and stock price.

Our ability to grow revenues, earnings and cash flow at or above our anticipated rates depends in part upon our ability to identify and successfully acquire and integrate businesses at appropriate prices and realize anticipated synergies. We may not be able to consummate acquisitions at rates anticipated, which could adversely impact our growth rate and our stock price. Promising acquisitions are difficult to identify and complete for a number of reasons, including high valuations, competition among prospective buyers, the availability of affordable funding in the capital markets and the need to satisfy applicable closing conditions and obtain antitrust and other regulatory approvals on acceptable terms. In addition, competition for acquisitions may result in higher purchase prices. Changes in accounting or regulatory requirements or instability in the credit markets could also adversely impact our ability to consummate acquisitions.

Our growth depends in part on the timely development and commercialization, and customer acceptance, of new and enhanced products and services based on technological innovation.

We generally sell our products and services in industries that are characterized by rapid technological changes, frequent new product introductions and changing industry standards. If we do not develop innovative new and enhanced products and services on a timely basis, our offerings will become obsolete over time and our competitive position and financial statements will suffer. Our success will depend on several factors, including our ability to:

- correctly identify customer needs and preferences and predict future needs and preferences;
- allocate our research and development funding to products and services with higher growth prospects;
- anticipate and respond to our competitors’ development of new products and services and technological innovations;
- differentiate our offerings from our competitors’ offerings and avoid commoditization;

- innovate and develop new technologies and applications, and acquire or obtain rights to third-party technologies that may have valuable applications in our served markets;
- obtain adequate intellectual property rights with respect to key technologies before our competitors do;
- successfully commercialize new technologies in a timely manner, price them competitively and cost-effectively manufacture and deliver sufficient volumes of new products of appropriate quality on time; and
- stimulate customer demand for and convince customers to adopt new technologies.

In addition, if we fail to accurately predict future customer needs and preferences or fail to produce viable technologies, we may invest heavily in research and development of products and services that do not lead to significant revenue, which would adversely affect our profitability. Even if we successfully innovate and develop new and enhanced products and services, we may incur substantial costs in doing so, and our profitability may suffer.

Our reputation, ability to do business and financial statements may be impaired by improper conduct by any of our employees, agents or business partners.

We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners of ours (or of businesses we acquire or partner with) that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud, kickbacks and false claims, sales and marketing practices, conflicts of interest, competition, export and import compliance, money laundering and data privacy. In particular, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business, and we operate in many parts of the world that have experienced governmental corruption to some degree. Any such improper actions or allegations of such acts could damage our reputation and subject us to civil or criminal investigations in the United States and in other jurisdictions and related shareholder lawsuits, could lead to substantial civil and criminal, monetary and non-monetary penalties and could cause us to incur significant legal and investigatory fees. In addition, though we rely on our suppliers to adhere to our supplier standards of conduct, material violations of such standards of conduct could occur that could have a material effect on our financial statements.

Our acquisition of businesses, joint ventures and strategic relationships could negatively impact our financial statements.

As part of our business strategy we acquire businesses and enter other strategic relationships in the ordinary course, some of which may be material; please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) for additional details. These acquisitions and strategic relationships involve a number of financial, accounting, managerial, operational, legal, compliance and other risks and challenges, including the following, any of which could adversely affect our financial statements:

- any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, or not perform in accordance with our anticipated timetable;
- we may incur or assume significant debt in connection with our acquisitions or strategic relationships;
- acquisitions or strategic relationships could cause our financial results to differ from our own or the investment community’s expectations in any given period, or over the long-term;
- pre-closing and post-closing earnings charges could adversely impact operating results in any given period, and the impact may be substantially different from period to period;
- acquisitions or strategic relationships could create demands on our management, operational resources and financial and internal control systems that we are unable to effectively address;
- we could experience difficulty in integrating personnel, operations and financial and other controls and systems and retaining key employees and customers;
- we may be unable to achieve cost savings or other synergies anticipated in connection with an acquisition or strategic relationship;
- we may assume by acquisition or strategic relationship unknown liabilities, known contingent liabilities that become realized, known liabilities that prove greater than anticipated, internal control deficiencies or exposure to regulatory sanctions resulting from the acquired company’s activities and the realization of any of these liabilities or deficiencies may

increase our expenses, adversely affect our financial position or cause us to fail to meet our public financial reporting obligations;

- in connection with acquisitions, we may enter into post-closing financial arrangements such as purchase price adjustments, earn-out obligations and indemnification obligations, which may have unpredictable financial results;
- in connection with acquisitions, we have recorded significant goodwill and other intangible assets on our balance sheet and if we are not able to realize the value of these assets, we may be required to incur charges relating to the impairment of these assets; and
- we may have interests that diverge from those of strategic partners and we may not be able to direct the management and operations of the strategic relationship in the manner we believe is most appropriate, exposing us to additional risk.

The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.

Certain of the acquisition agreements by which we have acquired companies require the former owners to indemnify us against certain liabilities related to the operation of the company before we acquired it. In most of these agreements, however, the liability of the former owners is limited and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure you that these indemnification provisions will protect us fully or at all, and as a result we may face unexpected liabilities that adversely affect our financial statements.

Divestitures or other dispositions could negatively impact our business, and contingent liabilities from businesses that we have sold could adversely affect our financial statements.

We continually assess the strategic fit of our existing businesses and may divest or otherwise dispose of businesses that are deemed not to fit with our strategic plan or are not achieving the desired return on investment. These transactions pose risks and challenges that could negatively impact our business. For example, when we decide to sell or otherwise dispose of a business or assets, we may be unable to do so on satisfactory terms within our anticipated timeframe or at all, and even after reaching a definitive agreement to sell or dispose a business the sale is typically subject to satisfaction of pre-closing conditions which may not become satisfied. In addition, divestitures or other dispositions may dilute our earnings per share, have other adverse financial and accounting impacts and distract management, and disputes may arise with buyers. In addition, we have retained responsibility for and/or have agreed to indemnify buyers against some known and unknown contingent liabilities related to a number of businesses we have sold or disposed. The resolution of these contingencies has not had a material effect on our financial statements but we cannot be certain that this favorable pattern will continue.

Our operations, products and services expose us to the risk of environmental, health and safety liabilities, costs and violations that could adversely affect our reputation and financial statements.

Our operations, products and services are subject to environmental laws and regulations, which impose limitations on the discharge of pollutants into the environment and establish standards for the use, generation, treatment, storage and disposal of hazardous and non-hazardous wastes. We must also comply with various health and safety regulations in the United States and abroad in connection with our operations. In addition, some of our operations require the controlled use of hazardous or energetic materials in the development, manufacturing or servicing of our products. We cannot assure you that our environmental, health and safety compliance program has been or will at all times be effective. Failure to comply with any of these laws could result in civil and criminal, monetary and non-monetary penalties and damage to our reputation. In addition, we cannot provide assurance that our costs of complying with current or future environmental protection and health and safety laws will not exceed our estimates or adversely affect our financial statements. Moreover, any accident that results in significant personal injury or property damage, whether occurring during development, manufacturing, servicing, use, or storage of our products, may result in significant production interruption, delays or claims for substantial damages caused by personal injuries or property damage, harm to our reputation, and reduction in morale among our employees, any of which may adversely and materially affect our results of operations.

In addition, we may incur costs related to remedial efforts or alleged environmental damage associated with past or current waste disposal practices or other hazardous materials handling practices. We are also from time to time party to personal injury or other claims brought by private parties alleging injury due to the presence of or exposure to hazardous substances. We may also become subject to additional remedial, compliance or personal injury costs due to future events such as changes in existing laws or regulations, changes in agency direction or enforcement policies, developments in remediation technologies, changes in the conduct of our operations and changes in accounting rules. For additional information regarding these risks, please refer to Note 16 to the consolidated financial statements. We cannot assure you that our liabilities arising from past or future releases of, or exposures to, hazardous substances will not exceed our estimates or adversely affect our reputation and financial

statements or that we will not be subject to additional claims for personal injury or remediation in the future based on our past, present or future business activities.

Our businesses are subject to extensive regulation; failure to comply with those regulations could adversely affect our financial statements and reputation.

In addition to the environmental, health, safety, anticorruption and other regulations noted above, our businesses are subject to extensive regulation by U.S. and non-U.S. governmental and self-regulatory entities at the supranational, federal, state, local and other jurisdictional levels, including the following:

- we are required to comply with various import laws and export control and economic sanctions laws, which may affect our transactions with certain customers, business partners and other persons and dealings between our employees and subsidiaries. In certain circumstances, export control and economic sanctions regulations may prohibit the export of certain products, services and technologies. In other circumstances, we may be required to obtain an export license before exporting the controlled item. Compliance with the various import laws that apply to our businesses can restrict our access to, and increase the cost of obtaining, certain products and at times can interrupt our supply of imported inventory;
- we also have agreements to sell products and services to government entities and are subject to various statutes and regulations that apply to companies doing business with government entities. The laws governing government contracts differ from the laws governing private contracts. For example, many government contracts contain pricing and other terms and conditions that are not applicable to private contracts. Our agreements with government entities may be subject to termination, reduction or modification at the convenience of the government or in the event of changes in government requirements, reductions in federal spending and other factors, and we may underestimate our costs of performing under the contract. Government contracts that have been awarded to us following a bid process could become the subject of a bid protest by a losing bidder, which could result in loss of the contract. We are also subject to investigation and audit for compliance with the requirements governing government contracts;
- we are also required to comply with increasingly complex and changing data privacy regulations in multiple jurisdictions that regulate the collection, use, protection and transfer of personal data, including the transfer of personal data between or among countries. In particular, the General Data Protection Regulation became effective in the European Union in May 2018 and the California Consumer Privacy Act became effective in January 2020. We may also face audits or investigations by one or more domestic or foreign government agencies relating to our compliance with these regulations. An adverse outcome under any such investigation or audit could subject us to fines or other penalties. That or other circumstances related to our collection, use and transfer of personal data could cause a loss of reputation in the market and/or adversely affect our business and financial position;
- certain of our products are medical devices that are subject to regulation by the U.S. FDA, by other federal and state governmental agencies, by comparable agencies of other countries and regions, and by certain accrediting bodies. To varying degrees, these regulators require us to comply with laws and regulations governing the development, testing, manufacturing, labeling, marketing, distribution and post-marketing surveillance of our products; and
- we are also required to comply with ever changing labor and employment laws and regulations in multiple jurisdictions. These changes, including the California legislature's recent passage of Assembly Bill 5 codifying a new independent contractor test, could negatively impact our business or financial position.

These are not the only regulations that our businesses must comply with. The regulations we are subject to have tended to become more stringent over time and may be inconsistent across jurisdictions. We, our representatives and the industries in which we operate may at times be under review and/or investigation by regulatory authorities. Failure to comply (or any alleged or perceived failure to comply) with the regulations referenced above or any other regulations could result in civil and criminal, monetary and non-monetary penalties, and any such failure or alleged failure (or becoming subject to a regulatory enforcement investigation) could also damage our reputation, disrupt our business, limit our ability to manufacture, import, export and sell products and services, result in loss of customers and disbarment from selling to certain federal agencies and cause us to incur significant legal and investigatory fees. Compliance with these and other regulations may also affect our returns on investment, require us to incur significant expenses or modify our business model or impair our flexibility in modifying product, marketing, pricing or other strategies for growing our business. Our products and operations are also often subject to the rules of industrial standards bodies such as the International Standards Organization, and failure to comply with these rules could result in withdrawal of certifications needed to sell our products and services and otherwise adversely impact our financial statements. For additional information regarding these risks, please refer to the section entitled "Business-Regulatory Matters."

International economic, political, legal, compliance, and business factors could negatively affect our financial statements.

In 2019, approximately 43% of our sales were derived from customers outside the United States. Our principal markets outside the United States are in Europe and Asia. In addition, many of our manufacturing operations, suppliers and employees are located outside the United States. Since our growth strategy depends in part on our ability to further penetrate markets outside the United States and increase the localization of our products and services, we expect to continue to increase our sales and presence outside the United States, particularly in high-growth markets, such as Eastern Europe, the Middle East, Africa, Latin America, and Asia. Our international business, including our business in high-growth markets outside the United States, is subject to risks that are customarily encountered in non-U.S. operations, as well as increased risks due to significant uncertainties related to political and economic changes, including:

- interruption in the transportation of materials to us and finished goods to our customers;
- differences in terms of sale, including payment terms;
- local product preferences and product requirements;
- changes in a country's or region's political or economic conditions, including changes in relationship with the United States, particularly with respect to China;
- trade protection measures, increased trade barriers, imposition of significant tariffs on imports or exports, embargoes and import or export restrictions and requirements;
- new conditions to, and possible restrictions of, existing free trade agreements;
- epidemics, such as the coronavirus outbreak, that adversely impact travel, production or demand;
- unexpected changes in laws or regulatory requirements, including negative changes in tax laws in the U.S. and in the countries in which we manufacture or sell our products;
- the impact of the U.K.'s exit from the E.U. (Brexit) on the Company's business operations in the U.K. and Europe, which will vary depending on the final terms of the transition;
- limitations on ownership and on repatriation of earnings and cash;
- the potential for nationalization of enterprises;
- limitations on legal rights and our ability to enforce such rights;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- difficulties in implementing restructuring actions on a timely or comprehensive basis; and
- differing protection of intellectual property.

Any of these risks could negatively affect our financial statements and growth.

We may be required to recognize impairment charges for our goodwill and other intangible assets.

As of December 31, 2019, the net carrying value of our goodwill and other intangible assets totaled approximately \$12.2 billion. In accordance with generally accepted accounting principles in the United States of America ("GAAP"), we periodically assess these assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in 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 charges relating to such impairments would adversely affect our results of operations in the periods recognized. Refer to Notes 2 and 7 to the consolidated financial statements for a description of our policies relating to goodwill and acquired intangibles.

Foreign currency exchange rates may adversely affect our financial statements.

Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar and may adversely affect our financial statements. Increased strength of the U.S. dollar increases the effective price of

our products sold in U.S. dollars into other countries, which may require us to lower our prices or adversely affect sales to the extent we do not increase local currency prices. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products and services we purchase overseas. Sales and expenses of our non-U.S. businesses are also translated into U.S. dollars for reporting purposes and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects. In addition, certain of our businesses transact in a currency other than the business' functional currency, and movements in the transaction currency relative to the functional currency could also result in unfavorable exchange rate effects. We also face exchange rate risk from our investments in subsidiaries owned and operated in foreign countries.

The interest rates on our credit facilities may be impacted by the phase out of the London Interbank Offered Rate ("LIBOR").

Pursuant to the terms of our credit facilities, the interest rate on our credit facilities may be based on LIBOR, which is in the process of being phased-out. The FCA, which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of 2021, but that the FCA will not use its powers to compel contributions beyond such date. Accordingly, there is considerable uncertainty regarding the publication of LIBOR beyond 2021 and it is not currently possible to determine precisely whether, or to what extent, the withdrawal and replacement of LIBOR would affect the Company; however, the implementation of alternative benchmark rates to LIBOR may have an adverse impact on the cost of our borrowings under our credit facilities.

Changes in our effective tax rates or exposure to additional income tax liabilities or assessments could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.

We are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions. We believe that a change in the statutory tax rate of any individual foreign country would not have a material effect on our financial statements given the geographic dispersion of our taxable income.

Furthermore, a change in the tax laws of the jurisdictions where we operate could result in a material increase in our tax expense. In addition, foreign remittance taxes have not been provided for on undistributed earnings of certain of our non-U.S. subsidiaries to the extent such earnings are considered to be indefinitely reinvested in the operations of those subsidiaries. If our intentions regarding reinvestment of such earnings change, then our income tax expense could increase. On December 22, 2017, the U.S. enacted comprehensive tax reform commonly referred to as the Tax Cut and Jobs Act ("TCJA"). The TCJA represents one of the most significant overhauls to the U.S. federal tax code since 1986 according to the SEC. The TCJA includes numerous provisions that affect businesses and introduces changes that impact U.S. corporate tax rates, business-related exclusions, deductions, and credits. Further guidance, regulations, and technical corrections pertaining to TCJA continue to be issued by the tax authorities, some of which may have retroactive application. We will continue to assess such new guidance, regulations and corrections as they are issued. However, there can be no assurance that the retroactive applications of such new guidance, regulations or corrections issued by the tax authorities will not result in revisions to our prior interpretation of the corresponding provisions of TCJA that may have a material adverse effect on our financial statements.

Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting project undertaken by the Organisation for Economic Co-operation and Development ("OECD"), which represents a coalition of member countries. The OECD has issued significant global tax policy changes that include both expanded reporting as well as technical global tax policy changes. Many countries in which we operate have implemented tax law and administrative changes that align with many aspects of the OECD policy guidelines. We have taken comprehensive measures to address the requirements of these changes in global tax policy. In addition, the OECD has announced additional guidance that will be forthcoming in 2020 that could materially impact the law for transfer pricing and permanent establishment taxation. The Company will continue to monitor and evaluate the impact of these new OECD developments.

Changes in relation to international tax reform could increase uncertainty in the corporate tax area and may adversely affect our provision for income taxes. In addition, the amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. Due to the potential for changes to tax laws (or changes to the interpretation thereof) and the ambiguity of tax laws, the subjectivity of factual interpretations, the complexity of our intercompany arrangements and other factors, our estimates of income tax liabilities may differ from actual payments or assessments. If these audits result in payments or assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities and our financial statements could be adversely affected. If we determine to repatriate earnings from foreign jurisdictions that have been considered permanently reinvested under existing accounting standards, it could also increase our effective tax rate.

We have incurred a significant amount of debt, and our debt will increase further if we incur additional debt and do not retire existing debt.

As of December 31, 2019, we had approximately \$6.3 billion of long-term debt, including the current portion of long-term debt, on a consolidated basis. We may also obtain additional long-term debt and lines of credit to meet future financing needs. Our debt level and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which would reduce the funds we have available for other purposes, such as acquisitions;
- making it more difficult for us to satisfy our obligations with respect to our debt;
- placing us at a competitive disadvantage compared to our competitors that are not as highly leveraged;
- limiting our ability to borrow additional funds;
- reducing our flexibility in planning for or reacting to changes in our business and market conditions;
- exposing us to interest rate risk since a portion of our debt obligations are at variable rates; and
- resulting in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial or restrictive covenants contained in our debt instruments, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

Our ability to satisfy our obligations depends on our future operating performance and on economic, financial, competitive and other factors beyond our control. Our business may not generate sufficient cash flow to meet these obligations. If we are unable to service our debt or obtain additional financing, we may be forced to delay strategic acquisitions, capital expenditures or research and development expenditures. We may not be able to obtain additional financing on terms acceptable to us or at all.

Additionally, the agreements governing our debt require that we maintain certain financial ratios, and contain affirmative and negative covenants that restrict our activities by, among other limitations, limiting our ability to incur additional indebtedness, make investments, create liens, sell assets and enter into transactions with affiliates. The covenants in our credit agreement include a debt-to-EBITDA ratio. Specifically, the credit agreement requires us to maintain as of the end of any fiscal quarter a consolidated net leverage ratio of debt to consolidated EBITDA (as defined in the credit agreement) of less than 3.50 to 1.00 or, for four consecutive quarters immediately following the consummation of any qualified acquisition, less than 4.00 to 1.00. In addition, the credit agreement requires us to maintain a consolidated interest coverage ratio of consolidated EBITDA to interest expense of greater than 3.50 to 1.00 as of the end of any fiscal quarter.

Our ability to comply with these restrictions and covenants may be affected by events beyond our control. Our failure to comply with any of these restrictions or covenants may result in an event of default under the applicable debt instrument, which could permit acceleration of the debt under that instrument and require us to prepay that debt before its scheduled due date. Also, an acceleration of the debt under one of our debt instruments would trigger an event of default under other of our debt instruments.

We are subject to a variety of litigation and other legal and regulatory proceedings in the course of our business that could adversely affect our financial statements.

We are subject to a variety of litigation and other legal and regulatory proceedings incidental to our business (or the business operations of previously owned entities), including claims for damages arising out of the use of products or services and claims relating to intellectual property matters, employment matters, appropriate classification of franchisee relationship, tax matters, commercial disputes, disputes with our supplier or vendors, competition and sales and trading practices, environmental matters, personal injury, insurance coverage and acquisition or divestiture-related matters, as well as regulatory investigations or enforcement. We may also become subject to lawsuits as a result of past or future acquisitions or as a result of liabilities retained from, or representations, warranties or indemnities provided in connection with, divested businesses. These lawsuits may include claims for compensatory damages, punitive and consequential damages and/or injunctive relief. The defense of these lawsuits may divert our management's attention, we may incur significant expenses in defending these lawsuits, we may experience disruption in supply or sales, and we may be required to pay damage awards or settlements or become subject to equitable remedies that could adversely affect our operations and financial statements. Moreover, any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against such losses. In addition, developments in proceedings in any given period may require us to adjust the loss contingency estimates that we have recorded in our financial statements, record estimates for liabilities or assets that we were previously unable to estimate or pay cash settlements or judgments. Any of these developments could adversely affect our financial statements in any particular period.

We cannot assure you that our liabilities in connection with litigation and other legal and regulatory proceedings will not exceed our estimates or adversely affect our financial statements and reputation.

If we do not or cannot adequately protect our intellectual property, or if third parties infringe our intellectual property rights, we may suffer competitive injury or expend significant resources enforcing our rights.

We own numerous patents, trademarks, copyrights, trade secrets and other intellectual property and licenses to intellectual property owned by others, which in aggregate are important to our business. The intellectual property rights that we obtain, however, may not be sufficiently broad or otherwise may not provide us a significant competitive advantage, and patents may not be issued for pending or future patent applications owned by or licensed to us. In addition, the steps that we and our licensors have taken to maintain and protect our intellectual property may not prevent it from being challenged, invalidated, circumvented, designed-around or becoming subject to compulsory licensing, particularly in countries where intellectual property rights are not highly developed or protected. In some circumstances, enforcement may not be available to us because an infringer has a dominant intellectual property position or for other business reasons, or countries may require compulsory licensing of our intellectual property. We also rely on nondisclosure and noncompetition agreements with employees, consultants and other parties to protect, in part, trade secrets and other proprietary rights. There can be no assurance that these agreements will adequately protect our trade secrets and other proprietary rights and will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets or other proprietary rights. Our failure to obtain or maintain intellectual property rights that convey competitive advantage, adequately protect our intellectual property or detect or prevent circumvention or unauthorized use of such property and the cost of enforcing our intellectual property rights could adversely impact our competitive position and financial statements.

Third parties may claim that we are infringing or misappropriating their intellectual property rights and we could suffer significant litigation expenses, losses or licensing expenses or be prevented from selling products or services.

From time to time, we receive notices from third parties alleging intellectual property infringement or misappropriation. Any dispute or litigation regarding intellectual property could be costly and time-consuming due to the complexity of many of our technologies and the uncertainty of intellectual property litigation. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of infringement or misappropriation. In addition, as a result of such claims of infringement or misappropriation, we could lose our rights to critical technology, be unable to license critical technology or sell critical products and services, be required to pay substantial damages or license fees with respect to the infringed rights or be required to redesign our products at substantial cost, any of which could adversely impact our competitive position and financial statements. Even if we successfully defend against claims of infringement or misappropriation, we may incur significant costs and diversion of management attention and resources, which could adversely affect our financial statements.

A significant disruption in, or breach in security of, our information technology systems could adversely affect our business.

We rely on information technology systems, some of which are managed by third parties and some of which are managed on a decentralized, independent basis by our operating companies, to process, transmit and store electronic information (including sensitive data such as confidential business information and personally identifiable data relating to employees, customers and other business partners), and to manage or support a variety of critical business processes and activities. These systems may be damaged, disrupted or shut down due to attacks by computer hackers, nation states, cyber-criminals, computer viruses, employee error or malfeasance, power outages, hardware failures, telecommunication or utility failures, catastrophes or other unforeseen events, and in any such circumstances our system redundancy and other disaster recovery planning may be ineffective or inadequate. In addition, security breaches of our systems (or the systems of our customers, suppliers or other business partners) could result in the misappropriation, destruction or unauthorized disclosure of confidential information or personal data belonging to us or to our employees, partners, customers or suppliers. Like many multinational corporations, our information technology systems have been subject to computer viruses, malicious codes, unauthorized access and other cyber-attacks and we expect to be subject to similar incidents in the future as such attacks become more sophisticated and frequent. Any of the attacks, breaches or other disruptions or damage described above could interrupt our operations, delay production and shipments, result in theft of our and our customers' intellectual property and trade secrets, damage customer and business partner relationships and our reputation or result in defective products or services, legal claims and proceedings, liability and penalties under privacy laws and increased costs for security and remediation, each of which could adversely affect our business and financial statements.

Defects and unanticipated use or inadequate disclosure with respect to our products (including software) or services could adversely affect our business, reputation and financial statements.

Manufacturing or design defects impacting safety, cybersecurity or quality issues (or the perception of such issues) for our products and services can lead to personal injury, death, property damage, data loss or other damages. These events could lead to recalls or safety or other public alerts, result in product or service downtime or the temporary or permanent removal of a product or service from the market and result in product liability or similar claims being brought against us. Recalls, downtime, removals and product liability and similar claims (regardless of their validity or ultimate outcome) can result in significant costs, as well as negative publicity and damage to our reputation that could reduce demand for our products and services.

Adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key distributors and other channel partners could adversely affect our financial statements.

Certain of our businesses sell a significant amount of their products to key distributors and other channel partners that have valuable relationships with customers and end-users. Some of these distributors and other partners also sell our competitors' products or compete with us directly, and if they favor competing products for any reason they may fail to market our products effectively. Adverse changes in our relationships with these distributors and other partners, or adverse developments in their financial condition, performance or purchasing patterns, could adversely affect our financial statements. The levels of inventory maintained by our distributors and other channel partners, and changes in those levels, can also significantly impact our results of operations in any given period. In addition, the consolidation of distributors and customers in certain of our served industries could adversely impact our profitability.

Our financial results are subject to fluctuations in the cost and availability of commodities or components that we use in our operations.

As discussed in the section entitled "Business-Materials," our manufacturing and other operations employ a wide variety of components, raw materials and other commodities. Prices for and availability of these components, raw materials and other commodities have fluctuated significantly in the past. Any sustained interruption in the supply of these items, including as a result of contractual disputes with suppliers or vendors, could adversely affect our business. In addition, due to the highly competitive nature of the industries that we serve, the cost-containment efforts of our customers and the terms of certain contracts we are party to, if commodity or component prices rise we may be unable to pass along cost increases through higher prices. If we are unable to fully recover higher commodity or component costs through price increases or offset these increases through cost reductions, or if there is a time delay between the increase in costs and our ability to recover or offset these costs, we could experience lower margins and profitability and our financial statements could be adversely affected.

If we cannot adjust our manufacturing capacity or the purchases required for our manufacturing activities to reflect changes in market conditions and customer demand, our profitability may suffer. In addition, our reliance upon sole or limited sources of supply for certain materials, components and services could cause production interruptions, delays and inefficiencies.

We purchase materials, components and equipment from third parties for use in our manufacturing operations. Our income could be adversely impacted if we are unable to adjust our purchases to reflect changes in customer demand and market fluctuations, including those caused by seasonality or cyclicity. During a market upturn, suppliers may extend lead times, limit supplies or increase prices. If we cannot purchase sufficient products at competitive prices and quality and on a timely enough basis to meet increasing demand, we may not be able to satisfy market demand, product shipments may be delayed, our costs may increase or we may breach our contractual commitments and incur liabilities. Conversely, in order to secure supplies for the production of products, we sometimes enter into noncancelable purchase commitments with vendors, which could impact our ability to adjust our inventory to reflect declining market demands. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges and our profitability may suffer.

In addition, some of our businesses purchase certain requirements from sole or limited source suppliers for reasons of quality assurance, cost effectiveness, availability, contractual obligations or uniqueness of design. If these or other suppliers encounter financial, operating, quality or other difficulties or if our relationship with them changes, including as a result of contractual disputes, we might not be able to quickly establish or qualify replacement sources of supply. The supply chains for our businesses could also be disrupted by supplier capacity constraints, operational or quality issues, bankruptcy or exiting of the business for other reasons, decreased availability of key raw materials or commodities and external events such as natural disasters, pandemic health issues, war, terrorist actions, governmental actions and legislative or regulatory changes. Any of these factors could result in production interruptions, delays, extended lead times and inefficiencies.

Because we cannot always immediately adapt our production capacity and related cost structures to changing market conditions, our manufacturing capacity may at times exceed or fall short of our production requirements. Any or all of these problems could result in the loss of customers, provide an opportunity for competing products to gain market acceptance and otherwise adversely affect our profitability.

Our restructuring actions could have long-term adverse effects on our business.

In recent years, we have implemented multiple, significant restructuring activities across our businesses to adjust our cost structure, and we may engage in similar restructuring activities in the future. These restructuring activities and our regular ongoing cost reduction activities (including in connection with the integration of acquired businesses) reduce our available talent, assets and other resources and could slow improvements in our products and services, adversely affect our ability to respond to customers and limit our ability to increase production quickly if demand for our products increases. In addition, delays in implementing planned restructuring activities or other productivity improvements, unexpected costs or failure to meet targeted improvements may diminish the operational or financial benefits we realize from such actions. Any of the circumstances described above could adversely impact our business and financial statements.

Work stoppages, union and works council campaigns and other labor disputes could adversely impact our productivity and results of operations.

We have certain U.S. collective bargaining units and various non-U.S. collective labor arrangements. We are subject to potential work stoppages, union and works council campaigns and other labor disputes, any of which could adversely impact our productivity, results of operations and reputation.

If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, our operations could be seriously harmed.

Our facilities, supply chains, distribution systems and information technology systems are subject to catastrophic loss due to fire, flood, earthquake, hurricane, public health crisis, war, terrorism or other natural or man-made disasters. If any of these facilities, supply chains or systems were to experience a catastrophic loss, it could disrupt our operations, delay production and shipments, result in defective products or services, damage customer relationships and our reputation and result in legal exposure and large repair or replacement expenses. The third-party insurance coverage that we maintain will vary from time to time in both type and amount depending on cost, availability and our decisions regarding risk retention, and may be unavailable or insufficient to protect us against losses.

Certain provisions in our amended and restated certificate of incorporation and bylaws, and of Delaware law, may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation (“Restated Certificate of Incorporation”) and amended and restated bylaws (“Amended and Restated Bylaws”) contain, and Delaware law contains, provisions that are intended to deter coercive takeover practices and inadequate takeover bids and to encourage prospective acquirers to negotiate with the Board of Directors (the “Board”) rather than to attempt an unsolicited takeover not approved by the Board. These provisions include, among others:

- the inability of our shareholders to call a special meeting;
- the inability of our shareholders to act by written consent;
- rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings;
- the right of the Board to issue preferred stock without shareholder approval;
- the ability of our directors, and not shareholders, to fill vacancies (including those resulting from an enlargement of the Board) on the Board; and
- the requirement that the affirmative vote of shareholders holding at least 80% of our voting stock is required to amend our amended and restated bylaws and certain provisions in our amended and restated certificate of incorporation.

In addition, because we have not chosen to be exempt from Section 203 of the Delaware General Corporation Law (the “DGCL”), this provision could also delay or prevent a change of control that you may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation (an “interested stockholder”) shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date

on which the person became an interested stockholder, unless (i) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of shareholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

We believe these provisions will protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with the Board and by providing the Board with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers.

However, these provisions will apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that the Board determines is not in the best interests of our company and our shareholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

Changes in U.S. GAAP could adversely affect our reported financial results and may require significant changes to our internal accounting systems and processes.

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. The FASB issued new accounting standards for revenue recognition and accounting for leases. These and other such standards may result in different accounting principles, which may significantly impact our reported results or could result in volatility of our financial results.

Our amended and restated certificate of incorporation designates the state courts in the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal court for the District of Delaware, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our shareholders, which could discourage lawsuits against us and our directors and officers.

Our amended and restated certificate of incorporation provides that unless the Board otherwise determines, the state courts in the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal court for the District of Delaware, will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of our company, any action asserting a claim of breach of a fiduciary duty owed by any of our directors or officers to our company or our shareholders, any action asserting a claim against our company or any of our directors or officers arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or bylaws, or any action asserting a claim against our company or any of our directors or officers governed by the internal affairs doctrine. This exclusive forum provision may limit the ability of our shareholders to bring a claim in a judicial forum that such shareholders find favorable for disputes with our company or our directors or officers, which may discourage such lawsuits against our company and our directors and officers. This exclusive forum provision would not apply to claims brought to enforce a duty or liability created by the Securities Act, the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Everett, Washington in a facility that we own. As of December 31, 2019, our facilities included approximately 80 significant facilities, which are used for manufacturing, distribution, warehousing, research and development, general administrative and/or sales functions. Approximately 40 of these facilities are located in the United States in over 20 states and approximately 40 are located outside the United States in over 20 countries, including Canada and countries in Asia Pacific, Europe, and Latin America. These facilities cover approximately 8 million square feet, of which approximately 5 million square feet are owned and approximately 3 million square feet are leased. Particularly outside the United States, facilities may serve more than one business segment and may be used for multiple purposes, such as administration, sales, manufacturing, warehousing, and/or distribution. The approximate number of significant facilities by business segment is: Professional Instrumentation, 45; and Industrial Technologies, 35.

We consider our facilities suitable and adequate for the purposes for which they are used and do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities. We believe our properties and equipment have been well-maintained. Please refer to Note 10 to the consolidated financial statements for additional information with respect to our lease commitments.

ITEM 3. LEGAL PROCEEDINGS

We are, from time to time, subject to a variety of litigation and other legal and regulatory proceedings and claims incidental to our business. Based upon our experience, current information and applicable law, we do not believe that these proceedings and claims will have a material effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Set forth below are the names, ages, positions and experience of our executive officers as of February 27, 2020. All of our executive officers hold office at the pleasure of our Board.

Name	Age	Position	Officer Since
James A. Lico	54	President and Chief Executive Officer	2016
Martin Gafinowitz	61	Senior Vice President	2016
Barbara B. Hulit	53	Senior Vice President	2016
Charles E. McLaughlin	58	Senior Vice President – Chief Financial Officer	2016
Patrick K. Murphy	58	Senior Vice President	2016
William W. Pringle	52	Senior Vice President	2016
Jonathan L. Schwarz	48	Vice President – Strategy and Corporate Development	2016
Peter C. Underwood	50	Senior Vice President – General Counsel and Secretary	2016
Stacey A. Walker	49	Senior Vice President – Human Resources	2016

James A. Lico has served as Chief Executive Officer and President, as well as a member of the Board since July 2016. Prior to July 2016, Mr. Lico served in leadership positions in a variety of different functions and businesses at Danaher after joining Danaher in 1996, including as Executive Vice President from 2005 to 2016.

Martin Gafinowitz has served as a Senior Vice President of Fortive since July 2016. Prior to July 2016, Mr. Gafinowitz served as Senior Vice President-Group Executive of Danaher from March 2014 to July 2016 after serving as Vice President-Group Executive of Danaher from 2005 to March 2014.

Barbara B. Hulit has served as a Senior Vice President since July 2016. Prior to July 2016, Ms. Hulit served as Senior Vice President-Danaher Business System Office for Danaher from January 2013 to July 2016 and as President and Group Executive of Fluke Corporation from May 2005 to January 2013. Prior to joining Danaher, Ms. Hulit was a partner at The Boston Consulting Group, a global management consulting firm.

Charles E. McLaughlin has served as Senior Vice President, Chief Financial Officer since July 2016. Prior to July 2016, Mr. McLaughlin served as Senior Vice President-Diagnostics Group CFO for Danaher's Diagnostics business from May 2012 to July 2016, and as Senior Vice President-Chief Financial Officer of Danaher's Beckman Coulter business from July 2011 to July 2016.

Patrick K. Murphy has served as a Senior Vice President of Fortive since July 2016. Prior to July 2016, Mr. Murphy served as a Group President of Danaher after joining Danaher in March 2014 until July 2016. Prior to joining Danaher, he served as CEO of Nidec Motor Corporation and President of the ACIM (Appliance, Commercial and Industrial Motor) Business Unit of Nidec Corporation, a manufacturer of commercial, industrial, and appliance motors and controls, from 2010 until October 2013.

William W. Pringle has served as a Senior Vice President of Fortive since July 2016. Prior to July 2016, Mr. Pringle served as Senior Vice President-Fluke and Qualitrol for Danaher from October 2015 to July 2016 and as President of Danaher's Fluke business from July 2013 to July 2016, after serving as President-Fluke Industrial Group from May 2012 to July 2013. Prior to joining Danaher, Mr. Pringle served in a series of progressively more responsible roles with Whirlpool Corporation, a manufacturer of home appliances, from 2008 until May 2012, including most recently as Senior Vice President-Integrated Business Units.

Jonathan L. Schwarz has served as Vice President, Strategy and Corporate Development of Fortive since April 2019 and as Vice-President, Corporate Development from July 2016 to April 2019. Prior to July 2016, Mr. Schwarz served as Vice President-Corporate Development of Danaher from 2010 to July 2016.

Peter C. Underwood has served as Senior Vice President, General Counsel and Secretary of Fortive since May 2016. Prior to joining Fortive, Mr. Underwood served as Vice President, General Counsel and Secretary of Regal Beloit Corporation, a manufacturer of electric motors, from 2010 through May 2016.

Stacey A. Walker has served as a Senior Vice President, Human Resources of Fortive since July 2016. Prior to July 2016, Ms. Walker served as Vice President-Talent Management of Danaher from January 2014 to July 2016 after serving as Vice President-Talent Planning from December 2012 to December 2013 and as Vice President-Human Resources for Danaher's Chemtreat business from 2008 to November 2012.

PART II**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock has been traded on the New York Stock Exchange under the symbol FTV since July 2, 2016. As of February 21, 2020, there were approximately 2,300 holders of record of our common stock.

Issuer Purchases of Equity Securities

None.

Recent Issuances of Unregistered Securities

None.

**ITEM 6. SELECTED FINANCIAL DATA
(\$ in millions, except per share information)**

The following table sets forth the selected consolidated financial data for the five-years ended December 31, 2019. Unless otherwise indicated, the following disclosures reflect our continuing operations. Refer to Note 4 to the consolidated financial statements included in this report for additional information regarding discontinued operations.

This selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and accompanying notes included in this report. Historical results presented herein may not be indicative of future results.

	As of and for the Year Ended December 31				
	2019	2018	2017	2016	2015
Summary of Operations					
Sales	\$ 7,320.0	\$ 6,452.7	\$ 5,756.1	\$ 5,378.2	\$ 5,311.8
Operating profit	1,004.1	1,178.4	1,143.0	1,061.7	1,081.5
Net earnings from continuing operations	725.4	918.3	884.3	740.2	737.6
Net earnings per share from continuing operations:					
Basic	1.95	2.56	2.54	2.14	2.14
Diluted	1.93	2.52	2.51	2.13	2.14
Common stock dividends declared and paid per share	0.28	0.28	0.28	0.14	—
Preferred stock dividends declared and paid per share	50.00	25.28	—	—	—
Financial Position					
Assets of continuing operations	\$ 17,435.8	\$ 12,875.6	\$ 9,629.6	\$ 7,353.1	\$ 6,377.9
Assets of discontinued operations	3.2	30.0	871.0	836.7	832.7
Total assets	17,439.0	12,905.6	10,500.6	8,189.8	7,210.6
Current portion of long-term debt	1,500.0	455.6	—	—	—
Long-term debt, net of current maturities	4,828.4	2,974.7	4,056.2	3,358.0	—
Long-term debt	6,328.4	3,430.3	4,056.2	3,358.0	—

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

The following discussion and analysis of Fortive's (the "Company," "we," "our," and "us") financial condition and results of operations for the fiscal years ended December 31, 2019 and December 31, 2018 should be read in conjunction with Selected Consolidated Financial Data and our audited consolidated financial statements and the notes to those statements. Discussion and analysis of our financial condition and results of operations for the year ended December 31, 2018 compared to December 31, 2017 is included under the heading "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed for the fiscal year ended December 31, 2018 with the Securities and Exchange Commission on February 28, 2019.

Fortive is a diversified industrial technology growth company comprised of Professional Instrumentation and Industrial Technologies segments and encompassing businesses that are recognized leaders in attractive markets. Our well-known brands hold leading positions in field solutions, product realization, sensing technologies, health, transportation technologies, and franchise distribution. Our businesses design, develop, service, manufacture and market professional and engineered products, software and services for a variety of end markets, building upon leading brand names, innovative technology and significant market positions. Our research and development, manufacturing, sales, distribution, service and administrative facilities are located in more than 50 countries across North America, Asia Pacific, Europe and Latin America.

This MD&A is designed to provide a reader of our financial statements with a narrative from the perspective of management. Our MD&A is divided into seven sections:

- Basis of Presentation
- Overview
- Results of Operations
- Financial Instruments and Risk Management
- Liquidity and Capital Resources
- Critical Accounting Estimates
- New Accounting Standards

BASIS OF PRESENTATION

On September 4, 2019, we announced our intention to separate into two independent, publicly traded companies subject to the satisfaction of certain conditions, including obtaining final approval from our Board of Directors. The separation will create (i) an industrial technology company, retaining the Fortive name, with a differentiated portfolio of growth-oriented businesses focused on connected workflow solutions that incorporate advanced sensors, instrumentation, software, data, and analytics and (ii) a global industrial company (“Vontier”) consisting of our Transportation Technologies and Franchise Distribution platforms with a focus on growth opportunities in the rapidly evolving transportation and mobility markets. The separation is expected to be structured in a tax-efficient manner and completed in the second half of 2020. All assets, liabilities, revenues and expenses of the businesses comprising Vontier are included in continuing operations in the accompanying consolidated financial statements.

On March 7, 2018, we entered into a definitive agreement to combine four of our operating companies from our Automation & Specialty platform (the “A&S Business”) with Altra Industrial Motion Corp. (“Altra”) in a tax-efficient Reverse Morris Trust transaction. On October 1, 2018, we completed the split-off of the A&S Business and have presented the results of operations of the A&S Business in our Consolidated Statements of Earnings, and the related assets and liabilities in the Consolidated Balance Sheets as discontinued operations. These changes have been applied to all periods presented. Unless otherwise noted, amounts, percentages and discussion for all periods included in Management’s Discussion and Analysis reflect the results of operations and financial condition from our continuing operations. Refer to Note 4 to our consolidated financial statements for additional information on discontinued operations.

OVERVIEW

General

Fortive is a multinational business with global operations. Please see “Item 1. Business – General” included in this Annual Report for a discussion of the Company’s strategies for delivering long-term shareholder value. During 2019, approximately 43% of our sales were derived from customers outside the United States. As a diversified industrial technology growth company with global operations, our businesses are affected by worldwide, regional and industry-specific economic and political factors. Our geographic and industry diversity, as well as the range of our products, software, and services, typically help limit the impact of any one industry or the economy of any single country (except for the United States) on our operating results. Given the broad range of products manufactured, software and services provided, and geographies served, we do not use any indices other than general economic trends to predict the overall outlook for the Company. Our individual businesses monitor key competitors and customers, including their sales, to the extent possible, to gauge relative performance and the outlook for the future.

As a result of our geographic and industry diversity, we face a variety of opportunities and challenges, including technological development in most of the markets we serve, the expansion and evolution of opportunities in high-growth markets, trends and costs associated with a global labor force, and consolidation of our competitors. We define high-growth markets as developing markets of the world experiencing extended periods of accelerated growth in gross domestic product and infrastructure which include Eastern Europe, the Middle East, Africa, Latin America, and Asia with the exception of Japan and Australia. We operate in a highly competitive business environment in most markets, and our long-term growth and profitability will depend in particular on our ability to expand our business across geographies and market segments, identify, consummate, and integrate appropriate acquisitions, develop innovative and differentiated new products, services, and software, expand and improve the effectiveness of our sales force, continue to reduce costs and improve operating efficiency and quality, and effectively address the demands of an increasingly regulated environment. We are making significant investments, organically and through acquisitions, to address technological change in the markets we serve and to improve our manufacturing, research and development and customer-facing resources in order to be responsive to our customers throughout the world.

In this report, references to sales from existing businesses refers to sales from operations calculated according to generally accepted accounting principles in the United States (“GAAP”) but excluding (1) the impact from acquired businesses and (2) the impact of currency translation. References to sales attributable to acquisitions or acquired businesses refer to GAAP sales from acquired businesses recorded prior to the first anniversary of the acquisition less the amount of sales attributable to certain divested businesses or product lines not considered discontinued operations prior to the first anniversary of the divestiture. The portion of sales attributable to the impact of currency translation is calculated as the difference between (a) the period-to-period change in sales (excluding sales impact from acquired businesses) and (b) the period-to-period change in sales (excluding sales impact from acquired businesses) after applying the current period foreign exchange rates to the prior year period. Sales from existing businesses should be considered in addition to, and not as a replacement for or superior to, sales, and may not be comparable to similarly titled measures reported by other companies.

Management believes that reporting the non-GAAP financial measure of sales from existing businesses provides useful information to investors by helping identify underlying growth trends in our business and facilitating comparisons of our sales performance with our performance in prior and future periods and to our peers. We exclude the effect of acquisitions and divestiture related items because the nature, size, and number of such transactions can vary dramatically from period to period and between us and our peers. We exclude the effect of currency translation from sales from existing businesses because the impact of currency translation is not under management’s control and is subject to volatility. Management believes the exclusion of the effect of acquisitions and divestitures and currency translation may facilitate the assessment of underlying business trends and may assist in comparisons of long-term performance. References to sales volume refer to the impact of both price and unit sales.

Business Performance and Outlook

While differences exist among our businesses, on an overall basis, demand for our hardware and software products, and services increased during 2019 as compared to 2018 resulting in aggregate year-over-year sales growth of 13.4% and sales growth from existing businesses of 2.0%. Our continued application and deployment of the Fortive Business System including investments in sales growth initiatives and new product introductions, as well as increased demand in developed markets and other business-specific factors discussed below contributed to overall sales growth from existing businesses.

On a year-over-year basis, our Industrial Technologies segment reported sales growth from existing businesses of 5.2%, while sales from existing businesses in our Professional Instrumentation segment declined slightly. In our Industrial Technologies segment, the liability shift related to enhanced credit card security requirements for outdoor payment systems that is expected to occur in October 2020 in the United States based on the Europay, Mastercard, and Visa (“EMV”) global standards is continuing to drive demand within our transportation technologies platform. The decline in our Professional Instrumentation segment reflects slowing macroeconomic conditions across most major markets in 2019.

Geographically, sales from existing businesses grew at a low-single digit rate in developed markets and were relatively flat in high growth markets during 2019 as compared to 2018. Year-over-year sales from existing businesses grew at a high-single digit rate in Latin America and grew at mid-single digit rate in North America, while sales from existing businesses declined at a low-double digit rate in India and at a low-single digit rate in Western Europe. Sales from existing businesses in China increased slightly year-over-year.

We expect overall sales from existing businesses to continue to grow on a year-over-year basis during 2020; however, we continue to monitor developments from macro-economic and geopolitical uncertainties, including global uncertainties related to governmental policies toward international trade, monetary and fiscal policies, including the current uncertainty about the future trade relationship between the United States and China, and the impacts of the coronavirus, as well as other factors identified in “Item 1A. Risk Factors.”

Completed Acquisitions and Business Combinations

2019

Advanced Sterilization Products

On April 1, 2019 (the “Principal Closing Date”), we acquired the Advanced Sterilization Products business (“ASP”) of Johnson & Johnson, a New Jersey corporation (“Johnson & Johnson”) for an aggregate purchase price of \$2.7 billion (the “Transaction”), subject to certain post-closing adjustments set forth in a Stock and Asset Purchase Agreement, dated effective as of June 6, 2018, between the Company and Ethicon, Inc., a New Jersey corporation (“Ethicon”) and a wholly owned subsidiary of Johnson & Johnson. ASP engages in the research, development, manufacture, marketing, distribution and sale of low-temperature terminal sterilization and high-level disinfection products.

On the Principal Closing Date, we paid \$2.7 billion in cash and obtained the transferred assets and assumed liabilities in 20 countries (“Principal Countries”), general patent and trademark assignments, and all transferred equity interests in ASP. ASP has operations in an additional 39 countries (“Non-Principal Countries”). The transferred assets and liabilities associated with these operations close when requirements of country-specific agreements or regulatory approvals are satisfied.

The \$2.7 billion purchase price was paid in exchange for ASP’s businesses in both Principal and Non-Principal Countries. As of December 31, 2019, we have closed 20 Principal Countries and four Non-Principal Countries that, in aggregate, accounted for approximately 98% of the preliminary valuation of ASP. The remaining Non-Principal Countries represent approximately 2% of the preliminary valuation of ASP, or \$50 million, which is included as a prepaid asset in Other assets in the Consolidated Balance Sheet. As each Non-Principal Country closes, we will reduce the prepaid asset and record the fair value of the assets acquired and liabilities assumed.

In addition, the Company entered into a transition services agreement with Johnson & Johnson for certain administrative and operational services, and distribution agreements in the Non-Principal Countries that have not been closed. Under the distribution agreements, ASP will sell finished goods to Ethicon at prices agreed by the parties. ASP will recognize these sales as revenue when the conditions for revenue recognition are met. Following the sale of finished goods by ASP, Ethicon obtains title of the finished goods, has full authority to sell and market the finished goods to end customers as it sees fit, and retains any revenue and profit from sale.

Other Acquisitions and Investments

In addition to the acquisition of ASP, during 2019, we acquired four businesses including Intelix Technologies, Pruftechnik, and Censis Technologies for total consideration of \$1.2 billion in cash, net of cash acquired. Additionally, we made an additional equity investment of \$4 million. The businesses acquired complement existing units of our Professional Instrumentation segment. We preliminarily recorded an aggregate of \$773 million of goodwill related to these acquisitions.

Combination of the Tektronix Video Business with Telestream

On July 20, 2019, we completed the combination of the Tektronix Video test and monitoring equipment business (“Tektronix Video Business”) with Telestream, LLC (the “Combined Business”), a portfolio company of Genstar Capital LLC. We recognized a pretax gain of \$41 million upon the combination, and hold a 33% equity stake in the Combined Business. This transaction did not meet the criteria for discontinued operations reporting, and therefore the operating results of the Tektronix Video Business prior to the combination with Telestream are included in continuing operations for all periods presented. Additionally, the loss from our equity investment in the Combined Business is included in Other non-operating expenses, net in the accompanying Consolidated Statement of Earnings. Refer to Note 4 to our consolidated financial statements for additional information.

2018

Gordian

On July 27, 2018, we acquired TGG Ultimate Holdings, Inc. and its subsidiaries, including The Gordian Group, Inc. (“Gordian”), a privately-held, leading provider of construction cost data, software and service, for a total purchase price of \$778 million net of cash acquired (the “Gordian Acquisition”). Gordian’s comprehensive offerings serve the entire building lifecycle and provide workflow solutions designed to optimize every stage of an asset owner’s construction and maintenance needs, including connecting the owner and contractors in the same exchange and providing access to cost and facility metrics databases via a subscription-based model. We recorded \$435 million of goodwill related to the Gordian Acquisition.

Accruent

On September 6, 2018, we acquired Athena SuperHoldCo, Inc., including Accruent, LLC (“Accruent”), a privately-held, leading provider of facilities asset management software, for a total purchase price of approximately \$2.0 billion net of acquired cash (the “Accruent Acquisition”). Accruent is a recognized leader in the facilities asset management industry, combining deep domain and industry capabilities with an integrated, cloud-based framework that provides insights spanning the full lifecycle of real estate, facilities and asset management. Accruent serves over 10,000 global customers, and helps assure clients fulfill the mission of their organization by extending the lifecycle of assets, monitoring full compliance and reducing safety risks. We recorded \$1.2 billion of goodwill related to the Accruent Acquisition.

Other Acquisitions

In addition to the acquisitions of Accruent and Gordian, during 2018, we acquired two businesses for total consideration of \$44 million in cash, net of cash acquired. The businesses acquired complement existing units of both our segments. We recorded \$31 million of goodwill related to these acquisitions.

Divestiture of A&S Business

On March 7, 2018, we entered into a definitive agreement to combine four of our operating companies from our Automation & Specialty platform (the “A&S Business”) with Altra Industrial Motion Corp. (“Altra”) in a tax-efficient Reverse Morris Trust transaction. The A&S Business includes the market-leading brands of Kollmorgen, Thomson, Portescap and Jacobs Vehicle Systems, and generated approximately \$900 million in revenue for the year ended December 31, 2017. On October 1, 2018, we completed the split-off of the A&S Business. The total consideration received was \$2.7 billion and consisted of (i) \$1.3 billion through a fully-subscribed exchange offer, in which we accepted and subsequently retired 15,824,931 shares of our own common stock from our stockholders in exchange for 35,000,000 shares of common stock of Stevens Holding Company, Inc.; (ii) \$1.0 billion in cash paid to us for the direct sales of certain assets and liabilities of the A&S Business; (iii) \$250 million as part of a non-cash debt-for-debt exchange that reduced outstanding indebtedness of Fortive, which is inclusive of accrued interest and fees; and (iv) \$150 million in cash paid to us by Stevens Holding Company, Inc. as a dividend. The results of the A&S Business are reported as discontinued operations for all periods presented, which includes the after-tax gain on the transaction of \$1.9 billion.

RESULTS OF OPERATIONS**Components of Sales Growth**

	2019 vs. 2018
Total revenue growth (GAAP)	13.4 %
Existing businesses (Non-GAAP)	2.0 %
Acquisitions (Non-GAAP)	13.2 %
Currency exchange rates (Non-GAAP)	(1.8)%

Refer to Professional Instrumentation and Industrial Technologies sections below for further discussion of year-over-year sales growth.

Operating Profit Margins

Operating profit margins were 13.7% for the year ended December 31, 2019, a decrease of 460 basis points as compared to 18.3% in 2018.

Year-over-year operating profit margin comparisons were favorably impacted by:

- Higher 2019 sales volumes from existing businesses, price increases, and incremental year-over-year cost savings associated with productivity improvement initiatives, which were partially offset by an unfavorable sales mix, increased material costs associated primarily with inflationary pressures and recently enacted tariffs, and changes in currency exchange rates — favorable 30 basis points

Year-over-year operating profit margin comparisons were unfavorably impacted by:

- The incremental year-over-year net dilutive effect of acquired businesses, including amortization and acquisition-related fair value adjustments to deferred revenue and inventory — unfavorable 310 basis points

- The incremental year-over-year net dilutive effect of restructuring actions — unfavorable 60 basis points
- The incremental year-over-year net dilutive effect of acquisition-related transaction costs and transaction costs related to the planned separation of Fortive into two independent, publicly traded companies — unfavorable 120 basis points

Business Segments and Geographic Area Results

Sales by business segment and geographic area for the year ended December 31 are as follows (\$ in millions):

	2019	2018
Segments		
Professional Instrumentation	\$ 4,427.8	\$ 3,655.1
Industrial Technologies	2,892.2	2,797.6
Total	<u>\$ 7,320.0</u>	<u>\$ 6,452.7</u>
Geographic area		
United States	\$ 4,206.5	\$ 3,539.6
China	592.0	569.0
All other (each country individually less than 5% of total sales)	2,521.5	2,344.1
Total	<u>\$ 7,320.0</u>	<u>\$ 6,452.7</u>

PROFESSIONAL INSTRUMENTATION

Our Professional Instrumentation segment consists of our Advanced Instrumentation & Solutions, Sensing Technologies, and Advanced Sterilization Products and Censis businesses.

Our Advanced Instrumentation & Solutions businesses provide product realization and field solutions services and products. Our field solutions products include a variety of compact professional test tools, thermal imaging and calibration equipment for electrical, industrial, electronic and calibration applications, online condition-based monitoring equipment; portable gas detection equipment, consumables, and software as a service (SaaS) offerings including safety/user behavior, asset management, environmental, health and safety (EHS) quality management and compliance monitoring; subscription-based technical, analytical, and compliance services to determine occupational and environmental radiation exposure; and software, data analytics and services for critical infrastructure in utility, industrial, energy, construction, facilities management, public safety, mining, EHS, and healthcare applications. Our product realization services and products help developers and engineers across the end-to-end product creation cycle from concepts to finished products. Our test, measurement and monitoring products are used in the design, manufacturing and development of electronics, industrial, and other advanced technologies.

Our Sensing Technologies business offers devices that sense, monitor and control operational or manufacturing variables, such as temperature, pressure, level, flow, turbidity, and conductivity. Users of these products span a wide variety of industrial and manufacturing markets, including medical equipment, food and beverage, marine, industrial, off-highway vehicles, building automation, and semiconductors.

Our Advanced Sterilization Products (“ASP”) business provides critical sterilization and disinfection solutions, including low-temperature hydrogen peroxide sterilization solutions for temperature-sensitive equipment, to advance infection prevention and patient safety in healthcare facilities. Our Censis business provides subscription-based surgical inventory management systems to healthcare facilities to facilitate inventory management and regulatory compliance.

Professional Instrumentation Selected Financial Data

(\$ in millions)	For the Year Ended December 31	
	2019	2018
Sales	\$ 4,427.8	\$ 3,655.1
Operating profit	547.9	744.6
Depreciation	76.5	64.4
Amortization	261.0	104.3
Operating profit as a % of sales	12.4%	20.4%
Depreciation as a % of sales	1.7%	1.8%
Amortization as a % of sales	5.9%	2.9%

Components of Sales Growth

	2019 vs. 2018
Total revenue growth (GAAP)	21.1 %
Existing businesses (Non-GAAP)	(0.4)%
Acquisitions (Non-GAAP)	23.0 %
Currency exchange rates (Non-GAAP)	(1.5)%

2019 COMPARED TO 2018

Sales from existing businesses in the segment's Advanced Instrumentation & Solutions businesses declined slightly during 2019 as compared to 2018. Year-over-year sales from existing businesses of field solutions products and services were relatively flat during 2019 as compared to 2018, as growth in demand for portable gas detection and facilities maintenance offerings was mostly offset by declines in demand for electrical grid condition-based monitoring equipment and slowing demand from our industrial end markets in North America.

Year-over-year sales from existing businesses of product realization solutions declined at a low-single digit rate during 2019, as increased demand in our energetic materials business was more than offset by declines in demand for high-performance oscilloscopes and Keithley products.

Geographically, demand from existing businesses in Advanced Instrumentation & Solutions increased in North America and Japan, which was more than offset by declines in Europe.

Sales from existing businesses in the segment's Sensing Technologies businesses declined at a low-single digit rate during 2019 as compared to 2018, as increased year-over-year demand in the medical end market was more than offset by declines in the industrial end market. Geographically, increased year-over-year demand from existing businesses in China was more than offset by declines in Western Europe, Japan, and North America.

Sales from recently acquired businesses in our Professional Instrumentation segment, including ASP, contributed 23.0% to overall sales growth in 2019. ASP sales for the year, as compared to the comparable period prior to Fortive ownership, increased low-single digits which was attributable to growth in China and Japan.

Price increases are reflected as a component of the change in sales from existing businesses, and year-over-year price increases in the segment contributed 1.3% to sales growth during 2019 as compared to 2018.

Operating profit margin decreased 800 basis points during 2019 as compared to 2018. Year-over-year operating profit margin comparisons were unfavorably impacted by:

- Price increases and incremental year-over-year cost savings associated with productivity improvement initiatives, which were more than offset by an unfavorable sales mix and lower sales volumes from existing businesses, increased material costs associated primarily with inflationary pressures and recently enacted tariffs, and changes in currency exchange rates — unfavorable 85 basis points
- The incremental year-over-year net dilutive effect of acquired businesses, including amortization and acquisition-related fair value adjustments to deferred revenue and inventory — unfavorable 505 basis points
- The incremental year-over-year net dilutive effect of restructuring actions — unfavorable 85 basis points

- Acquisition-related transaction costs, as the costs related to our acquisition and integration of ASP in 2019 were greater than the costs associated with the ASP, Gordian, and Accruent acquisitions in 2018 — unfavorable 125 basis points

INDUSTRIAL TECHNOLOGIES

Our Industrial Technologies segment consists of our Transportation Technologies and Franchise Distribution businesses. Our Transportation Technologies business is a leading worldwide provider of solutions and services focused on fuel dispensing, remote fuel management, point-of-sale and payment systems, environmental compliance, vehicle tracking and fleet management, and traffic management. Our Franchise Distribution business manufactures and distributes professional tools and a full-line of wheel service equipment.

Industrial Technologies Selected Financial Data

(\$ in millions)	For the Year Ended December 31	
	2019	2018
Sales	\$ 2,892.2	\$ 2,797.6
Operating profit	553.9	525.6
Depreciation	55.1	57.9
Amortization	31.9	30.8
Operating profit as a % of sales	19.2%	18.8%
Depreciation as a % of sales	1.9%	2.1%
Amortization as a % of sales	1.1%	1.1%

Components of Sales Growth

	2019 vs. 2018
Total revenue growth (GAAP)	3.4 %
Existing businesses (Non-GAAP)	5.2 %
Acquisitions (Non-GAAP)	0.3 %
Currency exchange rates (Non-GAAP)	(2.1)%

2019 COMPARED TO 2018

Sales from existing businesses in the segment's Transportation Technologies businesses grew at a high-single digit rate during 2019 as compared to 2018, due primarily to broad-based demand for fuel management systems, specifically in North America and Western Europe, as well as increased demand for payment solutions. Results in North America were favorably impacted by the approaching deadline for the liability shift related to outdoor EMV global standards that is expected to occur in October 2020. Geographically, sales from existing businesses increased on a year-over-year basis in North America, Europe, and Latin America, which were partially offset by declines in India.

Sales from existing businesses in the segment's Franchise Distribution businesses grew at a low-single digit rate during 2019 as compared to 2018, largely driven by increased year-over-year demand for hardline and diagnostic tools and shop equipment, which was partially offset by a decline in demand for wheel service equipment.

Price increases are reflected as a component of the change in sales from existing businesses, and year-over-year price increases contributed 1.6% to sales growth in the segment during 2019 as compared to 2018.

Operating profit margin increased 40 basis points during 2019 as compared to 2018. Year-over-year operating profit margin comparisons were favorably impacted by:

- Higher 2019 sales volumes from existing businesses, price increases, and incremental year-over-year cost savings associated with productivity improvement initiatives, which were partially offset by increased material costs associated primarily with inflationary pressures and recently enacted tariffs and changes in currency exchange rates — favorable 195 basis points

Year-over-year operating profit margin comparisons were unfavorably impacted by:

- Transaction costs related to the planned separation of Fortive into two independent, publicly traded companies — unfavorable 120 basis points
- The incremental year-over-year net dilutive effect of restructuring actions — unfavorable 30 basis points
- The incremental year-over-year net dilutive effect of acquired businesses — unfavorable 5 basis points

COST OF SALES AND GROSS PROFIT

(\$ in millions)	For the Year Ended December 31	
	2019	2018
Sales	\$ 7,320.0	\$ 6,452.7
Cost of sales	(3,639.7)	(3,131.4)
Gross profit	3,680.3	3,321.3
Gross profit margin	50.3%	51.5%

The year-over-year increase in cost of sales during 2019 as compared to 2018 is due primarily to the incremental cost of sales from our recently acquired businesses, higher year-over-year sales volumes from existing businesses, increased material costs associated primarily with inflationary pressures and recently enacted tariffs, and restructuring charges, which were partially offset by incremental year-over-year cost savings associated with productivity improvement initiatives and material cost and supply chain improvement actions. Changes in currency exchange rates decreased costs of sales in 2019.

The year-over-year increase in gross profit during 2019 as compared to 2018 is due primarily to the favorable impact of pricing improvements from existing businesses, higher year-over-year sales volumes, including sales volumes from our recently acquired businesses, year-over-year cost savings associated with productivity improvement initiatives, and material cost and supply chain improvement actions.

The 120 basis point decrease in gross profit margin year-over-year is due primarily to unfavorable sales mix, acquisition-related fair value adjustments to deferred revenue and inventory, and increased material costs associated primarily with inflationary pressures and recently enacted tariffs, which more than offset the favorable impact of pricing improvements from existing businesses and year-over-year cost savings associated with productivity improvement initiatives and material cost and supply chain improvement actions.

OPERATING EXPENSES

(\$ in millions)	For the Year Ended December 31	
	2019	2018
Sales	\$ 7,320.0	\$ 6,452.7
Sales, general, and administrative (“SG&A”) expenses	2,219.5	1,728.6
Research and development (“R&D”) expenses	456.7	414.3
SG&A as a % of sales	30.3%	26.8%
R&D as a % of sales	6.2%	6.4%

SG&A expenses increased during 2019 as compared to 2018 due primarily to higher amortization and incremental expenses from our recently acquired businesses, costs associated with the ASP acquisition and the planned separation of Fortive into two independent, publicly traded companies, restructuring actions, and sales and marketing growth initiatives, partially offset by cost savings associated with productivity improvement initiatives and changes in foreign currency exchange rates. SG&A expenses as a percentage of sales increased 350 basis points in 2019 as compared to 2018.

R&D expenses (consisting principally of internal and contract engineering personnel costs) increased during 2019 as compared to 2018 due to incremental year-over-year investments in our product development initiatives and incremental expenses from recently acquired businesses. On a year-over-year basis, R&D expenses as a percentage of sales were relatively flat as the investments in our product development initiatives grew at rate largely consistent with sales.

INTEREST COSTS

For a discussion of our outstanding indebtedness, refer to Note 11 to the consolidated financial statements.

Interest expense, net of \$164 million was recorded during 2019 compared to \$97 million during 2018. Interest expense increased in 2019 due to higher average debt balances during the year. In the event that additional liquidity is required, particularly in connection with acquisitions, we may enter into additional borrowings under our commercial paper programs or credit facilities, and/or access the capital markets. If we enter into such additional financing transactions, the amount of annual interest expense will increase.

INCOME TAXES

General

Income tax expense and deferred tax assets and liabilities reflect management's assessment of future taxes expected to be paid on items reflected in our financial statements. We record the tax effect of discrete items and items that are reported net of their tax effects in the period in which they occur.

On December 22, 2017, the U.S. enacted comprehensive tax reform commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The U.S. Government continues to issue significant amounts of TCJA guidance and we expect that to continue for the foreseeable future. The Company is actively monitoring the impact of new Treasury Regulations. Any future adjustments resulting from retrospective guidance issued after December 31, 2019 will be considered as discrete income tax expense or benefit in the interim period the guidance is issued.

Our effective tax rate can be affected by, among others, changes in the mix of earnings in countries with differing statutory tax rates (including as a result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, accruals related to contingent tax liabilities and period-to-period changes in such accruals, the results of audits and examinations of previously filed tax returns (as discussed below), the expiration of statutes of limitations, the implementation of tax planning strategies, tax rulings, court decisions, settlements with tax authorities and changes in tax laws, including legislative policy changes that may result from the Organization for Economic Co-operation and Development's ("OECD") initiative on Base Erosion and Profit Shifting.

In 2019, the OECD issued significant global tax policy changes that include both expanded reporting as well as technical global tax policy changes. Many countries in which we operate have implemented tax law and administrative changes that align with many aspects of the OECD policy guidelines. We have taken comprehensive measures to address the requirements of these changes in global tax policy. In addition, the OECD has announced additional guidance that will be forthcoming in 2020 that could materially impact the law for transfer pricing and permanent establishment taxation. The Company will continue to monitor and evaluate the impact of these new OECD developments.

We conduct business globally, and, as part of our global business, we file numerous income tax returns in the U.S. federal, state and foreign jurisdictions. After the TCJA, our ability to obtain a tax benefit in certain countries that continue to have lower statutory tax rates than the United States is dependent on our levels of taxable income in such foreign countries. We believe that a change in the statutory tax rate of any individual foreign country would not have a material effect on our financial statements given the geographic dispersion of our taxable income.

The amount of income taxes we pay is subject to audit by federal, state and foreign tax authorities, which may result in proposed assessments. The Company is subject to examination in the United States, various states and foreign jurisdiction for the tax years 2010 to 2019. We review our global tax positions on a quarterly basis. Based on these reviews, the results of discussions and resolutions of matters with certain tax authorities, tax rulings and court decisions and the expiration of statutes of limitations reserves for contingent tax liabilities are accrued or adjusted as necessary. For a discussion of risks related to these and other tax matters, please refer to "Item 1A. Risk Factors."

We are routinely examined by various domestic and international taxing authorities. In connection with the Separation of Fortive from Danaher on July 1, 2016 (the "Separation"), we entered into the Agreements with Danaher, including a tax matters agreement. The tax matters agreement distinguishes between the treatment of tax matters for "Joint" filings compared to "separate" filings prior to the Separation. "Joint" filings involve legal entities, such as those in the United States, that include operations from both Danaher and the Company. By contrast, "separate" filings involve certain entities (primarily outside of the United States), that exclusively include either Danaher's or the Company's operations, respectively. In accordance with the tax matters agreement, the Company is liable for and has indemnified Danaher against all income tax liabilities involving "separate" filings for the periods prior to the Separation.

During 2018, the Company entered into a Tax Matters Agreement in connection with the split-off of the A&S Business. The Company remains liable for pre-disposition income tax liabilities related to the A&S Business.

Comparison of the Years Ended December 31, 2019 and 2018

Our effective tax rate for the years ended December 31, 2019 and 2018 was 17.0% and 14.8%, respectively.

Our effective tax rate for 2019 differs from the U.S. federal statutory rate of 21% due primarily to the effect of the TCJA U.S. federal permanent differences, the impact of credits and deductions provided by law, and earnings outside the United States that are indefinitely reinvested and taxed at rates lower than the U.S. federal statutory rate, offset by tax costs related to transactions completed in 2019 in anticipation of the separation into two independent, publicly traded companies.

Our effective tax rate for 2018 differs from the U.S. federal statutory rate of 21% due primarily to the effect of the TCJA U.S. federal permanent differences, the impact of credits and deductions provided by law, earnings outside the United States that are taxed at rates lower than the U.S. federal statutory rate, and the effect of adjustments to the provision estimates recorded in 2017 related to the TCJA as permitted under SAB 118.

COMPREHENSIVE INCOME

Comprehensive income decreased by \$2.0 billion in 2019 as compared to 2018, due to net earnings, including both continuing and discontinued operations, that were lower by \$2.2 billion which were partially offset by favorable changes in foreign currency translation adjustments of \$178 million. The decrease in net earnings from 2018 to 2019 was due to the recognition of a \$1.9 billion gain in 2018 related to the divestiture of the A&S Business. Unfavorable pension benefit adjustments in 2019 were \$20 million compared to favorable adjustments of \$4 million in 2018.

INFLATION

The effect of inflation on our revenues and net earnings was not significant in the years ended December 31, 2019 or 2018.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

We are exposed to market risk from changes in interest rates, foreign currency exchange rates, credit risk and commodity prices, each of which could impact our financial statements. We generally address our exposure to these risks through our normal operating and financing activities. In addition, our broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on our operating profit as a whole.

Interest Rate Risk

We manage interest cost using a mixture of fixed-rate and variable-rate debt. A change in interest rates on long-term debt impacts the fair value of our fixed-rate long-term debt but not our earnings or cash flows because the interest on such debt is fixed. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. As of December 31, 2019, an increase of 100 basis points in interest rates would have decreased the fair value of our fixed-rate long-term debt by approximately \$146 million.

As of December 31, 2019, our variable-rate debt obligations consisted primarily of U.S. dollar and Euro-denominated commercial paper and term loan borrowings (refer to Note 11 to the accompanying consolidated financial statements for information regarding our outstanding indebtedness as of December 31, 2019). As a result, our primary interest rate exposure results from changes in short-term interest rates. As these shorter duration obligations mature, we anticipate issuing additional short-term commercial paper obligations and term loans to refinance all or part of these borrowings. The annual effective rate associated with our outstanding U.S. dollar and Euro-denominated commercial paper, 2020 Term Loan, Delayed-draw Term Loan due 2020, and Yen term loan for the year ended December 31, 2019 was approximately 2.47%, (0.10)%, 2.51%, 2.95%, and 0.50%, respectively, and we recorded interest expense of \$48 million on these variable-rate obligations. A hypothetical 10 basis points increase in market interest rates as of December 31, 2019 on our variable-rate debt obligations as of December 31, 2019 would have increased our interest expense by \$3 million in 2019.

Foreign Currency Exchange Rate Risk

We face transactional exchange rate risk from transactions with customers in countries outside of the United States and from intercompany transactions between affiliates. Transactional exchange rate risk arises from the purchase and sale of goods and services in currencies other than our functional currency or the functional currency of an applicable subsidiary. We also face translational exchange rate risk related to the translation of financial statements of our foreign operations into U.S. dollars, our functional currency. Costs incurred and sales recorded by subsidiaries operating outside of the United States are translated into U.S. dollars using exchange rates effective during the respective period. As a result, we are exposed to movements in the exchange rates of various currencies against the U.S. dollar. The effect of a change in currency exchange rates on our net investment in international subsidiaries is reflected in the accumulated other comprehensive income (loss) component of equity. A 10% depreciation in major currencies relative to the U.S. dollar as of December 31, 2019 would have resulted in a reduction of stockholders' equity of approximately \$300 million.

Currency exchange rates negatively impacted 2019 reported sales by 1.8% as compared to 2018, as the U.S. dollar was, on average, stronger against most major currencies during 2019 as compared to exchange rate levels during 2018. If the exchange rates in effect as of December 31, 2019 were to prevail throughout 2020, currency exchange rates would positively impact 2020 estimated sales by approximately 0.2% relative to our performance in 2019. In general, additional weakening of the U.S. dollar against other major currencies would further positively impact our sales and results of operations on an overall basis and any strengthening of the U.S. dollar against other major currencies would adversely impact our sales and results of operations.

We have generally accepted the exposure to exchange rate movements without using derivative financial instruments to manage this risk. Both positive and negative movements in currency exchange rates against the U.S. dollar will therefore continue to affect the reported amount of sales, profit, and assets and liabilities in our consolidated financial statements.

Credit Risk

We are exposed to potential credit losses in the event of nonperformance by counterparties to our financial instruments. Financial instruments that potentially subject us to credit risk consist of cash and highly-liquid investment grade cash equivalents, and receivables from customers. We place cash and cash equivalents with various high-quality financial institutions throughout the world and exposure is limited at any one institution. Although we typically do not obtain collateral or other security to secure these obligations, we regularly monitor the third party depository institutions that hold our cash and cash equivalents. We emphasize safety and liquidity of principal over yield on those funds. In addition, concentrations of credit risk arising from receivables from customers are limited due to the diversity of our customers. Our businesses perform credit evaluations of their customers' financial conditions as appropriate and also obtain collateral or other security when appropriate.

Commodity Price Risk

For a discussion of risks relating to commodity prices, refer to "Item 1A. Risk Factors."

LIQUIDITY AND CAPITAL RESOURCES

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. We generate substantial cash from operating activities and believe that our operating cash flow and other sources of liquidity will be sufficient to allow us to continue to invest in existing businesses, consummate strategic acquisitions, make interest payments on our outstanding indebtedness, and manage our capital structure on a short and long-term basis. Refer also to Note 11 to our consolidated financial statements for additional information.

2019 Financing and Capital Transactions

During 2019, we completed the following financing and capital transactions:

- On February 22, 2019, we issued \$1.4 billion in aggregate principal amount of our 0.875% Convertible Senior Notes due 2022 (the "Convertible Notes"), including \$187.5 million in aggregate principal amount resulting from an exercise in full of an over-allotment option. The Convertible Notes were sold in a private placement to certain initial purchasers for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.

The Convertible Notes bear interest at a rate of 0.875% per year, payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2019. The Convertible Notes mature on February 15, 2022, unless earlier repurchased or converted in accordance with their terms prior to such date. The Convertible Notes are convertible into shares of our common stock at an initial conversion rate of 9.3777 shares per \$1,000 principal amount of Convertible Notes (which is equivalent to an initial conversion price of \$106.64 per share), subject to adjustment upon the occurrence of certain events. The initial conversion price represents a premium of approximately 32.5% to

the \$80.48 per share closing price of our common stock on February 19, 2019. Upon conversion of the Convertible Notes, holders will receive cash, shares of our common stock, or a combination thereof, at Fortive's election. Our current intention is to settle such conversions through cash up to the principal amount of the converted Convertible Notes and, if applicable, through shares of our common stock for conversion value, if any, in excess of the principal amount of the converted Convertible Notes.

Of the \$1.4 billion in proceeds received from the issuance of the Convertible Notes, \$1.3 billion was classified as debt and \$102.2 million was classified as equity, using an assumed effective interest rate of 3.38%. Debt issuance costs of \$24.3 million were proportionately allocated to debt and equity. We recognized \$45.4 million in interest expense during the year ended December 31, 2019, of which \$10.8 million related to the contractual coupon rate of 0.875% and \$6.6 million was attributable to the amortization of debt issuance costs. The discount at issuance was \$102.2 million and is being amortized over a three-year period. The unamortized discount at December 31, 2019 was \$74.2 million.

- On February 28, 2019, we prepaid the remaining \$400.0 million outstanding principal and accrued interest under the Delayed-Draw Term Loan due 2019. The prepayment fees associated with this payment were immaterial.
- On March 1, 2019, we entered into a credit facility agreement that provides for a 364-day delayed-draw term loan facility ("2020 Delayed-Draw Term Loan") in an aggregate principal amount of \$1.0 billion. On March 20, 2019, we drew down the full \$1.0 billion available under the 2020 Delayed-Draw Term Loan in order to fund, in part, the ASP acquisition. The 2020 Delayed-Draw Term Loan bears interest at a variable rate equal to the London inter-bank offered rate ("LIBOR") plus a ratings-based margin currently at 75 basis points. As of December 31, 2019, borrowings under this facility bore an interest rate of 2.49% per annum. The original maturity date of the 2020 Delayed-Draw Term Loan was February 28, 2020; however on February 25, 2020, we extended the maturity date to August 28, 2020. The 2020 Delayed-Draw Term Loan remains prepayable at our option. We are not permitted to re-borrow once the term loan is repaid. The terms and conditions, including covenants, applicable to the 2020 Delayed-Draw Term Loan are substantially similar to those applicable to the Revolving Credit Facility.
- On June 15, 2019 we repaid the remaining outstanding principal of \$55.3 million of our 1.80% senior unsecured notes.
- On October 25, 2019, we entered into a credit facility agreement that provides for a 364-day term loan facility ("2020 Term Loan") in an aggregate principal amount of \$300 million. On October 25, 2019, we drew down the full \$300 million available under the 2020 Term Loan in order to fund, in part, the Censis acquisition. We subsequently increased the size of this facility by \$200 million on November 8, 2019 and drew the additional amount on the same day resulting in an outstanding amount of \$500 million. The 2020 Term Loan bears interest at a variable rate equal to the LIBOR plus a ratings-based margin currently at 75 basis points. As of December 31, 2019, borrowings under this facility bore an interest rate of 2.49% per annum. The 2020 Term Loan is due on October 23, 2020 and prepayable at our option. We are not permitted to re-borrow once the term loan is repaid. The terms and conditions, including covenants, applicable to the 2020 Term Loan are substantially similar to those applicable to the Revolving Credit Facility. On February 26, 2020, we prepaid \$250 million of the 2020 Term Loan. The prepayment fees associated with this payment are expected to be immaterial.

2018 Financing and Capital Transactions

During 2018, we completed the following financing and capital transactions:

- On June 29, 2018, we issued 1,380,000 shares of 5.0% Mandatory Convertible Preferred Stock, Series A (“MCPS”) with a par value of \$0.01 per share and liquidation preference of \$1,000 per share, which included the exercise of an over-allotment option in full to purchase 180,000 shares. We received net \$1.34 billion in proceeds from the issuance of the MCPS, excluding \$43 million of issuance costs. We used the net proceeds from the issuance of MCPS to fund our acquisition activities and for general corporate purposes, including repayment of debt, working capital and capital expenditures. Each then outstanding share of MCPS will convert automatically on July 1, 2021 into between 10.9041 and 13.3575 common shares, subject to further anti-dilution adjustments.
- On July 20, 2018, we prepaid \$325 million of our outstanding U.S dollar variable interest rate term loan due in 2019, and on October 5, 2018, we prepaid the remaining \$175 million of the outstanding balance. The prepayment fees associated with these payments were immaterial.
- On August 22, 2018, we entered into a credit facility agreement that provides for a 364-day delayed-draw term loan facility (“Delayed-Draw Term Loan”) with an aggregate principal amount of \$1.75 billion. On September 5, 2018, we drew down the full \$1.75 billion available under the Delayed-Draw Term Loan in order to fund, in part, the Accruent Acquisition. The Delayed-Draw Term Loan bears interest at a variable rate equal to the LIBOR plus a ratings-based margin currently at 75 basis points. During 2019, the annual effective rate was approximately 3.24% per annum. The Delayed-Draw Term Loan is prepayable at our option, and we are not permitted to re-borrow once the term loan is repaid. On September 26, 2018 and November 21, 2018, we repaid \$400 million of and \$950 million of this loan, respectively.
- On October 1, 2018, in connection with the debt exchange in the split-off of the A&S Business, we retired \$244.7 million of our 1.80% senior unsecured notes due in 2019.
- On November 30, 2018 we entered into an amended and restated agreement (“the Credit Agreement”) extending the availability period of the Revolving Credit Facility to November 30, 2023 and increased the facility to \$2.0 billion. The Revolving Credit Facility is subject to a one year extension option at our request and with the consent of the lenders. The Credit Agreement also contains an option permitting us to request an increase in the amounts available under the Credit Agreement of up to an aggregate additional \$1.0 billion.

Overview of Cash Flows and Liquidity

Following is an overview of our cash flows and liquidity:

(\$ in millions)	Year Ended December 31,	
	2019	2018
Total operating cash provided by continuing operations	\$ 1,284.9	\$ 1,201.3
Cash paid for acquisitions, net of cash received	\$ (3,943.9)	\$ (2,815.1)
Payments for additions to property, plant and equipment	(112.5)	(112.3)
All other investing activities	1.8	(42.1)
Total investing cash used in continuing operations	\$ (4,054.6)	\$ (2,969.5)
Net proceeds from (repayments of) commercial paper borrowings	\$ 494.8	\$ (266.1)
Proceeds from borrowings (maturities greater than 90 days), net of \$24.3 million of issuance costs in 2019	2,913.2	1,750.0
Repayment of borrowings (maturities greater than 90 days)	(455.3)	(1,850.0)
Proceeds from issuance of mandatory convertible preferred stock, net of \$43.0 million of issuance costs	—	1,337.4
Payment of common stock cash dividend to shareholders	(93.8)	(96.6)
Payment of mandatory convertible preferred stock cash dividend to shareholders	(69.0)	(34.9)
All other financing activities	13.0	39.3
Total financing cash provided by continuing operations	\$ 2,802.9	\$ 879.1

Operating Activities

Continuing operations cash flows from operating activities can fluctuate significantly from period-to-period as working capital needs and the timing of payments for income taxes, restructuring activities, pension funding and other items impact reported cash flows.

Operating cash flows from continuing operations were approximately \$1.3 billion in 2019, an increase of \$84 million, or approximately 7%, as compared to 2018. This year-over-year change in operating cash flows from continuing operations was primarily attributable to the following factors:

- 2019 operating cash flows were impacted by lower net earnings from continuing operations as compared to 2018. Net earnings for 2019 were impacted by a year-over-year decrease in operating profits of \$174 million and a year-over-year increase in interest expense of \$67 million primarily associated with our financing activities, which was partially offset by a \$41 million non-cash gain on the combination of the Tektronix Video Business with Telestream. The year-over-year decrease in operating profit was attributable to an increase in depreciation and amortization expenses of \$165 million largely attributable to our recently acquired businesses. Depreciation and amortization are noncash expenses that decrease earnings without a corresponding impact to operating cash flows.
- The aggregate of accounts receivable, inventories, and trade accounts payable provided \$6 million of operating cash flows during 2019 compared to using \$103 million of cash during 2018. The amount of cash flow generated from or used by the aggregate of accounts receivable, inventories, and trade accounts payable depends upon how effectively we manage the cash conversion cycle, which effectively represents the number of days that elapse from the day we pay for the purchase of raw materials and components to the collection of cash from our customers and can be significantly impacted by the timing of collections and payments in a period.
- The aggregate of prepaid expenses and other assets and accrued expenses and other liabilities provided \$93 million of cash in 2019 as compared to providing \$66 million in 2018. The timing of cash tax payments and refunds drove the majority of this change.

Investing Activities

Cash flows relating to investing activities consist primarily of cash used for acquisitions and capital expenditures. Net cash used in investing activities from continuing operations was approximately \$4.1 billion during 2019 compared to approximately \$3.0 billion of net cash used in 2018. For a discussion of our acquisitions refer to “—Overview.”

Capital expenditures are made primarily for increasing capacity, replacing equipment, supporting product development initiatives, improving information technology systems, and purchase of equipment that is used in revenue arrangements with customers. Capital expenditures totaled \$113 million in 2019 and \$112 million in 2018. Excluding the impact of our pending disposition, we expect capital spending to be between approximately \$160 million and \$170 million in 2020, though actual expenditures will ultimately depend on business conditions.

Financing Activities and Indebtedness

Cash flows from financing activities consist primarily of cash flows associated with the issuance of equity, the issuance and repayments of debt and commercial paper, and payments of quarterly cash dividends to shareholders. Financing activities from continuing operations generated cash of \$2.8 billion in 2019 compared to generating \$879 million of cash in 2018. In 2019, we received proceeds from the issuance of our Convertible Notes of \$1.4 billion and received proceeds from the issuance of our 2020 Delayed-Draw Term Loan of \$1.0 billion, and our 2020 Term Loan of \$500 million, which was partially offset by the repayment of \$400 million of our 2019 Delayed-Draw Term Loan and \$55 million of our 1.80% senior unsecured notes. During the year ended December 31, 2019, we paid \$163 million of cash dividends to common shareholders and holders of our MCPS.

Refer to “—Liquidity and Capital Resources” section above for a description of our financing activities in 2019 and 2018.

We generally expect to satisfy any short-term liquidity needs that are not met through operating cash flows and available cash primarily through issuances of commercial paper under the Commercial Paper Programs. Credit support for the Commercial Paper Programs is provided by the Revolving Credit Facility. We classified our borrowings outstanding under the Commercial Paper Programs as long-term debt in the accompanying Consolidated Balance Sheet as of December 31, 2019, as we have the intent and ability, as supported by availability under the Revolving Credit Facility, to refinance these borrowings for at least one year from the balance sheet date. As commercial paper obligations mature, we may issue additional short-term commercial paper obligations to refinance all or part of these borrowings.

The carrying value of total debt outstanding as of December 31, 2019 was approximately \$6.3 billion. We had \$2.0 billion available under the Revolving Credit Facility as of December 31, 2019. Of this amount, approximately \$1.1 billion was being used to backstop outstanding U.S. and Euro commercial paper balances. Accordingly, we had the ability to incur an additional \$851 million of indebtedness under the Revolving Credit Facility as of December 31, 2019. Refer to Note 11 to the consolidated financial statements for information regarding our financing activities and indebtedness.

The availability of the Revolving Credit Facility as a standby liquidity facility to repay maturing commercial paper is an important factor in maintaining the existing credit ratings of the Commercial Paper Programs. We expect to limit any borrowings under the Revolving Credit Facility to amounts that would leave sufficient credit available under the facility to allow us to borrow, if needed, to repay all of the outstanding commercial paper as it matures.

As of December 31, 2019, commercial paper outstanding under the U.S. dollar-denominated commercial paper program had an annual effective rate of 2.14% and a weighted average remaining maturity of approximately 13 days. As of December 31, 2019, commercial paper outstanding under the Euro-denominated commercial paper program had an annual effective rate of (0.10)% and a weighted average remaining maturity of approximately 33 days.

In 2018, we received net proceeds from the issuance of commercial paper under the Commercial Paper Programs of \$266 million, received proceeds from borrowings of \$1.75 billion, repaid \$1.85 billion of borrowings, received proceeds from the issuance of convertible equity of \$1.3 billion, and paid \$132 million of cash dividends to shareholders.

Dividends

On November 7, 2019, we declared a regular quarterly dividend of \$0.07 per common share paid on December 27, 2019 to holders of record on November 29, 2019. In addition, Fortive announced that its Board of Directors declared a regular quarterly cash dividend of \$12.50 per share of its 5.00% Mandatory Convertible Preferred Stock, Series A, payable on January 2, 2020 to preferred stockholders of record on December 15, 2019. The dividend to preferred shareholders was paid on December 31, 2019.

Aggregate cash payments for the dividends paid to shareholders during the year ended December 31, 2019 were \$163 million and were recorded as dividends to shareholders in the Consolidated Statements of Changes in Equity and the Consolidated Statements of Cash Flows.

On January 28, 2020 we declared a regular quarterly cash dividend of \$0.07 per share payable on March 27, 2020 to common stockholders of record on February 28, 2020 and a regular quarterly cash dividend of \$12.50 per share on our MCPS payable on April 1, 2020 to preferred stockholders of record on March 15, 2020.

Cash and Cash Requirements

As of December 31, 2019, we held approximately \$1.2 billion of cash and cash equivalents that were invested in highly liquid investment-grade instruments with a maturity of 90 days or less with an annual effective rate of approximately 1.0%. Substantially all of the cash was held outside of the U.S.

We have cash requirements to support working capital needs, capital expenditures and acquisitions, pay interest and service debt, pay taxes and any related interest or penalties, fund our restructuring activities and pension plans as required, pay dividends to shareholders and support other business needs or objectives. With respect to our cash requirements, we generally intend to use available cash and internally generated funds to meet these cash requirements, but in the event that additional liquidity is required, particularly in connection with acquisitions, we may also borrow under our commercial paper programs or credit facilities or enter into new credit facilities and either borrow directly thereunder or use such credit facilities to backstop additional borrowing capacity under our commercial paper programs. We also may from time to time access the capital markets, including to take advantage of favorable interest rate environments or other market conditions.

Conversely, we have made an assertion regarding the amount of earnings that we do not intend to repatriate due to local working capital needs, local law restrictions, high foreign remittance costs, previous investments in physical assets and acquisitions, or future growth needs. The TCJA eliminated the U.S. tax cost for qualified repatriation beginning in 2018. Foreign cumulative earnings remain subject to foreign remittance taxes. As a result of the TCJA, during 2018, we repatriated an estimated \$275 million subject to no foreign remittance taxes. This excludes foreign earnings: 1) required as working capital for local operating needs, 2) subject to local law restrictions, 3) subject to high foreign remittance tax costs, 4) previously invested in physical assets or acquisitions, or 5) intended for future acquisitions/growth. For most of our foreign operations, we make an assertion regarding the amount of earnings in excess of intended repatriation that are expected to be held for indefinite reinvestment. No provisions for foreign remittance taxes have been made with respect to earnings that are planned to be reinvested indefinitely. The amount of foreign remittance taxes that may be applicable to such earnings is not readily determinable given local law restrictions that may apply to a portion of such earnings, unknown changes in foreign tax law that may occur during the applicable restriction periods caused by applicable local corporate law for cash repatriation, and the various tax planning alternatives we could employ if we repatriated these earnings.

As of December 31, 2019, we believe that we have sufficient liquidity to satisfy our cash needs, including our cash needs in the United States.

During 2019, we contributed \$11 million to our non-U.S. defined benefit pension plans. During 2020, our cash contribution requirements for our U.S. and non-U.S. defined benefit pension plans are expected to be approximately \$1 million and \$10 million, respectively. The ultimate amounts to be contributed depend upon, among other things, legal requirements, underlying asset returns, the plan's funded status, the anticipated tax deductibility of the contribution, local practices, market conditions, interest rates and other factors.

Contractual Obligations

The following table sets forth, by period due or year of expected expiration, as applicable, a summary of our contractual obligations as of December 31, 2019 under (1) long-term debt obligations, (2) leases, (3) purchase obligations and (4) other long-term liabilities reflected on our balance sheet under GAAP. Certain of our acquisitions may involve the potential payment of contingent consideration. The table below does not reflect any such obligations, as the timing and amounts of any such payments are uncertain. Refer to “—Off-Balance Sheet Arrangements” for a discussion of other contractual obligations that are not reflected in the table below.

(\$ in millions)	Amount of Commitment Expiration per Period				
	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Debt and leases:					
Long-term debt ^(a)	\$ 6,413.6	\$ 1,500.0	\$ 3,463.6	\$ —	\$ 1,450.0
Interest payments on long-term debt ^(b)	890.9	82.2	127.5	104.0	577.2
Operating lease obligations ^(c)	239.5	57.4	79.9	39.0	63.2
Other:					
Purchase obligations ^(d)	410.9	355.0	54.7	1.2	—
Other long-term liabilities reflected on the balance sheet under GAAP ^{(e)(f)}	1,584.2	—	131.0	117.9	1,335.3
Total	\$ 9,539.1	\$ 1,994.6	\$ 3,856.7	\$ 262.1	\$ 3,425.7

^(a) As described in Note 11 to the consolidated financial statements. Amounts do not include interest payments. Interest on long-term debt is reflected in a separate line in the table.

^(b) Interest payments on long-term debt are projected for future periods using the interest rates in effect as of December 31, 2019. Certain of these projected interest payments may differ in the future based on changes in market interest rates.

^(c) Includes future lease payments for operating leases having initial noncancelable lease terms in excess of one year.

^(d) Consist of agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction.

^(e) Primarily consist of obligations under product service and warranty policies and allowances, performance and operating cost guarantees, estimated environmental remediation costs, self-insurance and litigation claims, post-retirement benefits, pension benefit obligations, net tax liabilities, and deferred compensation obligations. The timing of cash flows associated with these obligations is based upon management’s estimates over the terms of these arrangements and is largely based upon historical experience.

^(f) Includes non-contractual obligations of \$238 million of noncurrent gross unrecognized tax benefits. However, the timing of these liabilities is uncertain, and therefore, they have been included in the “more than 5 years” column. Also includes our obligation under the TCJA for the transition tax on cumulative foreign earnings and profits, which we expect to pay over eight years. Refer to Note 14 to the consolidated financial statements for additional information on unrecognized tax benefits.

Off-Balance Sheet Arrangements

The following table sets forth, by period due or year of expected expiration, as applicable, a summary of our off-balance sheet commitments as of December 31, 2019:

(\$ in millions)	Amount of Commitment Expiration per Period				
	Total	Less Than One Year	1-3 Years	4-5 Years	More Than 5 Years
Guarantees	\$ 121.1	\$ 70.5	\$ 16.2	\$ 16.4	\$ 18.0

Guarantees consist primarily of outstanding standby letters of credit, bank guarantees and performance and bid bonds. These guarantees have been provided in connection with certain arrangements with vendors, customers, financing counterparties and governmental entities to secure our obligations and/or performance requirements related to specific transactions.

Other Off-Balance Sheet Arrangements

We have, from time to time, divested certain of our businesses and assets. In connection with these divestitures, we often provide representations, warranties and/or indemnities to cover various risks and unknown liabilities, such as claims for damages arising out of the use of products or relating to intellectual property matters, commercial disputes, environmental matters or tax matters. We have not included any such items in the contractual obligations table above because they relate to unknown conditions and we cannot reasonably estimate the potential liabilities from such matters, but we do not believe it is reasonably possible that any such liability will have a material effect on our financial statements. In addition, as a result of these divestitures, as well as restructuring activities, certain properties leased by us have been sublet to third parties. In the event any of these third parties vacate any of these premises, we would be legally obligated under master lease arrangements. We believe the financial risk of default by such sub-lessors is individually and in the aggregate not material to our financial statements.

In the normal course of business, we periodically enter into agreements that require us to indemnify customers, suppliers or other business partners for specific risks, such as claims for injury or property damage arising out of our products or services or claims alleging that our products, services or software infringe third party intellectual property. We have not included any such indemnification provisions in the contractual obligations table above. Historically, we have not experienced significant losses on these types of indemnification obligations.

Our Restated Certificate of Incorporation requires us to indemnify to the full extent authorized or permitted by law any person made, or threatened to be made a party to any action or proceeding by reason of his or her service as a director or officer of the Company, or by reason of serving at the request of the Company as a director or officer of any other entity, subject to limited exceptions. Our Amended and Restated Bylaws provide for similar indemnification rights. In addition, we have executed with each of our directors and executive officers an indemnification agreement which provides for substantially similar indemnification rights and under which we have agreed to pay expenses in advance of the final disposition of any such indemnifiable proceeding. While we maintain insurance for this type of liability, a significant deductible applies to this coverage and any such liability could exceed the amount of the insurance coverage.

Legal Proceedings

Please refer to Note 16 to the consolidated financial statements for information regarding legal proceedings and contingencies, and for a discussion of risks related to legal proceedings and contingencies, refer to “Item 1A. Risk Factors.”

CRITICAL ACCOUNTING ESTIMATES

Management’s discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience, the current economic environment and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates and judgments.

We believe the following accounting estimates are most critical to an understanding of our financial statements. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the estimate is made, and (2) material changes in the estimate are reasonably likely from period to period. For a detailed discussion on the application of these and other accounting estimates, refer to Note 2 to the consolidated financial statements.

Accounts Receivable: We maintain allowances for doubtful accounts to reflect probable credit losses inherent in our portfolio of receivables. Determination of the allowances requires us to exercise judgment about the timing, frequency and severity of credit losses that could materially affect the allowances for doubtful accounts and, therefore, net earnings. The allowances for doubtful accounts represent management’s best estimate of the credit losses expected from our trade accounts, contract and financing receivable portfolios. The level of the allowances is based on many quantitative and qualitative factors including historical loss experience by receivable type, portfolio duration, delinquency trends, economic conditions and credit risk quality. We regularly perform detailed reviews of our accounts receivable portfolio to determine if an impairment has occurred and to assess the adequacy of the allowances. If the financial condition of our customers were to deteriorate with a severity, frequency and/or timing different from our assumptions, additional allowances would be required and our financial statements would be adversely impacted.

Inventories: We record inventory at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We estimate the net realizable

value of our inventory based on assumptions of future demand and related pricing. Estimating the net realizable value of inventory is inherently uncertain because levels of demand, technological advances and pricing competition in many of our markets can fluctuate significantly from period to period due to circumstances beyond our control. If actual market conditions are less favorable than those we projected, we could be required to reduce the value of our inventory, which would adversely impact our financial statements. Refer to Note 5 to the consolidated financial statements.

Acquired Intangibles: Our business acquisitions typically result in the recognition of goodwill, in-process R&D and other intangible assets, which affect the amount of future period amortization expense and possible impairment charges that we may incur. Refer to Notes 2, 3 and 7 to the consolidated financial statements for a description of our policies relating to goodwill, acquired intangibles and acquisitions.

In performing our goodwill impairment testing, we estimate the fair value of our reporting units primarily using a market based approach. We estimate fair value based on multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA") determined by current trading market multiples of earnings for companies operating in businesses similar to each of our reporting units, in addition to recent market available sale transactions of comparable businesses. In evaluating the estimates derived by the market based approach, we make judgments about the relevance and reliability of the multiples by considering factors unique to our reporting units, including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data as well as judgments about the comparability of the market proxies selected. In certain circumstances we also evaluate other factors including results of the estimated fair value utilizing a discounted cash flow analysis (i.e., an income approach), market positions of the businesses, comparability of market sales transactions, and financial and operating performance in order to validate the results of the market approach. The discounted cash flow model requires judgmental assumptions about projected revenue growth, future operating margins, discount rates and terminal values. There are inherent uncertainties related to these assumptions and management's judgment in applying them to the analysis of goodwill impairment.

In 2019, we had twelve reporting units for goodwill impairment testing. Reporting units resulting from recent acquisitions generally present the highest risk of impairment. We believe the impairment risk associated with these reporting units generally decreases as we integrate these businesses and better position them for potential future earnings growth. The carrying value of the goodwill included in each individual reporting unit ranged from \$15 million to \$3.8 billion. Our annual goodwill impairment analysis in 2019 indicated that in all instances, the fair values of our reporting units exceeded their carrying values and consequently did not result in an impairment charge.

The excess of the estimated fair value over carrying value (expressed as a percentage of carrying value for the respective reporting unit) for each of our reporting units as of the annual testing date ranged from approximately 5% to approximately 1,300%. In order to evaluate the sensitivity of the fair value calculations used in the goodwill impairment test, we applied a hypothetical 10% decrease to the fair values of each reporting unit and compared those hypothetical values to the reporting unit carrying values. Based on this hypothetical 10% decrease, the excess of the estimated fair value over carrying value (expressed as a percentage of carrying value for the respective reporting unit) for each of our reporting units ranged from approximately -5% to approximately 1,200%. We evaluated other factors relating to the fair value of the reporting units, including, as applicable, results of the estimated fair value using an income approach, market positions of the businesses, comparability of market sales transactions and financial and operating performance, and concluded no impairment charges were required.

We review identified intangible assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires a comparison of the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. We also test intangible assets with indefinite lives at least annually for impairment. These analyses require management to make judgments and estimates about future revenues, expenses, market conditions and discount rates related to these assets.

If actual results are not consistent with management's estimates and assumptions, goodwill and other intangible assets may be overstated and a charge would need to be taken against net earnings which would adversely affect our financial statements.

Contingent Liabilities: As discussed in Note 16 to the accompanying consolidated financial statements, we are, from time to time, subject to a variety of litigation and similar contingent liabilities incidental to our business (or the business operations of previously owned entities). We recognize a liability for any contingency that is known or probable of occurrence and reasonably estimable. These assessments require judgments concerning matters such as litigation developments and outcomes, the anticipated outcome of negotiations, the number of future claims and the cost of both pending and future claims. In addition, because most contingencies are resolved over long periods of time, liabilities may change in the future due to various factors, including those discussed in Note 16 to the accompanying consolidated financial statements. If the reserves we established with respect to these contingent liabilities are inadequate, we would be required to incur an expense equal to the amount of the loss incurred in excess of the reserves, which would adversely affect our financial statements.

Revenue Recognition: We derive revenues from the sale of products and services. On January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded nearly all existing revenue recognition guidance. Refer to Note 13 to the consolidated financial statements for additional information on our adoption of this ASU.

If our judgments regarding revenue recognition prove incorrect, our reported revenues in particular periods may be adversely affected. Historically, our estimates of revenue have been materially correct.

Stock-Based Compensation: For a description of our stock-based compensation accounting practices, refer to Note 17 to our consolidated financial statements. Determining the appropriate fair value model and calculating the fair value of certain stock-based payment awards require subjective assumptions, including the expected life of the awards, stock price volatility and expected forfeiture rate. Given our limited trading history following the Separation, stock price volatility used to calculate the fair value of stock options in the post-Separation period was estimated based on an average historical stock price volatility of a group of peer companies. The assumptions used in calculating the fair value of stock-based payment awards represent our best estimates, but these estimates involve inherent uncertainties and the application of judgment. If actual results are not consistent with our assumptions and estimates, our equity-based compensation expense could be materially different in the future.

Pension and Other Post Employment Benefits: For a description of our pension accounting practices, refer to Note 12 to the accompanying consolidated financial statements. Certain of our U.S. and non-U.S. employees participate in noncontributory defined benefit pension plans. Calculations of the amount of pension costs and obligations depend on the assumptions used in the actuarial valuations, including assumptions regarding discount rates, expected return on plan assets, rates of salary increases, health care cost trend rates, mortality rates, and other factors. If the assumptions used in calculating pension and other post-retirement benefits costs and obligations are incorrect or if the factors underlying the assumptions change (as a result of differences in actual experience, changes in key economic indicators or other factors), our financial statements could be materially affected. A 50 basis point reduction in the discount rates used for the plans during 2019 would have increased the net obligation by \$30 million (\$25 million on an after-tax basis) from the amounts recorded in the financial statements as of December 31, 2019.

Our plan assets consist of various insurance contracts, equity and debt securities as determined by the administrator of each plan. The estimated long-term rate of return for the plans was determined on a plan by plan basis based on the nature of the plan assets and ranged from 1.50% to 6.0%. If the expected long-term rate of return on plan assets during 2019 was reduced by 50 basis points, pension expense in 2019 would have increased by \$1 million (\$1 million on an after-tax basis).

Income Taxes: For a description of our income tax accounting policies, refer to Note 2 and Note 14 to the consolidated financial statements.

In accordance with GAAP, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which the tax benefit has already been reflected on our Consolidated Statements of Earnings. Deferred tax liabilities generally represent items that have already been taken as a deduction on our tax return but have not yet been recognized as an expense in our Consolidated Statements of Earnings. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

Our deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. We evaluate the realizability of deferred income tax assets for each of the jurisdictions in which we operate. If we experience cumulative pretax income in a particular jurisdiction in the three-year period including the current and prior two years, we normally conclude that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments would lead management to conclude otherwise. However, if we experience cumulative pretax losses in a particular jurisdiction in the three-year period including the current and prior two years, we then consider a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in the particular country, and prudent and feasible tax planning strategies. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, we would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, we establish a valuation allowance.

We recognize tax benefits from uncertain tax positions only if, in our assessment, it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Judgment is required in evaluating tax positions and determining income tax provisions. We re-evaluate the technical merits of our tax positions and may recognize an uncertain tax benefit in certain circumstances, including when: (i) a tax audit is completed; (ii) applicable tax laws change, including a tax case ruling or legislative guidance; or (iii) the applicable statute of limitations expires. We recognize potential accrued interest and penalties with unrecognized tax positions in income tax expense.

In addition, we are routinely examined by various domestic and international taxing authorities. The amount of income taxes we pay is subject to audit by federal, state and foreign tax authorities, which may result in proposed assessments (see “-Results of Operations - Income Taxes” and Note 14 to the accompanying consolidated financial statements). We review our global tax positions on a quarterly basis. Based on these reviews, the results of discussions and resolutions of matters with certain tax authorities, tax rulings and court decisions and the expiration of statutes of limitations reserves for contingent tax liabilities are accrued or adjusted as necessary.

An increase in our 2019 effective tax rate of 1.0% would have resulted in an additional income tax provision for the fiscal year ended December 31, 2019 of \$9 million.

NEW ACCOUNTING STANDARDS

For a discussion of new accounting standards relevant to our businesses, refer to Note 2 to the accompanying consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is included under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Management on Fortive Corporation's Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework" (2013 framework). Based on this assessment, management concluded that, as of December 31, 2019, the Company's internal control over financial reporting is effective.

The Company completed the acquisitions of the Advanced Sterilization Products business ("ASP") on April 1, 2019, Intelix Technologies on June 27, 2019, Pruftechnik on July 5, 2019, and Censis Technologies on October 31, 2019, collectively the "Acquired Businesses." The Company has not yet fully incorporated the internal controls and procedures of the Acquired Businesses into the Company's internal control over financial reporting, and as such, management excluded the Acquired Businesses from its assessment of the effectiveness of the Company's internal control over financial reporting as of and for the year ended December 31, 2019. The Acquired Businesses constituted less than 25% of the Company's total assets as of December 31, 2019 and less than 10% of the Company's total revenues for the year ended December 31, 2019.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report dated February 27, 2020 appears on page 46 of this Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Fortive Corporation

Opinion on Internal Control over Financial Reporting

We have audited Fortive Corporation and subsidiaries' internal control over financial reporting as of December 31, 2019, 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). In our opinion, Fortive Corporation and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

As indicated in the accompanying Report of Management on Fortive Corporation's Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the Advanced Sterilization Products business ("ASP"), Intelix Technologies ("Intelix"), Pruftechnik, and Censis Technologies ("Censis") which are included in the 2019 consolidated financial statements of the Company. Collectively, ASP, Intelix, Pruftechnik and Censis constituted less than 25% of the Company's total assets as of December 31, 2019 and less than 10% of the Company's total revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of ASP, Intelix, Pruftechnik and Censis.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Fortive Corporation and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) and our report dated February 27, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 Report of Management on Fortive Corporation's 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (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.

/s/ Ernst & Young LLP
Seattle, Washington
February 27, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Fortive Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fortive Corporation and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, 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 February 27, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of acquired intangible assets

Description of the Matter

As more fully described in Note 3 to the consolidated financial statements, the Company completed several acquisitions during 2019 for net consideration of \$3.9 billion.

Auditing the accounting for the Company's 2019 acquisitions was complex and highly judgmental due to the significant estimation required in determining the fair value of customer relationships, trade names and technology acquired (collectively, "intangible assets"), which totaled \$1.7 billion in aggregate. In particular, the estimated fair values were sensitive to significant assumptions such as the projected financial information and discount rate used in the valuation models, which are affected by expectations about future market and economic conditions.

How We Addressed the Matter in Our Audit

We tested controls over the measurement of the intangible assets acquired, including management's review of the significant assumptions mentioned above and the completeness and accuracy of the data used in the measurements.

To test the measurement of the intangible assets, we read the related purchase agreements, evaluated, among other things, whether (1) the valuation methodologies used were appropriate, (2) the significant assumptions, including discount rates, revenue growth rates, and projected free cash flow, used in valuing these intangibles were reasonable, and (3) the underlying data used by the Company in its analyses was appropriate. Specifically, when evaluating the assumptions related to the projected free cash flow, we compared the assumptions to the past performance of the acquired entities, the Company's history related to similar acquisitions, and the Company's future plans for the acquired entities. We involved an internal specialist to assist in our completion of our audit procedures.

Accounting for unrecognized tax benefits

Description of the Matter

The Company operates in a complex, multinational tax environment, and its effective tax rate is affected by implementation of global tax planning strategies, including those related to business acquisition structuring. The Company's uncertain tax positions are subject to audit by taxing authorities in various jurisdictions, and the resolution of such audits may span multiple years. The Company uses significant judgment to (1) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (2) measure the amount of tax benefit that qualifies for recognition. As more fully described in Note 14 - Income Taxes, as of December 31, 2019, the Company's gross unrecognized tax benefits were \$214.9 million.

Auditing the recognition and measurement of tax positions, including those related to business acquisitions and restructuring, was challenging because the measurement of the tax position is complex, highly judgmental and based on interpretations of tax laws and legal rulings.

How We Addressed the Matter in Our Audit

We tested controls over the Company's process to assess the technical merits of tax positions, including management's process to measure the benefits of those tax positions.

In testing the measurement criteria, we involved our tax professionals to assess the technical merits of the Company's tax positions. This included assessing the Company's correspondence with relevant tax authorities as well as evaluating their third-party income tax opinions or memorandums and application of case law, rulings or other relevant tax authority obtained or considered by the Company. To support our evaluation, among other things, we separately interviewed certain key external tax advisers of the Company. We analyzed the Company's assumptions and data used to determine the amount of tax benefit to recognize and tested the accuracy of the calculations. We also evaluated the Company's income tax disclosures included in Note 14 to the consolidated financial statements in relation to these matters.

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We have served as the Company's auditor since 2015.

Seattle, Washington

February 27, 2020

FORTIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$ and shares in millions, except per share amounts)

	As of December 31	
	2019	2018
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,205.2	\$ 1,178.4
Accounts receivable less allowance for doubtful accounts of \$59.8 million and \$54.9 million at December 31, 2019 and December 31, 2018, respectively	1,384.5	1,195.1
Inventories	640.3	574.5
Prepaid expenses and other current assets	455.6	193.2
Current assets, discontinued operations	3.2	30.0
Total current assets	3,688.8	3,171.2
Property, plant and equipment, net	519.5	576.1
Operating lease right-of-use assets	206.8	—
Other assets	779.6	548.9
Goodwill	8,399.3	6,133.1
Other intangible assets, net	3,845.0	2,476.3
Total assets	\$ 17,439.0	\$ 12,905.6
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,500.0	\$ 455.6
Trade accounts payable	765.5	706.5
Current operating lease liabilities	54.9	—
Accrued expenses and other current liabilities	1,146.8	999.3
Current liabilities, discontinued operations	—	30.7
Total current liabilities	3,467.2	2,192.1
Operating lease liabilities	159.0	—
Other long-term liabilities	1,584.2	1,125.9
Long-term debt	4,828.4	2,974.7
Commitments and Contingencies		
Equity:		
Preferred stock: \$0.01 par value, 15.0 million shares authorized; 5.0% Mandatory convertible preferred stock, series A, 1.4 million shares designated, issued and outstanding at December 31, 2019 and December 31, 2018	—	—
Common stock: \$0.01 par value, 2.0 billion shares authorized; 336.9 and 335.1 million issued; 336.0 and 334.5 million outstanding at December 31, 2019 and December 31, 2018, respectively	3.4	3.4
Additional paid-in capital	3,311.1	3,126.0
Retained earnings	4,128.8	3,552.7
Accumulated other comprehensive income (loss)	(56.3)	(86.6)
Total Fortive stockholders' equity	7,387.0	6,595.5
Noncontrolling interests	13.2	17.4
Total stockholders' equity	7,400.2	6,612.9
Total liabilities and equity	\$ 17,439.0	\$ 12,905.6

See the accompanying Notes to the Consolidated Financial Statements.

FORTIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(\$ and shares in millions, except per share amounts)

	Year Ended December 31		
	2019	2018	2017
Sales of products	\$ 6,396.9	\$ 5,755.0	\$ 5,173.3
Sales of services	923.1	697.7	582.8
Total sales	7,320.0	6,452.7	5,756.1
Cost of product sales	(3,050.8)	(2,657.2)	(2,440.3)
Cost of service sales	(588.9)	(474.2)	(394.4)
Total cost of sales	(3,639.7)	(3,131.4)	(2,834.7)
Gross profit	3,680.3	3,321.3	2,921.4
Operating costs:			
Selling, general, and administrative expenses	(2,219.5)	(1,728.6)	(1,409.1)
Research and development expenses	(456.7)	(414.3)	(369.3)
Operating profit	1,004.1	1,178.4	1,143.0
Non-operating expenses, net:			
Gains from acquisition and combination of business	40.8	—	15.3
Interest expense, net	(164.2)	(97.0)	(88.7)
Other non-operating expenses, net	(6.2)	(3.0)	4.0
Earnings from continuing operations before income taxes	874.5	1,078.4	1,073.6
Income taxes	(149.1)	(160.1)	(189.3)
Net earnings from continuing operations	725.4	918.3	884.3
Earnings from discontinued operations, net of income taxes	13.5	1,995.5	160.2
Net earnings	738.9	2,913.8	1,044.5
Mandatory convertible preferred dividends	(69.0)	(34.9)	—
Net earnings attributable to common stockholders	\$ 669.9	\$ 2,878.9	\$ 1,044.5
Net earnings per common share from continuing operations:			
Basic	\$ 1.95	\$ 2.56	\$ 2.54
Diluted	\$ 1.93	\$ 2.52	\$ 2.51
Net earnings per common share from discontinued operations:			
Basic	\$ 0.04	\$ 5.78	\$ 0.46
Diluted	\$ 0.04	\$ 5.69	\$ 0.45
Net earnings per common share:			
Basic	\$ 1.99	\$ 8.33	\$ 3.01
Diluted	\$ 1.97	\$ 8.21	\$ 2.96
Average common stock and common equivalent shares outstanding:			
Basic	335.8	345.5	347.5
Diluted	340.0	350.7	352.6

The sum of net earnings per share amount may not add due to rounding.

See the accompanying Notes to the Consolidated Financial Statements.

FORTIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(\$ in millions)

	Year Ended December 31		
	2019	2018	2017
Net earnings	\$ 738.9	\$ 2,913.8	\$ 1,044.5
Other comprehensive income (loss), net of income taxes:			
Foreign currency translation adjustments	50.5	(127.3)	136.6
Pension adjustments	(20.2)	3.6	1.6
Total other comprehensive income (loss), net of income taxes	30.3	(123.7)	138.2
Comprehensive income	\$ 769.2	\$ 2,790.1	\$ 1,182.7

See the accompanying Notes to the Consolidated Financial Statements.

FORTIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(\$ and shares in millions)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
	Shares	Amount	Shares	Amount				
Balance, January 1, 2017	345.9	\$ 3.5	—	\$ —	\$ 2,427.2	\$ 403.0	\$ (145.8)	\$ 3.1
Net earnings for the period	—	—	—	—	—	1,044.5	—	—
Dividends to common shareholders	—	—	—	—	—	(97.2)	—	—
Non-cash adjustment to Net Former Parent investment	—	—	—	—	(50.2)	—	—	—
Other comprehensive income	—	—	—	—	—	—	138.2	—
Common stock-based award activity	1.9	—	—	—	67.1	—	—	—
Changes in noncontrolling interests	—	—	—	—	—	—	—	14.8
Balance, December 31, 2017	347.8	3.5	—	—	2,444.1	1,350.3	(7.6)	17.9
Adoption of accounting standards	—	—	—	—	—	(3.9)	—	—
Balance, January 1, 2018	347.8	3.5	—	—	2,444.1	1,346.4	(7.6)	17.9
Net earnings for the period	—	—	—	—	—	2,913.8	—	—
Dividends to common shareholders	—	—	—	—	—	(96.6)	—	—
Mandatory convertible preferred dividends	—	—	—	—	—	(34.9)	—	—
Non-cash adjustment to Net Former Parent investment	—	—	—	—	9.1	—	—	—
Other comprehensive loss	—	—	—	—	—	—	(123.7)	—
Common stock-based award activity	2.5	0.1	—	—	95.7	—	—	—
Issuance of mandatory convertible preferred stock	—	—	1.4	—	1,337.0	—	—	—
Split-off of A&S Business	(15.8)	(0.2)	—	—	(759.9)	(576.0)	44.7	—
Change in noncontrolling interests	—	—	—	—	—	—	—	(0.5)
Balance, December 31, 2018	334.5	3.4	1.4	—	3,126.0	3,552.7	(86.6)	17.4
Net earnings for the period	—	—	—	—	—	738.9	—	—
Dividends to common shareholders	—	—	—	—	—	(93.8)	—	—
Mandatory convertible preferred dividends	—	—	—	—	—	(69.0)	—	—
Other comprehensive income	—	—	—	—	—	—	30.3	—
Common stock-based award activity	1.5	—	—	—	88.8	—	—	—
Issuance of 0.875% senior convertible notes due 2022	—	—	—	—	100.4	—	—	—
Change in noncontrolling interests	—	—	—	—	—	—	—	(4.2)
Net transfers to Former Parent	—	—	—	—	(4.1)	—	—	—
Balance, December 31, 2019	336.0	\$ 3.4	1.4	\$ —	\$ 3,311.1	\$ 4,128.8	\$ (56.3)	\$ 13.2

See the accompanying Notes to the Consolidated Financial Statements.

FORTIVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in millions)

	Year Ended December 31		
	2019	2018	2017
Cash flows from operating activities:			
Net earnings from continuing operations	\$ 725.4	\$ 918.3	\$ 884.3
Noncash items:			
Depreciation	133.3	125.7	93.3
Amortization	292.9	135.1	65.0
Stock-based compensation expense	61.4	50.8	44.2
Gains from acquisition and combination of business	(40.8)	—	(15.3)
Impairment charges on intangible assets	—	1.1	2.3
Gain on sale of property	—	—	(8.0)
Change in deferred income taxes	13.9	7.7	(61.0)
Change in accounts receivable, net	(166.9)	(105.9)	(55.4)
Change in inventories	118.8	(73.4)	17.5
Change in trade accounts payable	53.7	76.2	17.7
Change in prepaid expenses and other assets	(163.7)	63.3	(100.5)
Change in accrued expenses and other liabilities	256.9	2.4	136.0
Total operating cash provided by continuing operations	1,284.9	1,201.3	1,020.1
Total operating cash provided by (used in) discontinued operations	(13.5)	143.1	156.3
Net cash provided by operating activities	1,271.4	1,344.4	1,176.4
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash received	(3,943.9)	(2,815.1)	(1,556.6)
Payments for additions to property, plant and equipment	(112.5)	(112.3)	(111.1)
Proceeds from sale of property	—	—	21.5
All other investing activities	1.8	(42.1)	1.5
Total investing cash used in continuing operations	(4,054.6)	(2,969.5)	(1,644.7)
Total investing cash provided by (used in) discontinued operations	—	1,002.9	(25.0)
Net cash used in investing activities	(4,054.6)	(1,966.6)	(1,669.7)
Cash flows from financing activities:			
Net proceeds from (repayments of) commercial paper borrowings	494.8	(266.1)	556.2
Proceeds from borrowings (maturities greater than 90 days), net of \$24.3 million of issuance costs in 2019	2,913.2	1,750.0	125.9
Repayment of borrowings (maturities greater than 90 days)	(455.3)	(1,850.0)	—
Proceeds from issuance of mandatory convertible preferred stock, net of \$43.0 million of issuance costs	—	1,337.4	—
Payment of common stock cash dividend to shareholders	(93.8)	(96.6)	(97.2)
Payment of mandatory convertible preferred stock cash dividend to shareholders	(69.0)	(34.9)	—
All other financing activities	13.0	39.3	13.4
Total financing cash provided by continuing operations	2,802.9	879.1	598.3
Total financing cash provided by discontinued operations	—	—	1.4
Net cash provided by financing activities	2,802.9	879.1	599.7
Effect of exchange rate changes on cash and equivalents	7.1	(40.6)	52.5
Net change in cash and equivalents	26.8	216.3	158.9
Beginning balance of cash and equivalents	\$ 1,178.4	\$ 962.1	\$ 803.2
Ending balance of cash and equivalents	\$ 1,205.2	\$ 1,178.4	\$ 962.1

See the accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BUSINESS OVERVIEW AND BASIS FOR PRESENTATION

Fortive Corporation (“Fortive” or “the Company”) is a diversified industrial technology growth company encompassing businesses that are recognized leaders in attractive markets. Our well-known brands hold leading positions in field solutions, product realization, sensing technologies, health, transportation technologies, and franchise distribution. Our businesses design, develop, service, manufacture and market professional and engineered products, software and services for a variety of end markets, building upon leading brand names, innovative technology and significant market positions. Fortive separated from Danaher Corporation (“Danaher”) on July 2, 2016 (the “Separation”).

Our research and development, manufacturing, sales, distribution, service and administrative facilities are located in 50 countries.

We report our results in two separate business segments consisting of Professional Instrumentation and Industrial Technologies. Our Professional Instrumentation segment consists of our Advanced Instrumentation & Solutions, Sensing Technologies, and Advanced Sterilization Products and Censis businesses.

The Advanced Instrumentation & Solutions businesses provide product realization and field solutions services and products. Our field solutions products include a variety of compact professional test tools, thermal imaging and calibration equipment for electrical, industrial, electronic and calibration applications, online condition-based monitoring equipment; portable gas detection equipment, consumables, and software as a service (SaaS) offerings including safety/user behavior, asset management, environmental, health and safety (EHS) quality management and compliance monitoring; subscription-based technical, analytical, and compliance services to determine occupational and environmental radiation exposure; and software, data analytics and services for critical infrastructure in utility, industrial, energy, construction, facilities management, public safety, mining, EHS, and healthcare applications. Our product realization services and products help developers and engineers across the end-to-end product creation cycle from concepts to finished products. Our test, measurement and monitoring products are used in the design, manufacturing and development of electronics, industrial, and other advanced technologies.

Our Sensing Technologies business offers devices that sense, monitor and control operational or manufacturing variables, such as temperature, pressure, level, flow, turbidity, and conductivity. Users of these products span a wide variety of industrial and manufacturing markets, including medical equipment, food and beverage, marine, industrial, off-highway vehicles, building automation, and semiconductors.

Our Advanced Sterilization Products (“ASP”) business provides critical sterilization and disinfection solutions, including low-temperature hydrogen peroxide sterilization solutions for temperature-sensitive equipment, to advance infection prevention and patient safety in healthcare facilities. Our Censis business provides subscription-based surgical inventory management systems to healthcare facilities to facilitate inventory management and regulatory compliance.

Our Industrial Technologies segment consists of our Transportation Technologies and Franchise Distribution businesses. Our Transportation Technologies business is a leading worldwide provider of solutions and services focused on fuel dispensing, remote fuel management, point-of-sale and payment systems, environmental compliance, vehicle tracking and fleet management, and traffic management. Our Franchise Distribution business manufactures and distributes professional tools and a full-line of wheel service equipment.

On September 4, 2019, we announced our intention to separate into two independent, publicly traded companies subject to the satisfaction of certain conditions, including obtaining final approval from our Board of Directors. The separation will create (i) an industrial technology company, retaining the Fortive name, with a differentiated portfolio of growth-oriented businesses focused on connected workflow solutions that incorporate advanced sensors, instrumentation, software, data and analytics, and (ii) a global industrial company (“Vontier”) consisting of our Transportation Technologies and Franchise Distribution platforms with a focus on growth opportunities in the rapidly evolving transportation and mobility markets. The separation is expected to be structured in a tax-efficient manner and completed in the second half of 2020. All assets, liabilities, revenues and expenses of the businesses comprising Vontier are included in continuing operations in the accompanying consolidated financial statements.

On October 1, 2018, we completed the split-off of businesses in our automation and specialty platform (excluding our Hengstler and Dynapar businesses) (the “A&S Business”) to our shareholders who elected to exchange shares of our common stock for all issued and outstanding shares of Stevens Holding Company, Inc. (“Stevens”), the entity we incorporated to hold the A&S Business. The split-off was immediately followed by the merger of Stevens with a subsidiary of Altra Industrial Motion Corp. (“Altra”). Our shareholders who participated in the exchange offer tendered approximately 15.8 million shares of our common stock in exchange for 35.0 million shares of Altra. Concurrently with such split-off, we sold directly to Altra the

remainder of the assets and liabilities of A&S Business that were not otherwise contributed to Stevens. Accordingly, the A&S Business has been reported as discontinued operations in our Consolidated Statements of Earnings, and the related assets and liabilities have been presented as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented. Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to continuing operations. Refer to Note 4 for additional information on discontinued operations.

The accompanying consolidated financial statements present our historical financial position, results of operations, changes in equity and cash flows in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain reclassifications have been made to prior year financial information to conform to the current period presentation. Unless otherwise indicated, all amounts in the notes to the consolidated financial statements refer to continuing operations.

The financial statements include our accounts and the accounts of our subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. The consolidated financial statements also reflect the impact of noncontrolling interests. Noncontrolling interests do not have a significant impact on our consolidated results of operations; therefore, net earnings and net earnings per share attributable to noncontrolling interests are not presented separately in our Consolidated Statements of Earnings. Net earnings attributable to noncontrolling interests have been reflected in Selling, general, and administrative expenses and were insignificant in all periods presented.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base these estimates on historical experience, the current economic environment and on various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates.

Cash and Equivalents—We consider all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Accounts Receivable and Allowances for Doubtful Accounts—Accounts receivable is reported in the accompanying Consolidated Balance Sheets adjusted for any write-offs and net of allowances for doubtful accounts. The allowances for doubtful accounts represent management’s best estimate of the credit losses expected from our trade accounts, contract and financing receivable portfolios. Determination of the allowances requires management to exercise judgment about the timing, frequency and severity of credit losses that could materially affect the provision for credit losses and, therefore, net earnings. We regularly perform detailed reviews of our portfolios to determine if an impairment has occurred and evaluate the collectability of receivables based on a combination of financial and qualitative factors that may affect customers’ ability to pay, including customers’ financial condition, collateral, debt-servicing ability, past payment experience and credit bureau information. In circumstances where we are aware of a specific customer’s inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the recognized receivable to the amount reasonably expected to be collected. Additions to the allowances for doubtful accounts are charged to current period earnings, amounts determined to be uncollectible are charged directly against the allowances, while amounts recovered on previously written-off accounts increase the allowances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional reserves would be required. We do not believe that accounts receivable represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographical areas. We recorded \$64 million, \$49 million and \$38 million of expense associated with doubtful accounts for the years ended December 31, 2019, 2018, and 2017, respectively.

Included in other assets on the Consolidated Balance Sheets as of December 31, 2019 and 2018 are \$278 million and \$263 million of net aggregate financing receivables, respectively. Financing receivables are evaluated for impairment collectively in broad groupings that represent homogeneous portfolios based on the underlying nature and risks.

Inventory Valuation—Inventories include the costs of material, labor and overhead. Domestic inventories are stated at the lower of cost or net realizable value primarily using the first-in, first-out (“FIFO”) method with certain businesses applying the last-in, first-out method (“LIFO”) to value inventory. Inventories held outside the United States are stated at the lower of cost or net realizable value primarily using the FIFO method.

Property, Plant and Equipment—Property, plant and equipment are carried at cost. The provision for depreciation has been computed principally by the straight-line method based on the estimated useful lives of the depreciable assets as follows:

Category	Useful Life
Buildings	30 years
Leased assets and leasehold improvements	Amortized over the lesser of the economic life of the asset or the term of the lease
Machinery and equipment	3 – 10 years

Estimated useful lives are periodically reviewed and, when appropriate, changes to estimates are made prospectively. Amortization of capital lease assets is included in depreciation expense as a component of Selling, general, and administrative expenses in the Consolidated Statements of Earnings.

Equity Method Investments—Investments and ownership interests are accounted for under equity method accounting if we have the ability to exercise significant influence, but don't have a controlling financial interest. We record our interest in the net earnings of our equity method investees within Other non-operating expenses, net in the Consolidated Statements of Earnings. We record our interest in the net earnings of our equity method investments based on the most recently available financial statements of the investees.

The carrying amount of the investment in equity interests is adjusted to reflect our interest in net earnings and dividends received. We review the investments for impairment whenever factors indicate that the carrying amount of the investment might not be recoverable. In such a case, the decrease in value is recognized in the period the impairment occurs in the Consolidated Statement of Earnings.

Other Assets—Other assets principally include noncurrent financing receivables, contract assets, deferred tax assets, and other investments.

Fair Value of Financial Instruments—Our financial instruments consist primarily of accounts receivable and obligations under trade accounts payable and short and long-term debt. Due to their short-term nature, the carrying values for accounts receivable, trade accounts payable, and short-term debt approximate fair value. Refer to Note 8 for the fair values of our other obligations.

Goodwill and Other Intangible Assets—Goodwill and other intangible assets result from our acquisition of existing businesses. In accordance with accounting standards related to business combinations, goodwill and indefinite-lived intangible assets are not amortized; however, certain definite-lived identifiable intangible assets, primarily customer relationships and acquired technology, are amortized over their estimated useful lives. In-process research and development ("IPR&D") is initially capitalized at fair value and when the IPR&D project is complete, the asset is considered a finite-lived intangible asset and amortized over its estimated useful life. If an IPR&D project is abandoned, an impairment loss equal to the value of the intangible asset is recorded in the period of abandonment. We review identified intangible assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. We also test intangible assets with indefinite lives and goodwill at least annually for impairment. Refer to Note 3 and Note 7 for additional information about our goodwill and other intangible assets.

Revenue Recognition—As described above, we derive revenues primarily from the sale of Professional Instrumentation and Industrial Technologies products and services. Revenue is recognized when control of promised products or services is transferred to customers in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services.

Product Sales include revenues from the sale of products and equipment, which includes our software as a service product offerings and equipment rentals.

Service Sales include revenues from extended warranties, post-contract customer support, maintenance contracts or services, contract labor to perform ongoing service at a customer location, and services related to previously sold products.

For revenue related to a product or service to qualify for recognition, we must have an enforceable contract with a customer that defines the goods or services to be transferred and the payment terms related to those goods or services. Further, collection of substantially all consideration for the goods or services transferred must be probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a combination of financial and qualitative factors, including the customer's financial condition, collateral, debt-servicing ability, past payment experience, and credit bureau information.

Customer allowances and rebates, consisting primarily of volume discounts and other short-term incentive programs, are considered in determining the transaction price for the contract; these allowances and rebates are reflected as a reduction in the

contract transaction price. Significant judgment is exercised in determining product returns, customer allowances, and rebates, and are estimated based on historical experience and known trends.

Most of our sales contracts contain standard terms and conditions. We evaluate contracts to identify distinct goods and services promised in the contract (performance obligations). Sometimes this evaluation involves judgment to determine whether the goods or services are highly dependent on or highly interrelated with one another, or whether such goods or services significantly modify or customize one another. Certain customer arrangements include multiple performance obligations, typically hardware, installation, training, consulting, services and/or post contract support (“PCS”). Generally, these elements are delivered within the same reporting period, except PCS or other services. We allocate the contract transaction price to each performance obligation using the observable price that the good or service sells for separately in similar circumstances and to similar customers, and/or a residual approach when the observable selling price of a good or service is not known and is either highly variable or uncertain. Allocating the transaction price to each performance obligation sometimes requires significant judgment.

Our principal terms of sale are FOB Shipping Point, or equivalent, and, as such, we primarily record revenue upon shipment as we have transferred control to the customer at that point and our performance obligations are satisfied. We evaluate contracts with delivery terms other than FOB Shipping Point and recognize revenue when we have transferred control and satisfied our performance obligations. If any significant obligation to the customer with respect to a sales transaction remains to be fulfilled following shipment (typically installation, other services noted above, or acceptance by the customer), revenue recognition is deferred until such obligations have been fulfilled. Further, revenue related to separately priced extended warranty and product maintenance agreements is deferred when appropriate and recognized as revenue over the term of the agreement.

Shipping and Handling—Shipping and handling costs are included as a component of Cost of sales in the Consolidated Statements of Earnings. Revenue derived from shipping and handling costs billed to customers is included in Sales in the Consolidated Statements of Earnings.

Advertising—Advertising costs are expensed as incurred.

Research and Development—We conduct research and development activities for the purpose of developing new products, enhancing the functionality, effectiveness, ease of use, and reliability of our existing products and expanding the applications for which uses of our products are appropriate. Research and development costs are expensed as incurred.

Restructuring—We periodically initiate restructuring activities to appropriately position our cost base relative to prevailing economic conditions and associated customer demand, as well as in connection with certain acquisitions. Costs associated with restructuring actions can include one-time termination benefits and related charges in addition to facility closure, contract termination and other related activities. We record the cost of the restructuring activities when the associated liability is incurred. Refer to Note 15 for additional information.

Foreign Currency Translation and Transactions—Exchange rate adjustments resulting from foreign currency transactions are recognized in Net earnings, whereas effects resulting from the translation of financial statements are reflected as a component of Accumulated other comprehensive income (loss) within Stockholders’ equity. Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than U.S. dollars are translated into U.S. dollars using year end exchange rates and income statement accounts are translated at weighted average exchange rates. Net foreign currency transaction gains or losses were not material in any of the years presented.

Accounting for Stock-Based Compensation—We account for stock-based compensation by measuring the cost of employee services received in exchange for all equity awards granted, including stock options, restricted stock units (“RSUs”), and performance stock units (“PSUs”), based on the fair value of the award as of the grant date. Equity-based compensation expense is recognized net of an estimated forfeiture rate on a straight-line basis over the requisite service period of the award, except that in the case of RSUs, compensation expense is recognized using an accelerated attribution method. Refer to Note 17 for additional information on the stock-based compensation plans.

Income Taxes—In accordance with GAAP, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which the tax benefit has already been reflected on our Consolidated Statements of Earnings. Deferred tax liabilities generally represent items that have already been taken as a deduction on our tax return but have not yet been recognized as an expense in our Consolidated Statements of Earnings. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

Our deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. We evaluate the realizability of deferred income tax assets for each of the jurisdictions in which we operate. If we experience cumulative pretax income in a particular jurisdiction in the three-year period including the current and prior two years, we normally conclude that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments would lead management to conclude otherwise. However, if we experience cumulative pretax losses in a particular jurisdiction in the three-year period including the current and prior two years, we then consider a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in the particular country, and prudent and feasible tax planning strategies. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, we would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, we establish a valuation allowance.

We recognize tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Judgment is required in evaluating tax positions and determining income tax provisions. We reevaluate the technical merits of our tax positions and may recognize an uncertain tax benefit in certain circumstances, including when: (1) a tax audit is completed; (2) applicable tax laws change, including a tax case ruling or legislative guidance; or (3) the applicable statute of limitations expires. We recognize potential accrued interest and penalties associated with unrecognized tax positions in income tax expense. Refer to Note 14 for additional information.

Accumulated Other Comprehensive Income (Loss)—Foreign currency translation adjustments are generally not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. We have designated our Euro-denominated commercial paper and ¥13.8 billion senior unsecured term facility loan as net investment hedges of our investment in certain foreign operations. Accordingly, foreign currency transaction gains or losses on the debt are deferred in the foreign currency translation component of Accumulated other comprehensive income (loss) (“AOCI”) as an offset to the foreign currency translation adjustments on our investments in foreign subsidiaries. We recognized gains of \$5.7 million and \$9.4 million for the years ended December 31, 2019 and December 31, 2018, respectively, and losses of \$18.8 million for the year ended December 31, 2017 in Other comprehensive income (loss) related to the net investment hedges. Any amounts deferred in AOCI will remain until the hedged investment is sold or substantially liquidated. The Company recorded no ineffectiveness from its net investment hedges during the years ended December 31, 2019, 2018, and 2017.

The changes in AOCI by component are summarized below (\$ in millions):

	Foreign currency translation adjustments	Pension & post- retirement plan benefit adjustments ^(b)	Total
Balance, January 1, 2017	\$ (72.6)	\$ (73.2)	\$ (145.8)
Other comprehensive income (loss) before reclassifications:			
Increase (decrease)	136.6	(3.5)	133.1
Income tax impact	—	0.9	0.9
Other comprehensive income (loss) before reclassifications, net of income taxes	136.6	(2.6)	134.0
Amounts reclassified from accumulated other comprehensive income (loss):			
Increase	—	5.5 ^(a)	5.5
Income tax impact	—	(1.3)	(1.3)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes:	—	4.2	4.2
Net current period other comprehensive income (loss):	136.6	1.6	138.2
Balance, December 31, 2017	\$ 64.0	\$ (71.6)	\$ (7.6)
Other comprehensive income (loss) before reclassifications:			
Increase (decrease)	(127.3)	0.3	(127.0)
Income tax impact	—	(0.2)	(0.2)
Other comprehensive income (loss) before reclassifications, net of income taxes	(127.3)	0.1	(127.2)
Amounts reclassified from accumulated other comprehensive income (loss):			
Increase	—	4.3 ^(a)	4.3
Income tax impact	—	(0.8)	(0.8)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	3.5	3.5
Net current period other comprehensive income (loss)	(127.3)	3.6	(123.7)
Divestiture of A&S Business	34.0	10.7	44.7
Balance, December 31, 2018	\$ (29.3)	\$ (57.3)	\$ (86.6)
Other comprehensive income (loss) before reclassifications:			
Increase (decrease)	50.5	(29.8)	20.7
Income tax impact	—	7.3	7.3
Other comprehensive income (loss) before reclassifications, net of income taxes	50.5	(22.5)	28.0
Amounts reclassified from accumulated other comprehensive income (loss):			
Increase	—	3.1 ^(a)	3.1
Income tax impact	—	(0.8)	(0.8)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes:	—	2.3	2.3
Net current period other comprehensive income (loss)	50.5	(20.2)	30.3
Balance, December 31, 2019	\$ 21.2	\$ (77.5)	\$ (56.3)

^(a) This component of AOCI is included in the computation of net periodic pension cost (refer to Note 12 for additional details) and also includes activity related to the divestiture of the A&S Business.

^(b) Includes balances relating to employee defined benefit plans, supplemental executive retirement plans, and other postretirement employee benefit plans.

Pension—We measure our pension assets and obligations to determine the funded status as of December 31st each year, and recognize an asset for an overfunded status or a liability for an underfunded status in our Consolidated Balance Sheets. Changes in the funded status of the pension plans are recognized in the year in which the changes occur and are reported in Other comprehensive income (loss). Refer to Note 12 for additional information on our pension plans including a discussion of actuarial assumptions, our policy for recognizing associated gains and losses, and the method used to estimate service and interest cost components.

New Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends the impairment model by requiring entities to use a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. This standard was effective for us beginning January 1, 2020. Upon adoption of this standard, we expect to record an adjustment to beginning retained earnings that largely represents expected losses on our trade accounts receivables, financing receivables, and unbilled receivables in contract assets that have not aged to a date that could indicate an incurred loss. We do not expect this standard to have material impacts on our future results of operations.

NOTE 3. ACQUISITIONS

We continually evaluate potential mergers, acquisitions and divestitures that align with our strategy and expedite the evolution of our portfolio of businesses into new and attractive areas. We have completed a number of acquisitions that have been accounted for as purchases of businesses and resulted in the recognition of goodwill in our financial statements. This goodwill arises because the purchase price for each acquired business reflects a number of factors including the complimentary fit, acceleration of our strategy and synergies the business brings with respect to our existing operations, the future earnings and cash flow potential of the business, the potential to add other strategically complimentary acquisitions to the acquired business, the scarce or unique nature of the business in its markets, competition to acquire the business, the valuation of similar businesses in the marketplace (as reflected in a multiple of revenues, earnings, or cash flows), and the avoidance of the time and costs which would be required (and the associated risks that would be encountered) to enhance our existing offerings to key target markets and develop new and profitable businesses.

We make an initial allocation of the purchase price at the date of acquisition based on our understanding of the fair value of the acquired assets and assumed liabilities. We obtain this information during due diligence and through other sources. In the months after closing, as we obtain additional information about these assets and liabilities, including through tangible and intangible asset appraisals, and learn more about the newly acquired business, we are able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. We are in the process of obtaining valuations of certain acquired assets and evaluating the tax impact of certain acquisitions. We make appropriate adjustments to purchase price allocations prior to completion of the applicable measurement period, as required.

The following describes our acquisition activity for the years ended December 31, 2019, 2018, and 2017.

Completed Acquisitions in 2019

Advanced Sterilization Products

On April 1, 2019 (the “Principal Closing Date”), we acquired the Advanced Sterilization Products business (“ASP”) of Johnson & Johnson, a New Jersey corporation (“Johnson & Johnson”) for an aggregate purchase price of \$2.7 billion (the “Transaction”), subject to certain post-closing adjustments set forth in a Stock and Asset Purchase Agreement, dated effective as of June 6, 2018, between the Company and Ethicon, Inc., a New Jersey corporation (“Ethicon”) and a wholly-owned subsidiary of Johnson & Johnson. ASP engages in the research, development, manufacture, marketing, distribution, and sale of low-temperature terminal sterilization and high-level disinfection products. ASP generated annual revenues of approximately \$800 million in 2018.

On the Principal Closing Date, we paid \$2.7 billion in cash and obtained the transferred assets and assumed liabilities in 20 countries (“Principal Countries”), general patent and trademark assignments, and all transferred equity interests in ASP. ASP has operations in an additional 39 countries (“Non-Principal Countries”). The transferred assets and liabilities associated with these operations close when requirements of country-specific agreements or regulatory approvals are satisfied.

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The \$2.7 billion purchase price was paid in exchange for ASP's businesses in both Principal and Non-Principal Countries. As of December 31, 2019, we have closed 20 Principal Countries and four Non-Principal Countries that, in aggregate, accounted for approximately 98% of the preliminary valuation of ASP. The remaining Non-Principal Countries represent approximately 2% of the preliminary valuation of ASP, or \$50 million, which is included as a prepaid asset in Other assets in the Consolidated Balance Sheet. As each Non-Principal Country closes, we will reduce the prepaid asset and record the fair value of the assets acquired and liabilities assumed. All of the provisional goodwill associated with the Transaction is included in goodwill at December 31, 2019; the majority of the provisional goodwill is tax deductible.

In addition, the Company entered into a transition services agreement with Johnson & Johnson for certain administrative and operational services, and distribution agreements in the Non-Principal Countries that have not been closed. Under the distribution agreements, ASP will sell finished goods to Ethicon at prices agreed by the parties. ASP will recognize these sales as revenue when the conditions for revenue recognition are met. Following the sale of finished goods by ASP, Ethicon obtains title of the finished goods, has full authority to sell and market the finished goods to end customers as it sees fit, and retains any revenue and profit from sale.

Revenue and operating loss attributable to ASP for the year ended December 31, 2019 were \$525 million and \$111 million, respectively, and are included in our Professional Instrumentation segment beginning April 1, 2019. Operating loss includes amortization of intangible assets, acquisition-related fair value adjustments, and post-close transaction and integration costs associated with the Transaction of \$230 million during the year ended December 31, 2019. We incurred approximately \$86 million of pretax transaction and integration related costs recorded in Selling, general, and administrative expenses during the year ended December 31, 2019 which were primarily for banking fees, legal fees, and amounts paid to other third-party advisers. During the year ended December 31, 2018, we incurred \$42 million of pretax transaction and integration costs related to the ASP Transaction.

The following table summarizes the provisional fair value estimates of the assets acquired and liabilities assumed of Principal and Non-Principal Countries that have been transferred to ASP as of December 31, 2019; we did not acquire accounts receivable or accounts payable from Johnson & Johnson (\$ in millions):

	Advanced Sterilization Products
Inventories	\$ 173.8
Property, plant and equipment	45.7
Goodwill	1,420.3
Other intangible assets, primarily customer relationships, trade names and technology	1,120.0
Other assets and liabilities, net	(73.4)
Total consideration allocated to closed Principal and Non-Principal Countries	2,686.4
Prepaid acquisition asset related to remaining Non-Principal Countries	50.1
Net cash consideration	\$ 2,736.5

Other Acquisitions and Investments

In addition to the acquisition of ASP, during 2019, we acquired four businesses including Intelx Technologies, Pruftechnik, and Censis Technologies, for total consideration of \$1.2 billion in cash, net of cash acquired. The businesses acquired complement existing units of our Professional Instrumentation segment. We preliminarily recorded an aggregate of \$773 million of goodwill related to these acquisitions. Approximately \$21 million of goodwill associated with these acquisitions is tax deductible. Additionally, we made an additional equity investment of \$4 million during 2019.

The aggregate annual sales of these businesses in 2018 were approximately \$191 million. We incurred approximately \$17 million of pretax transaction-related costs recorded in Selling, general, and administrative expenses for the year ended December 31, 2019, which were primarily for banking fees, legal fees, and amounts paid to other third-party advisers. The revenue and operating loss from these acquisitions included in our results were approximately \$76 million and \$53 million, respectively, during the year ended December 31, 2019.

The following summarizes the estimated fair values of the assets acquired and liabilities assumed as of December 31, 2019 for ASP in 2019, and all of the other 2019 acquisitions as a group (\$ in millions):

	ASP	Other	Total
Accounts receivable	\$ —	\$ 46.4	\$ 46.4
Inventories	173.8	16.1	189.9
Property, plant and equipment	45.7	10.7	56.4
Goodwill	1,420.3	772.6	2,192.9
Other intangible assets, primarily customer relationships, trade names and technology	1,120.0	531.8	1,651.8
Other assets and liabilities, net	(73.4)	(170.2)	(243.6)
Prepaid acquisition asset related to Non-Principal Countries	50.1	—	50.1
Net cash consideration	<u>\$ 2,736.5</u>	<u>\$ 1,207.4</u>	<u>\$ 3,943.9</u>

Completed Acquisitions in 2018

Accruent

On September 6, 2018, we acquired Athena SuperHoldCo, Inc., including Accruent, LLC (“Accruent”), a privately-held, leading provider of facilities asset management software, for a total purchase price of approximately \$2.0 billion net of acquired cash (the “Accruent Acquisition”). Accruent is a recognized leader in the facilities asset management industry, combining deep domain and industry capabilities with an integrated, cloud-based framework that provides insights spanning the full lifecycle of real estate, facilities and asset management. Accruent serves over 10,000 global customers, and helps assure clients fulfill the mission of their organization by extending the lifecycle of assets, monitoring full compliance, and reducing safety risks. Accruent is headquartered in Austin, Texas, and is included in our Professional Instrumentation Segment. Accruent generated annual revenues of approximately \$200 million in 2017. We financed the Accruent Acquisition with available cash and proceeds from our financing activities. We recorded \$1.2 billion of goodwill related to the Accruent Acquisition which is not tax deductible.

Gordian

On July 27, 2018, we acquired TGG Ultimate Holdings, Inc. and its subsidiaries, including The Gordian Group, Inc. (“Gordian”), a privately-held, leading provider of construction cost data, software, and service, for a total purchase price of \$778 million net of cash acquired (the “Gordian Acquisition”). Gordian’s comprehensive offerings serve the entire building lifecycle and provide workflow solutions designed to optimize every stage of an asset owner’s construction and maintenance needs, including connecting the owner and contractors in the same exchange and providing access to cost and facility metrics databases via a subscription-based model. Gordian is headquartered in Greenville, South Carolina, and is included in our Professional Instrumentation segment. Gordian generated annual revenues of approximately \$110 million in 2017. We financed the Gordian Acquisition with available cash. We recorded \$435 million of goodwill related to the Gordian Acquisition which is not tax deductible.

Revenue and operating losses attributable to these acquisitions were \$115 million and \$51 million for the year ended December 31, 2018, respectively.

Other Acquisitions

In addition to the acquisitions of Accruent and Gordian, during 2018, we acquired two businesses for total consideration of \$44 million in cash, net of cash acquired. The businesses acquired complement existing units of both our segments. The aggregate annual sales of these businesses at the time of their respective acquisitions, in each case based on the acquired company’s revenues for its last completed fiscal year prior to the acquisition, were approximately \$35 million. We recorded \$31 million of goodwill related to these acquisitions.

We recorded certain adjustments during 2019 to the preliminary purchase price allocation of acquisitions that closed during 2018 that resulted in a net increase of \$75 million to goodwill.

Completed Acquisitions in 2017

During 2017, we acquired three businesses for total consideration of \$1.6 billion in cash, net of cash acquired. The businesses acquired complement existing units of both our segments. The aggregate annual sales of these businesses at the time of their respective acquisitions, in each case based on the acquired company’s revenues for its last completed fiscal year prior to the acquisition, were approximately \$389 million. We recorded \$1.0 billion of goodwill related to these acquisitions.

Acquisitions Summary

The following summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for all acquisitions consummated during the years ended December 31 (\$ in millions):

	2019	2018	2017
Accounts receivable	\$ 46.4	\$ 86.7	\$ 103.7
Inventories	189.9	3.9	37.3
Property, plant and equipment	56.4	7.1	137.1
Goodwill	2,192.9	1,601.2	1,035.2
Other intangible assets, primarily customer relationships, trade names and technology	1,651.8	1,345.8	587.8
Trade accounts payable	—	(9.9)	(18.7)
Other assets and liabilities, net	(243.6)	(219.7)	(289.0)
Previously held investment	—	—	(36.8)
Prepaid acquisition asset related to Non-Principal Countries	50.1	—	—
Net cash consideration	<u>\$ 3,943.9</u>	<u>\$ 2,815.1</u>	<u>\$ 1,556.6</u>

We incurred approximately \$102 million of pretax transaction-related costs related to the five acquisitions in 2019, approximately \$25 million of pretax transaction-related costs related to the four acquisitions in 2018, and approximately \$19 million of pretax transaction-related costs in 2017, which were primarily for banking fees, legal fees, amounts paid to other third-party advisers, and other change in control costs. Transaction-related costs are recorded in Selling, general, and administrative expenses in the Consolidated Statements of Earnings.

Pro Forma Financial Information (Unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the 2019 and 2018 acquisitions as if they had occurred as of January 1, 2018. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time (\$ in millions except per share amounts):

	2019	2018
Sales	\$ 7,659.9	\$ 7,625.3
Net earnings from continuing operations	\$ 805.0	\$ 898.7
Diluted net earnings per share from continuing operations	\$ 2.37	\$ 2.56

NOTE 4. DISCONTINUED OPERATIONS AND DISPOSITIONS

Divestiture of A&S Business

On March 7, 2018, we entered into a definitive agreement to combine four of our operating companies from our Automation & Specialty platform (the “A&S Business”) with Altra Industrial Motion Corp. (“Altra”) in a tax-efficient Reverse Morris Trust transaction. The A&S Business includes the market-leading brands of Kollmorgen, Thomson, Portescap and Jacobs Vehicle Systems that were previously reported within our Industrial Technologies segment. On October 1, 2018, we completed the split-off of the A&S Business. The total consideration received was \$2.7 billion and consisted of (i) \$1.3 billion through a fully-subscribed exchange offer, in which we accepted and subsequently retired 15,824,931 shares of our own common stock from our stockholders in exchange for the 35,000,000 shares of common stock of Stevens Holding Company, Inc.; (ii) \$1.0 billion in cash paid to us for the direct sales of certain assets and liabilities of the A&S Business; (iii) \$250 million as part of a non-cash debt-for-debt exchange that reduced outstanding indebtedness of Fortive, which was inclusive of accrued interest and related fees; and (iv) \$150 million in cash paid to us by Stevens Holding Company, Inc. as a dividend. We recognized an after-tax gain on the transaction of \$1.9 billion.

The accounting requirements for reporting the disposition of the A&S Business as a discontinued operation were met when the separation and merger were completed. Accordingly, the accompanying consolidated financial statements for all periods presented reflect this business as discontinued operations.

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We incurred approximately \$77 million of pretax transaction-related costs associated with the divestiture during the year ended December 31, 2018, which was primarily for professional fees. These amounts are recorded in the Gain (loss) on disposition of discontinued operations before income taxes component of Earnings from discontinued operations, net of income taxes.

We are providing certain support services under transition services agreements, and the impact of these services on our consolidated financial statements was immaterial.

The key components of income from discontinued operations for the years ended December 31 were as follows (\$ in millions):

	2019	2018	2017
Sales	\$ 6.1	\$ 750.5	\$ 900.0
Cost of sales	(6.2)	(438.9)	(522.9)
Selling, general, and administrative expenses	—	(92.3)	(124.5)
Research and development expenses	—	(26.9)	(36.7)
Gain (loss) on disposition of discontinued operations before income taxes	(2.1)	1,909.9	—
Interest expense and other	—	(4.6)	(5.3)
Earnings (loss) before income taxes	(2.2)	2,097.7	210.6
Income taxes	15.7	(102.2)	(50.4)
Earnings from discontinued operations, net of income taxes	\$ 13.5	\$ 1,995.5	\$ 160.2

Interest expense related to the debt retired as part of the debt-for-debt exchange was allocated to discontinued operations for all periods presented.

The following table summarizes the major classes of assets and liabilities of discontinued operations that were included in the Company's accompanying Consolidated Balance Sheets as of December 31 (\$ in millions):

	2019	2018
ASSETS		
Accounts receivable, net	\$ —	\$ 4.2
Inventories	—	4.4
Other current assets	3.2	21.4
Total current assets, discontinued operations	3.2	30.0
Total assets, discontinued operations	\$ 3.2	\$ 30.0
LIABILITIES		
Current liabilities:		
Trade accounts payable	\$ —	\$ 9.2
Accrued expenses and other current liabilities	—	21.5
Total current liabilities, discontinued operations	—	30.7
Total liabilities, discontinued operations	\$ —	\$ 30.7

Combination of the Tektronix Video Business with Telestream

On July 20, 2019, we completed the combination of the Tektronix Video test and monitoring equipment business ("Tektronix Video Business") with Telestream, LLC (the "Combined Business"), a portfolio company of Genstar Capital LLC. We recognized a pretax gain of \$41 million upon the combination, and hold a 33% equity stake in the Combined Business. This transaction did not meet the criteria for discontinued operations reporting, and therefore the operating results of the Tektronix Video Business prior to the combination with Telestream are included in continuing operations for all periods presented. At December 31, 2019, the carrying amount of the investment in the Combined Business, included in other assets in the accompanying Consolidated Balance Sheet, was \$82 million. For the year ended December 31, 2019, the loss from our equity investment in the Combined Business recorded in Other non-operating expenses, net in the accompanying Consolidated Statements of Earnings was \$4 million.

NOTE 5. INVENTORIES

The classes of inventory as of December 31 are summarized as follows (\$ in millions):

	2019	2018
Finished goods	\$ 285.6	\$ 219.5
Work in process	100.4	103.1
Raw materials	254.3	251.9
Total	<u>\$ 640.3</u>	<u>\$ 574.5</u>

As of December 31, 2019 and 2018, the difference between inventories valued at LIFO and the value of that same inventory if the FIFO method had been used was not significant. The liquidation of LIFO inventory did not have a significant impact on our results of operations in any period presented.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

The classes of property, plant and equipment as of December 31 are summarized as follows (\$ in millions):

	2019	2018
Land and improvements	\$ 63.4	\$ 63.1
Buildings and leasehold improvements	363.8	343.6
Machinery and equipment	931.0	1,059.2
Gross property, plant and equipment	1,358.2	1,465.9
Less: accumulated depreciation	(838.7)	(889.8)
Property, plant and equipment, net	<u>\$ 519.5</u>	<u>\$ 576.1</u>

No interest was capitalized related to capitalized expenditures in any period.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

As discussed in Note 3, goodwill arises from the purchase price for acquired businesses exceeding the fair value of tangible and intangible assets acquired less assumed liabilities. We assess the goodwill of each of our reporting units for impairment at least annually as of the first day of the fourth quarter and as “triggering” events occur that indicate that it is more likely than not that an impairment exists. We elected to bypass the optional qualitative goodwill assessment allowed by applicable accounting standards and performed a quantitative impairment test for all reporting units as this was determined to be the most effective method to assess impairment across a large spectrum of reporting units.

We estimate the fair value of our reporting units primarily using a market approach, based on multiples of earnings before interest, taxes, depreciation and amortization (“EBITDA”) determined by current trading market multiples of earnings for companies operating in businesses similar to each of our reporting units, in addition to recent market available sale transactions of comparable businesses. In certain circumstances we also evaluate other factors including results of the estimated fair value utilizing a discounted cash flow analysis (i.e., an income approach), market positions of the businesses, comparability of market sales transactions, and financial and operating performance in order to validate the results of the market approach. If the estimated fair value of the reporting unit is less than its carrying value, we will impair the goodwill for the amount of the carrying value in excess of the fair value.

In 2019, we had twelve reporting units for goodwill impairment testing. The carrying value of the goodwill included in each individual reporting unit ranges from \$15 million to approximately \$3.8 billion. No goodwill impairment charges were recorded for the years ended December 31, 2019, 2018, and 2017, and no “triggering” events have occurred subsequent to the performance of the 2019 annual impairment test. The factors used by management in its impairment analysis are inherently subject to uncertainty. If actual results are not consistent with management’s estimates and assumptions, goodwill and other intangible assets may be overstated and a charge would need to be taken against net earnings.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which aims to simplify the subsequent measurement of goodwill by removing Step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new standard, an impairment loss will be recognized in the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. We adopted this standard on September 28, 2019 (the date of our annual goodwill impairment testing)

with no impact to our financial statements for the year ended December 31, 2019. The adoption of this standard will only impact future goodwill impairment calculations, as applicable.

The following is a rollforward of our goodwill by segment (\$ in millions):

	Professional Instrumentation	Industrial Technologies	Total
Balance, January 1, 2018	\$ 3,331.0	\$ 1,229.3	\$ 4,560.3
Attributable to 2018 acquisitions	1,571.8	29.4	1,601.2
Foreign currency translation & other	(8.2)	(20.2)	(28.4)
Balance, December 31, 2018	4,894.6	1,238.5	6,133.1
Attributable to adjustments to preliminary purchase price allocations for acquisitions completed in 2018	75.9	(1.2)	74.7
Attributable to 2019 acquisitions	2,192.9	—	2,192.9
Attributable to the Tektronix Video Business Combination	(40.2)	—	(40.2)
Foreign currency translation & other	3.1	35.7	38.8
Balance, December 31, 2019	<u>\$ 7,126.3</u>	<u>\$ 1,273.0</u>	<u>\$ 8,399.3</u>

Finite-lived intangible assets are amortized over the shorter of their legal or estimated useful lives. The following summarizes the gross carrying value and accumulated amortization for each major category of intangible asset as of December 31 (\$ in millions):

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangibles:				
Patents and technology	\$ 1,041.4	\$ (357.0)	\$ 614.0	\$ (280.8)
Customer relationships and other intangibles	3,206.8	(792.5)	2,204.2	(589.9)
Trademarks and trade names	18.0	(0.2)	—	—
Total finite-lived intangibles	4,266.2	(1,149.7)	2,818.2	(870.7)
Indefinite-lived intangibles:				
Trademarks and trade names	728.5	—	528.8	—
Total intangibles	<u>\$ 4,994.7</u>	<u>\$ (1,149.7)</u>	<u>\$ 3,347.0</u>	<u>\$ (870.7)</u>

During 2019 we acquired finite-lived intangible assets, consisting primarily of customer relationships and developed technology, with a weighted average life of 11 years. During 2018, we acquired finite-lived intangible assets, consisting primarily of customer relationships and developed technology, with a weighted average life of 12 years. Refer to Note 3 for additional information on the intangible assets acquired.

Total intangible amortization expense in 2019, 2018, and 2017 was \$293 million, \$135 million and \$65 million, respectively. Based on the intangible assets recorded as of December 31, 2019, amortization expense is estimated to be \$336 million during 2020, \$330 million during 2021, \$315 million during 2022, \$308 million during 2023, and \$306 million during 2024.

NOTE 8. FAIR VALUE MEASUREMENTS

Accounting standards define fair value based on an exit price model, establish a framework for measuring fair value for assets and liabilities required to be carried at fair value, and provide for certain disclosures related to the valuation methods used within the valuation hierarchy as established within the accounting standards. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, or other observable characteristics for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from, or corroborated by, observable market data through correlation.

- Level 3 inputs are unobservable inputs based on our assumptions. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Financial liabilities that are measured at fair value on a recurring basis were as follows (\$ in millions):

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2019				
Deferred compensation liabilities	\$ —	\$ 29.6	\$ —	\$ 29.6
December 31, 2018				
Deferred compensation liabilities	\$ —	\$ 20.8	\$ —	\$ 20.8

Certain management employees participate in our nonqualified deferred compensation programs that permit such employees to defer a portion of their compensation, on a pretax basis, until after their termination of employment. All amounts deferred under such plans are unfunded, unsecured obligations and are presented as a component of our compensation and other post-retirement benefits accruals included in Other long-term liabilities in the accompanying Consolidated Balance Sheets. Participants may choose among alternative earning rates for the amounts they defer, which are primarily based on investment options within our defined contribution plans for the benefit of U.S. employees ("401(k) Programs") (except that the earnings rates for amounts contributed unilaterally by the Company are entirely based on changes in the value of Fortive common stock). Changes in the deferred compensation liability under these programs are recognized based on changes in the fair value of the participants' accounts, which are based on the applicable earnings rates.

Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments as of December 31 were as follows (\$ in millions):

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current portion of long-term debt	\$ 1,500.0	\$ 1,500.0	\$ 455.6	\$ 454.9
Long-term debt, net of current maturities	\$ 4,828.4	\$ 4,992.3	\$ 2,974.7	\$ 2,867.5

As of December 31, 2019 and December 31, 2018, long-term borrowings were categorized as Level 1.

The fair value of the current portion of long-term debt and long-term debt were based on quoted market prices. The difference between the fair value and the carrying amounts of long-term borrowings may be attributable to changes in market interest rates and/or our credit ratings subsequent to the incurrence of the borrowing. The fair value of cash and equivalents, accounts receivable, net and trade accounts payable approximates their carrying amount due to the short-term maturities of these instruments.

Refer to Note 12 for information related to the fair value of the Company-sponsored defined benefit pension plan assets.

NOTE 9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of December 31 were as follows (\$ in millions):

	2019		2018	
	Current	Long-term	Current	Long-term
Compensation and other post-retirement benefits	\$ 264.5	\$ 68.0	\$ 244.5	\$ 60.2
Claims, including self-insurance and litigation	15.2	75.3	10.9	74.4
Pension obligations	4.0	146.6	7.8	117.6
Taxes, income and other	99.0	1,124.7	174.7	728.3
Deferred revenue	410.1	99.2	288.1	92.6
Sales and product allowances	52.2	—	49.8	—
Warranty	77.1	1.9	71.0	1.1
Other	224.7	68.5	152.5	51.7
Total	\$ 1,146.8	\$ 1,584.2	\$ 999.3	\$ 1,125.9

Warranty

We generally accrue estimated warranty costs at the time of sale. In general, manufactured products are warranted against defects in material and workmanship when properly used for their intended purpose, installed correctly, and appropriately maintained. Warranty period terms depend on the nature of the product and range from 90 days up to the life of the product. The amount of the accrued warranty liability is determined based on historical information such as past experience, product failure rates or number of units repaired, estimated cost of material and labor, and in certain instances estimated property damage. The accrued warranty liability is reviewed on a quarterly basis and may be adjusted as additional information regarding expected warranty costs becomes known.

The following is a rollforward of our accrued warranty liability (\$ in millions):

Balance, January 1, 2018	\$ 65.3
Accruals for warranties issued during the year	81.7
Settlements made	(77.2)
Additions due to acquisitions	2.6
Effect of foreign currency translation	(0.3)
Balance, December 31, 2018	\$ 72.1
Accruals for warranties issued during the year	80.3
Settlements made	(75.9)
Additions due to acquisitions	2.0
Effect of foreign currency translation	0.5
Balance, December 31, 2019	\$ 79.0

NOTE 10. LEASES

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use (“ROU”) asset and a lease liability for all leases with terms greater than 12 months and also requires disclosures by lessees and lessors about the amount, timing, and uncertainty of cash flows arising from leases. Subsequent to the issuance of Topic 842, the FASB clarified the guidance through several ASUs; hereinafter the collection of lease guidance is referred to as “ASC 842.”

On January 1, 2019, we adopted ASC 842 using the modified retrospective transition method for all lease arrangements at the beginning of the period of adoption. Results for reporting periods beginning January 1, 2019 are presented under ASC 842, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 840, *Leases*. The adoption of ASC 842 resulted in an increase in both assets and liabilities of \$175 million as of January 1, 2019. These balances are presented in the following three line items on the Consolidated Balance Sheet: (i) operating lease right-of-use assets; (ii) current operating lease liabilities; and (iii) operating lease liabilities. The adoption of ASC 842 had no impact on our retained earnings, consolidated net earnings, or cash flows.

We elected the package of practical expedients for leases that commenced before the effective date of ASC 842 whereby we elected to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. In addition, we have lease agreements with lease and non-lease components, and we have elected the practical expedient for all underlying asset classes to account for the lease and related non-lease component(s) as a single lease component. Our finance lease and lessor arrangements are immaterial.

We determine if an arrangement is or contains a lease at inception. We have operating leases for office space, warehouses, distribution centers, research and development facilities, manufacturing locations, and certain equipment, primarily automobiles. Many leases include optional terms, ranging from options to terminate the lease in less than one year to options to extend the lease for up to 15 years. We include optional periods as part of the lease term when we determine that we are reasonably certain to exercise the renewal option or we will not early terminate the lease. Reasonably certain is based on economic incentives and represents a high threshold.

Operating lease cost was \$80 million, \$64 million, and \$46 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Short-term and variable lease cost, and cost for finance leases were immaterial for the year ended December 31, 2019. During the year ended December 31, 2019, cash paid for operating leases was \$65 million and is included in operating cash flows. ROU assets obtained in exchange for operating lease liabilities were \$80 million for the year ended December 31, 2019, and of those ROU assets exchanged for operating lease obligations, \$31 million were related to operating leases acquired with ASP.

The following table presents the maturities of our operating lease liabilities as of December 31, 2019 (\$ in millions):

2020	\$	57.4
2021		45.8
2022		34.1
2023		22.8
2024		16.2
Thereafter		63.2
Total lease payments		239.5
Less: imputed interest		(25.6)
Total lease liabilities	\$	213.9

Future minimum lease payments as of December 31, 2018 for operating leases having initial or remaining non-cancelable lease terms in excess of one year under Topic 840 were as follows (\$ in millions):

2019	\$	54.2
2020		41.2
2021		32.4
2022		24.0
2023		13.5
Thereafter		16.1
Total lease payments	\$	181.4

As of December 31, 2019, the weighted average lease term of our operating leases was 7.1 years and the weighted average discount rate of our operating leases was 3.4%. We primarily use our incremental borrowing rate as the discount rate for our operating leases, as we are generally unable to determine the interest rate implicit in the lease.

As of December 31, 2019, we entered into operating leases for which the lease term had not yet commenced. These leases will commence in 2020 with lease terms between 1 and 15 years and fixed payments over the non-cancelable lease terms of \$22 million.

NOTE 11. FINANCING

The carrying value of the components of our debt as of December 31 were as follows (\$ in millions):

	2019	2018
U.S. dollar-denominated commercial paper	\$ 884.4	\$ 390.1
Euro-denominated commercial paper	264.1	270.1
Delayed-draw term loan due 2019	—	400.0
Delayed-draw term loan due 2020	1,000.0	—
Term loan due 2020	500.0	—
Yen variable interest rate term loan due 2022	127.1	125.7
1.80% senior unsecured notes due 2019	—	55.6
2.35% senior unsecured notes due 2021	748.2	747.0
3.15% senior unsecured notes due 2026	893.0	891.9
4.30% senior unsecured notes due 2046	547.0	546.9
0.875% senior convertible notes due 2022	1,347.3	—
Other	17.3	3.0
Long-term debt	6,328.4	3,430.3
Less: Current portion of long-term debt	1,500.0	455.6
Long-term debt, net of current maturities	\$ 4,828.4	\$ 2,974.7

Unamortized debt discounts, net of premiums and issuance costs of \$102 million and \$17 million as of December 31, 2019 and December 31, 2018, respectively, have been netted against the aggregate principal amounts of the components of debt table above.

Credit Facilities*Convertible Notes*

On February 22, 2019, we issued \$1.4 billion in aggregate principal amount of our 0.875% Convertible Senior Notes due 2022 (the “Convertible Notes”), including \$187.5 million in aggregate principal amount resulting from an exercise in full of an over-allotment option. The Convertible Notes were sold in a private placement to certain initial purchasers for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.

The Convertible Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by four of our wholly-owned domestic subsidiaries (the “Guarantees”). The Convertible Notes are our senior unsecured obligations, and the Convertible Notes and the Guarantees rank equally in right of payment with all of our and the guarantors’ existing and future liabilities that are not subordinated, but effectively rank junior to any of our and the guarantors secured indebtedness to the extent of the value of the assets securing such indebtedness. In addition, the Convertible Notes are structurally subordinated to all of the existing and future obligations, including trade payables, of our subsidiaries that do not guarantee the Convertible Notes.

The Convertible Notes bear interest at a rate of 0.875% per year, payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2019. The Convertible Notes mature on February 15, 2022, unless earlier repurchased or converted in accordance with their terms prior to such date.

The Convertible Notes are convertible into shares of our common stock at an initial conversion rate of 9.3777 shares per \$1,000 principal amount of Convertible Notes (which is equivalent to an initial conversion price of \$106.64 per share), subject to adjustment upon the occurrence of certain events. The initial conversion price represents a premium of approximately 32.5% to the \$80.48 per share closing price of our common stock on February 19, 2019. Upon conversion of the Convertible Notes, holders will receive cash, shares of our common stock, or a combination thereof, at Fortive’s election. Our current intention is to settle such conversions through cash up to the principal amount of the converted Convertible Notes and, if applicable, through shares of our common stock for conversion value, if any, in excess of the principal amount of the converted Convertible Notes.

Of the \$1.4 billion in proceeds received from the issuance of the Convertible Notes, \$1.3 billion was classified as debt and \$102 million was classified as equity, using an assumed effective interest rate of 3.38%. Debt issuance costs of \$24 million were proportionately allocated to debt and equity. We recognized \$45 million in interest expense during the year ended December 31, 2019, of which \$11 million related to the contractual coupon rate of 0.875% and \$7 million was attributable to the amortization of debt issuance costs. The discount at issuance was \$102 million and is being amortized over a three-year period. The unamortized discount at December 31, 2019 was \$74 million.

Prior to November 15, 2021, the Convertible Notes will be convertible only upon the occurrence of certain events and will be convertible thereafter at any time until the close of business on the business day immediately preceding the maturity date of the Convertible Notes.

The conversion rate is subject to customary anti-dilution adjustments. If certain corporate events described in the Indenture occur prior to the maturity date, the conversion rate will be increased for a holder that elects to convert its Convertible Notes in connection with such corporate event in certain circumstances.

The Convertible Notes are not redeemable prior to maturity, and no sinking fund is provided for the Convertible Notes. If we undergo a “fundamental change,” as defined in the Indenture, subject to certain conditions, holders may require us to repurchase for cash all or any portion of their Convertible Notes. The fundamental change purchase price will be 100% of the principal amount of the Convertible Notes to be repurchased plus any accrued and unpaid additional interest up to but excluding the fundamental change repurchase date.

The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Convertible Notes may declare 100% of the principal of, and accrued and unpaid interest, if any, on all the Convertible Notes to be due and payable.

We used the net proceeds from the offering to fund a portion of the cash consideration payable for, and certain costs associated with, our acquisition of ASP.

In connection with this offering of the Convertible Notes, on February 21, 2019, we entered into amendments to our credit facilities to exclude the Guarantees from the limitations on subsidiary indebtedness under our credit facilities.

Term Loan Due 2020

On October 25, 2019, we entered into a credit facility agreement that provides for a 364-day term loan facility (“2020 Term Loan”) in an aggregate principal amount of \$300 million. On October 25, 2019, we drew down the full \$300 million available under the 2020 Term Loan in order to fund, in part, the Censis acquisition. We subsequently increased the size of this facility by \$200 million on November 8, 2019 and drew the additional amount on the same day resulting in an outstanding amount of \$500 million. The 2020 Term Loan bears interest at a variable rate equal to the London inter-bank offered rate (“LIBOR”) plus a ratings-based margin currently at 75 basis points. As of December 31, 2019, borrowings under this facility bore an interest rate of 2.49% per annum. The 2020 Term Loan is due on October 23, 2020 and prepayable at our option. We are not permitted to re-borrow once the term loan is repaid. The terms and conditions, including covenants, applicable to the 2020 Term Loan are substantially similar to those applicable to the Revolving Credit Facility as defined below.

On February 26, 2020, we prepaid \$250 million of the 2020 Term Loan. The prepayment fees associated with this payment are expected to be immaterial.

Delayed-Draw Term Loan Due 2020

On March 1, 2019, we entered into a credit facility agreement that provides for a 364-day delayed-draw term loan facility (“2020 Delayed-Draw Term Loan”) in an aggregate principal amount of \$1.0 billion. On March 20, 2019, we drew down the full \$1.0 billion available under the 2020 Delayed-Draw Term Loan in order to fund, in part, the ASP acquisition. The 2020 Delayed-Draw Term Loan bears interest at a variable rate equal to the LIBOR plus a ratings-based margin currently at 75 basis points. As of December 31, 2019, borrowings under this facility bore an interest rate of 2.49% per annum. The terms and conditions, including covenants, applicable to the 2020 Delayed-Draw Term Loan are substantially similar to those applicable to the Revolving Credit Facility.

The original maturity date of the 2020 Delayed-Draw Term Loan was February 28, 2020; however on February 25, 2020, we extended the maturity date to August 28, 2020. The 2020 Delayed-Draw Term Loan remains prepayable at our option.

Delayed-Draw Term Loan Due 2019

On August 22, 2018, we entered into a credit facility agreement that provided for a 364-day delayed-draw term loan facility (“Delayed-Draw Term Loan”) with an aggregate principal amount of \$1.75 billion. On September 5, 2018, we drew down the full \$1.75 billion available under the Delayed-Draw Term Loan in order to fund, in part, the Accruent Acquisition. The Delayed-Draw Term Loan bore interest at a variable rate equal to the LIBOR plus a ratings-based margin currently at 75 basis points. During 2019, the annual effective rate was approximately 3.24% per annum. The Delayed-Draw Term Loan was prepayable at our option, and we were not permitted to re-borrow once the term loan was repaid. The terms and conditions, including covenants, applicable to the Delayed-Draw Term Loan were substantially similar to those applicable to the Revolving Credit Facility. On September 26, 2018 and on November 21, 2018, we repaid \$400 million and \$950 million of this loan, respectively. On February 28, 2019, we prepaid the remaining \$400 million outstanding principal and accrued interest under the delayed-draw term loan due 2019. The prepayment fees associated with this prepayment were immaterial.

Yen Variable Interest Rate Term Loan

On August 24, 2017, we entered into a term loan agreement that provides for a five-year ¥13.8 billion senior unsecured term facility (“Yen Term Loan”) that matures on August 24, 2022. We borrowed the entire ¥13.8 billion available under this facility on August 28, 2017, which yielded net proceeds of approximately \$126 million. The Yen Term Loan bears interest at a rate equal to LIBOR plus 50 basis points, provided however that LIBOR may not be less than zero for the purposes of the Yen Term Loan. The annual effective interest rate was approximately 0.50% per annum as of and for the year ended December 31, 2019. The Yen Term Loan is pre-payable at our option, and re-borrowing is not permitted once the term loan is repaid.

The terms and conditions, including covenants, applicable to the Yen Term Loan are substantially similar to those applicable to the senior unsecured revolving credit facility established in 2016 (the “Revolving Credit Facility”) as described below.

Revolving Credit Facility

On June 16, 2016, we entered into a five-year \$1.5 billion Revolving Credit Facility that expires on June 16, 2021. On November 30, 2018 we entered into an amended and restated agreement (the “Credit Agreement”) extending the availability period of the Revolving Credit Facility to November 30, 2023 and increased the facility to \$2.0 billion. The Revolving Credit Facility is subject to a one year extension option at our request and with the consent of the lenders. The Credit Agreement also contains an option permitting us to request an increase in the amounts available under the Credit Agreement of up to an aggregate additional \$1.0 billion.

Borrowings under the Revolving Credit Facility bear interest at a rate equal (at our option) to either (1) a LIBOR-based rate (the “LIBOR-Based Rate”) plus a margin of between 80.5 and 117.5 basis points, depending on our long-term debt credit rating, or (2) the highest of (a) the Federal funds rate plus 1/2 of 1%, (b) the prime rate, and (c) the LIBOR-Based Rate plus 17.5 basis points, plus in each case a margin that varies according to our long-term debt credit rating. We are obligated to pay an annual facility fee for the Revolving Credit Facility of between 7.0 and 20.0 basis points varying according to our long-term debt credit rating.

The Credit Agreement requires us to maintain a consolidated net leverage ratio of debt to consolidated EBITDA (as defined in the Credit Agreement) of less than 3.50 to 1.00; provided that the maximum consolidated net leverage ratio will be increased to 4.00 to 1.00 for the four consecutive full fiscal quarters immediately following the consummation of any acquisition by us in which the purchase price exceeds \$250 million. The Credit Agreement also requires us to maintain a consolidated interest coverage ratio (as defined in the Credit Agreement) of at least 3.50 to 1.00 as of the end of any fiscal quarter. The Credit Agreement also contains customary representations, warranties, conditions precedent, events of default, indemnities, and affirmative and negative covenants. As of December 31, 2019 and December 31, 2018, we were in compliance with all covenants under the Credit Agreement and had no borrowings outstanding under the Revolving Credit Facility.

Commercial Paper Programs

We generally satisfy any short-term liquidity needs that are not met through operating cash flows and available cash primarily through issuances of commercial paper under our U.S. dollar and Euro-denominated commercial paper programs (“Commercial Paper Programs”). Under these programs, we may issue unsecured promissory notes with maturities not exceeding 397 and 183 days, respectively. Interest expense on the notes is paid at maturity and is generally based on our credit ratings at the time of issuance and prevailing short-term interest rates.

The details of our Commercial Paper Programs as of December 31, 2019 were as follows (\$ in millions):

	Carrying Value	Annual effective rate	Weighted average remaining maturity (in days)
U.S. dollar-denominated	\$ 884.4	2.14 %	13
Euro-denominated	\$ 264.1	(0.10)%	33

Credit support for the Commercial Paper Programs is provided by the Revolving Credit Facility. The availability of the Revolving Credit Facility as a standby liquidity facility to repay maturing commercial paper is an important factor in maintaining the Commercial Paper Programs' existing credit ratings. We expect to limit any borrowings under the Revolving Credit Facility to amounts that would leave sufficient credit available under the facility to allow us to borrow, if needed, to repay all of the outstanding commercial paper as it matures.

Our ability to access the commercial paper market, and the related costs of these borrowings, is affected by the strength of our credit rating and market conditions. Any downgrade in our credit rating would increase the cost of borrowing under our commercial paper programs and the Credit Agreement, and could limit or preclude our ability to issue commercial paper. If our access to the commercial paper market is adversely affected due to a downgrade, change in market conditions or otherwise, we would expect to rely on a combination of available cash, operating cash flow, and the Revolving Credit Facility to provide short-term funding. In such event, the cost of borrowings under the Revolving Credit Facility could be higher than the historic cost of commercial paper borrowings.

We classified our borrowings outstanding under the Commercial Paper Programs as of December 31, 2019 as long-term debt in the accompanying Consolidated Balance Sheets as we have the intent and ability, as supported by availability under the Revolving Credit Facility referenced above, to refinance these borrowings for at least one year from the balance sheet date.

Proceeds from borrowings under the commercial paper programs are typically available for general corporate purposes, including acquisitions.

Registered Notes

As of December 31, 2019, we had outstanding the following senior notes, collectively the "Registered Notes":

- \$750 million aggregate principal amount of senior notes due June 15, 2021 issued at 99.977% of their principal amount and bearing interest at the rate of 2.35% per year.
- \$900 million aggregate principal amount of senior notes due June 15, 2026 issued at 99.644% of their principal amount and bearing interest at the rate of 3.15% per year.
- \$350 million and \$200 million aggregate principal amounts of senior notes due June 15, 2046 issued at 99.783% and 101.564%, respectively, of their principal amounts and bearing interest at the rate of 4.30% per year.

Interest on the Registered Notes is payable semi-annually in arrears on June 15 and December 15 of each year.

We previously had outstanding \$300 million aggregate principal amount of senior notes due June 15, 2019 (the "2019 Notes") issued at 99.893% of their principal amount and bearing interest at the rate of 1.80% per year. In connection with the debt exchange in the split-off of the A&S Business on October 1, 2018, we retired \$244.7 million of these 2019 notes. On June 15, 2019, we repaid the remaining outstanding principal of \$55.3 million of the 2019 Notes.

Covenants and Redemption Provisions Applicable to Registered Notes

We may redeem the Registered Notes of the applicable series, in whole or in part, at any time prior to the dates specified in the Registered Notes indenture (the "Call Dates") by paying the principal amount and the "make-whole" premium specified in the Registered Notes indenture, plus accrued and unpaid interest. Additionally, we may redeem all or any part of the Registered Notes of the applicable series on or after the Call Dates without paying the "make-whole" premium specified in the Registered Notes indenture.

Registered Notes Series	Call Dates
2.35% senior unsecured notes due 2021	May 15, 2021
3.15% senior unsecured notes due 2026	March 15, 2026
4.30% senior unsecured notes due 2046	December 15, 2045

If a change of control triggering event occurs, we will, in certain circumstances, be required to make an offer to repurchase the Registered Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest. A change of control triggering event is defined as the occurrence of both a change of control and a rating event, each as defined in the Registered Notes indenture. Except in connection with a change of control triggering event, the Registered Notes do not have any credit rating downgrade triggers that would accelerate the maturity of the Registered Notes.

The Registered Notes contain customary covenants, including limits on the incurrence of certain secured debt and sale/leaseback transactions. None of these covenants are considered restrictive to our operations and as of December 31, 2019, we were in compliance with all of our covenants.

Other

We made interest payments of \$127 million during 2019, \$102 million during 2018, and \$87 million during 2017.

There are \$1.5 billion of minimum principal payments due under our total long-term debt during 2020. The future minimum principal payments due are presented in the following table:

	Term Loans	Convertible and Registered Notes	Total
2020	\$ 1,500.0	\$ —	\$ 1,500.0
2021	—	750.0	750.0
2022	127.1	1,437.5	1,564.6
2023	—	—	—
2024	—	—	—
Thereafter	—	1,450.0	1,450.0
Total principal payments ^(a)	<u>\$ 1,627.1</u>	<u>\$ 3,637.5</u>	<u>\$ 5,264.6</u>

(a) Not included in the table above are discounts, net of premiums and issuance costs associated with the Registered Notes and the Commercial Paper Programs, which totaled \$102 million as of December 31, 2019, and have been recorded as an offset to the carrying amount of the related debt in the accompanying Consolidated Balance Sheet as of December 31, 2019. In addition, the table above does not include principal balances of \$1.1 billion under the Commercial Paper Programs and other financing balances of \$17 million.

Shelf Registration Statement

On June 12, 2017, we filed a shelf registration statement on Form S-3 with the SEC (the “Shelf Registration Statement”) that registers an indeterminate amount of debt securities, common stock, preferred stock, warrants, depository shares, purchase contracts, and units that may be issued in the future in one or more offerings. Unless otherwise specified in the corresponding prospectus supplement, we expect to use net proceeds realized from future securities issuances off the Shelf Registration Statement for general corporate purposes, including without limitation repayment or refinancing of debt or other corporate obligations, acquisitions, capital expenditures, dividends, and working capital.

NOTE 12. PENSION PLANS

Certain employees participate in noncontributory defined benefit pension plans. In general, our policy is to fund these plans based on considerations relating to legal requirements, underlying asset returns, the plan's funded status, the anticipated deductibility of the contribution, local practices, market conditions, interest rates, and other factors. Our U.S. pension plans are frozen, and, as such, there are no ongoing benefit accruals associated with the U.S. pension plans.

The following sets forth the funded status of our plans as of the most recent actuarial valuations using measurement dates of December 31 (\$ in millions):

	U.S. Pension Benefits		Non-U.S. Pension Benefits	
	2019	2018	2019	2018
Change in pension benefit obligation:				
Benefit obligation at beginning of year	\$ 30.9	\$ 33.7	\$ 274.3	\$ 300.8
Service cost	—	—	2.3	1.3
Interest cost	1.3	1.2	5.7	5.7
Employee contributions	—	—	0.9	0.2
Benefits paid and other	(1.2)	(1.3)	(8.7)	(9.5)
Plan acquisitions	—	—	25.1	—
Actuarial loss (gain)	4.2	(2.7)	39.3	(7.0)
Amendments, settlements and curtailments	—	—	(0.6)	(3.0)
Foreign exchange rate impact	—	—	1.2	(14.2)
Benefit obligation at end of year	35.2	30.9	339.5	274.3
Change in plan assets:				
Fair value of plan assets at beginning of year	23.3	25.8	156.5	172.2
Actual return on plan assets	3.9	(1.2)	20.5	(3.1)
Employer contributions	0.5	—	10.9	9.8
Employee contributions	—	—	0.9	0.2
Amendments and settlements	—	—	(2.7)	(4.4)
Benefits paid and other	(1.2)	(1.3)	(8.7)	(9.5)
Plan acquisitions	—	—	17.8	—
Foreign exchange rate impact	—	—	2.4	(8.7)
Fair value of plan assets at end of year	26.5	23.3	197.6	156.5
Funded status	\$ (8.7)	\$ (7.6)	\$ (141.9)	\$ (117.8)

The difference between the accumulated benefit obligation and the projected benefit obligation as of December 31, 2019 and 2018 is immaterial.

Weighted average assumptions used to determine benefit obligations at date of measurement

	U.S. Pension Plans		Non-U.S. Pension Plans	
	2019	2018	2019	2018
Discount rate	3.37%	4.40%	1.41%	2.30%
Rate of compensation increase	N/A	N/A	2.47%	2.63%

Components of net periodic pension cost

The following sets forth the components of net periodic pension cost for our plans for the years ended December 31 (\$ in millions):

	U.S. Pension Benefits			Non-U.S. Pension Benefits		
	2019	2018	2017	2019	2018	2017
Service cost	\$ —	\$ —	\$ —	\$ 2.3	\$ 1.3	\$ 3.5
Interest cost	1.3	1.2	0.3	5.7	5.7	5.8
Expected return on plan assets	(1.3)	(1.4)	(0.3)	(5.9)	(5.8)	(6.2)
Amortization of net loss	—	—	—	2.9	2.6	3.8
Net curtailment and settlement loss recognized	—	—	—	0.2	1.0	0.9
Net periodic pension cost	\$ —	\$ (0.2)	\$ —	\$ 5.2	\$ 4.8	\$ 7.8

Included in AOCI as of December 31, 2019 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of \$3 million (\$3 million, net of tax) and unrecognized actuarial losses of approximately \$97 million (\$74 million, net of tax). The unrecognized prior service cost included in AOCI and expected to be recognized in net periodic pension cost during the year ending December 31, 2020 is immaterial. The actuarial losses included in Accumulated other comprehensive income (loss) and expected to be recognized in net periodic pension cost during the year ending December 31, 2020 is \$4 million (\$3 million, net of tax). The unrecognized losses are calculated as the difference between the actuarially determined projected benefit obligation, the value of the plan assets, and the accumulated contributions in excess of net periodic pension cost as of December 31, 2019. No plan assets are expected to be returned to us during the year ending December 31, 2020.

Weighted average assumptions used to determine net periodic pension cost at date of measurement

	U.S. Pension Plans			Non-U.S. Pension Plans		
	2019	2018	2017	2019	2018	2017
Discount rate	4.40%	3.73%	3.83%	2.30%	2.16%	2.12%
Expected return on plan assets	5.75%	5.75%	5.75%	3.50%	3.48%	3.54%
Rate of compensation increase	N/A	N/A	N/A	2.63%	2.39%	3.03%

The discount rates reflect the market rate on December 31 for high-quality fixed-income investments with maturities corresponding to our benefit obligations and are subject to change each year. For non-U.S. plans, rates appropriate for each plan are determined based on investment grade instruments with maturities approximately equal to the average expected benefit payout under the plan.

The expected rates of return reflect the asset allocation of the plans and ranged from 1.50% to 6.00% in 2019 and 1.75% to 6.00% in both 2018 and 2017. The domestic plan rate is based primarily on broad publicly-traded-equity and fixed-income indices and forward-looking estimates of active portfolio and investment management. The expected rates of return on asset assumptions for the non-U.S. plans were determined on a plan-by-plan basis based on the composition of assets.

We report all components of net periodic pension costs, with the exception of service costs, in other non-operating expenses, net as a component of Non-operating expenses, net in the accompanying Consolidated Statements of Earnings for all periods presented. Service costs are reported in Cost of sales and Selling, general, and administrative expenses in the accompanying Consolidated Statements of Earnings according to the classification of the participant's compensation.

Plan Assets

Plan assets are invested in various insurance contracts and equity and debt securities as determined by the administrator of each plan. Some of these investments, consisting of mutual funds and other private investments, are valued using the net asset value ("NAV") method as a practical expedient. The investments valued using the NAV method are allocated across a broad array of funds and diversify the portfolio. The value of the plan assets directly affects the funded status of our pension plans recorded in the financial statements.

The fair values of our pension plan assets as of December 31, 2019, by asset category were as follows (\$ in millions):

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and equivalents	\$ 3.4	\$ —	\$ —	\$ 3.4
Equity securities:				
Common stock	7.3	—	—	7.3
Preferred stock	1.7	—	—	1.7
Fixed income securities:				
Corporate bonds	—	8.5	—	8.5
Government issued	—	2.7	—	2.7
Mutual funds	—	30.7	—	30.7
Insurance contracts	—	1.9	—	1.9
Total	\$ 12.4	\$ 43.8	\$ —	\$ 56.2
Investments measured at NAV ^(a) :				
Mutual funds				155.9
Other private investments				12.0
Total assets at fair value				\$ 224.1

^(a) The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the total fair value of plan assets.

The fair values of our pension plan assets as of December 31, 2018, by asset category were as follows (\$ in millions):

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and equivalents	\$ 2.7	\$ —	\$ —	\$ 2.7
Fixed income securities:				
Corporate bonds	—	0.4	—	0.4
Mutual funds	—	8.1	—	8.1
Insurance contracts	—	1.8	—	1.8
Total	\$ 2.7	\$ 10.3	\$ —	\$ 13.0
Investments measured at NAV ^(a) :				
Mutual funds				165.6
Other private investments				1.2
Total assets at fair value				\$ 179.8

^(a) The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the total fair value of plan assets.

Certain mutual funds are valued at the quoted closing price reported on the active market on which the individual securities are traded. Common stock, corporate bonds, and mutual funds that are not traded on an active market are valued at quoted prices reported by investment brokers and dealers based on the underlying terms of the security and comparison to similar securities traded on an active market.

Certain mutual funds and other private investments are valued using NAV based on the information provided by the asset fund managers, which reflects the plan's share of the fair value of the net assets of the investment. Depending on the nature of the assets, the underlying investments are valued using a combination of either discounted cash flows, earnings and market multiples, third party appraisals, or through reference to the quoted market prices of the underlying investments held by the venture, partnership or private entity where available. In addition, some of these investments have limits on their redemption to

monthly, quarterly, semiannually or annually and may require up to 90 days prior written notice. Valuation adjustments reflect changes in operating results, financial condition or prospects of the applicable portfolio company.

The methods described above may produce a fair value estimate that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe the valuation methods are appropriate and consistent with the methods used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Contributions

During 2019, we contributed \$11 million to our non-U.S. defined benefit pension plans. During 2020, our cash contribution requirements for our U.S. and non-U.S. defined benefit pension plans are expected to be approximately \$1 million and \$10 million, respectively.

The following sets forth benefit payments to participants, which reflect expected future service, as appropriate, expected to be paid by the plans in the periods indicated (\$ in millions):

	U.S. Pension Plans		Non-U.S. Pension Plans		All Pension Plans	
2020	\$	1.5	\$	11.4	\$	12.9
2021		1.5		11.9		13.4
2022		1.6		13.2		14.8
2023		1.7		12.2		13.9
2024		1.8		12.8		14.6
2025-2029		9.5		66.4		75.9

Defined Contribution Plans

We administer and maintain 401(k) programs and contributions to the 401(k) programs are determined based on a percentage of compensation. We recognized compensation expense for our participating U.S. employees in the 401(k) programs totaling \$63 million in 2019, \$53 million in 2018, and \$45 million in 2017.

NOTE 13. SALES

On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers* (“Topic 606”), using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policy under ASC Topic 605, *Revenue Recognition*. We recorded an immaterial transition adjustment to opening retained earnings as of January 1, 2018 due to the cumulative impact of adopting Topic 606. The impact to sales as a result of applying Topic 606 was immaterial for the year ended December 31, 2018.

Revenue is recognized when control of promised products or services is transferred to customers in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services.

Contract Assets — In certain circumstances, we record contract assets which include unbilled amounts typically resulting from sales under contracts when revenue recognized exceeds the amount billed to the customer, and right to payment is not only subject to the passage of time. Contract assets were \$79 million as of December 31, 2019 and \$32 million as of December 31, 2018.

Contract Costs — We incur direct incremental costs to obtain certain contracts, typically sales-related commissions and costs associated with assets used by our customers in certain service arrangements. Deferred sales-related commissions are generally not capitalized as the amortization period is one year or less, and we elected to use the practical expedient to expense these sales commissions as incurred. As of December 31, 2019, we had \$147 million in net revenue-related contract assets primarily related to certain software contracts recorded in Prepaid expenses and other current assets and Other assets in our Consolidated Balance Sheet. Our revenue-related contract assets at December 31, 2018 were \$144 million, the majority of which were recorded in Property, plant and equipment, net in the Consolidated Balance Sheet. These assets have estimated useful lives between 3 and 8 years.

Impairment losses recognized on our contract-related assets were immaterial during both the years ended December 31, 2019 and December 31, 2018.

Contract Liabilities — Our contract liabilities consist of deferred revenue generally related to post contract support (“PCS”) and extended warranty sales, where in most cases we receive up-front payment and recognize revenue over the support term. We classify deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue. The noncurrent portion of deferred revenue is included in Other long-term liabilities in the Consolidated Balance Sheets.

Our contract liabilities as of December 31 consisted of the following (\$ in millions):

	2019	2018
Deferred revenue - current	\$ 410.1	\$ 288.1
Deferred revenue - noncurrent	99.2	92.6
Total contract liabilities	\$ 509.3	\$ 380.7

Acquisitions that closed in 2019 added \$92 million of additional contract liabilities as of December 31, 2019. In the year ended December 31, 2019, we recognized \$226 million of revenue related to our contract liabilities at January 1, 2019. The change in our contract liabilities from December 31, 2018 to December 31, 2019 was primarily due to the timing of cash receipts and sales of PCS and extended warranty services.

Remaining Performance Obligations — Our remaining performance obligations represent the transaction price of firm, noncancelable orders and the average contract value for software contracts, with expected delivery dates to customers greater than one year from December 31, 2019, for which work has not been performed. We have excluded performance obligations with an original expected duration of one year or less from the amounts below.

The aggregate performance obligations attributable to each of our segments as of December 31, 2019 is as follows (\$ in millions):

	2019
Professional Instrumentation	\$ 136.1
Industrial Technologies	419.1
Total remaining performance obligations	\$ 555.2

The majority of remaining performance obligations are related to service and support contracts, which we expect to fulfill approximately 40 percent within the next two years, approximately 70 percent within the next three years, and substantially all within four years.

Disaggregation of Revenue

We disaggregate revenue from contracts with customers by sales of product and services, geographic location, major product group, and end market for each of our segments, as we believe it best depicts how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors.

Disaggregation of revenue for the year ended December 31, 2019 is presented as follows (\$ in millions):

	Total	Professional Instrumentation	Industrial Technologies
Sales:			
Sales of products	\$ 6,396.9	\$ 3,792.8	\$ 2,604.1
Sales of services	923.1	635.0	288.1
Total	\$ 7,320.0	\$ 4,427.8	\$ 2,892.2
Geographic:			
United States	\$ 4,206.5	\$ 2,354.9	\$ 1,851.6
China	592.0	487.3	104.7
All other (each country individually less than 5% of total sales)	2,521.5	1,585.6	935.9
Total	\$ 7,320.0	\$ 4,427.8	\$ 2,892.2
Major Products Group:			
Professional tools and equipment	\$ 5,014.7	\$ 2,880.8	\$ 2,133.9
Industrial automation, controls and sensors	484.1	370.5	113.6
Franchise distribution	637.9	—	637.9
Medical technologies	934.2	927.4	6.8
All other	249.1	249.1	—
Total	\$ 7,320.0	\$ 4,427.8	\$ 2,892.2
End markets:			
Direct sales:			
Retail fueling ^(a)	\$ 1,903.6	\$ —	\$ 1,903.6
Industrial & Manufacturing	448.1	390.8	57.3
Vehicle repair ^(a)	574.7	—	574.7
Utilities & Power	199.6	199.6	—
Medical ^(a)	934.2	927.4	6.8
Other	1,586.9	1,312.5	274.4
Total direct sales	5,647.1	2,830.3	2,816.8
Distributors ^(a)	1,672.9	1,597.5	75.4
Total	\$ 7,320.0	\$ 4,427.8	\$ 2,892.2

(a) Retail fueling, Vehicle repair, and Medical include sales to these end markets made through third-party distributors. Total distributor sales for the year ended December 31, 2019 was \$3,158.4 million.

Disaggregation of revenue for the year ended December 31, 2018 is presented as follows (\$ in millions):

	Total	Professional Instrumentation	Industrial Technologies
Sales:			
Sales of products	\$ 5,755.0	\$ 3,215.2	\$ 2,539.8
Sales of services	697.7	439.9	257.8
Total	\$ 6,452.7	\$ 3,655.1	\$ 2,797.6
Geographic:			
United States	\$ 3,539.6	\$ 1,829.6	\$ 1,710.0
China	569.0	459.5	109.5
All other (each country individually less than 5% of total sales)	2,344.1	1,366.0	978.1
Total	\$ 6,452.7	\$ 3,655.1	\$ 2,797.6
Major Products Group:			
Professional tools and equipment	\$ 4,690.7	\$ 2,663.1	\$ 2,027.6
Industrial automation, controls and sensors	504.0	381.4	122.6
Franchise distribution	640.0	—	640.0
Medical technologies ^(c)	393.7	386.3	7.4
All other	224.3	224.3	—
Total	\$ 6,452.7	\$ 3,655.1	\$ 2,797.6
End markets:			
Direct sales:			
Retail fueling ^(a)	\$ 1,777.5	\$ —	\$ 1,777.5
Industrial & Manufacturing	445.1	384.5	60.6
Vehicle repair ^(a)	581.5	—	581.5
Utilities & Power	172.3	171.0	1.3
Medical ^(b)	393.7	386.3	7.4
Other	1,379.3	1,074.9	304.4
Total direct sales	4,749.4	2,016.7	2,732.7
Distributors ^(a)	1,703.3	1,638.4	64.9
Total	\$ 6,452.7	\$ 3,655.1	\$ 2,797.6

(a) Retail fueling and Vehicle repair include sales to these end markets made through third-party distributors. Total distributor sales for the year ended December 31, 2018 was \$3,136.8 million.

(b) Sales were previously disclosed in Other.

(c) Sales were previously disclosed in Professional tools and equipment, Industrial automation, controls and sensors, and All other.

Disaggregation of revenue for the year ended December 31, 2017 is presented as follows (\$ in millions):

	Total	Professional Instrumentation	Industrial Technologies
Sales:			
Sales of products	\$ 5,173.3	\$ 2,813.2	\$ 2,360.1
Sales of services	582.8	325.9	256.9
Total	\$ 5,756.1	\$ 3,139.1	\$ 2,617.0
Geographic:			
United States	\$ 3,148.7	\$ 1,486.0	\$ 1,662.7
China	498.4	416.7	81.7
All other (each country individually less than 5% of total sales)	2,109.0	1,236.4	872.6
Total	\$ 5,756.1	\$ 3,139.1	\$ 2,617.0
Major Products Group:			
Professional tools and equipment	\$ 4,211.3	\$ 2,338.7	\$ 1,872.6
Industrial automation, controls and sensors	481.5	368.3	113.2
Franchise distribution	626.2	—	626.2
Medical technologies ^(c)	233.9	228.9	5.0
All other	203.2	203.2	—
Total	\$ 5,756.1	\$ 3,139.1	\$ 2,617.0
End markets:			
Direct sales:			
Retail fueling ^(a)	\$ 1,637.8	\$ —	\$ 1,637.8
Industrial & Manufacturing	314.9	265.8	49.1
Vehicle repair ^(a)	569.3	—	569.3
Utilities & Power	228.2	227.3	0.9
Medical ^(b)	233.9	228.9	5.0
Other	1,261.3	965.3	296.0
Total direct sales	4,245.4	1,687.3	2,558.1
Distributors ^(a)	1,510.7	1,451.8	58.9
Total	\$ 5,756.1	\$ 3,139.1	\$ 2,617.0

(a) Retail fueling and Vehicle repair include sales to these end markets made through third-party distributors. Total distributor sales for the year ended December 31, 2017 was \$2,877.8 million.

(b) Sales were previously disclosed in Other

(c) Sales were previously disclosed in Professional tools and equipment, Industrial automation, controls and sensors, and All other

NOTE 14. INCOME TAXES

Tax Cuts and Jobs Act

On December 22, 2017, the U.S. enacted comprehensive tax reform commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The U.S. Government continues to issue significant amounts of TCJA guidance and we expect that to continue for the foreseeable future. The Company is actively monitoring the impact of new Treasury Regulations. Any future adjustments resulting from retrospective guidance issued after December 31, 2019 will be considered as discrete income tax expense or benefit in the interim period the guidance is issued.

During 2018, the Company made the election on the 2017 Federal Income Tax Return to pay the one-time TCJA Transition Tax liability over an eight-year period without interest, as allowed by TCJA. The IRS has issued guidance that requires offset of 2017 and 2018 tax return refunds against the long-term liability subject to the eight-year payment election.

Separation from Danaher and Disposition of the A&S Business

In connection with the Separation, we entered into the Agreements with Danaher, including a tax matters agreement. The tax matters agreement distinguishes between the treatment of tax matters for “joint” filings compared to “separate” filings prior to the Separation. “Joint” filings involve legal entities, such as those in the United States, that include operations from both Danaher and the Company. By contrast, “separate” filings involve certain entities (primarily outside of the United States), that exclusively include either Danaher’s or the Company’s operations, respectively. In accordance with the tax matters agreement, the Company is liable for and has indemnified Danaher against all income tax liabilities involving “separate” filings for periods prior to the Separation.

During 2018, the Company entered into a Tax Matters Agreement in connection with the split-off of the A&S Business. The Company remains liable for pre-disposition income tax liabilities related to the A&S Business.

Earnings and Income Taxes

Earnings before income taxes for the years ended December 31 were as follows (\$ in millions):

	2019	2018	2017
United States	\$ 572.4	\$ 687.7	\$ 679.6
International	302.1	390.7	394.0
Total	\$ 874.5	\$ 1,078.4	\$ 1,073.6

The provision for income taxes for the years ended December 31 were as follows (\$ in millions):

	2019	2018	2017
Current:			
Federal U.S.	\$ 38.9	\$ 48.3	\$ 170.0
Non-U.S.	84.6	96.3	69.8
State and local	11.7	7.8	10.5
Deferred:			
Federal U.S.	43.0	27.3	(62.0)
Non-U.S.	(21.1)	(19.6)	(1.7)
State and local	(8.0)	—	2.7
Income tax provision	\$ 149.1	\$ 160.1	\$ 189.3

Effective Income Tax Rate

The effective income tax rate for the years ended December 31 varies from the U.S. statutory federal income tax rate as follows:

	Percentage of Pretax Earnings		
	2019	2018	2017
Statutory federal income tax rate	21.0 %	21.0 %	35.0 %
Increase (decrease) in tax rate resulting from:			
State income taxes (net of federal income tax benefit)	(0.3)%	1.0 %	0.7 %
Foreign income taxed at different rates than U.S. statutory rate	(0.7)%	0.8 %	(5.3)%
U.S. federal permanent differences related to the TCJA	(6.2)%	(4.8)%	(2.9)%
Compensation related	(1.0)%	(1.5)%	(1.7)%
Other	0.5 %	(0.5)%	(1.6)%
Effective income tax rate before adjustments related to the 2017 TCJA provisional estimates	13.3 %	16.0 %	24.2 %
Deferred tax revaluation	— %	(1.3)%	(19.2)%
Transition tax	— %	0.1 %	12.6 %
Vontier transaction tax costs	3.7 %	— %	— %
Total Vontier transaction tax costs and adjustments to 2017 TCJA provisional estimates	3.7 %	(1.2)%	(6.6)%
Effective income tax rate after adjustments related to the Vontier transaction tax costs and 2017 TCJA provisional estimates	17.0 %	14.8 %	17.6 %

Our effective tax rate for 2019 differs from the U.S. federal statutory rate of 21% due primarily to the effect of the TCJA U.S. federal permanent differences, the impact of credits and deductions provided by law, and earnings outside the United States that are indefinitely reinvested and taxed at rates lower than the U.S. federal statutory rate, offset by tax costs related to transactions completed in 2019 in anticipation of our separation into two independent, publicly traded companies.

Our effective tax rate for 2018 differs from the U.S. federal statutory rate of 21% due primarily to the effect of the TCJA U.S. federal permanent differences, the impact of credits and deductions provided by law, earnings outside the United States that are taxed at rates lower than the U.S. federal statutory rate, and the effect of adjustments to the provision estimates recorded in 2017 related to the TCJA as permitted under the SEC Staff Accounting Bulletin No. 118 (“SAB 118”) issued on December 22, 2017.

Our effective tax rate for 2017, including provisional estimates of the TCJA, differs from the U.S. federal statutory rate of 35.0% due primarily to net favorable impacts associated with the TCJA, our earnings outside the United States that are indefinitely reinvested and taxed at rates lower than the U.S. federal statutory rate, the impact of credits and deductions provided by law, state tax impacts, and favorable adjustments related to differences between estimates included in the 2016 provision and amounts calculated on the 2016 U.S. income tax return filed in October 2017.

SAB 118 provides guidance on the financial statement implications of the TCJA. Pursuant to SAB 118, the Company recorded cumulatively \$83 million of net favorable adjustments, which is made up of net favorable adjustments of \$13 million and \$70 million recorded during the years ended December 31, 2018 and 2017, respectively. The 2018 effective tax rate included the true-up to the 2017 provisional estimates as a discrete adjustment. The 2017 provisional estimates for the one-time TCJA Transition Tax resulted in additional tax expense of \$1 million and \$135 million during the years ended December 31, 2018 and 2017, respectively. The provisional estimated tax benefit for the deferred tax revaluation resulted in additional tax benefit of \$14 million and \$205 million during the years ended December 31, 2018 and 2017, respectively.

We conduct business globally, and, as part of our global business, we file numerous income tax returns in the U.S. federal, state and foreign jurisdictions. After the TCJA, our ability to obtain a tax benefit in certain countries that continue to have lower statutory tax rates than the United States is dependent on our levels of taxable income in such foreign countries. We believe that a change in the statutory tax rate of any individual foreign country would not have a material effect on our financial statements given the geographic dispersion of our taxable income.

We are routinely examined by various domestic and international taxing authorities. The amount of income taxes we pay is subject to audit by federal, state, and foreign tax authorities, which may result in proposed assessments. The Company is

subject to examination in the United States, various states, and foreign jurisdictions for the tax years 2010 to 2019. We review our global tax positions on a quarterly basis. Based on these reviews, the results of discussions and resolutions of matters with certain tax authorities, tax rulings and court decisions, and the expiration of statutes of limitations reserves for contingent tax liabilities are accrued or adjusted as necessary.

We made income tax payments of \$145 million, \$89 million, and \$196 million during the years ended December 31, 2019, December 31, 2018 and December 31, 2017, respectively.

Deferred Tax Assets and Liabilities

All deferred tax assets and liabilities have been classified as noncurrent and are included in Other assets and Other long-term liabilities in the accompanying Consolidated Balance Sheets. Deferred income tax assets and liabilities as of December 31 were as follows (\$ in millions):

	2019	2018
Deferred Tax Assets:		
Allowance for doubtful accounts	\$ 16.7	\$ 17.4
Operating lease liabilities	44.4	—
Inventories	16.6	17.9
Pension benefits	30.3	27.3
Environmental and regulatory compliance	10.4	10.1
Other accruals and prepayments	35.2	50.5
Deferred service income	15.1	7.1
Warranty services	16.0	19.7
Stock-based compensation expense	27.8	14.2
Tax credit and loss carryforwards	171.4	131.4
Valuation allowances	(58.4)	(40.3)
Total deferred tax assets	<u>\$ 325.5</u>	<u>\$ 255.3</u>
Deferred Tax Liabilities:		
Property, plant and equipment	\$ (47.3)	\$ (11.7)
Operating lease right-of-use assets	(43.7)	—
Insurance, including self-insurance	(200.5)	(155.2)
Goodwill and other intangibles	(722.0)	(597.1)
Other	(26.7)	(14.7)
Total deferred tax liabilities	<u>(1,040.2)</u>	<u>(778.7)</u>
Net deferred tax liability	<u>\$ (714.7)</u>	<u>\$ (523.4)</u>

In accordance with GAAP, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which the tax benefit has already been reflected in our Consolidated Statements of Earnings. Deferred tax liabilities generally represent items that have already been taken as a deduction on our tax return but have not yet been recognized as an expense in our Consolidated Statements of Earnings. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

Our deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. We evaluate the realizability of deferred income tax assets for each of the jurisdictions in which we operate. If we experience cumulative pretax income in a particular jurisdiction in the three-year period including the current and prior two years, we normally conclude that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments would lead management to conclude otherwise. However, if we experience cumulative pretax losses in a particular jurisdiction in the three-year period including the current and prior two years, we then consider a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary

differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in the particular country, and prudent and feasible tax planning strategies. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, we would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, we establish a valuation allowance.

Applying the above methodology, valuation allowances have been established for certain deferred income tax assets to the extent they are not expected to be realized within the particular tax carryforward period.

Deferred taxes associated with U.S. entities consist of net deferred tax liabilities of approximately \$659 million and \$559 million inclusive of valuation allowances of \$22 million and \$13 million as of December 31, 2019 and December 31, 2018, respectively. Deferred taxes associated with non-U.S. entities consist of net deferred tax liabilities of \$56 million and net deferred tax assets of \$36 million, inclusive of valuation allowances of \$36 million and \$27 million, as of December 31, 2019 and December 31, 2018, respectively. Our valuation allowance increased by \$18 million and by \$14 million during the years ended December 31, 2019 and December 31, 2018, respectively, due primarily to foreign net operating losses in both years and state operating losses in 2019.

As of December 31, 2019, our U.S. and non-U.S. net operating loss carryforwards totaled \$886 million, of which \$225 million is related to federal net operating loss carryforwards, \$347 million is related to state net operating loss carryforwards, and \$314 million is related to non-U.S. net operating loss carryforwards. Included in deferred tax assets as of December 31, 2019 are tax benefits for U.S. and non-U.S. net operating loss carryforwards totaling \$130 million, before applicable valuation allowances of \$42 million. Certain of these losses can be carried forward indefinitely and others can be carried forward to various dates from 2020 through 2037. Recognition of some of these loss carryforwards is subject to an annual limit, which may cause them to expire before they are used.

As of December 31, 2019, our U.S. and non-U.S. tax credit carryforwards totaled \$41 million, which is primarily related to U.S. tax credit carryforwards. Certain of these credits can be carried forward indefinitely and other can be carried forward to various dates from 2020 through 2037. As of December 31, 2019, we maintain a \$13 million valuation allowance related to certain tax credit carryforwards from the Separation.

Unrecognized Tax Benefits

We recognize tax benefits from uncertain tax positions only if, in our assessment, it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Judgment is required in evaluating tax positions and determining income tax provisions. We re-evaluate the technical merits of our tax positions and may recognize an uncertain tax benefit in certain circumstances, including when: (i) a tax audit is completed; (ii) applicable tax laws change, including a tax case ruling or legislative guidance; or (iii) the applicable statute of limitations expires. We recognize potential accrued interest and penalties associated with unrecognized tax positions in income tax expense.

As of December 31, 2019, gross unrecognized tax benefits for continuing and discontinued operations were \$215 million (\$231 million total, including \$23 million associated with interest and penalties, and net of the impact of \$7 million of indirect tax benefits). As of December 31, 2018, gross unrecognized tax benefits for continuing and discontinued operations were \$133 million (\$144 million total, including \$16 million associated with interest and penalties, and net of the impact of \$5 million of indirect tax benefits). We recognized approximately \$8 million and \$4 million in potential interest and penalties associated with uncertain tax positions during 2019 and 2018, respectively. This amount was not significant during 2017. To the extent taxes are not assessed with respect to uncertain tax positions, substantially all amounts accrued (including interest and penalties and net of indirect offsets) will be reduced and reflected as a reduction of the overall income tax provision. Unrecognized tax benefits and associated accrued interest and penalties are included in our income tax provision.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding amounts accrued for potential interest and penalties, is as follows (\$ in millions):

	2019	2018	2017
Unrecognized tax benefits, beginning of year	\$ 133.4	\$ 59.0	\$ 28.6
Additions based on tax positions related to the current year	17.8	40.8	25.3
Additions for tax positions of prior years	79.7	39.0	7.8
Reductions for tax positions of prior years	(13.0)	(3.8)	(1.9)
Lapse of statute of limitations	(2.3)	(3.5)	(3.3)
Settlements	(0.3)	(6.4)	(0.6)
Effect of foreign currency translation	(0.4)	(0.9)	1.9
Separation related adjustments ^(a)	—	9.2	1.2
Unrecognized tax benefits, end of year	<u>\$ 214.9</u>	<u>\$ 133.4</u>	<u>\$ 59.0</u>

^(a) Unrecognized tax benefit reserves increased by \$9 million and \$1 million during the year ended December 31, 2018 and December 31, 2017, respectively, due primarily to unrecognized tax benefits from pre-Separation periods.

Repatriation and Unremitted Earnings

The TCJA eliminated the U.S. tax cost for qualified repatriation beginning in 2018. Foreign cumulative earnings remain subject to foreign remittance taxes. As a result of the TCJA, during 2018, we repatriated an estimated \$275 million subject to no foreign remittance taxes. The remittance excluded foreign earnings: 1) required as working capital for local operating needs, 2) subject to local law restrictions, 3) subject to high foreign remittance tax costs, 4) previously invested in physical assets or acquisitions, or 5) intended for future acquisitions/growth. For most of our foreign operations, we make an assertion regarding the amount of earnings in excess of intended repatriation that are expected to be held for indefinite reinvestment. No provisions for foreign remittance taxes have been made with respect to earnings that are planned to be reinvested indefinitely. The amount of foreign remittance taxes that may be applicable to such earnings is not readily determinable given local law restrictions that may apply to a portion of such earnings, unknown changes in foreign tax law that may occur during the applicable restriction periods caused by applicable local corporate law for cash repatriation, and the various tax planning alternatives we could employ if we repatriated these earnings.

The TCJA imposed a final U.S. tax on cumulative earnings from our foreign operations that we have previously made an assertion regarding the amount of such earnings intended for indefinite reinvestment. As of December 31, 2019, the earnings we plan to reinvest indefinitely outside of the United States for which foreign deferred taxes have not been provided was estimated at \$2.4 billion.

NOTE 15. RESTRUCTURING AND OTHER RELATED CHARGES

Restructuring and other related charges for the years ended December 31 were as follows (\$ in millions):

	2019	2018	2017
Employee severance related	\$ 53.0	\$ 5.0	\$ 13.8
Facility exit and other related	3.6	0.9	2.5
Impairment charges	—	1.1	2.3
Total restructuring and other related charges	<u>\$ 56.6</u>	<u>\$ 7.0</u>	<u>\$ 18.6</u>

Substantially all restructuring activities initiated in 2019 were completed by December 31, 2019. We expect substantially all cash payments associated with remaining termination benefits recorded in 2019 will be paid during 2020 and all planned restructuring activities related to the 2018 and 2017 plans have been completed. Impairment charges relate to certain intangible assets.

The nature of our restructuring and related activities initiated in 2019, 2018, and 2017 were broadly consistent throughout our segments and focused on improvements in operational efficiency through targeted workforce reductions and facility consolidations and closures. We incurred these costs to position ourselves to provide superior products and services to our customers in a cost-efficient manner, and taking into consideration broad economic uncertainties.

Restructuring and other related charges recorded for the years ended December 31 by segment were as follows (\$ in millions):

	2019	2018	2017
Professional Instrumentation	\$ 47.8	\$ 4.5	\$ 12.8
Industrial Technologies	8.8	2.5	5.8
Total	\$ 56.6	\$ 7.0	\$ 18.6

The table below summarizes the accrual balance and utilization by type of restructuring cost associated with our 2019 and 2018 restructuring actions (\$ in millions):

	Balance as of January 1, 2018	Costs Incurred	Paid/ Settled	Balance as of December 31, 2018	Costs Incurred	Paid/ Settled	Balance as of December 31, 2019
Employee severance and related	\$ 9.5	\$ 5.0	\$ (9.6)	\$ 4.9	\$ 53.0	\$ (21.0)	\$ 36.9
Facility exit and other related	0.8	2.0	(2.3)	0.5	3.6	(3.7)	0.4
Total	\$ 10.3	\$ 7.0	\$ (11.9)	\$ 5.4	\$ 56.6	\$ (24.7)	\$ 37.3

The restructuring and other related charges incurred during 2019 were substantially all cash charges. The restructuring and other related charges incurred during 2018 included cash charges of \$6 million and \$1 million of noncash charges. The restructuring and other related charges incurred during 2017 included cash charges of \$16 million and \$2 million of noncash charges. These charges are reflected in the following captions in the accompanying Consolidated Statements of Earnings (\$ in millions):

	2019	2018	2017
Cost of sales	\$ 15.8	\$ 2.0	\$ 2.0
Selling, general, and administrative expenses	40.8	5.0	16.6
Total	\$ 56.6	\$ 7.0	\$ 18.6

NOTE 16. LITIGATION AND CONTINGENCIES

We are, from time to time, subject to a variety of litigation and other proceedings incidental to our business, including lawsuits involving claims for damages arising out of the use of our products, software and services, claims relating to intellectual property matters, employment matters, commercial disputes, and personal injury as well as regulatory investigations or enforcement. We may also become subject to lawsuits as a result of past or future acquisitions or as a result of liabilities retained from, or representations, warranties, or indemnities provided in connection with divested businesses. Some of these lawsuits may include claims for punitive and consequential as well as compensatory damages. Based upon our experience, current information and applicable law, we do not believe that these proceedings and claims will have a material adverse effect on our financial position, results of operations or cash flows.

While we maintain workers compensation, property, cargo, automobile, crime, fiduciary, product, general, and directors' and officers' liability insurance (and have acquired rights under similar policies in connection with certain acquisitions) that cover a portion of these claims, this insurance may be insufficient or unavailable to cover such losses. In addition, while we believe we are entitled to indemnification from third parties for some of these claims, these rights may also be insufficient or unavailable to cover such losses. We maintain third party insurance policies up to certain limits to cover certain liability costs in excess of predetermined retained amounts. For most insured risks, we purchase outside insurance coverage only for severe losses (stop loss insurance) and reserves must be established and maintained with respect to amounts within the self-insured retention.

In accordance with accounting guidance, we record a liability in our consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss does not meet the known or probable level but is reasonably possible and a loss or range of loss can be reasonably estimated, the estimated loss or range of loss is disclosed. These reserves consist of specific reserves for individual claims and additional amounts for anticipated developments of these claims as well as for incurred but not yet reported claims. The specific reserves for individual known claims are quantified with the assistance of legal counsel and outside risk insurance professionals where appropriate. In addition, outside risk insurance professionals may assist in the determination of reserves for incurred but not yet reported claims through evaluation of our specific loss history, actual claims reported, and industry trends among statistical and other factors. Reserve estimates are adjusted as additional information regarding a claim becomes known. While we actively pursue financial recoveries from insurance providers, we do not recognize any recoveries until realized or until such time as a sustained pattern of collections is established related to historical

matters of a similar nature and magnitude. If risk insurance reserves we have established are inadequate, we would be required to incur an expense equal to the amount of the loss incurred in excess of the reserves, which would adversely affect our net earnings. Refer to Note 9 for information about the amount of our accruals for self-insurance and litigation liability.

In addition, our operations, products, and services are subject to environmental laws and regulations in various jurisdictions, which impose limitations on the discharge of pollutants into the environment and establish standards for the generation, use, treatment, storage, and disposal of hazardous and non-hazardous wastes. A number of our operations involve the handling, manufacturing, use, or sale of substances that are or could be classified as hazardous materials within the meaning of applicable laws. We must also comply with various health and safety regulations in both the United States and abroad in connection with our operations. Compliance with these laws and regulations has not had and, based on current information and the applicable laws and regulations currently in effect, is not expected to have a material effect on our capital expenditures, earnings, or competitive position, and we do not anticipate material capital expenditures for environmental control facilities.

In addition to environmental compliance costs, from time to time, we incur costs related to alleged damages associated with past or current waste disposal practices or other hazardous materials handling practices. For example, generators of hazardous substances found in disposal sites at which environmental problems are alleged to exist, as well as the current and former owners of those sites and certain other classes of persons, are subject to claims brought by state and federal regulatory agencies pursuant to statutory authority. We have received notification from the United States Environmental Protection Agency, and from state and non-U.S. environmental agencies, that conditions at certain sites where we and others previously disposed of hazardous wastes and/or are or were property owners require clean-up and other possible remedial action, including sites where we have been identified as a potentially responsible party under United States federal and state environmental laws. We have projects underway at a number of current and former facilities, in both the United States and abroad, to investigate and remediate environmental contamination resulting from past operations. Remediation activities generally relate to soil and/or groundwater contamination and may include pre-remedial activities such as fact-finding and investigation, risk assessment, feasibility study and/or design, as well as remediation actions such as contaminant removal, monitoring and/or installation, operation and maintenance of longer-term remediation systems. From time to time we are also party to personal injury or other claims brought by private parties alleging injury due to the presence of, or exposure to, hazardous substances.

We have recorded a provision for environmental investigation and remediation and environmental-related claims with respect to sites we and our subsidiaries owned or formerly owned and third party sites where we have been determined to be a potentially responsible party. We generally make an assessment of the costs involved for our remediation efforts based on environmental studies, as well as our prior experience with similar sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties of our involvement in certain sites, uncertainties regarding the extent of the required cleanup, the availability of alternative cleanup methods, variations in the interpretation of applicable laws and regulations, the possibility of insurance recoveries with respect to certain sites and the fact that imposition of joint and several liability with right of contribution is possible under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and other environmental laws and regulations. If we determine that potential liability for a particular site or with respect to a personal injury claim is known or considered probable and reasonably estimable, we accrue the total estimated loss, including investigation and remediation costs, associated with the site or claim. As of December 31, 2019, we had a reserve of \$13 million included in Accrued expenses and Other liabilities in the Consolidated Balance Sheets for environmental matters that are known or considered probable and reasonably estimable, which reflects our best estimate of the costs to be incurred with respect to such matters on an undiscounted basis.

All reserves for environmental liabilities have been recorded without giving effect to any possible future third party recoveries. While we actively pursue insurance recoveries, as well as recoveries from other potentially responsible parties, we do not recognize any insurance recoveries for environmental liability claims until realized or until such time as a sustained pattern of collections is established related to historical matters of a similar nature and magnitude.

As of December 31, 2019 and 2018, we had approximately \$121 million and \$138 million, respectively, of guarantees consisting primarily of outstanding standby letters of credit, bank guarantees, and performance and bid bonds. These guarantees have been provided in connection with certain arrangements with vendors, customers, financing counterparties and governmental entities to secure our obligations and/or performance requirements related to specific transactions. We believe that if the obligations under these instruments were triggered, they would not have a material effect on our consolidated financial statements.

NOTE 17. STOCK BASED COMPENSATION

The 2016 Stock Incentive Plan (the “Stock Plan”) provides for the grant of stock appreciation rights, restricted stock units (“RSUs”), performance stock units (“PSUs”), performance-based restricted stock awards (“RSAs”), and performance stock awards (“PSAs”) (collectively, “Stock Awards”), stock options, or any other stock-based award. A total of 40 million shares of

our common stock have been authorized for issuance under the Stock Plan. As of December 31, 2019, approximately 20 million shares of our common stock remain available for issuance under the Stock Plan. Stock options under the Stock Plan generally vest pro rata over a five-year period and terminate 10 years from the grant date, though the specific terms of each grant are determined by the Compensation Committee of our Board of Directors. Our executive officers and certain other employees may be awarded stock options with different vesting criteria and stock options granted to non-employee directors are fully vested as of the grant date. Exercise prices for stock options granted under the Stock Plan were equal to the closing price of Fortive's common stock on the NYSE on the date of grant, while stock options issued as conversion awards in connection with the Separation from Danaher were priced to maintain the economic value before and after the Separation.

RSUs and RSAs issued under the Stock Plan provide for the issuance of common stock at no cost to the holder. RSUs granted to employees under the Stock Plan generally provide for time-based vesting over five years, although certain employees may be awarded RSUs with different time-based vesting criteria, and RSAs granted to members of our senior management are also subject to performance-based vesting criteria. RSUs granted to non-employee directors under the Stock Plan vest on the earlier of the first anniversary of the grant date or the date of, and immediately prior to, the next annual meeting of our shareholders following the grant date. However, the underlying shares are not issued until the earlier of the director's death or the first day of the seventh month following the director's retirement from the Board of Directors (the "Board"). Prior to vesting, RSUs granted under the Stock Plan do not have dividend equivalent rights, do not have voting rights, and the shares underlying the RSUs are not considered issued or outstanding. RSAs granted under the Stock Plan have all of the same dividend, voting, and other rights corresponding to all other common stock, provided, however, that the dividends payable on the RSAs will accrue and be delivered at the time of delivery of the shares upon vesting of the RSA.

During 2019, 2018, and 2017 PSAs and PSUs were granted under the Stock Plan. These awards vest based on our total shareholder return ranking relative to the S&P 500 Index.

Stock awards generally vest only if the employee is employed by us (or in the case of directors, the director continues to serve on the Board) on the vesting date. To cover the exercise of stock options, vesting of RSUs and PSUs, and issuances of RSAs and PSAs, we generally issue shares authorized but previously unissued, although we may instead issue treasury shares; provided, however, that, either type of issuance would equally reduce the number of shares available under our Stock Plan.

We account for stock-based compensation by measuring the cost of employee services received in exchange for all equity awards granted based on the fair value of the award as of the grant date. We recognize the compensation expense over the requisite service period (which is generally the vesting period but may be shorter than the vesting period, for example, if the employee becomes retirement eligible before the end of the vesting period).

The fair value of RSUs is calculated using the closing price of Fortive common stock on the date of grant, adjusted for the impact of RSUs not having dividend rights prior to vesting. The fair value of RSAs is calculated using the closing price of Fortive common stock on the date of grant. The fair value of the PSUs and PSAs is calculated using a Monte Carlo pricing model. The fair value of the stock options granted is calculated using a Black-Scholes Merton ("Black-Scholes") option pricing model.

In connection with the exercise of certain stock options and the vesting of Stock Awards issued under the Stock Plan, a number of our shares sufficient to fund statutory minimum tax withholding requirements have been withheld from the total shares issued or released to the award holder (though under the terms of the Stock Plan, the shares are considered to have been issued and are not added back to the pool of shares available for grant). During the year ended December 31, 2019, approximately 193 thousand shares of Fortive common stock with an aggregate value of approximately \$15 million, were withheld to satisfy this requirement. The tax withholding is treated as a reduction in Additional paid-in capital in the accompanying Consolidated Statement of Changes in Equity.

Stock-based Compensation Expense

Stock-based compensation has been recognized as a component of Selling, general, and administrative expenses in the accompanying Consolidated Statements of Earnings. The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. We estimate pre-vesting forfeitures at the time of grant by analyzing historical data and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the total expense recognized over the vesting period will equal the fair value of awards that actually vest.

The following summarizes the components of our stock-based compensation expense under the Stock Plan for the years ended December 31 (\$ in millions):

	2019	2018	2017
Stock Awards:			
Pretax compensation expense	\$ 39.5	\$ 30.5	\$ 26.9
Income tax benefit	(7.5)	(6.3)	(8.7)
Stock Award expense, net of income taxes	32.0	24.2	18.2
Stock options:			
Pretax compensation expense	21.9	20.3	17.3
Income tax benefit	(3.3)	(4.2)	(5.7)
Stock option expense, net of income taxes	18.6	16.1	11.6
Total stock-based compensation:			
Pretax compensation expense	61.4	50.8	44.2
Income tax benefit	(10.8)	(10.5)	(14.4)
Total stock-based compensation expense, net of income taxes	\$ 50.6	\$ 40.3	\$ 29.8

When stock options are exercised by the employee or Stock Awards vest, we derive a tax deduction measured by the excess of the market value on such date over the grant date price. Accordingly, we record the excess of the tax benefit related to the exercise of stock options and vesting of Stock Awards over the expense recorded for financial statement reporting purposes (the "Excess Tax Benefit") as a component of Income tax expense and as an operating cash inflow in the accompanying consolidated financial statements. During the years ended December 31, 2019, 2018, and 2017 we realized an Excess Tax Benefit of \$13 million, \$17 million, and \$17 million, respectively, related to stock options that were exercised and Stock Awards that vested.

The following summarizes the unrecognized compensation cost for the Stock Plan awards as of December 31, 2019. This compensation cost is expected to be recognized over a weighted average period of approximately three years, representing the remaining service period related to the awards. Future compensation amounts will be adjusted for any changes in estimated forfeitures (\$ in millions):

Stock Awards	\$ 61.2
Stock options	55.4
Total unrecognized compensation cost	\$ 116.6

Stock Options

The following summarizes the assumptions used in the Black-Scholes model to value stock options granted under the Stock Plan during the years ended December 31:

	2019	2018	2017
Risk-free interest rate	1.43% - 2.6%	2.71% - 2.96%	1.9% - 2.26%
Volatility ^(a)	19.9%	18.8%	20.9%
Dividend yield ^(b)	0.4%	0.4%	0.5%
Expected years until exercise	5.5 - 8.0	5.5 - 8.0	5.5 - 8.0
Weighted average fair value at date of grant	\$ 19.38	\$ 18.67	\$ 13.43

^(a) Beginning August 2018, expected volatility was based on a weighted average blend of the company's historical stock price volatility from July 2, 2016 (the date of Separation) through the stock option grant date and the average historical stock price volatility of a group of peer companies for the expected term of the options. The weighted average volatility from July 2, 2016 to July 2018 was estimated based on an average historical stock price volatility of a group of peer companies given our limited trading history.

^(b) The dividend yield is calculated by dividing our annual dividend, based on the most recent quarterly dividend rate, by Fortive's closing stock price on the grant date.

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The following summarizes option activity under the Stock Plan for the years ended December 31, 2019, 2018, and 2017 (in millions, except price per share and numbers of years):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2017	9.4	\$ 33.23		
Granted	1.7	58.07		
Exercised	(1.0)	24.77		
Canceled/forfeited	(0.4)	45.12		
Outstanding as of December 31, 2017	9.7	38.09		
Granted	1.7	76.67		
Exercised	(1.4)	28.99		
Canceled/forfeited	(0.3)	54.13		
Outstanding as of December 31, 2018	9.7	46.25		
Granted	2.2	79.61		
Exercised	(1.2)	33.84		
Canceled/forfeited	(0.5)	66.16		
Outstanding as of December 31, 2019	10.2	\$ 53.64	6.2	\$ 242.0
Vested and expected to vest as of December 31, 2019 ^(a)	10.0	\$ 53.12	6.1	\$ 240.5
Vested as of December 31, 2019	4.8	\$ 38.14	4.2	\$ 184.5

^(a) The “expected to vest” options are the net unvested options that remain after applying the forfeiture rate assumption to total unvested options.

The aggregate intrinsic values in the table above represent the total pretax intrinsic value (the difference between the closing stock price of Fortive common stock on the last trading day of 2019 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019. The amount of aggregate intrinsic value will change based on the price of Fortive’s common stock.

Options outstanding as of December 31, 2019 are summarized below (in millions; except price per share and number of years):

Exercise Price	Outstanding			Vested	
	Shares	Average Exercise Price	Average Remaining Life (in years)	Shares	Average Exercise Price
\$18.21 - \$26.10	1.3	\$ 23.27	1	1.3	\$ 23.27
\$26.11 - \$40.12	1.5	34.45	4	1.5	34.45
\$40.13 - \$45.64	2.1	42.69	6	1.2	42.74
\$45.65 - \$54.12	0.4	49.83	7	0.2	50.06
\$54.13 - \$76.05	2.0	63.23	8	0.4	61.74
\$76.06 - \$86.03	2.9	79.47	9	0.2	76.97
Total shares	10.2			4.8	

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The following summarizes aggregate intrinsic value and cash receipts related to stock option exercise activity under the Stock Plans for the years ended December 31 (\$ in millions):

	2019	2018	2017
Aggregate intrinsic value of stock options exercised	\$ 52.5	\$ 68.7	\$ 42.3
Cash receipts from stock options exercised	\$ 40.0	\$ 39.3	\$ 26.0

Stock Awards

The following summarizes information related to Stock Award activity under the Stock Plan for the years ended December 31, 2019, 2018, and 2017 (in millions; except price per share):

	Number of Stock Awards ^(a)	Weighted Average Grant-Date Fair Value
Unvested as of January 1, 2017	2.1	\$ 39.20
Granted	0.5	57.79
Vested	(0.6)	35.96
Forfeited	(0.1)	43.94
Unvested as of December 31, 2017	1.9	45.92
Granted	0.6	77.78
Vested	(0.6)	41.28
Forfeited	(0.1)	53.23
Unvested as of December 31, 2018	1.8	57.63
Granted	0.9	80.44
Vested	(0.5)	48.90
Forfeited	(0.2)	66.64
Unvested as of December 31, 2019	2.0	69.37

^(a) For the year ended December 31, 2017, the table excludes the stock award activity for employees of the A&S Business that was divested on October 1, 2018.

NOTE 18. CAPITAL STOCK AND EARNINGS PER SHARE**Common Stock**

Under our amended and restated certificate of incorporation, as of July 1, 2016, our authorized capital stock consists of 2.0 billion common shares with a par value of \$0.01 per share and 15 million preferred shares with a par value of \$0.01 per share.

Each share of our common stock entitles the holder to one vote on all matters to be voted upon by common stockholders. Our Board is authorized to issue shares of preferred stock in one or more series and has discretion to determine the rights, preferences, privileges, and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges, and liquidation preferences, of each series of preferred stock. The Board's authority to issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock, could potentially discourage attempts by third parties to obtain control of the Company through certain types of takeover practices.

We declared and paid cash dividends per common share during the periods presented as follows:

	Dividend Per Common Share	Amount (\$ in millions)
2019:		
First quarter	\$ 0.07	\$ 23.4
Second quarter	0.07	23.4
Third quarter	0.07	23.5
Fourth quarter	0.07	23.5
Total	<u>\$ 0.28</u>	<u>\$ 93.8</u>
2018:		
First quarter	\$ 0.07	\$ 24.3
Second quarter	0.07	24.4
Third quarter	0.07	24.5
Fourth quarter	0.07	23.4
Total	<u>\$ 0.28</u>	<u>\$ 96.6</u>

The sum of the components of total dividends paid may not equal the total amount due to rounding.

Aggregate cash payments for the dividends paid to shareholders are recorded as dividends to shareholders in our Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows.

On January 28, 2020 we declared a regular quarterly cash dividend of \$0.07 per share payable on March 27, 2020 to common stockholders of record on February 28, 2020.

Mandatory Convertible Preferred Stock

On June 29, 2018, we issued 1,380,000 shares of 5.0% Mandatory Convertible Preferred Stock, Series A (“MCPS”) with a par value of \$0.01 per share and liquidation preference of \$1,000 per share, which included the exercise of an over-allotment option in full to purchase 180,000 shares. We received net \$1.34 billion in proceeds from the issuance of the MCPS, excluding \$43 million of issuance costs. We used the net proceeds from the issuance of MCPS to fund our acquisition activities and for general corporate purposes, including repayment of debt, working capital, and capital expenditures.

In connection with the split-off of the A&S Business, on September 26, 2018, we triggered an anti-dilution adjustment pursuant to the terms of the MCPS, and after giving affect to this adjustment, each then outstanding share of MCPS will convert automatically on July 1, 2021 (“Mandatory Conversion Date”) into between 10.9041 and 13.3575 common shares, subject to further anti-dilution adjustments. The number of shares of our common stock issuable on conversion will be determined based on the average volume weighted average price per share of our common stock over the 20 consecutive trading day period beginning on the 22nd scheduled trading day preceding the Mandatory Conversion Date. At any time prior to July 1, 2021, holders may elect to convert each share of the MCPS into shares of common stock at the rate of 10.9041, subject to further anti-dilution adjustments. In the event of a fundamental change, the MCPS will convert at the fundamental change rates specified in the certificate of designations, as adjusted, and the holders of MCPS would be entitled to a fundamental change make-whole dividend.

We may pay declared dividends in cash or, subject to certain limitations, in shares of our common stock, or in any combination of cash and shares of our common stock in January, April, July, and October of each year, commencing on October 1, 2018 and ending on July 1, 2021. Dividends that are declared will be payable on the dividend payment dates to holders of record on the immediately preceding March 15, June 15, September 15, and December 15 (each a “record date”), whether or not such holders convert their shares, or such shares are automatically converted, after the corresponding record date.

Dividends on our MCPS are payable on a cumulative basis when, as, and if declared by our Board, at an annual rate of 5.0% of the liquidation preference of \$1,000 per share (equivalent to \$50.00 annually per share).

We declared and paid cash dividends on our MCPS during the periods presented as follows:

	Dividend Per Preferred Share	Amount (\$ in millions)
2019:		
First quarter	\$ 12.50	\$ 17.3
Second quarter	12.50	17.2
Third quarter	12.50	17.3
Fourth quarter	12.50	17.2
Total	<u>\$ 50.00</u>	<u>\$ 69.0</u>
2018:		
Third quarter	\$ 12.78	\$ 17.6
Fourth quarter	12.50	17.3
Total	<u>\$ 25.28</u>	<u>\$ 34.9</u>

On January 28, 2020 we declared a regular quarterly cash dividend of \$12.50 per share on our MCPS payable on April 1, 2020 to preferred stockholders of record on March 15, 2020.

Net earnings per share

Basic net earnings per share ("EPS") from continuing operations is calculated by dividing net earnings from continuing operations by the weighted average number of shares of common stock outstanding for the applicable period. Diluted EPS from continuing operations is similarly calculated, except that the calculation includes the dilutive effect of the assumed issuance of shares under stock-based compensation plans except where the inclusion of such shares would have an anti-dilutive impact.

For the year ended December 31, 2019, the anti-dilutive options to purchase shares excluded from the diluted EPS calculation were 3.0 million shares. For the years ended December 31, 2018 and 2017, the anti-dilutive options to purchase shares excluded from the diluted EPS calculation were immaterial. The impact of our MCPS calculated under the if-converted method were anti-dilutive, and as such, 18.3 million and 18.4 million shares were excluded from the dilutive EPS calculation for the years ended December 31, 2019 and December 31, 2018, respectively.

Information related to the calculation of net earnings per share of common stock is summarized as follows (\$ and shares in millions, except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Numerator			
Net earnings from continuing operations	\$ 725.4	\$ 918.3	\$ 884.3
Mandatory convertible preferred stock cumulative dividends	(69.0)	(34.9)	—
Net earnings attributable to common stockholders from continuing operations	<u>\$ 656.4</u>	<u>\$ 883.4</u>	<u>\$ 884.3</u>
Denominator			
Weighted average common shares outstanding used in basic earnings per share	335.8	345.5	347.5
Incremental common shares from:			
Assumed exercise of dilutive options and vesting of dilutive Stock Awards	4.2	5.2	5.1
Weighted average common shares outstanding used in diluted earnings per share	<u>340.0</u>	<u>350.7</u>	<u>352.6</u>
Net earnings from continuing operations per common share - Basic	\$ 1.95	\$ 2.56	\$ 2.54
Net earnings from continuing operations per common share - Diluted	\$ 1.93	\$ 2.52	\$ 2.51

NOTE 19. SEGMENT INFORMATION

We report our results in two separate business segments consisting of Professional Instrumentation and Industrial Technologies. When determining the reportable segments, we aggregated operating segments based on their similar economic and operating characteristics. Operating profit represents total revenues less operating expenses, excluding other income/expense, interest, and income taxes. The identifiable assets by segment are those used in each segment's operations. Inter-segment amounts are not significant and are eliminated in the combined totals. Operating profit amounts in the Other category consist of unallocated corporate costs and other costs not considered part of our evaluation of reportable segment operating performance.

Segment results are shown below (\$ in millions):

	Year Ended December 31		
	2019	2018	2017
Sales:			
Professional Instrumentation	\$ 4,427.8	\$ 3,655.1	\$ 3,139.1
Industrial Technologies	2,892.2	2,797.6	2,617.0
Total	<u>\$ 7,320.0</u>	<u>\$ 6,452.7</u>	<u>\$ 5,756.1</u>
Operating Profit:			
Professional Instrumentation	\$ 547.9	\$ 744.6	\$ 712.9
Industrial Technologies	553.9	525.6	503.6
Other	(97.7)	(91.8)	(73.5)
Total	<u>\$ 1,004.1</u>	<u>\$ 1,178.4</u>	<u>\$ 1,143.0</u>
Segment assets:			
Professional Instrumentation	\$ 13,005.5	\$ 8,592.6	\$ 5,588.1
Industrial Technologies	2,950.2	3,011.2	2,902.7
Total segment assets	<u>15,955.7</u>	<u>11,603.8</u>	<u>8,490.8</u>
Other	1,480.1	1,271.8	1,138.8
Assets of Discontinued Operations	3.2	30.0	871.0
Total assets	<u>\$ 17,439.0</u>	<u>\$ 12,905.6</u>	<u>\$ 10,500.6</u>
Depreciation and amortization:			
Professional Instrumentation	\$ 337.5	\$ 168.7	\$ 82.0
Industrial Technologies	87.0	88.7	70.3
Other	1.7	3.4	6.0
Total	<u>\$ 426.2</u>	<u>\$ 260.8</u>	<u>\$ 158.3</u>
Capital expenditures, gross:			
Professional Instrumentation	\$ 65.0	\$ 58.4	\$ 37.0
Industrial Technologies	40.7	44.8	71.8
Other	6.8	9.1	2.3
Total	<u>\$ 112.5</u>	<u>\$ 112.3</u>	<u>\$ 111.1</u>

Operations in Geographic Areas:

(\$ in millions)	Year Ended December 31		
	2019	2018	2017
Sales:			
United States	\$ 4,206.5	\$ 3,539.6	\$ 3,148.7
China	592.0	569.0	498.4
All other (each country individually less than 5% of total sales)	2,521.5	2,344.1	2,109.0
Total	<u>\$ 7,320.0</u>	<u>\$ 6,452.7</u>	<u>\$ 5,756.1</u>
Property, plant and equipment, net			
United States	\$ 414.8	\$ 464.9	\$ 483.0
All other (each country individually less than 5% of total property, plant and equipment, net)	104.7	111.2	127.4
Total	<u>\$ 519.5</u>	<u>\$ 576.1</u>	<u>\$ 610.4</u>

NOTE 20. RELATED-PARTY TRANSACTIONS WITH DANAHER

Our transactions with Danaher are considered related party transactions. In connection with the Separation, we entered into the Agreements with Danaher, which governed the Separation and provided a framework for the relationship between the parties going forward. Refer to Note 14 for additional discussion of the tax matters agreement.

Following the Separation, we continue to enter into arms-length revenue arrangements in the ordinary course of business with Danaher and its affiliates, although certain agreements were entered into or terminated as a result of the Separation. We recorded sales of approximately \$12 million, \$16 million, and \$16 million to Danaher and its subsidiaries during the years ended December 31, 2019, 2018, and 2017, respectively. Purchases from Danaher and its subsidiaries were approximately \$13 million, \$14 million, and \$13 million during the years ended December 31, 2019, 2018, and 2017, respectively.

NOTE 21. QUARTERLY DATA - UNAUDITED

(\$ in millions, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2019:				
Sales	\$ 1,592.9	\$ 1,864.7	\$ 1,860.0	\$ 2,002.4
Gross profit	812.7	904.0	927.7	1,035.9
Operating profit	217.3	249.5	242.1	295.2
Earnings from continuing operations, net of income taxes	164.0	175.3	207.3	178.8
Earnings (loss) from discontinued operations, net of income taxes	0.4	(0.7)	(0.2)	14.0
Net earnings	\$ 164.4	\$ 174.6	\$ 207.1	\$ 192.8
Earnings per common share - basic:				
Continuing operations	\$ 0.44	\$ 0.47	\$ 0.57	\$ 0.48
Discontinued operations	—	—	—	0.04
Total earnings per common share - basic	\$ 0.44	\$ 0.47	\$ 0.56	\$ 0.52
Earnings per common share - diluted:				
Continuing operations	\$ 0.43	\$ 0.47	\$ 0.56	\$ 0.48
Discontinued operations	—	—	—	0.04
Total earnings per common share - diluted	\$ 0.43	\$ 0.46	\$ 0.56	\$ 0.52
2018:				
Sales	\$ 1,492.2	\$ 1,601.8	\$ 1,601.2	\$ 1,757.5
Gross profit	766.3	830.8	825.9	898.3
Operating profit	277.9	324.4	281.6	294.5
Earnings from continuing operations, net of income taxes	214.0	250.2	214.0	240.1
Earnings from discontinued operations, net of income taxes	47.2	44.8	31.3	1,872.2
Net earnings	\$ 261.2	\$ 295.0	\$ 245.3	\$ 2,112.3
Earnings per common share - basic:				
Continuing operations	\$ 0.61	\$ 0.72	\$ 0.56	\$ 0.67
Discontinued operations	0.14	0.13	0.09	5.60
Total earnings per common share - basic	\$ 0.75	\$ 0.84	\$ 0.65	\$ 6.26
Earnings per common share - diluted:				
Continuing operations	\$ 0.61	\$ 0.70	\$ 0.55	\$ 0.66
Discontinued operations	0.13	0.13	0.09	5.52
Total earnings per common share - diluted	\$ 0.74	\$ 0.83	\$ 0.64	\$ 6.17

The sum of net earnings per share amount may not add due to rounding.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, with the participation of the President and Chief Executive Officer, and Senior Vice President and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, the President and Chief Executive Officer, and Senior Vice President and Chief Financial Officer, have concluded that, as of the end of such period, these disclosure controls and procedures were effective.

Management’s annual report on its internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) and the independent registered public accounting firm’s audit report on the effectiveness of the Company’s internal control over financial reporting are included in the Company’s financial statements for the year ended December 31, 2019 included in Item 8 of this Annual Report on Form 10-K, under the headings “Report of Management on Fortive Corporation’s Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm,” respectively, and are incorporated herein by reference.

The Company completed the acquisitions of the Advanced Sterilization Products business (“ASP”) on April 1, 2019, Intelix Technologies on June 27, 2019, Pruftechnik on July 5, 2019, and Censis Technologies on October 31, 2019, collectively the “Acquired Businesses.” The Company has not yet fully incorporated the internal controls and procedures of the Acquired Businesses into the Company’s internal control over financial reporting, and as such, management excluded the Acquired Businesses from its assessment of the effectiveness of the Company’s internal control over financial reporting as of and for the year ended December 31, 2019. The Acquired Businesses constituted less than 25% of the Company’s total assets as of December 31, 2019 and less than 10% of the Company’s total revenues for the year ended December 31, 2019.

There have been no changes in our internal control over financial reporting that occurred during the most recent completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Other than the information below, the information required by this Item is incorporated by reference from the sections entitled *Election of Directors*, *Corporate Governance*, and *Delinquent Section 16(a) Reports* in the Proxy Statement for our 2020 annual meeting and to the information under the caption “Information about our Executive Officers” in Part I hereof. No nominee for director was selected pursuant to any arrangement or understanding between the nominee and any person other than the Company pursuant to which such person is or was to be selected as a director or nominee.

Code of Ethics

We have adopted a code of business conduct and ethics for directors, officers (including Fortive’s principal executive officer, principal financial officer and principal accounting officer) and employees, known as the Standards of Conduct. The Standards of Conduct are available in the “Investors - Corporate Governance” section of our website at www.fortive.com.

We intend to disclose any amendment to the Standards of Conduct that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, and any waiver from a provision of the Standards of Conduct granted to any director, principal executive officer, principal financial officer, principal accounting officer, or any of our other executive officers, in the “Investors - Corporate Governance” section of our website, at www.fortive.com, within four business days following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the sections entitled *Compensation Discussion and Analysis, Compensation Committee Report, Executive Compensation Tables, Pay Ratio Disclosure*, and *Director Compensation* in the Proxy Statement for our 2020 annual meeting (other than the Compensation Committee Report, which shall not be deemed to be “filed”).

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

The information required by this Item is incorporated by reference from the sections entitled *Beneficial Ownership of Fortive Common Stock by Directors, Officers and Principal Shareholders*, and *Equity Compensation Plan Information* in the Proxy Statement for our 2020 annual meeting.

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

The information required by this Item is incorporated by reference from the sections entitled *Corporate Governance* and *Certain Relationships and Related Transactions* in the Proxy Statement for our 2020 annual meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference from the section entitled *Ratification of Independent Registered Public Accounting Firm* in the Proxy Statement for our 2020 annual meeting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- a) The following documents are filed as part of this report.
- (1) Financial Statements. The financial statements are set forth under “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.
 - (2) Schedules. An index of Exhibits and Schedules is on page 103 of this report. Schedules other than those listed below have been omitted from this Annual Report on Form 10-K because they are not required, are not applicable or the required information is included in the financial statements or the notes thereto.
 - (3) Exhibits. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

**FORTIVE CORPORATION
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTARY DATA AND FINANCIAL STATEMENT SCHEDULE**

	<u>Page Number in Form 10-K</u>
Schedule:	
<u>Valuation and Qualifying Accounts</u>	<u>110</u>

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2.1	Separation and Distribution Agreement, dated as of July 1, 2016, by and between Fortive Corporation and Danaher Corporation Incorporated by reference from Exhibit 2.1 to Amendment No. 1 to Fortive Corporation’s Registration Statement on Form 10, filed on March 3, 2016 (Commission File Number: 1-37654)
2.2	Separation and Distribution Agreement, dated as of March 7, 2018, among Fortive Corporation, Stevens Holding Company, Inc. and Altra Industrial Motion Corp. Incorporated by reference from Exhibit 10.1 to Altra Industrial Motion Corp.’s Current Report on Form 8-K filed on March 9, 2018 (Commission File No. 1-33209)
2.3	Agreement and Plan of Merger and Reorganization, dated as of March 7, 2018, among Fortive Corporation, Stevens Holding Company, Inc., Altra Industrial Motion Corp. and McHale Acquisition Corp. Incorporated by reference from Exhibit 2.1 to Altra Industrial Motion Corp.’s Current Report on Form 8-K filed on March 9, 2018 (Commission File No. 1-33209)
2.4	Transaction Agreement, dated as of July 30, 2018, by and among Athena SuperHoldCo, Inc., TLFN Holding II Company, Gilbarco Catlow LLC, Gryphon Merger Sub Inc., Genstar Capital VII, L.P., solely in its capacity as the Seller Representative, and Fortive Corporation, solely in its capacity as the Parent Guarantor Incorporated by reference from Exhibit 2.1 to Fortive Corporation’s Current Report on Form 8-K filed on July 31, 2018 (Commission File Number: 1-37654)

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2.5	Stock and Asset Purchase Agreement, dated as of June 6, 2018 and executed on September 20, 2018, between Ethicon and the Company	Incorporated by reference from Exhibit 2.1 to Fortive Corporation's Current Report on Form 8-K filed on September 21, 2018 (Commission File Number: 1-37654)
3.1	Amended and Restated Certificate of Incorporation of Fortive Corporation	Incorporated by reference from Exhibit 3.1 to Fortive Corporation's Current Report on Form 8-K filed on June 9, 2017 (Commission File Number: 1-37654)
3.2	Certificate of Designations of the 5.00% Mandatory Convertible Preferred Stock, Series A	Incorporated by reference from Exhibit 3.1 to Fortive Corporation's Current Report on Form 8-K filed on June 29, 2018 (Commission File Number: 1-37654)
3.3	Amended and Restated Bylaws of Fortive Corporation	Incorporated by reference from Exhibit 3.2 to Fortive Corporation's Current Report on Form 8-K filed on June 9, 2017 (Commission File Number: 1-37654)
4.1	Indenture, dated as of June 20, 2016, between Fortive Corporation, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee	Incorporated by reference from Exhibit 4.1 to Fortive Corporation's Current Report on Form 8-K filed on June 21, 2016 (Commission File Number: 1-37654)
4.2	Specimen Certificate of the 5.00% Mandatory Convertible Preferred Stock, Series A	Incorporated by reference from Exhibit 4.1 to Fortive Corporation's Current Report on Form 8-K filed on June 29, 2018 (Commission File Number: 1-37654)
4.3	Indenture, dated as of February 22, 2019, among Fortive Corporation, the guarantors party thereto, and The Bank of New York Mellon Trust Company, N.A., as trustee	Incorporated by reference to Exhibit 4.1 to Fortive Corporation's Current Report on Form 8-K filed on February 22, 2019 (Commission File Number: 1-37654)
4.4	Description of Securities	
10.1	Amended and Restated Credit Agreement, dated as of November 30, 2018, among Fortive Corporation and certain of its subsidiaries party thereto, Bank of America, N.A., as Administrative Agent and Swing Line Lender, and the lenders referred to therein	Incorporated by reference from Exhibit 10.1 to Fortive Corporation's Current Report on Form 8-K filed on December 3, 2018 (Commission File Number 1-37654)
10.2	Credit Agreement, dated as of August 22, 2018, among Fortive Corporation, Bank of America, N.A., as Administrative Agent, and the lenders referred to therein	Incorporated by reference from Exhibit 10.1 to Fortive Corporation's Current Report on Form 8-K filed on August 22, 2018 (Commission File Number: 1-37654)
10.3	Amendment No. 1 to Term Loan Credit Agreement, dated as of February 21, 2019, among Fortive Corporation, Bank of America, N.A., as Administrative Agent, and the lenders referred to therein	Incorporated by reference to Exhibit 10.1 to Fortive Corporation's Current Report on Form 8-K filed on February 22, 2019 (Commission File Number: 1-37654)
10.4	Amendment No. 1 to Revolving Credit Agreement, dated as of February 21, 2019, among Fortive Corporation, Bank of America N.A., as Administrative Agent and a Swing Line Lender, and the lenders referred to therein	Incorporated by reference to Exhibit 10.2 to Fortive Corporation's Current Report on Form 8-K filed on February 22, 2019 (Commission File Number: 1-37654)
10.5	Term Loan Credit Agreement, dated as of March 1, 2019, among Fortive Corporation, Bank of America, N.A., as Administrative Agent, and the lenders referred to therein	Incorporated by reference to Exhibit 10.1 to Fortive Corporation's Current Report on Form 8-K filed on March 4, 2019 (Commission File Number: 1-37654)

10.6	Fortive Corporation 2016 Stock Incentive Plan, as amended and restated*	Incorporated by reference from Appendix B to Fortive Corporation's Proxy Statement on Schedule 14A filed on April 16, 2018 (Commission File Number 1-37654)
10.7	Form of Fortive Corporation Performance Stock Unit Agreement*	Incorporated by reference from Exhibit 10.8 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.8	Form of Fortive Corporation Non-Employee Directors Restricted Stock Unit Agreement *	Incorporated by reference from Exhibit 10.9 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.9	Form of Fortive Corporation Restricted Stock Grant Agreement*	Incorporated by reference from Exhibit 10.13 to Amendment No. 2 to Fortive Corporation's Registration Statement on Form 10, filed on April 7, 2016 (Commission File Number: 1-37654)
10.10	Form of Fortive Corporation Restricted Stock Unit Agreement*	Incorporated by reference from Exhibit 10.11 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.11	Form of Fortive Corporation Non-Employee Directors Stock Option Agreement*	Incorporated by reference from Exhibit 10.12 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.12	Form of Fortive Corporation Stock Option Agreement*	Incorporated by reference from Exhibit 10.13 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.13	Fortive Corporation Amended and Restated 2016 Executive Incentive Compensation Plan*	Incorporated by reference from Exhibit 10.18 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2018 (Commission File Number: 1-37654)
10.14	Fortive Corporation Severance and Change in Control Plan for Officers*	Incorporated by reference from Exhibit 10.1 to Fortive Corporation's Current Report on Form 8-K, filed on March 31, 2017 (Commission File Number: 1-37654)
10.15	Fortive Executive Deferred Incentive Program*	Incorporated by reference from Exhibit 10.10 to Fortive Corporation's Current Report on Form 8-K filed on June 1, 2016 (Commission File Number: 1-37654)
10.16	Form of D&O Indemnification Agreement*	Incorporated by reference from Exhibit 10.10 to Amendment No. 2 to Fortive Corporation's Registration Statement on Form 10, filed on April 7, 2016 (Commission File Number: 1-37654)
10.17	Aircraft Time Sharing Agreement, dated July 18, 2016, between Fortive Corporation and James Lico*	Incorporated by reference from Exhibit 10.18 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)

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10.18	Aircraft Time Sharing Agreement, dated July 18, 2016, between Fortive Corporation and Charles McLaughlin*	Incorporated by reference from Exhibit 10.19 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.19	Description of compensation arrangements for non-management directors*	Incorporated by reference from Exhibit 10.1 to Fortive Corporation's Quarterly Report on Form 10-Q for the quarter ended June 28, 2019 (Commission File Number: 1-37654)
10.20	Fortive Corporation Non-Employee Directors' Deferred Compensation Plan	Incorporated by reference from Exhibit 10.2 to Fortive Corporation's Quarterly Report on Form 10-Q for the quarter ended September 29, 2017 (Commission File Number: 1-37654)
10.21	Fortive Corporation Non-Employee Directors' Deferred Compensation Plan Election Form	Incorporated by reference from Exhibit 10.3 to Fortive Corporation's Quarterly Report on Form 10-Q for the quarter ended September 29, 2017 (Commission File Number: 1-37654)
10.22	Offer of Employment Letter, dated November 16, 2015, between TGA Employment Services LLC and Chuck McLaughlin*	Incorporated by reference from Exhibit 10.6 to Amendment No. 1 to Fortive Corporation's Registration Statement on Form 10, filed on March 3, 2016 (Commission File Number: 1-37654)
10.23	Offer of Employment Letter, dated February 1, 2016, between TGA Employment Services LLC and Barbara Hulit*	Incorporated by reference from Exhibit 10.22 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2016 (Commission File Number: 1-37654)
10.24	Offer of Employment Letter, dated November 11, 2015 between TGA Employment Services LLC and Patrick Murphy*	Incorporated by reference from Exhibit 10.8 to Amendment No. 1 to Fortive Corporation's Registration Statement on Form 10, filed on March 3, 2016 (Commission File Number: 1-37654)
10.25	Offer of Employment Letter, dated November 11, 2015 between TGA Employment Services LLC and William W. Pringle*	Incorporated by reference from Exhibit 10.25 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 (Commission File Number: 1-37654)
10.26	Form of Fortive Corporation and its Affiliated Entities Agreement Regarding Competition and Protection of Proprietary Interests*	Incorporated by reference from Exhibit 10.31 to Fortive Corporation's Annual Report on Form 10-K for the year ended December 31, 2018 (Commission File Number: 1-37654)
21.1	Subsidiaries of Registrant	
23.1	Consent of Independent Registered Public Accounting Firm	
31.1	Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2	Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	

32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (1)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (1)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
104	Inline Cover page formatted as Inline XBRL and contained in Exhibit 101
*	Indicates management contract or compensatory plan, contract or arrangement.
(1)	Exhibit 101 to this report includes the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2019 and 2018, (ii) Consolidated Statements of Earnings for the years ended December 31, 2019, 2018, and 2017, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018, and 2017, (iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018, and 2017, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017 and (vi) Notes to Consolidated Financial Statements.

The registrant agrees to furnish to the Commission supplementally upon request a copy of (i) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis and (ii) schedules or similar attachments omitted pursuant to Item 601(a)(5) of Regulation S-K.

SIGNATURES

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

FORTIVE CORPORATION

Date: February 27, 2020

By: /s/ JAMES A. LICO

James A. Lico

President and Chief Executive Officer

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

<u>Name, Title and Signature</u>	<u>Date</u>
<u>/s/ ALAN G. SPOON</u> Alan G. Spoon Chairman of the Board	February 27, 2020
<u>/s/ FERUZ DEWAN</u> Feroz Dewan Director	February 27, 2020
<u>/s/ JAMES A. LICO</u> James A. Lico President, Chief Executive Officer and Director	February 27, 2020
<u>/s/ KATE D. MITCHELL</u> Kate D. Mitchell Director	February 27, 2020
<u>/s/ MITCHELL P. RALES</u> Mitchell P. Rales Director	February 27, 2020
<u>/s/ STEVEN M. RALES</u> Steven M. Rales Director	February 27, 2020

<u>Name, Title and Signature</u>	<u>Date</u>
<u>/s/ JEANNINE P. SARGENT</u> Jeannine P. Sargent Director	February 27, 2020
<u>/s/ CHARLES E. MCLAUGHLIN</u> Charles E. McLaughlin Senior Vice President and Chief Financial Officer	February 27, 2020
<u>/s/ CHRISTOPHER M. MULHALL</u> Christopher M. Mulhall Chief Accounting Officer	February 27, 2020

FORTIVE CORPORATION AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(\$ in millions)

Classification	Balance at Beginning of Period ^(a)	Charged to Costs & Expenses	Impact of Currency	Charged to Other Accounts ^(b)	Write Offs, Write Downs & Deductions	Balance at End of Period ^(a)
Year Ended December 31, 2019:						
Allowances deducted from asset accounts						
Allowance for doubtful accounts	\$ 78.5	\$ 63.7	\$ (0.3)	\$ 1.5	\$ (61.3)	\$ 82.1
Year Ended December 31, 2018:						
Allowances deducted from asset accounts						
Allowance for doubtful accounts	\$ 66.5	\$ 48.5	\$ (0.8)	\$ 2.5	\$ (38.2)	\$ 78.5
Year Ended December 31, 2017:						
Allowances deducted from asset accounts						
Allowance for doubtful accounts	\$ 80.7	\$ 37.5	\$ 1.0	\$ 2.1	\$ (54.8)	\$ 66.5

^(a) Amounts include allowance for doubtful accounts classified as current and noncurrent.

^(b) Amounts are related to businesses acquired.

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

The following description of registered securities of Fortive Corporation (“us,” “our,” “we” or the “Company”) is intended as a summary only and therefore is not a complete description. This description is based upon, and is qualified by reference to, our amended and restated certificate of incorporation (our “Charter”), the certificate of designations setting forth the terms of the 5.00% Mandatory Convertible Preferred Stock, Series A (the “Certificate of Designations”), our amended and restated bylaws (our “Bylaws”) and applicable provisions of Delaware corporate law (the “DGCL”). You should read our Charter, Bylaws and Certificate of Designations, which are incorporated by reference as Exhibit 3.1, Exhibit 3.2 and Exhibit 3.3, respectively, to the Annual Report on Form 10-K of which this Exhibit 4.4 is a part, for the provisions that are important to you.

Our authorized capital stock consists of 2 billion shares of common stock, par value \$0.01 per share, and 15,000,000 shares of preferred stock, par value \$0.01 per share, of which 1,380,000 shares have been designated as 5.00% Mandatory Convertible Preferred Stock, Series A (“Mandatory Convertible Preferred Stock”). Our common stock and the Mandatory Convertible Preferred Stock are registered under Section 12(b) of the Exchange Act.

Common Stock

General

Each holder of common stock is entitled to one vote for each share on all matters to be voted upon by the common shareholders, and there are no cumulative voting rights. The holders of common stock entitled to cast a majority of votes at a shareholder meeting constitute a quorum at such meeting. Subject to any preferential rights of any outstanding preferred stock, holders of common stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for that purpose. If there is a liquidation, dissolution or winding up of the Company, holders of our common stock would be entitled to ratable distribution of its assets remaining after the payment in full of liabilities and any preferential rights of any then-outstanding preferred stock.

Directors are generally elected by a majority of the votes cast by holders of common stock. However, directors are elected by a plurality of the votes cast by holders of common stock in the case of elections held at a stockholders’ meeting for which (i) the Company’s corporate secretary has received a notice or otherwise has become aware, prior to such meeting, that a holder of common stock has nominated a person for election to our board of directors and (ii) such nomination has not been withdrawn by such stockholder on or before the tenth day before the Company first mails its notice of meeting for such meeting to the stockholders. A majority of the votes cast means that the number of votes cast “for” a director’s election exceeds the number of votes cast “against” that director’s election. Abstentions and broker non-votes are not counted as votes cast either “for” or “against” a director’s election.

Holders of common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable.

The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that the Company may designate and issue. Under the terms of our Charter, our board of directors is authorized, subject to limitations prescribed by the DGCL and by our Charter, to issue preferred stock in one or more series without further action by the holders of common stock. Our board of directors has the discretion, subject to limitations prescribed by the DGCL and by our Charter, to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

Anti-Takeover Effects of Various Provisions of Delaware Law and Our Charter and Bylaws

Provisions of the DGCL and our Charter and Bylaws could make it more difficult to acquire the Company by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with our board of directors. We believe that the benefits of increased protection of our ability to negotiate with the proponent of an unfriendly or

unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Anti-Takeover Statute. We are subject to Section 203 of the DGCL, an anti-takeover statute. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years following the time the person became an interested stockholder, unless (i) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of shareholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status did own) 15% or more of a corporation’s voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our shareholders.

Election of Directors. At the time of our IPO, our Charter provided that our board of directors be divided into three classes, with members of each class of directors serving a three-year term. At the 2017 annual meeting of stockholders, our stockholders approved a proposal from our board of directors to amend our Charter to declassify the board of directors and to provide, starting with the 2019 annual meeting of stockholders, for the election of directors to one-year terms. At the 2020 annual meeting of stockholders, the directors whose terms expire at that meeting shall be elected to hold office for a one-year term expiring at the 2021 annual meeting of stockholders. At the 2021 annual meeting of stockholders, and each annual meeting of stockholders thereafter, all directors shall be elected for a one-year term expiring at the next annual meeting of stockholders. Until the classified board is phased-out, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of the Company.

Proxy Access. Our Bylaws permit a stockholder, or a group of up to 20 stockholders, owning 3% or more of our outstanding common stock continuously for at least three years to nominate and include in the Corporation’s proxy materials directors constituting up to 20% of our board of directors, provided that the nominating stockholder(s) and the nominee(s) satisfy the procedural and eligibility requirements specified in our Bylaws.

Removal of Directors. Our Charter provides that our shareholders may remove our directors at any time with or without cause, by an affirmative vote of holders of at least the majority of our voting stock then outstanding, except that any director elected prior to completion of the classified board phase-out, and any director appointed to fill a vacancy caused by the death, resignation, retirement, disqualification or removal of any such director, may be removed only for cause.

Amendments to Certificate of Incorporation. Our Charter provides that the affirmative vote of the holders of at least 80% of our voting stock then outstanding is required to amend certain provisions relating to the number, term, classification, removal and filling of vacancies with respect to our board of directors, the advance notice to be given for nominations for elections of directors, the calling of special meetings of shareholders, cumulative voting, shareholder action by written consent, the ability to amend the Bylaws, the elimination of liability of directors to the extent permitted by Delaware law, director and officer indemnification and any provision relating to the amendment of any of these provisions.

Amendments to Bylaws. Our Charter and Bylaws provide that our Bylaws may be amended by our board of directors or by the affirmative vote of holders of at least 80% of our voting stock then outstanding.

Size of Board and Vacancies. Our Charter provides that the number of directors on our board of directors will be fixed exclusively by our board of directors. Any vacancies created in our board of directors resulting from any increase in the authorized number of directors or the death, resignation, retirement, disqualification, removal from office or other cause will be filled exclusively by a majority of the directors then in office, even if less than a quorum is present, or by a sole remaining director. Any director appointed to fill a vacancy, other than one arising from an increase in the authorized number of directors, will hold office until the earlier of the expiration of the term of office of the director whom he or she has replaced, a successor is duly elected and qualified or the earlier of such director’s death, resignation or removal. Any director appointed to fill a newly created directorship resulting from an increase in the authorized number of directors will hold office until the earlier of

the next subsequent annual meeting of stockholders, a successor is duly elected and qualified or the earlier of such director's death, resignation or removal.

Special Shareholder Meetings. Our Charter provides that special meetings of stockholders may be called by our secretary upon a written request delivered to the secretary by (a) our board of directors pursuant to a resolution adopted by a majority of the entire board of directors, (b) the chairman of the board of directors or (c) our chief executive officer. Shareholders may not call special shareholder meetings.

Shareholder Action by Written Consent. Our Charter expressly eliminates the right of our shareholders to act by written consent. Shareholder action must take place at the annual or a special meeting of our shareholders.

Requirements for Advance Notification of Shareholder Nominations and Proposals. Our Charter mandates that shareholder nominations for the election of directors will be given in accordance with our Bylaws. Our Bylaws establish advance notice procedures with respect to shareholder proposals and nomination of candidates for election as directors as well as minimum qualification requirements for shareholders making the proposals or nominations. Additionally, our Bylaws require that candidates for election as director disclose their qualifications and make certain representations.

No Cumulative Voting. The DGCL provides that shareholders are denied the right to cumulate votes in the election of directors unless the company's certificate of incorporation provides otherwise. Our Charter does not provide for cumulative voting.

Undesignated Preferred Stock. The authority that our board of directors possesses to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of the Company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Our board of directors may be able to issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock.

Limitations on Liability, Indemnification of Officers and Directors and Insurance

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their shareholders for monetary damages for breaches of directors' fiduciary duties as directors, and our Charter includes such an exculpation provision. Our Charter and Bylaws include provisions that indemnify, to the fullest extent allowable under the DGCL, the personal liability of directors or officers for monetary damages for actions taken as a director or officer of the Company, or for serving at our request as a director or officer or another position at another corporation or enterprise, as the case may be. Our Charter and Bylaws also provide that we must indemnify and advance reasonable expenses to our directors and, subject to certain exceptions, officers, subject to our receipt of an undertaking from the indemnified party as may be required under the DGCL. Our Charter expressly authorizes us to carry directors' and officers' insurance to protect the Company, our directors, officers and certain employees for some liabilities.

The limitation of liability and indemnification provisions that are in our Charter and Bylaws may discourage shareholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit the Company and its shareholders. However, these provisions do not limit or eliminate our rights, or those of any shareholder, to seek non-monetary relief such as injunction or rescission in the event of a breach of a director's duty of care. The provisions do not alter the liability of directors under the federal securities laws. In addition, a shareholder's investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

Exclusive Forum

Unless we otherwise consents in writing, the sole and exclusive forum for (1) any derivative action or proceeding brought on behalf of the Company, (2) any action asserting a claim of breach of fiduciary duty owed by any director or officer of the Company to the Company or our shareholders, (3) any action asserting a claim against the Company or any director or officer of the Company arising pursuant to any provision of the DGCL, or (4) any action asserting a claim governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware or, if the Court of Chancery of the State of Delaware does not have jurisdiction, another state or federal court located within the State of Delaware.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. We may use additional shares for a variety of purposes, including future public offerings to raise

additional capital, to fund acquisitions and as employee compensation. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or otherwise.

5.00% Mandatory Convertible Preferred Stock, Series A

General

The Mandatory Convertible Preferred Stock is fully paid and nonassessable, and our common stock issued upon the conversion of the Mandatory Convertible Preferred Stock will be fully paid and nonassessable. Holders of the Mandatory Convertible Preferred Stock have no preemptive or preferential rights to purchase or subscribe for stock, obligations, warrants or other securities of ours of any class.

Ranking

The Mandatory Convertible Preferred Stock, with respect to dividend rights and distribution rights upon our liquidation, winding-up or dissolution, ranks:

- senior to (i) our common stock and (ii) each other class or series of our capital stock established after June 26, 2018 (which we refer to as the “initial issue date”) the terms of which do not expressly provide that such class or series will rank senior to, or on parity with, the Mandatory Convertible Preferred Stock as to dividend rights and distribution rights upon our liquidation, winding-up or dissolution (which we refer to collectively as “junior stock”);
- on parity with each class or series of our capital stock established after the initial issue date the terms of which expressly provide that such class or series will rank on parity with the Mandatory Convertible Preferred Stock as to dividend rights and distribution rights upon our liquidation, winding-up or dissolution (which we refer to collectively as “parity stock”);
- junior to each class or series of our capital stock established after the initial issue date the terms of which expressly provide that such class or series will rank senior to the Mandatory Convertible Preferred Stock as to dividend rights and distribution rights upon our liquidation, winding-up or dissolution (which we refer to collectively as “senior stock”);
- junior to our existing and future indebtedness and other liabilities; and
- structurally subordinated to any existing and future indebtedness and other liabilities of our subsidiaries and capital stock of our subsidiaries held by third parties.

Dividends

Subject to the rights of holders of any class or series of our capital stock ranking senior to the Mandatory Convertible Preferred Stock with respect to dividends, holders of the Mandatory Convertible Preferred Stock are entitled to receive, when, as and if declared by our board of directors, or an authorized committee thereof, out of funds legally available for payment, cumulative dividends at the rate per annum of 5.00% of the liquidation preference of \$1,000 per share of the Mandatory Convertible Preferred Stock (equivalent to \$50.00 per annum per share), payable in cash or by delivery of shares of our common stock or any combination of cash and shares of our common stock, as determined by us in our sole discretion (subject to the limitations described below). See “—Method of Payment of Dividends” below. Declared dividends on the Mandatory Convertible Preferred Stock are payable quarterly on January 1, April 1, July 1 and October 1 of each year to, and including, July 1, 2021 (each, a “dividend payment date”), at such annual rate, and dividends shall accumulate from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the initial issue date of the Mandatory Convertible Preferred Stock, whether or not in any dividend period or periods there have been funds legally available for the payment of such dividends. Declared dividends are payable on the relevant dividend payment date to holders of record of the Mandatory Convertible Preferred Stock as they appear on our stock register at the close of business on the immediately preceding March 15, June 15, September 15 and December 15 (each, a “record date”), whether or not such holders convert their shares, or such shares are mandatorily converted, after a record date and on or prior to the immediately succeeding dividend payment date. These record dates will apply regardless of whether a particular record date is a business day. A “business day” means any day other than a Saturday or Sunday or any other day on which commercial banks in New York City are authorized or required by law or executive order to close. If a dividend payment date is not a business day, payment will be made on the next succeeding business day, without any interest or other payment in lieu of interest accruing with respect to this delay.

A dividend period is the period from, and including, a dividend payment date to, but excluding, the next dividend payment date, except that the initial dividend period commenced on, and included, the initial issue date of the Mandatory

Convertible Preferred Stock and ended on, and excluded, the October 1, 2018 dividend payment date. The amount of dividends payable on each share of the Mandatory Convertible Preferred Stock for each full dividend period (after the initial dividend period) will be computed by dividing the annual dividend rate by four. Dividends payable on the Mandatory Convertible Preferred Stock for any period other than a full dividend period will be computed based upon the actual number of days elapsed during such period over a 360-day year (consisting of twelve 30-day months). The dividend on the Mandatory Convertible Preferred Stock for each subsequent dividend period after the initial dividend period, when, as and if declared, will be \$12.50 per share. Accumulations of dividends on shares of the Mandatory Convertible Preferred Stock do not bear interest.

No dividend will be declared or paid upon, or any sum of cash or number of shares of our common stock set apart for the payment of dividends upon, any outstanding shares of Mandatory Convertible Preferred Stock with respect to any dividend period unless all dividends for all preceding dividend periods have been declared and paid upon, or a sufficient sum of cash or number of shares of our common stock has been set apart for the payment of such dividends upon, all outstanding shares of Mandatory Convertible Preferred Stock.

Except as described above, dividends on shares of Mandatory Convertible Preferred Stock converted to common stock will cease to accumulate, and all other rights of holders of the Mandatory Convertible Preferred Stock will terminate, from and after, the mandatory conversion date, the fundamental change conversion date or the early conversion date (each, as defined below), as applicable.

Our ability to declare and pay cash dividends and to make other distributions with respect to our capital stock, including the Mandatory Convertible Preferred Stock, may be limited by the terms of our and our subsidiaries' existing and future indebtedness. In particular, our credit facilities contain covenants that may restrict our ability to pay cash dividends on our capital stock, including the Mandatory Convertible Preferred Stock. Specifically, we may pay cash dividends and make other distributions on our capital stock, including the Mandatory Convertible Preferred Stock, only if certain conditions are met, including the absence of any event of default under such credit facilities. Any credit facilities, indentures or other financing agreements we enter into in the future may contain similar restrictions. In addition, our ability to declare and pay dividends may be limited by applicable Delaware law.

So long as any share of Mandatory Convertible Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on our common stock or any other class or series of junior stock, and no common stock or any other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us or any of our subsidiaries unless, in each case, all accumulated and unpaid dividends for all preceding dividend periods have been declared and paid, or a sufficient sum of cash or number of shares of our common stock has been set apart for the payment of such dividends, on all outstanding shares of Mandatory Convertible Preferred Stock.

The foregoing limitation shall not apply to: (i) any dividend or distribution payable in shares of common stock or other junior stock, together with cash in lieu of any fractional share, (ii) purchases, redemptions or other acquisitions of common stock or other junior stock in connection with the administration of any benefit or other incentive plan, including, without limitation, the forfeiture or surrender of unvested shares of restricted stock or share withholdings or other surrender of shares to which the holder may otherwise be entitled upon exercise, and the payment of cash in lieu of fractional shares; (iii) purchases of fractional interests in shares of any common stock or other junior stock pursuant to the conversion or exchange provisions of such shares of other junior stock or any securities exchangeable for or convertible into shares of common stock or other junior stock; (iv) any dividends or distributions of rights or common stock or other junior stock in connection with a stockholders' rights plan or any redemption or repurchase of rights pursuant to any stockholders' rights plan; (v) the deemed purchase or acquisition of fractional interests in shares of our common stock or other junior stock pursuant to the conversion or exchange provisions of such shares or the security being converted or exchanged; (vi) the acquisition by us or any of our subsidiaries of record ownership in common stock or other junior stock or parity stock for the beneficial ownership of any person (other than us or any of our subsidiaries), including as trustees or custodians, and the payment of cash in lieu of fractional shares; and (vii) the exchange or conversion of junior stock for or into other junior stock or of parity stock for or into other parity stock (with the same or lesser aggregate liquidation amount) or junior stock and the payment of cash in lieu of fractional shares.

When dividends on shares of the Mandatory Convertible Preferred Stock (i) have not been declared and paid in full on any dividend payment date, or (ii) have been declared but a sum of cash or number of shares of our common stock sufficient for payment thereof has not been set aside for the benefit of the holders thereof as of the applicable record date, no dividends may be declared or paid on any parity stock unless and until dividends are declared on the shares of Mandatory Convertible Preferred Stock such that the respective amounts of such dividends declared on the shares of Mandatory Convertible Preferred Stock and such parity stock shall bear the same ratio to each other as all accumulated dividends and all declared and unpaid dividends per share on the shares of Mandatory Convertible Preferred Stock and such parity stock bear to each other; *provided, however*, that any unpaid dividends will continue to accumulate.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by our board of directors, or an authorized committee thereof, may be declared and paid on any securities, including our common stock, from time to time out of any funds legally available for such payment, and holders of the Mandatory Convertible Preferred Stock shall not be entitled to participate in any such dividends.

Method of Payment of Dividends

Subject to the limitations described below, we may pay any declared dividend (or any portion of any declared dividend) on the shares of Mandatory Convertible Preferred Stock (whether for a current dividend period or any prior dividend period), as determined in our sole discretion:

- in cash;
- by delivery of shares of our common stock; or
- by delivery of any combination of cash and shares of our common stock.

We will make each payment of a declared dividend on the shares of Mandatory Convertible Preferred Stock in cash, except to the extent we timely elect to make all or any portion of such payment in shares of our common stock. We will give the holders of the Mandatory Convertible Preferred Stock notice of any such election and the portions of such payment that will be made in cash and in shares of our common stock no later than 10 scheduled trading days (as defined below) prior to the dividend payment date for such dividend; *provided, however*, that if we do not provide timely notice of this election, we will be deemed to have elected to pay the relevant dividend in cash. All cash payments to which a holder of Mandatory Convertible Preferred Stock is entitled in connection with a dividend will be computed to the nearest cent.

If we elect to make any payment of a declared dividend, or any portion thereof, in shares of our common stock, such shares will be valued for such purpose at 97% of the average VWAP (as defined below) per share of our common stock over the five consecutive trading day (as defined below) period beginning on, and including, the seventh scheduled trading day (as defined below) prior to the applicable dividend payment date (such average, the “average price”). If the five trading day period to determine the average price ends on or after the dividend payment date (whether because a scheduled trading day is not a trading day due to the occurrence of a market disruption event or otherwise), then the dividend payment date will be postponed until the business day after the final trading day of such five trading day period. No interest or other amount will accrue as a result of such postponement.

No fractional shares of our common stock will be delivered to the holders of the Mandatory Convertible Preferred Stock in payment or partial payment of a dividend. We will instead, to the extent we are legally permitted to do so, pay a cash amount to each holder that would otherwise be entitled to receive a fraction of a share of our common stock based on the average price with respect to such dividend.

To the extent a shelf registration statement is required in our reasonable judgment in connection with the issuance of, or for resales of, shares of our common stock issued as payment of a dividend on the shares of Mandatory Convertible Preferred Stock, including dividends paid in connection with a conversion, we will, to the extent such a shelf registration statement is not currently filed and effective, use our commercially reasonable efforts to file and maintain the effectiveness of such a shelf registration statement until the earlier of such time as all such shares of common stock have been resold thereunder and such time as all such shares would be freely tradable without registration by holders thereof that are not (and were not at any time during the preceding three months) “affiliates” of ours for purposes of the Securities Act of 1933, as amended, and the rules and regulations thereunder. To the extent applicable, we will also use our commercially reasonable efforts to have the shares of our common stock qualified or registered under applicable U.S. state securities laws, if required, and approved for listing on the NYSE (or if our common stock is not listed on the NYSE, on the principal other U.S. national or regional securities exchange on which our common stock is then listed).

Notwithstanding the foregoing, in no event will the number of shares of our common stock to be delivered per share of the Mandatory Convertible Preferred Stock in connection with any declared dividend, including any declared dividend payable in connection with a conversion, exceed a number equal to the total dividend payment per share of the Mandatory Convertible Preferred Stock divided by the floor price (as defined below). The “floor price” is, as of December 31, 2019, \$26.20, subject to further adjustment in a manner inversely proportional to any anti-dilution adjustment to each fixed conversion rate as set forth below in “—Anti-Dilution Adjustments.” Except as described below under “—Conversion at the Option of the Holder,” to the extent that the amount of any declared dividend exceeds the product of (x) the number of shares of our common stock delivered in connection with such dividend and (y) 97% of the average price applicable to such dividend, we will, if we are able to do so under applicable law and the terms of our credit facilities and other indebtedness, pay such excess amount in cash pro rata per share to the holders of the Mandatory Convertible Preferred Stock.

Redemption

The Mandatory Convertible Preferred Stock is not redeemable. However, at our option, we may purchase or exchange the Mandatory Convertible Preferred Stock from time to time in the open market, by tender offer, exchange offer or otherwise without the consent of, or notice to, holders of the Mandatory Convertible Preferred Stock.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, winding-up or dissolution, each holder of the Mandatory Convertible Preferred Stock is entitled to receive a liquidation preference in the amount of \$1,000 per share of the Mandatory Convertible Preferred Stock (the “liquidation preference”), plus an amount (the “liquidation dividend amount”) equal to accumulated and unpaid dividends on such shares to, but excluding, the date fixed for liquidation, winding-up or dissolution to be paid out of our assets legally available for distribution to our stockholders, after satisfaction of debt and other liabilities owed to our creditors and holders of shares of any senior stock and before any payment or distribution is made to holders of junior stock (including our common stock). If, upon our voluntary or involuntary liquidation, winding-up or dissolution, the amounts payable with respect to (1) the liquidation preference plus the liquidation dividend amount on the shares of Mandatory Convertible Preferred Stock and (2) the liquidation preference of, and the amount of accumulated and unpaid dividends (to, but excluding, the date fixed for liquidation, winding-up or dissolution) on, all other parity stock are not paid in full, the holders of the Mandatory Convertible Preferred Stock and all holders of any such other parity stock will share equally and ratably in any distribution of our assets in proportion to their liquidation preference and amounts equal to accumulated and unpaid dividends to which they are entitled. After payment to any holder of Mandatory Convertible Preferred Stock of the full amount of the liquidation preference and the liquidation dividend amount for such holder’s shares of Mandatory Convertible Preferred Stock, such holder of the Mandatory Convertible Preferred Stock as such will have no right or claim to any of our remaining assets.

Neither the sale, lease or exchange of all or substantially all of our assets, nor our merger or consolidation into or with any other person, will be deemed to be our voluntary or involuntary liquidation, winding-up or dissolution.

Our Charter, including the Certificate of Designations, does not contain any provision requiring funds to be set aside to protect the liquidation preference of the Mandatory Convertible Preferred Stock.

Voting Rights

The holders of the Mandatory Convertible Preferred Stock do not have any voting rights, except as described below and as specifically required by Delaware law from time to time.

Whenever dividends on any shares of the Mandatory Convertible Preferred Stock (i) have not been declared and paid, or (ii) have been declared but a sum of cash or number of shares of our common stock sufficient for payment thereof has not been set aside for the benefit of the holders thereof on the applicable record date, for the equivalent of six or more dividend periods, whether or not for consecutive dividend periods and including the first dividend period beginning on the initial issue date (a “nonpayment”), the authorized number of directors on our board of directors will, at the next annual meeting of stockholders or at a special meeting of stockholders as provided below, automatically be increased by two and the holders of the Mandatory Convertible Preferred Stock, voting together as a single class with the holders of any and all other series of voting preferred stock (as defined below) then outstanding, will be entitled, at our next annual meeting or at a special meeting of stockholders, if any, to fill such newly created directorships by electing two additional directors (the “preferred stock directors”); *provided, however*, that the election of any such directors will not cause us to violate the corporate governance requirements of the NYSE (or any other exchange or automated quotation system on which our securities may be listed or quoted) for listed or quoted companies to have a majority of independent directors; and *provided, further*, that our board of directors shall, at no time, include more than two preferred stock directors. In the event of a nonpayment, the holders of record of at least 25% of the shares of the Mandatory Convertible Preferred Stock and any other series of voting preferred stock may request that a special meeting of stockholders be called to elect such preferred stock directors (*provided, however*, that if our next annual or a special meeting of stockholders is scheduled to be held within 90 days of the receipt of such request, the election of such preferred stock directors, to the extent otherwise permitted by our Bylaws, will, instead, be included in the agenda for and will be held at such scheduled annual or special meeting of stockholders). The preferred stock directors stand for reelection annually, and at each subsequent annual meeting of the stockholders, so long as the holders of the Mandatory Convertible Preferred Stock continue to have such voting rights.

At any meeting at which the holders of the Mandatory Convertible Preferred Stock are entitled to elect preferred stock directors, the holders of record of a majority of the then outstanding shares of the Mandatory Convertible Preferred Stock and all other series of voting preferred stock, present in person or represented by proxy, constitute a quorum and the vote of the holders of a majority of such shares of the Mandatory Convertible Preferred Stock and other voting preferred stock so present

or represented by proxy at any such meeting at which there shall be a quorum shall be sufficient to elect the preferred stock directors.

As used in this description, “voting preferred stock” means any series of our preferred stock, other than the Mandatory Convertible Preferred Stock, ranking equally with the Mandatory Convertible Preferred Stock either as to dividends or to the distribution of assets upon liquidation, dissolution or winding-up and upon which like voting rights for the election of directors have been conferred and are exercisable. Whether a plurality, majority or other portion in voting power of the Mandatory Convertible Preferred Stock and any other voting preferred stock has been voted in favor of any matter shall be determined by reference to the respective liquidation preference amounts of the Mandatory Convertible Preferred Stock and such other voting preferred stock voted.

If and when all accumulated and unpaid dividends on the Mandatory Convertible Preferred Stock have been paid in full (a “nonpayment remedy”), the holders of the Mandatory Convertible Preferred Stock shall immediately and, without any further action by us, be divested of the foregoing voting rights, subject to the revesting of such rights in the event of each subsequent nonpayment. If such voting rights for the holders of the Mandatory Convertible Preferred Stock and all other holders of voting preferred stock have terminated, the term of office of each preferred stock director so elected will terminate at such time and the authorized number of directors on our board of directors shall automatically decrease by two.

Any preferred stock director may be removed at any time, with cause as provided by law or without cause by the holders of record of a majority in voting power of the outstanding shares of the Mandatory Convertible Preferred Stock and any other series of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. In the event that a nonpayment shall have occurred and there shall not have been a nonpayment remedy, any vacancy in the office of a preferred stock director (other than prior to the initial election of preferred stock directors after a nonpayment) may be filled by the written consent of the preferred stock director remaining in office or, if none remains in office, by a vote of the holders of record of a majority in voting power of the outstanding shares of the Mandatory Convertible Preferred Stock and any other series of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above; *provided, however*, that the filling of each vacancy will not cause us to violate the corporate governance requirements of the NYSE (or any other exchange or automated quotation system on which our securities may be listed or quoted) for listed or quoted companies to have a majority of independent directors. Any such vote of stockholders to remove, or to fill a vacancy in the office of, a preferred stock director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of preferred stock directors after a nonpayment (*provided*, that such request is received at least 90 days before the date fixed for the next annual or special meeting of stockholders, failing which such election shall be included in the agenda for and shall be held at the next scheduled annual or special meeting of stockholders). The preferred stock directors are each entitled to one vote per director on any matter that comes before our board of directors for a vote. Each preferred stock director elected at any special meeting of stockholders or by written consent of the other preferred stock director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated and such preferred stock director shall not have been removed from such office, in each case as above provided.

So long as any shares of the Mandatory Convertible Preferred Stock are outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of the Mandatory Convertible Preferred Stock and all other series of voting preferred stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing or by vote at an annual or special meeting of such stockholders:

- issue, authorize or create, or increase the issued or authorized amount of, any specific class or series of senior stock; or
- amend or alter the provisions of our Charter or the Certificate of Designations so as to authorize or create, or increase the authorized amount of, any class or series of senior stock; or
- amend, alter or repeal any provision of our Charter or the Certificate of Designations so as to adversely affect the special rights, preferences, privileges or voting powers of the Mandatory Convertible Preferred Stock; or
- consummate a binding share exchange or reclassification involving the shares of the Mandatory Convertible Preferred Stock, or a merger or consolidation of us with or into another entity, unless in each case: (i) the shares of the Mandatory Convertible Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity (or the Mandatory Convertible Preferred Stock is otherwise exchanged or reclassified), are converted or reclassified into or exchanged for preferred stock of the surviving or resulting entity or its ultimate parent; and (ii) the shares of the Mandatory Convertible Preferred Stock that remain outstanding or such shares of preferred stock, as the case may be, have rights, preferences, privileges and voting powers that, taken as a whole, are not materially less favorable to the holders thereof than the rights,

preferences, privileges and voting powers, taken as a whole, of the Mandatory Convertible Preferred Stock immediately prior to the consummation of such transaction; *provided, however*, that (1) any increase in the amount of our authorized but unissued shares of our preferred stock, (2) any increase in the amount of our authorized Mandatory Convertible Preferred Stock or the issuance of any additional shares of the Mandatory Convertible Preferred Stock or (3) the authorization or creation of any class or series of parity or junior stock, any increase in the amount of authorized but unissued shares of such class or series of parity or junior stock or the issuance of any shares of such class or series of parity or junior stock will be deemed not to adversely affect (or to otherwise cause to be materially less favorable) the rights, preferences, privileges or voting powers of the Mandatory Convertible Preferred Stock and shall not require the affirmative vote of holders of the Mandatory Convertible Preferred Stock. Our Charter and Delaware law permit us, without the approval of any of our stockholders (including any holders of the Mandatory Convertible Preferred Stock), to establish and issue a new series of preferred stock ranking equal with or junior to the Mandatory Convertible Preferred Stock, which may dilute the voting and other interests of holders of the Mandatory Convertible Preferred Stock.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation described above would adversely affect one or more but not all series of voting preferred stock, then only those series of voting preferred stock adversely affected and entitled to vote shall vote as a class in lieu of all other series of voting preferred stock.

Without the consent of the holders of the Mandatory Convertible Preferred Stock, so long as such action does not adversely affect the special rights, preferences, privileges or voting powers of the Mandatory Convertible Preferred Stock, and limitations and restrictions thereof, we may amend, alter, supplement or repeal any terms of the Mandatory Convertible Preferred Stock for the following purposes:

- to cure any ambiguity or mistake, or to correct or supplement any provision contained in the Certificate of Designations establishing the terms of the Mandatory Convertible Preferred Stock that may be defective or inconsistent with any other provision contained in such Certificate of Designations;
- to make any provision with respect to matters or questions relating to the Mandatory Convertible Preferred Stock that is not inconsistent with the provisions of our Charter or the Certificate of Designations establishing the terms of the Mandatory Convertible Preferred Stock; or
- to waive any of our rights with respect thereto.

Mandatory Conversion

Each share of the Mandatory Convertible Preferred Stock, unless previously converted, will mandatorily convert on the mandatory conversion date, into a number of shares of our common stock equal to the conversion rate described below. If we declare a dividend on the Mandatory Convertible Preferred Stock for the dividend period ending on July 1, 2021, we will pay such dividend to the holders of record as of the close of business on the immediately preceding record date, as described above under “—Dividends.” If, on or prior to July 1, 2021 we have not declared and paid all or any portion of the accumulated dividends on the Mandatory Convertible Preferred Stock, the conversion rate will be increased by a number of shares of our common stock equal to the amount of such undeclared, accumulated and unpaid dividends per share of Mandatory Convertible Preferred Stock (the “additional conversion amount”) divided by the greater of the floor price and 97% of the average price. To the extent that the additional conversion amount per share of Mandatory Convertible Preferred Stock exceeds the product of such number of additional shares and 97% of the average price, we will, if we are legally able to do so, declare and pay such excess amount in cash pro rata per share to the holders of the Mandatory Convertible Preferred Stock.

The “conversion rate,” which is the number of shares of our common stock issuable upon conversion of each share of the Mandatory Convertible Preferred Stock on the mandatory conversion date, will, subject to adjustment as described above for any additional conversion amount or as described in “—Anti-Dilution Adjustments” below, be as follows:

- if the applicable market value (as defined below) of our common stock is greater than \$92.12 (the “threshold appreciation price,” which represents an approximately 22.5% appreciation over the initial price, and which is subject to adjustment as described below under the caption “—Anti-Dilution Adjustments”), then the conversion rate will be 10.8554 shares of our common stock per share of the Mandatory Convertible Preferred Stock (the “minimum conversion rate,” subject to adjustment as described below under the caption “—Anti-Dilution Adjustments”), which is approximately equal to \$1,000 divided by the threshold appreciation price;
- if the applicable market value of our common stock is less than or equal to the threshold appreciation price but greater than or equal to \$75.20 (the “initial price,” which is subject to adjustment as described below under the caption “—Anti-Dilution Adjustments”), then the conversion rate will be equal to \$1,000 divided by the applicable market value

of our common stock, which will be between 10.8554 and 13.2979 shares of our common stock per share of the Mandatory Convertible Preferred Stock; or

- if the applicable market value of our common stock is less than the initial price, then the conversion rate will be 13.2979 shares of our common stock per share of the Mandatory Convertible Preferred Stock (the “maximum conversion rate,” subject to adjustment as described below under the caption “—Anti-Dilution Adjustments”), which is approximately equal to \$1,000 divided by the initial price. For the avoidance of doubt, the conversion rate per share of the Mandatory Convertible Preferred Stock will in no event exceed the maximum conversion rate, subject to adjustment as described under “—Anti-Dilution Adjustments” below and exclusive of any additional conversion amount or any amounts owing in respect of accrued and unpaid dividends paid at our election in shares of common stock.

We refer to the minimum conversion rate and the maximum conversion rate collectively as the “fixed conversion rates.” The fixed conversion rates, the initial price, the threshold appreciation price and the applicable market value are each subject to adjustment as described under “—Anti-Dilution Adjustments” below.

Certain Definitions

The term “applicable market” means the NYSE, or if our common stock is not listed on the NYSE, the principal U.S. national or regional securities exchange on which our common stock is then listed or, if our common stock is not then listed on a U.S. national or regional securities exchange, the principal other market on which our common stock is then traded.

“Applicable market value” means the average VWAP per share of our common stock over the settlement period.

The term “close of business” means 5:00 p.m., New York City time.

“Mandatory conversion date” means the second business day immediately following the last trading day of the settlement period. The mandatory conversion date is expected to be July 1, 2021. If the 20 consecutive trading day period to determine the applicable market value ends on or after the trading day prior to July 1, 2021 (whether because a scheduled trading day is not a trading day due to the occurrence of a market disruption event or otherwise) such that the mandatory conversion date occurs after July 1, 2021, no interest or other amounts will accrue as a result of such postponement.

The term “open of business” means 9:00 a.m., New York City time.

A “scheduled trading day” is any day that is scheduled to be a trading day on the applicable market.

“Settlement period” means the 20 consecutive trading day period beginning on, and including, the 22nd scheduled trading day immediately preceding July 1, 2021.

A “trading day” is a day on which:

- there is no market disruption event; and
- our common stock has traded at least once on the applicable market;

provided, however, that if our common stock is not traded on any applicable market, “trading day” means any business day.

The term “market disruption event” means our common stock is suspended from, or limited in, trading on the applicable market during any period or periods aggregating one half-hour or longer.

“VWAP” per share of our common stock on any trading day means the per share volume-weighted average price as displayed on Bloomberg page “FTV <EQUITY>AQR” (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading to the scheduled close of trading on the primary trading session of the applicable market on such trading day; or, if such price is not available, “VWAP” means the market value per share of our common stock on such trading day as determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained by us for this purpose, which may include any of the underwriters for this offering. The “average VWAP” means the average of the VWAPs for each trading day in the relevant period.

Conversion at the Option of the Holder

Other than during a fundamental change conversion period (as defined below under “—Conversion at the Option of the Holder upon Fundamental Change; Fundamental Change Dividend Make-Whole Amount”), holders of the Mandatory Convertible Preferred Stock have the option to convert their Mandatory Convertible Preferred Stock, in whole or in part (but in

no event less than one share of the Mandatory Convertible Preferred Stock), at any time prior to July 1, 2021, into shares of our common stock at the minimum conversion rate of 10.8554 shares of our common stock per share of the Mandatory Convertible Preferred Stock, subject to adjustment as described under “—Anti-Dilution Adjustments” below.

If, as of the effective date of any early conversion (the “early conversion date”), we have not declared all or any portion of the accumulated dividends for all dividend periods ending on the dividend payment date immediately prior to such early conversion date, the conversion rate for such early conversion will be increased by a number of shares of our common stock equal to the amount of such undeclared, accumulated and unpaid dividends per share of Mandatory Convertible Preferred Stock (the “early conversion additional amount”) for such prior dividend periods, divided by the greater of the floor price and the average VWAP per share of our common stock over the 20 consecutive trading day period (the “early conversion settlement period”) ending on the second trading day immediately preceding the early conversion date (the “early conversion average price”). Notwithstanding the last sentence under “—Method of Payment of Dividends” above, to the extent that the early conversion additional amount exceeds the product of such number of additional shares and the early conversion average price, we do not have any obligation to pay the shortfall in cash.

Except as described above, upon any optional conversion of any Mandatory Convertible Preferred Stock, we will make no payment or allowance for unpaid dividends on such shares of the Mandatory Convertible Preferred Stock, unless such early conversion date occurs after the record date for a declared dividend and on or prior to the immediately succeeding dividend payment date, in which case such dividend will be paid on such dividend payment date to the holder of record of the converted shares of the Mandatory Convertible Preferred Stock as of such record date, as described in the section above entitled “—Dividends.”

Conversion at the Option of the Holder upon Fundamental Change; Fundamental Change Dividend Make-Whole Amount

General

If a “fundamental change” (as defined below) occurs on or prior to July 1, 2021, holders of the Mandatory Convertible Preferred Stock will have the right to:

- (i) convert their shares of Mandatory Convertible Preferred Stock, in whole or in part (but in no event less than one share of the Mandatory Convertible Preferred Stock), into a number of shares of common stock (or reference property units as described below) equal to the fundamental change conversion rate per share of Mandatory Convertible Preferred Stock described below;
- (ii) with respect to such converted shares, receive a fundamental change dividend make-whole amount (as defined below) payable in cash or shares of our common stock (or reference property units as described below); and
- (iii) with respect to such converted shares, receive the accumulated dividend amount (as defined below), if any, payable in cash or shares of our common stock (or reference property units as described below),

subject, in the case of clauses (ii) and (iii), to certain limitations with respect to the number of shares of our common stock that we will be required to deliver, all as described below. Notwithstanding clauses (ii) and (iii) above, if the conversion date for such shares falls on or after a record date for a declared dividend and prior to the dividend payment date, we will pay such dividend on the relevant dividend payment date to the holders of record at the close of business on the immediately preceding record date, as described in “—Dividends,” and the accumulated dividend amount will not include the amount of such dividend, and the fundamental change dividend make-whole amount will not include the present value of such dividend.

To exercise this right, holders must submit their Mandatory Convertible Preferred Stock for conversion at any time during the period (the “fundamental change conversion period”) beginning on the effective date of such fundamental change (as defined below) and ending at the close of business on the date that is 20 calendar days after the effective date (or, if earlier, July 1, 2021) at the conversion rate specified in the table below (the “fundamental change conversion rate”). Holders of the Mandatory Convertible Preferred Stock who do not submit their shares for conversion during the fundamental change conversion period will not be entitled to convert their Mandatory Convertible Preferred Stock at the relevant fundamental change conversion rate or to receive the relevant fundamental change dividend make-whole amount or the relevant accumulated dividend amount.

We will notify holders of the Mandatory Convertible Preferred Stock of the effective date of a fundamental change no later than the second business day following such effective date. If we notify holders of the Mandatory Convertible Preferred Stock of a fundamental change later than the second business day following the effective date, the fundamental change conversion period will be extended by a number of days equal to the number of days from, and including, such effective date to,

but excluding, the date of the notice; *provided, however*, that the fundamental change conversion period will not be extended beyond July 1, 2021.

A “fundamental change” will be deemed to have occurred, at such time after the initial issue date of the Mandatory Convertible Preferred Stock, upon:

- (i) the consummation of any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, recapitalization or otherwise) in connection with which 90% or more of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration 10% or more of which (excluding cash payments for fractional shares or pursuant to appraisal rights) is not common stock that is listed on, or immediately after the transaction or event will be listed on, any of the NYSE, the Nasdaq Global Select Market or the Nasdaq Global Market;
- (ii) any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, whether or not applicable), other than us, any of our wholly-owned subsidiaries or any of our or our wholly-owned subsidiaries’ employee benefit plans, filing a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power in the aggregate of all classes of capital stock then outstanding entitled to vote generally in elections of our directors or we otherwise become aware of such beneficial ownership; or
- (iii) our common stock (or reference property units) ceasing to be listed for trading on the NYSE, the Nasdaq Global Select Market or the Nasdaq Global Market (or any of their respective successors).

For the purposes of this definition of “fundamental change,” any transaction or event that constitutes a fundamental change under both clause (i) and clause (ii) above will be deemed to constitute a fundamental change solely under clause (i) of this definition of “fundamental change.”

Fundamental Change Conversion Rate

The fundamental change conversion rate will be determined by reference to the table below and is based on the effective date of the fundamental change (the “effective date”) and the price (the “share price”) paid or deemed paid per share of our common stock therein. If the holders of our common stock receive only cash in the fundamental change, the share price shall be the cash amount paid per share. Otherwise, the share price shall be the average VWAP per share of our common stock over the 10 consecutive trading day period ending on, and including, the trading day preceding the effective date.

The share prices set forth in the first row of the table (*i.e.*, the column headers) will be adjusted as of any date on which the fixed conversion rates of the Mandatory Convertible Preferred Stock are adjusted. The adjusted share prices will equal the share prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the minimum conversion rate immediately prior to the adjustment giving rise to the share price adjustment and the denominator of which is the minimum conversion rate as so adjusted. Each of the fundamental change conversion rates in the table will be subject to adjustment in the same manner as each fixed conversion rate as set forth in “—Anti-Dilution Adjustments.”

The following table sets forth the fundamental change conversion rate per share of the Mandatory Convertible Preferred Stock as of December 31, 2019 for each share price and effective date set forth below.

Effective Date	Share Price												
	\$9.96	\$24.89	\$49.78	\$74.86	\$79.64	\$84.62	\$91.71	\$99.55	\$119.46	\$149.33	\$199.11	\$248.88	\$298.66
June 29, 2018	27.0386	18.0650	14.6494	13.3575	13.1969	13.0475	12.8614	12.6846	12.3372	11.9880	11.6428	11.4414	11.3115
July 1, 2019	22.6953	16.5892	14.0194	12.9332	12.7937	12.6633	12.5001	12.3450	12.0406	11.7397	11.4538	11.2964	11.1999
July 1, 2020	18.1480	15.1062	13.5268	12.5625	12.4253	12.2960	12.1331	11.9793	11.6862	11.4222	11.2120	11.1186	11.0697
July 1, 2021	13.3575	13.3575	13.3575	13.3575	12.5560	11.8174	10.9041	10.9041	10.9041	10.9041	10.9041	10.9041	10.9041

The exact share price and effective date may not be set forth in the table, in which case:

- if the share price is between two share price amounts on the table or the effective date is between two effective dates on the table, the fundamental change conversion rate will be determined by straight-line interpolation between the fundamental change conversion rates set forth for the higher and lower share price amounts and the earlier and later effective dates, as applicable, based on a 365- or 366-day year, as applicable;

- if the share price is in excess of \$300.00 per share (subject to adjustment in the same manner as the share prices set forth in the first row of the table above), then the fundamental change conversion rate will be the minimum conversion rate; and
- if the share price is less than \$10.00 per share (subject to adjustment as described above), then the fundamental change conversion rate will be the maximum conversion rate.

Fundamental Change Dividend Make-Whole Amount and Accumulated Dividend Amount

For any shares of the Mandatory Convertible Preferred Stock that are converted during the fundamental change conversion period, in addition to the common stock (or reference property units) issued upon conversion at the fundamental change conversion rate, we will, at our option:

- pay the holder in cash, to the extent we are legally permitted to do so, an amount equal to the present value, calculated using a discount rate of 5.00% per annum, of all scheduled dividend payments (excluding any accumulated dividend amount, and subject to the second sentence under “—General” above) on the Mandatory Convertible Preferred Stock for all remaining dividend periods (including any partial dividend period) from, and including, the effective date of the applicable fundamental change to, but excluding, the mandatory conversion date (the “fundamental change dividend make-whole amount”);
- increase the number of shares of our common stock (or reference property units) to be issued upon conversion by a number equal to (x) the fundamental change dividend make-whole amount divided by (y) the greater of the floor price and 97% of the share price; or
- pay the fundamental change dividend make-whole amount through any combination of cash and shares of our common stock (or reference property units) in accordance with the provisions of clauses (a) and (b) above.

As used herein, the term “accumulated dividend amount” means, with respect to any fundamental change, the aggregate amount of undeclared, accumulated and unpaid dividends, if any, as of the effective date of the relevant fundamental change, for all dividend periods prior to such effective date, including for the partial dividend period, if any, from, and including, the dividend payment date immediately preceding such effective date to, but excluding, such effective date.

The accumulated dividend amount will be payable at our option:

- in cash, to the extent we are permitted under applicable law and the terms of our credit facilities and other indebtedness to do so;
- in an additional number of shares of our common stock (or reference property units) equal to (x) the accumulated dividend amount divided by (y) the greater of the floor price and 97% of the share price; or
- in a combination of cash and shares of our common stock (or reference property units) in accordance with the provisions of the preceding two bullets.

We will pay the fundamental change dividend make-whole amount and the accumulated dividend amount in cash, except to the extent we elect on or prior to the second business day following the effective date of a fundamental change to make all or any portion of such payments in our common stock (or reference property units). In addition, if we elect to deliver common stock (or reference property units) in respect of all or any portion of the fundamental change dividend make-whole amount or the accumulated dividend amount, to the extent that the portion of the fundamental change dividend make-whole amount or the accumulated dividend amount paid in common stock (or reference property units) exceeds the product of the number of additional shares we deliver in respect thereof and 97% of the share price, we will, if we are able to do so under applicable law and the terms of our credit facilities and other indebtedness, pay such excess amount in cash. Any such payment in cash may not be permitted by our then existing debt instruments, including any restricted payments covenants.

No fractional shares of our common stock (or reference property units) will be delivered to converting holders of the Mandatory Convertible Preferred Stock in respect of the fundamental change dividend make-whole amount or the accumulated dividend amount. We will instead pay a cash amount to each converting holder that would otherwise be entitled to receive a fraction of a share of our common stock (or reference property units) based on the average VWAP per share of our common stock (or reference property units) over the five consecutive trading day period ending on, and including, the seventh scheduled trading day immediately preceding the conversion date.

Not later than the second business day following the effective date of a fundamental change, we will notify holders of:

- the fundamental change conversion rate;
- the fundamental change dividend make-whole amount and whether we will pay such amount in cash, shares of our common stock (or reference property units) or a combination thereof, specifying the combination, if applicable; and
- the accumulated dividend amount as of the effective date of the fundamental change and whether we will pay such amount in cash, shares of our common stock (or reference property units) or a combination thereof, specifying the combination, if applicable.

Our obligation to adjust the conversion rate in connection with a fundamental change and pay the fundamental change dividend make-whole amount (whether in cash, our common stock (or reference property units) or any combination thereof) could possibly be considered a penalty under state law, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies and therefore may not be enforceable in whole or in part.

Conversion Procedures

Upon Mandatory Conversion

Any outstanding shares of Mandatory Convertible Preferred Stock will mandatorily and automatically convert into shares of common stock on the mandatory conversion date. Except as described under “—Dividends” above in respect of declared dividends paid in cash or shares (but not, for the avoidance of doubt, any additional conversion amount or cash as a result of an insufficient additional conversion amount as described under “—Mandatory Conversion” above), the person or persons entitled to receive the shares of our common stock issuable upon mandatory conversion of the Mandatory Convertible Preferred Stock will be treated as the record holder(s) of such shares as of the close of business on the mandatory conversion date. Except as provided in “—Anti-Dilution Adjustments,” prior to the close of business on the mandatory conversion date, the common stock issuable upon conversion of the Mandatory Convertible Preferred Stock will not be outstanding for any purpose and the holder will have no rights with respect to such common stock, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on the common stock, by virtue of holding the Mandatory Convertible Preferred Stock.

Upon Early Conversion or Fundamental Change Conversion

If a holder elects to convert the Mandatory Convertible Preferred Stock prior to the mandatory conversion date, in the manner described in “—Conversion at the Option of the Holder” or “—Conversion at the Option of the Holder upon Fundamental Change; Fundamental Change Dividend Make-Whole Amount,” such holder must observe the following conversion procedures:

If shares of the Mandatory Convertible Preferred Stock are in global form, to convert the Mandatory Convertible Preferred Stock the holder must deliver to DTC the appropriate instruction form for conversion pursuant to DTC’s conversion program. If shares of the Mandatory Convertible Preferred Stock are held in certificated form, the holder must comply with certain procedures set forth in the Certificate of Designations for the Mandatory Convertible Preferred Stock. In either case, if required, the holder must pay all transfer or similar taxes or duties, if any.

The conversion date will be the date on which the holder has satisfied the foregoing requirements. The holder will not be required to pay any transfer or similar taxes or duties relating to the issuance or delivery of our common stock if such holder exercises their conversion rights, but such holder will be required to pay any tax or duty that may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than their own. Common stock will be issued and delivered to the converting holder, or, if the Mandatory Convertible Preferred Stock being converted is in global form, the shares of common stock issuable upon conversion shall be delivered through the facilities of DTC, in each case together with delivery by us to the converting holder of any cash to which the converting holder is entitled, only after all applicable taxes and duties, if any, payable by the holder have been paid in full, and such shares and cash will be delivered on the later of (i) the second business day immediately succeeding the conversion date and (ii) the business day after the holder has paid in full all applicable taxes and duties, if any.

Except as described under “—Dividends” above in respect of declared dividends paid in cash or shares (but not, for the avoidance of doubt, any shares in respect of an early conversion amount, an accumulated dividend amount or a fundamental change dividend make-whole amount, or cash as a result of an insufficient share amount as described under “—Conversion at the Option of the Holder” and “—Conversion at the Option of the Holder upon Fundamental Change; Fundamental Change Dividend Make-Whole Amount” above), the person or persons entitled to receive the shares of common stock issuable upon conversion of the Mandatory Convertible Preferred Stock will be treated as the record holder(s) of such shares as of the close of business on the applicable conversion date. Prior to the close of business on the applicable conversion date, the shares of

common stock issuable upon conversion of any shares of the Mandatory Convertible Preferred Stock will not be deemed to be outstanding for any purpose, and the holder will have no rights with respect to such common stock, including voting rights, rights to respond to tender offers for the common stock and rights to receive any dividends or other distributions on the common stock, by virtue of holding the Mandatory Convertible Preferred Stock.

Fractional Shares

No fractional shares of our common stock will be issued to holders of the Mandatory Convertible Preferred Stock upon conversion. In lieu of any fractional shares of our common stock otherwise issuable in respect of the aggregate number of shares of the Mandatory Convertible Preferred Stock that are converted, cash will be paid in an amount (computed to the nearest cent) equal to the product of: (i) that same fraction; and (ii) the average VWAP of our common stock over the five consecutive trading day period beginning on, and including, the seventh scheduled trading day immediately preceding the applicable conversion date. If the conversion date occurs on or prior to the last trading day of such five consecutive trading day period, the cash payment shall be deferred until the second business day immediately following the last trading day of such five consecutive trading day period.

Subject to any applicable rules and procedures of DTC, if more than one share of the Mandatory Convertible Preferred Stock is surrendered for conversion at one time by or for the same holder, the number of full shares of our common stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Mandatory Convertible Preferred Stock so surrendered.

Anti-Dilution Adjustments

Each fixed conversion rate will be adjusted only under the following enumerated circumstances:

(1) We issue shares of common stock to all holders of our common stock as a dividend or other distribution, in which event, each fixed conversion rate in effect at the close of business on the date fixed for determination of the holders of our common stock entitled to receive such dividend or other distribution will be divided by a fraction:

- the numerator of which is the number of shares of our common stock outstanding at the close of business on the date fixed for such determination, without giving effect to such dividend, distribution, stock split or stock combination; and
- the denominator of which is the sum of the number of shares of our common stock outstanding at the close of business on the date fixed for such determination and the total number of shares of our common stock constituting such dividend or other distribution.

Any adjustment made pursuant to this clause (1) will become effective immediately after the close of business on the date fixed for such determination. If any dividend or distribution described in this clause (1) is declared but not so paid or made, each fixed conversion rate shall be readjusted, effective as of the date our board of directors, or an authorized committee thereof, publicly announces its decision not to pay or make such dividend or distribution, to such fixed conversion rate that would be in effect if such dividend or distribution had not been declared. For the purposes of this clause (1), the number of shares of our common stock outstanding at the close of business on the date fixed for such determination shall not include shares that we hold in treasury but shall include any shares issuable in respect of any scrip certificates issued in lieu of fractions of shares of our common stock. We will not pay any dividend or make any distribution on shares of our common stock that we hold in treasury.

(2) We issue to all holders of shares of our common stock rights or warrants (other than rights or warrants issued pursuant to a dividend reinvestment plan or share purchase plan or other similar plans or pursuant to a rights plan) entitling them, for a period of up to 45 calendar days from the date of issuance of such rights or warrants, to subscribe for or purchase shares of our common stock at a price per share less than the “current market price” (as defined below) of our common stock, in which case each fixed conversion rate in effect at the close of business on the date fixed for determination of the holders of our common stock entitled to receive such rights or warrants will be increased by multiplying such fixed conversion rate by a fraction:

- the numerator of which is the sum of (x) the number of shares of our common stock outstanding at the close of business on the date fixed for such determination and (y) the number of shares of our common stock issuable pursuant to such rights or warrants; and
- the denominator of which is the sum of (x) the number of shares of our common stock outstanding at the close of business on the date fixed for such determination and (y) the number of shares of our common stock equal to

the quotient of the aggregate offering price payable to exercise such rights or warrants divided by the current market price of our common stock.

Any adjustment made pursuant to this clause (2) will become effective immediately after the close of business on the date fixed for such determination. In the event that such rights or warrants described in this clause (2) are not so issued, each fixed conversion rate shall be readjusted, effective as of the date our board of directors, or an authorized committee thereof, publicly announces its decision not to issue such rights or warrants, to such fixed conversion rate that would then be in effect if such issuance had not been declared. To the extent that such rights or warrants are not exercised prior to their expiration or our common stock is otherwise not delivered pursuant to such rights or warrants upon the exercise of such rights or warrants, each fixed conversion rate shall be readjusted to such fixed conversion rate that would then be in effect had the adjustment made upon the issuance of such rights or warrants been made on the basis of the delivery of only the number of shares of our common stock actually delivered. In determining whether any rights or warrants entitle the holders thereof to subscribe for or purchase common stock at less than the current market price, and in determining the aggregate offering price payable to exercise such rights or warrants, there shall be taken into account any consideration received for such rights or warrants and the value of such consideration (if other than cash, to be determined in good faith by our board of directors, or an authorized committee thereof, which determination shall be final, conclusive and binding). For the purposes of this clause (2), the number of shares of our common stock at the time outstanding shall not include shares that we hold in treasury but shall include any shares issuable in respect of any scrip certificates issued in lieu of fractions of shares of our common stock. We will not issue any such rights or warrants in respect of shares of our common stock that we hold in treasury.

(3) We subdivide or combine our common stock, in which event each fixed conversion rate in effect at the close of business on the effective date of such subdivision or combination shall be multiplied by a fraction:

- the numerator of which is the number of shares of our common stock that would be outstanding immediately after, and solely as a result of, such subdivision or combination; and
- the denominator of which is the number of shares of our common stock outstanding immediately prior to such subdivision or combination.

Any adjustment made pursuant to this clause (3) shall become effective immediately after the close of business on the effective date of such subdivision or combination.

(4) (a) We distribute to all holders of our common stock evidences of our indebtedness, shares of our capital stock, securities, rights to acquire shares of our capital stock, cash or other assets, excluding:

- any dividend or distribution of shares of common stock described in clause (1) above;
- any rights or warrants described in clause (2) above;
- any dividend or distribution described in clause (5) below;
- any spin-off, as to which the provisions set forth in clause (4)(b) below shall apply; and
- any dividends and distributions upon the conversion of, or in exchange for, our common stock in connection with a recapitalization, reclassification, change, consolidation, merger or other combination, share exchange, or sale, lease or other transfer or disposition resulting in a change in the conversion consideration as described below under “—Recapitalizations, Reclassifications and Changes of Our Capital Stock”,

in which event each fixed conversion rate in effect at the close of business on the date fixed for the determination of holders of our common stock entitled to receive such distribution will be multiplied by a fraction:

- the numerator of which is the current market price of our common stock; and
- the denominator of which is the current market price of our common stock minus the fair market value, as determined by our board of directors, or an authorized committee thereof, in good faith (which determination shall be final, conclusive and binding), on such date fixed for determination, of the portion of the evidences of indebtedness, shares of our capital stock, securities, rights to acquire shares of our capital stock, cash or other assets so distributed applicable to one share of our common stock.

To the extent such distribution is not so paid or made, each fixed conversion rate will be readjusted to the fixed conversion rate that would then be in effect had the adjustment been made on the basis of only the distribution, if any, actually made or paid.

(b) In the event that we make a distribution to all holders of our common stock consisting of capital stock of, or similar equity interests in, or relating to a subsidiary or other business unit of ours (herein referred to as a “spin-off”), each fixed conversion rate in effect at the close of business on the date fixed for the determination of holders of our common stock entitled to receive such distribution will be multiplied by a fraction:

- the numerator of which is the sum of the current market price of our common stock and the fair market value, as determined by our board of directors, or an authorized committee thereof, in good faith (which determination shall be final, conclusive and binding), of the portion of those shares of capital stock or similar equity interests so distributed applicable to one share of our common stock (or, if such shares of capital stock or equity interests are listed on a U.S. national or regional securities exchange, the current market price of such capital stock or equity interests); and
- the denominator of which is the current market price of our common stock.

In the event that such distribution described in this clause (4)(b) is not so made, each fixed conversion rate shall be readjusted, effective as of the date our board of directors, or an authorized committee thereof, publicly announces its decision not to make such distribution, to such fixed conversion rate that would then be in effect if such distribution had not been declared.

Any adjustment made pursuant to this clause (4) shall become effective immediately after the close of business on the date fixed for the determination of the holders of our common stock entitled to receive such distribution. If (x) an adjustment to each fixed conversion rate is required under this clause (4) during the settlement period, or (y) a holder submits shares of Mandatory Convertible Preferred Stock for early conversion during the period commencing after the close of business on the determination date described above and prior to the time that the current market price of our common stock is determined for purposes of this clause (4), then in either case delivery of the shares of our common stock issuable upon conversion will be delayed until the second business day immediately after the first date as of which the calculations provided for in this clause (4) can be completed.

(5) We pay or make a dividend or other distribution consisting exclusively of cash to all holders of our common stock other than a regular, quarterly cash dividend that does not exceed \$0.07 per share (the “dividend threshold,” subject to adjustment as described below), excluding:

- any cash that is distributed in a reorganization event (as described below);
- any dividend or other distribution in connection with our voluntary or involuntary liquidation, dissolution or winding-up; and
- any consideration payable as part of a tender or exchange offer described in clause (6) below,

in which event, each fixed conversion rate in effect at the close of business on the date fixed for determination of the holders of our common stock entitled to receive such dividend or other distribution will be multiplied by a fraction:

- the numerator of which is the current market price of our common stock minus the dividend threshold (*provided* that if the distribution is not a regular quarterly cash dividend, the dividend threshold will, for purposes of such distribution, be deemed to be zero); and
- the denominator of which is the current market price of our common stock minus the amount per share of such dividend or other distribution.

The dividend threshold is subject to adjustment in a manner inversely proportional to adjustments to the fixed conversion rates pursuant to the provisions described under this “—Anti-Dilution Adjustments” section; *provided, however*, that no adjustment will be made to the dividend threshold for any adjustment to the fixed conversion rates under this clause (5).

Any adjustment made pursuant to this clause (5) shall become effective immediately after the close of business on the date fixed for the determination of the holders of our common stock entitled to receive such dividend or other distribution. In the event that any dividend or other distribution described in this clause (5) is not so paid or so made, each fixed conversion rate shall be readjusted, effective as of the date our board of directors, or an authorized committee thereof, publicly announces its decision not to pay such dividend or make such other distribution, to such fixed conversion rate which would then be in effect if such dividend or other distribution had not been declared.

(6) We or any of our subsidiaries successfully complete a tender or exchange offer pursuant to a Schedule TO or registration statement on Form S-4 for our outstanding common stock (excluding any securities convertible or

exchangeable for our common stock), where the cash and the fair market value of any other consideration included in the payment per share of our common stock exceeds the current market price of our common stock, in which event each fixed conversion rate in effect at the close of business on the date of expiration of the tender or exchange offer (the “expiration date”) will be multiplied by a fraction:

- the numerator of which shall be equal to the sum of:
 - (i) the aggregate cash and fair market value (as determined in good faith by our board of directors, or an authorized committee thereof, which determination shall be final, conclusive and binding), on the expiration date, of any other consideration paid or payable for shares of our common stock purchased in such tender or exchange offer; and
 - (ii) the product of:
 1. the current market price of our common stock; and
 2. the number of shares of our common stock outstanding at the time such tender or exchange offer expires, less any purchased shares; and
- the denominator of which shall be equal to the product of:
 - (i) the current market price of our common stock; and
 - (ii) the number of shares of our common stock outstanding at the time such tender or exchange offer expires, including any purchased shares.

Any adjustment made pursuant to this clause (6) shall become effective immediately after the close of business on the 10th trading day immediately following the expiration date but will be given effect as of the open of business on the expiration date for the tender or exchange offer. In the event that we are, or one of our subsidiaries is, obligated to purchase shares of our common stock pursuant to any such tender offer or exchange offer, but we are, or such subsidiary is, permanently prevented by applicable law from effecting any such purchases, or all such purchases are rescinded, then each fixed conversion rate shall be readjusted to be such fixed conversion rate that would then be in effect if such tender offer or exchange offer had not been made. Except as set forth in the preceding sentence, if the application of this clause (6) to any tender offer or exchange offer would result in a decrease in each fixed conversion rate, no adjustment shall be made for such tender offer or exchange offer under this clause (6). If (x) an adjustment to each fixed conversion rate is required pursuant to this clause (6) during the settlement period, or (y) a holder submits shares of Mandatory Convertible Preferred Stock for early conversion during the period commencing after the open of business on the expiration date described above and prior to the time that the current market price of our common stock is determined for purposes of this clause (6), then in either case, delivery of the related conversion consideration will be delayed to the second business day immediately after the first date as of which the calculations provided for in this clause (6) can be completed.

Except with respect to a spin-off, in cases where the fair market value of the evidences of our indebtedness, shares of capital stock, securities, rights to acquire shares of our capital stock, cash or other assets as to which clauses (4) or (5) above apply, applicable to one share of our common stock, distributed to stockholders equals or exceeds the current market price (as determined for purposes of calculating the conversion rate adjustment pursuant to such clause (4) or (5)), rather than being entitled to an adjustment in each fixed conversion rate, upon our election and in our sole discretion, holders of the Mandatory Convertible Preferred Stock will be entitled to receive upon conversion, in addition to a number of shares of our common stock otherwise deliverable on the applicable conversion date, the kind and amount of the evidences of our indebtedness, shares of capital stock, securities, rights to acquire shares of our capital stock, cash or other assets comprising the distribution that such holder would have received if such holder had owned, immediately prior to the record date for determining the holders of our common stock entitled to receive the distribution, for each share of the Mandatory Convertible Preferred Stock, a number of shares of our common stock equal to the maximum conversion rate in effect on the date of such distribution.

To the extent that we have a rights plan in effect with respect to our common stock on any conversion date, upon conversion of any Mandatory Convertible Preferred Stock, the holder will receive, in addition to common stock, the rights under the rights plan, unless, prior to such conversion date, the rights have separated from our common stock, in which case, and only in such case, each fixed conversion rate will be adjusted at the time of separation as if we made a distribution to all holders of our common stock as described in clause (4)(a) above, subject to readjustment in the event of the expiration, termination or redemption of such rights. Notwithstanding anything to the contrary described in this “—Anti-Dilution Adjustments” section, the fixed conversion rates will not be adjusted on account of any rights issued pursuant to a rights plan, except to the extent provided in the preceding sentence. Any distribution of rights or warrants pursuant to a rights plan that

would allow the holder to receive upon conversion, in addition to any common stock, the rights described therein (unless such rights or warrants have separated from our common stock) shall not constitute a distribution of rights or warrants that would entitle the holder to an adjustment to the conversion rate. We currently do not have a rights plan in effect.

For the purposes of determining the adjustment to the fixed conversion rate for the purposes of:

- clauses (2), (4)(a) and (5) above, the “current market price” of our common stock is the average VWAP per share of our common stock over the five consecutive trading day period ending on the trading day immediately preceding the “ex-date” (as defined below) with respect to the issuance or distribution requiring such computation;
- clause (4)(b), the “current market price” of our common stock and the capital stock or equity interests of the subsidiary or other business unit being distributed, as applicable, is the average VWAP per share of common stock, capital stock or equity interests of the subsidiary or other business unit being distributed, as applicable, over the 10 consecutive trading days commencing on and including the fifth trading day following the effective date of such distribution; and
- clause (6) above, the “current market price” of our common stock is the average VWAP per share of our common stock over the 10 consecutive trading day period commencing on, and including, the trading day next succeeding the expiration date of the relevant tender offer or exchange offer.

The term “ex-date,” when used with respect to any issuance or distribution, means the first date on which shares of our common stock trade, regular way, without the right to receive such issuance or distribution. For the avoidance of doubt, any alternative trading convention on the applicable exchange or market in respect of our common stock under a separate ticker symbol or CUSIP number will not be considered “regular way” for this purpose.

In addition, we may make such increases in each fixed conversion rate as we deem advisable in order to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of shares of our common stock (or issuance of rights or warrants to acquire shares of our common stock) or from any event treated as such for income tax purposes or for any other reason. We may only make such a discretionary adjustment if we make the same proportionate adjustment to each fixed conversion rate.

In the event of a taxable distribution to holders of our common stock that results in an adjustment of each fixed conversion rate or an increase in each fixed conversion rate in our discretion, holders of the Mandatory Convertible Preferred Stock may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. Any applicable withholding taxes (including backup withholding) may be withheld from any distributions and payments and deliveries upon conversion with respect to the Mandatory Convertible Preferred Stock.

All adjustments to each fixed conversion rate will be calculated to the nearest 1/10,000th of a share of our common stock. Prior to the first trading day of the settlement period, no adjustment in a fixed conversion rate will be required unless the adjustment would require an increase or decrease of at least one percent in such fixed conversion rate. If any adjustment is not required to be made because it would not change the fixed conversion rates by at least one percent, then the adjustment will be carried forward and taken into account in any subsequent adjustment; *provided, however*, that on (x) the earlier of any early conversion date and the effective date of any fundamental change and (y) each trading day of the settlement period, adjustments to each fixed conversion rate will be made with respect to any such adjustment carried forward that has not been taken into account before such date.

No adjustment to the fixed conversion rates will be made if holders may participate, at the same time, upon the same terms and otherwise on the same basis as holders of our common stock and solely as a result of holding Mandatory Convertible Preferred Stock, in the transaction that would otherwise give rise to such adjustment as if they held, for each share of the Mandatory Convertible Preferred Stock, a number of shares of our common stock equal to the maximum conversion rate then in effect.

We are not required to adjust either fixed conversion rate except as described above. Notwithstanding anything to the contrary described above, and without limiting the prior sentence, the fixed conversion rates will not be adjusted:

- (a) upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of common stock under any plan;

- (b) upon the issuance of any shares of our common stock or rights, warrants, options, units or other securities exercisable for the purchase of those shares pursuant to any present or future benefit or other incentive plan or program of or assumed by us or any of our subsidiaries;
- (c) upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the initial issue date;
- (d) for a change in the par value of our common stock;
- (e) for stock repurchases that are not tender offers, including structured or derivative transactions;
- (f) as a result of a tender offer solely to holders of fewer than 100 shares of our common stock;
- (g) as a result of a tender or exchange offer by a person other than us or one or more of our subsidiaries; or
- (h) for accumulated dividends on the Mandatory Convertible Preferred Stock, except as described above under “—Mandatory Conversion,” “—Conversion at the Option of the Holder” and “—Conversion at the Option of the Holder upon Fundamental Change; Fundamental Change Dividend Make-Whole Amount.”

We are required, within 10 business days following the effectiveness of an adjustment to the fixed conversion rates, to provide, or cause to be provided, a written notice of such adjustment to the holders of the Mandatory Convertible Preferred Stock. We are also required to deliver a statement setting forth in reasonable detail the method by which the adjustment to each fixed conversion rate was determined and setting forth such adjusted fixed conversion rate.

If an adjustment is made to the fixed conversion rates, (x) an inversely proportional adjustment also will be made to the threshold appreciation price and the initial price and (y) an inversely proportional adjustment will also be made to the floor price. Whenever any provision of the Certificate of Designations requires us to calculate the VWAP per share of our common stock over a span of multiple days, we will make appropriate adjustments (including, without limitation, to the applicable market value, the early conversion average price, the current market price and the average price (as the case may be)) to account for any adjustments to the initial price, the threshold appreciation price, the floor price and the fixed conversion rates (as the case may be) that become effective, or any event that would require such an adjustment if the ex-date, effective date or expiration date (as the case may be) of such event occurs, during the relevant period used to calculate such prices or values (as the case may be).

If:

- the record date for a dividend or distribution on shares of our common stock occurs after the end of the settlement period and before the mandatory conversion date; and
- such dividend or distribution would have resulted in an adjustment of the number of shares of common stock issuable to the holders of the Mandatory Convertible Preferred Stock had such record date occurred on or before the last trading day of the settlement period,

then we will deem the holders of the Mandatory Convertible Preferred Stock to be holders of record, for each share of their Mandatory Convertible Preferred Stock, of a number of shares of our common stock equal to the conversion rate for purposes of that dividend or distribution. In this case, the holders of the Mandatory Convertible Preferred Stock would receive the dividend or distribution on our common stock together with the number of shares of our common stock issuable upon mandatory conversion of the Mandatory Convertible Preferred Stock.

Recapitalizations, Reclassifications and Changes of Our Common Stock

If there occurs:

- any consolidation or merger of us with or into another person (other than a merger or consolidation in which we are the surviving corporation and in which the shares of our common stock outstanding immediately prior to the merger or consolidation are not exchanged for cash, securities or other property of us or another person);
- any sale, transfer, lease or conveyance to another person of all or substantially all of our property and assets;
- any reclassification of our common stock into securities, including securities other than our common stock; or
- any statutory exchange of our securities with another person (other than in connection with a merger or acquisition),

in each case, as a result of which our common stock would be converted into, or exchanged for, securities, cash or property (each such event, a “reorganization event,” and such securities, cash or property, the “reference property,” and the amount and kind of reference property that a holder of one share of our common stock would be entitled to receive on account of such reorganization event (without giving effect to any arrangement not to issue or deliver a fractional portion of any security or other property), a “reference property unit”), then, notwithstanding anything to the contrary described above,

- from and after the effective time of such reorganization event, (i) the consideration due upon conversion of any Mandatory Convertible Preferred Stock will be determined in the same manner as if each reference to any number of shares of common stock in the provisions described under this “Description of 5.00% Mandatory Convertible Preferred Stock, Series A” section (or in any related definitions) were instead a reference to the same number of reference property units; and (ii) for purposes of the definition of “fundamental change,” the terms “common stock” and “capital stock” will be deemed to mean the common equity (including depositary receipts representing common equity), if any, forming part of such reference property;
- for these purposes, the VWAP of any reference property unit or portion thereof that does not consist of a class of securities will be the fair value of such reference property unit or portion thereof, as applicable, determined in good faith by us (or, in the case of cash denominated in U.S. dollars, the face amount thereof); and
- at the effective time of such reorganization event, we may amend the Certificate of Designations without the consent of the holders of the Mandatory Convertible Preferred Stock to give effect to the provisions described in the previous bullet points.

For purposes of the foregoing, the type and amount of reference property in the case of any reorganization event that causes our common stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election) will be deemed to be the weighted average of the types and amounts of consideration received by the holders of our common stock that affirmatively make such an election (or of all holders of our common stock if none makes an election). We will notify holders of the Mandatory Convertible Preferred Stock of the weighted average as soon as practicable after such determination is made.

We (or any successor to us) will, as soon as reasonably practicable (but in any event within 20 calendar days) after the occurrence of any reorganization event, provide written notice to the holders of the Mandatory Convertible Preferred Stock of such occurrence and of the kind and amount of cash, securities or other property that constitute the exchange property. Failure to deliver such notice will not affect the operation of the provisions described in this section.

In connection with any adjustment to the fixed conversion rates described above, we will also adjust the dividend threshold (as defined above) based on the number of shares of common stock or other equity interests comprising the reference property and (if applicable) the value of any non-stock consideration comprising the exchange property.

The Registrant's principal subsidiaries as of December 31, 2019 are listed below. All other subsidiaries of the Registrant, if considered in the aggregate as a single affiliate, would not constitute a significant subsidiary of the Registrant.

Fortive Corporation
Subsidiaries of the Registrant

Company Name	Jurisdiction of Formation
AB Qualitrol AKM	Sweden
Accruent BC Holding B.V.	Netherlands
Accruent, LLC	Delaware
Advanced Sterilization Products Services Inc.	New Jersey
Advanced Sterilization Products, Inc.	Delaware
Advanced Sterilization, S. de R.L. de C.V.	Mexico
Anderson Instrument Co., Inc.	New York
ANGI Energy Systems, LLC	Indiana
Anhui Shifu Instruments Co., Ltd.	China
ASP Global Manufacturing GmbH	Switzerland
ASP International GmbH	Switzerland
ASP Japan G.K.	Japan
Athena SuperHoldCo, Inc.	Delaware
Beaverton LLC	Delaware
DATAPAQ Limited	United Kingdom
Delpak Systems Ltd.	Israel
Diagnostic Monitoring Systems Limited	United Kingdom
Diagnostic Physics Consulting, Inc.	Florida
Dynapar Corporation	Illinois
eMaint Enterprises, LLC	New Jersey
EMS Software, LLC	Delaware
Fafnir GmbH	Germany
Fluke (Switzerland) GmbH	Switzerland
Fluke Corporation	Washington
Fluke Danmark A/S	Denmark
Fluke Deutschland GmbH	Germany
Fluke Europe B.V.	Netherlands
Fluke Manufacturing Corporation	Delaware
Fluke Precision Measurement Limited	United Kingdom
Fluke Process Instruments GmbH	Germany
Fluke South East Asia Pte Ltd.	Singapore
Fluke Testing Instruments (Shanghai) Co., Ltd.	Singapore
Fortive Insurance Company	Vermont
Fortive Medical Devices (Shanghai) Co., Ltd.	China
Fortive Motion (Hong Kong) Limited	Hong Kong
FTV Investment Limited	Cayman Islands
Gems Sensors Inc.	Delaware
GGC International Holdings LLC	Delaware
GHoldCo GmbH	Germany
Gilbarco Australia Pty Ltd.	Australia
Gilbarco China Co. Ltd.	China
Gilbarco GmbH	Germany
Gilbarco Inc.	Delaware

Gilbarco Italia S.r.l.	Italy
Gilbarco Veeder Root India Private Limited	India
Gilbarco Veeder-Root Soluções Indústria e Comércio Ltda.	Brazil
Global Physics Solutions, Inc.	Delaware
Global Traffic Technologies, Inc.	Delaware
Global Traffic Technologies, LLC	Delaware
GVR Finland OY	Finland
Hengstler GmbH	Germany
Hennessy Industries, LLC	Delaware
Industrial Scientific Canada ULC	Canada
Industrial Scientific Corporation	Pennsylvania
Infrared Integrated Systems Limited	United Kingdom
Intelix Technologies, ULC	Canada
Invetech, Inc.	Delaware
Iris Power LP	Canada
Keithley Instruments, LLC	Ohio
Landauer Europe SAS	France
Landauer, Inc.	Delaware
Lucernex Inc.	Delaware
Maintenance Connection, LLC	Delaware
Matco Tools Corporation	Delaware
Maxtek Components Corporation	Delaware
Nagase-Landauer, Ltd.	Japan
Navman Wireless Australia Pty. Ltd.	Australia
Navman Wireless New Zealand	New Zealand
Neff Holding GmbH	Germany
Noglia Vermögensverwaltung GmbH	Germany
Orpak Systems India Private Ltd.	India
Pacific Scientific Energetic Materials Company (California) LLC	California
Physics & Computer Planning, Inc.	North Carolina
ProPhysics Innovations, Inc.	North Carolina
Prüftechnik Dieter Busch GmbH	Germany
Qualitrol Company LLC	Delaware
R.S. Means Company LLC	Delaware
SAFER Systems, LLC	Delaware
Service Station Products Company	Delaware
Setra Systems, Inc.	Massachusetts
Superior Electric Holding Group LLC	Delaware
Tektronix (China) Co., Limited	China
Tektronix (India) Private Ltd.	India
Tektronix Asia Investment Ltd.	Cayman Islands
Tektronix China Holdings Ltd.	Cayman Islands
Tektronix China Trading	Cayman Islands
Tektronix GmbH	Germany
Tektronix Hong Kong Limited	Hong Kong
Tektronix International Sales GmbH	Switzerland
Tektronix, Inc.	Oregon
Teletrac Navman (UK) Ltd.	United Kingdom
Teletrac Navman US Ltd.	Delaware
Teletrac, Inc.	Delaware
TFF Corporation	Japan
TGA Asiapac Holdings LLC	Delaware
TGA Canada Holding Limited	Canada
TGA Cayman Finance Ltd.	Cayman Islands

TGA CI US-Finance Ltd.	Cayman Islands
TGA Finance (Canada) Limited	Canada
TGA Holding GmbH	Switzerland
TGA Holding Singapore PTE. Ltd.	Singapore
TGA Industries Limited	United Kingdom
TGA Netherlands B.V.	Netherlands
TGA North America Holdings II LLC	Delaware
TGA UK Omega Limited	United Kingdom
The Gordian Group, Inc.	Georgia
Unfors RaySafe AB	Sweden
Unfors RaySafe, Inc.	Illinois
Veeder-Root Company	Delaware
Veeder-Root Petroleum Equipment (Shanghai) Co., Ltd.	China
Verisae, Inc.	Minnesota
VFA, Inc.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

Registration Statements on Form S-3

<u>Registration Number</u>	<u>Date Filed</u>
333-218676	June 12, 2017

Registration Statements on Form S-8

<u>Pertaining to</u>	<u>Registration Number</u>	<u>Date Filed</u>
Fortive Corporation 2016 Stock Incentive Plan, as Amended and Restated	333-227050	August 27, 2018
Fortive Corporation 2016 Stock Incentive Plan	333-212349	June 30, 2016
Fortive Corporation Retirement Savings Plan; Fortive Corporation Union Retirement Savings Plan	333-212348	June 30, 2016
Fortive Corporation Executive Deferred Incentive Plan	333-212350	June 30, 2016

of our reports dated February 27, 2020, with respect to the consolidated financial statements and schedule of Fortive Corporation and subsidiaries and the effectiveness of internal control over financial reporting of Fortive Corporation and subsidiaries included in this Annual Report (Form 10-K) of Fortive Corporation for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Seattle, Washington
February 27, 2020

Certification

I, James A. Lico, certify that:

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

Date: February 27, 2020

By: /s/ James A. Lico
James A. Lico
President and Chief Executive Officer

Certification

I, Charles E. McLaughlin, certify that:

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

Date: February 27, 2020

By: /s/ Charles E. McLaughlin

Charles E. McLaughlin

Senior Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, James A. Lico, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, Fortive Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Fortive Corporation.

Date: February 27, 2020

By: /s/ James A. Lico

James A. Lico

President and Chief Executive Officer

This certification accompanies the Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that Fortive Corporation specifically incorporates it by reference.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles E. McLaughlin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, Fortive Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Fortive Corporation.

Date: February 27, 2020

By: /s/ Charles E. McLaughlin

Charles E. McLaughlin

Senior Vice President and Chief Financial Officer

This certification accompanies the Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that Fortive Corporation specifically incorporates it by reference.