# SECOND QUARTER 2021 EARNINGS CALL

August 3rd, 2021

# AGENDA AND SPEAKERS

Joe Woody
*Chief Executive Officer*

Update on Quarter
Progress Against 2021 Priorities

Q&A

Michael Greiner
*Senior Vice President and Chief Financial Officer*

Review Second Quarter Results
Update on Planning Assumptions

# OVERVIEW

## FORWARD-LOOKING INFORMATION

Certain matters in this presentation and conference call, including expectations and planning assumptions, including any comments about our expected 2021 performance, and any estimates, projections, and statements relating to our business plans, objectives, acquisitions and transformation initiatives, constitute forward-looking statements and are based upon management's expectations and beliefs concerning future events impacting the Company.

These statements are subject to risks and uncertainties, including risks related to the ongoing COVID-19 pandemic, competition, market demand, cost savings and reductions, raw material, energy, and other input costs, supply chain disruptions including availability of drugs used in our Acute Pain products, economic conditions, currency exchange risks, human capital risks, cyber risks, intellectual property risks, and legislative and regulatory actions. There can be no assurance that these future events will occur as anticipated or that the Company's results will be as estimated. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them. For a more complete listing and description of other factors that could cause the Company's future results to differ materially from those expressed in any forward-looking statements, see the Company's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

## NON-GAAP FINANCIAL MEASURES

Management believes that non-GAAP financial measures enhance investors' understanding and analysis of the company's performance. As such, results and outlook have been adjusted to exclude certain items for relevant time periods as indicated in the non-GAAP reconciliations to the comparable GAAP financial measures included in this presentation and in today's earnings release posted on our website (www.avanos.com/investors).

# REFLECTION ON 1st HALF PERFORMANCE

- Encouraged by our commercial team’s start to the year
- Continued resiliency in response to challenging dynamics brought on by pandemic
- Remain focused on getting patients back to the things that matter as we meet the needs of customers

# SECOND QUARTER PERFORMANCE

- Net Sales increased 14% to $186 million
- Earned $0.21 of adjusted diluted EPS
- Sales at high-end of planning assumption
- Benefited from return of elective procedures and executed well against growth initiatives

# SECOND QUARTER PERFORMANCE

- Performance fell short of expectations within manufacturing and distribution footprint, negatively impacting gross margin
- Higher costs are temporary, primarily pandemic driven, and do not indicate permanent change to operating structure
- Gross margin is our top priority
- Confident we will show meaningful progress in the second half of year

# OPERATING EXPENSE EFFICIENCIES

- Additional efficiencies reduced operating expenses
- Teams finding ways to increase productivity and lower cost structure
- Offsetting some gross margin headwinds
- Positioning to deliver SG&A as percent of revenue less than 40% on go-forward basis

# STRENGTHING GROWTH PROFILE IN PAIN MANAGEMENT

- Increasing top-line momentum across Pain Management as elective procedures begin to re-accelerate
- Fastest acceleration in COOLIEF and Game Ready with sales for both therapies eclipsing pre-pandemic Q2 2019 levels
- ON-Q sales sequentially improved throughout quarter
- Continue to believe in-patient procedural volume likely will remain below full potential until end of year

# SOLID FOUNDATION TO ACCELERATE PAIN MANAGEMENT GROWTH

- Plan to launch next generation COOLIEF Cooled radiofrequency probe kits
- New probes make it easier for physicians to perform COOLIEF procedures
- More efficient to manufacture, thus improving COOLIEF gross margin
- Strengthens Cooled RF leadership position

# SOLID FOUNDATION TO ACCELERATE PAIN MANAGEMENT GROWTH

- ON-Q continues to see positive results from channel partnership agreements; gain access to orthopedic surgeons
- Launching Pain Block Pro in coming months
  - Unique and differentiated data collection and patient engagement app to allow physicians to track patient’s recovery and satisfaction
  - Helps us engage patients and improve their experience
- Continuing to leverage Leiters partnership to solidify customer base

# STRENGTHENING GROWTH PROFILE IN CHRONIC CARE

- Positive trend in Digestive Health continues
- Maintained double digit growth in NeoMed
- Corpak Standard of Care strategy accelerating CorTrak hardware sales to record levels
- Respiratory Health sales down as expected given prior year pandemic tailwind

# EXECUTING ON INTERNATIONAL EXPANSION OPPORTUNITIES

- Market development initiatives focused on clinical benefits paying dividends
- Bolstering growth of recently acquired products through global footprint
- Delivered results at high-end of our expectations

# RECAPTURING GROSS MARGINS

- Imperative to begin recapturing gross margin loss since start of pandemic
- Took necessary steps to protect employees and expand manufacturing of products to treat COVID patients
  - Responded well to challenges but need to address inefficiencies that arose at manufacturing sites
- Short-term tradeoff to capture growth in NeoMed market share at expense of higher freight costs
  - Cost increases allow maximization of long-term investment
  - Did not anticipate headwind coming into year

# IMPROVED SG&A AND WORKING CAPITAL EFFICIENCIES

- Cost discipline and emphasis on driving spending efficiencies continue to produce results
- Cultural shift in how teams examine investments and make tradeoffs
- Improved management of working capital helped drive return to positive free cash flow in the quarter
- On target to begin generating consistent, repeatable cash flow
  - Expect significant acceleration in second half with receipt of tax refunds, improved operating results, and working capital discipline

# DEPLOYING CAPITAL TOWARDS M&A

- M&A pipeline remains healthy
- Engaged in active dialogue with number of potential tuck-in targets
- Opportunity to leverage existing footprint, generate synergies, and enhance top-line growth profile
- Remain disciplined in identifying targets that meet strategic initiatives and exceed financial hurdles
- Ensure generation of strong return on capital

# MICROCOOL DOJ SETTLEMENT UPDATE

- Entered Deferred Prosecution Agreement with DOJ to resolve criminal investigation into MicroCool surgical gowns
- Paid $22.2 million as part of agreement in line with expectations previously communicated
- We continue to maintain robust compliance and quality programs
- Will continue to enhance them through new and revised policies, procedures, and training requirements

# ΔVΔNOS: STRONG START TO THE YEAR

- Well-positioned to advance strategies across four areas of value creation
- Focus on execution remains strong
- Market leading portfolio
- Confident in delivering on 2021 priorities

# Second Quarter 2021 Results

**Michael Greiner**

**Senior Vice President and**
**Chief Financial Officer**

# TEAM OVERCOMING CHALLENGES

- Total sales of $186 million increased 14% versus prior year
  - 13% increase in volume
  - 1% favorable impact from currency
  - 1% unfavorable impact from price
- Price movement returned to normal range after slightly higher impact last quarter

# SECOND QUARTER PERFORMANCE

## Net sales totaled $186 million

- Chronic Care sales declined 4% to $116 million
- $10 million prior year pandemic tailwind for Respiratory Health
  - Adjusting for 2020 tailwind Respiratory Health sales down slightly for quarter as hospitals drew down inventory levels
  - Have not experienced material acceleration from new wave in July
  - No additional benefit from pandemic and a normal start to cold and flu season assumed in back half of 2021
- Above normal growth in Digestive Health due to favorable comparison
  - Pandemic related disruption in 2020 related to MIC-KEY
  - NeoMed grew double digits from continued conversion to ENFit

**Chronic Care Sales**
Millions

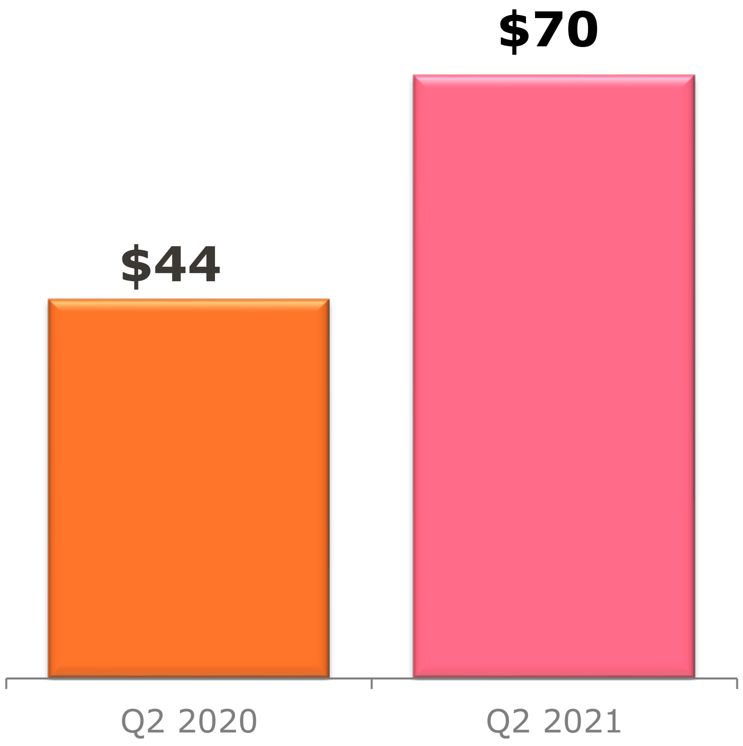
# SECOND QUARTER PERFORMANCE

## Net sales totaled $186 million

- Pain Management sales of $70 million, 62% higher versus prior year
  - Favorable comparison from cancellation of elective procedures due to pandemic in prior year
- Growth continues to return faster for COOLIEF and Game Ready therapies
  - Sales grew ahead of pre-pandemic level for Q2 2019
- ON-Q recovery trails COOLIEF and Game Ready but saw average daily rate of sales increase on a monthly basis
  - Sales and new customers through Leiters increased double digits as partnership continues to benefit customers as pre-fill option
- International organic sales grew low single digits for the quarter
  - $1 million benefit due to timing of shipments to distributors

**Pain Management Sales**

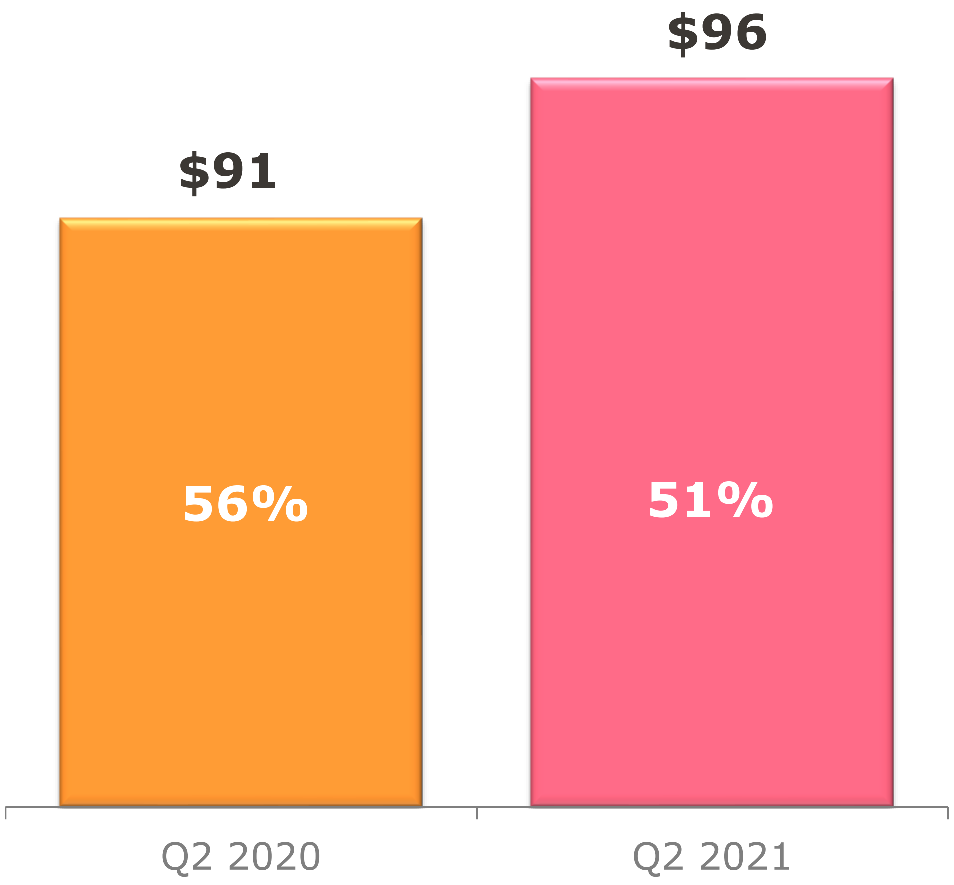
Millions



# SECOND QUARTER PERFORMANCE

## Adjusted Gross Profit and Margin

Millions




- Adjusted gross margin decreased to 51%
- Gross margin impacted as expected from higher transportation costs to meet NeoMed demand
- Continued manufacturing inefficiencies from:
  - Safety precautions to protect employees from pandemic
  - Additional employees hired during pandemic
  - Less productivity, higher overhead costs, and increased waste
- Improved mix from higher Pain Management sales partially offset these headwinds
- Significant improvement expected to occur in second half of year

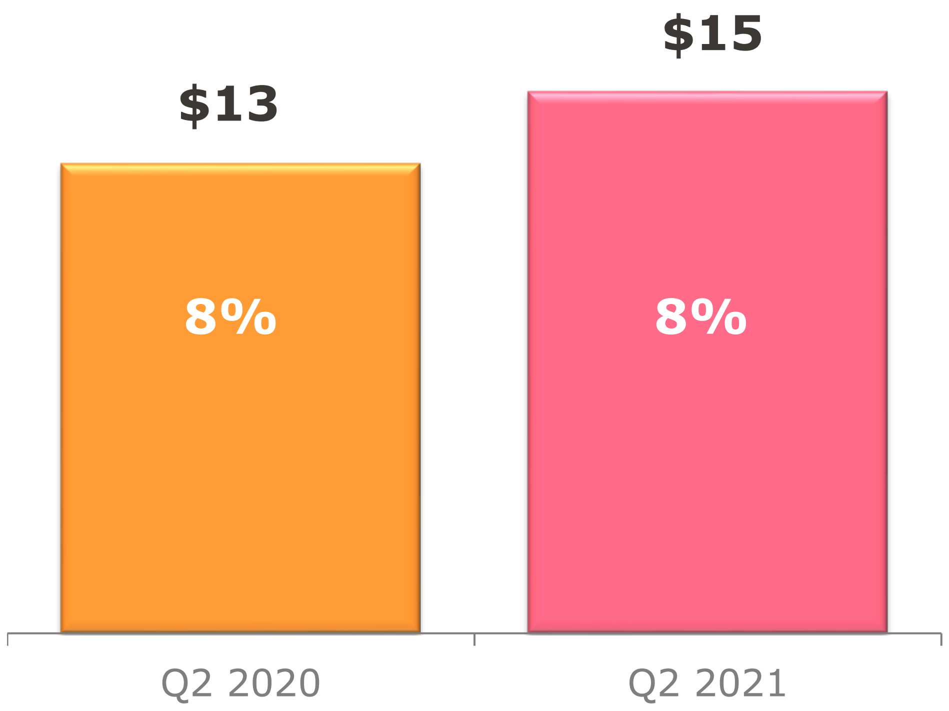
# GROSS MARGIN IMPROVEMENT PATHWAY IN SECOND HALF

- Continued sales mix benefit, magnified in fourth quarter
- Decrease in air freight costs to meet NeoMed customer demand
- Steps to return facilities to pre-pandemic efficiency levels including:
  - Reducing number of employees at plants by ~10%
  - Taking steps to reduce waste and scrap levels
  - Selling slow moving inventory to reduce write-offs
- Price increases for some customers to offset inflationary pressures
- Adjusted gross margins now expected to be below 2020 level
  - Offsetting lower gross margin by reducing operating expenses to maintain commitment to operating margin improvement for the year

# SECOND QUARTER PERFORMANCE

## Adjusted Operating Profit and Margin

Millions

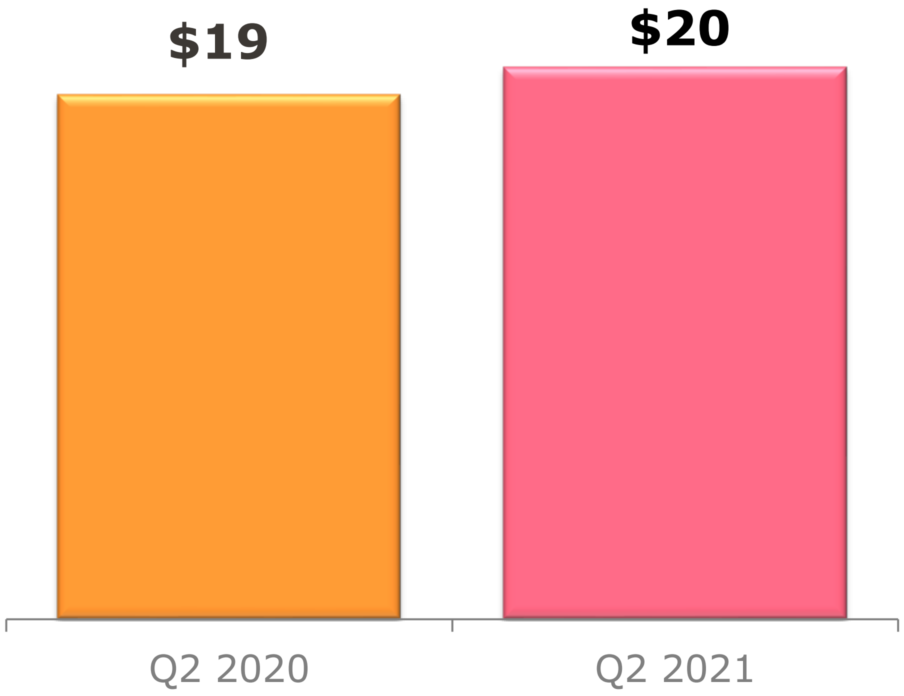



- Performance primarily driven by higher sales volume
- Partially offset in lower adjusted gross margin

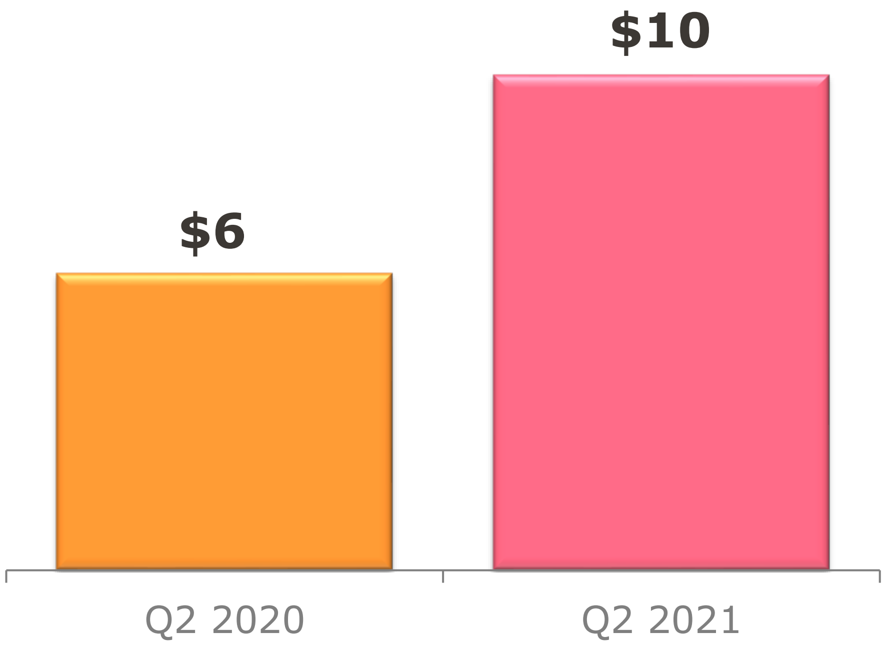
# SECOND QUARTER PERFORMANCE

## Earned $0.21 of Adjusted Diluted EPS

### Adjusted EBITDA
Millions




### Adjusted Net Income
Millions



# BALANCE SHEET AND CASH FLOW

- Achieved positive free cash flow absent any receipt of CARES Act refunds
- Keeping healthy balance sheet and generating meaningful cash flow remain key go-forward priority
- Ended quarter with $100 million cash on hand
- $165 million debt outstanding on revolving credit facility
  - $10 million improvement versus end of Q1 from small repayment
- Free cash flow represented inflow of $10 million
  - Enhanced by improved working capital

# 2021 OUTLOOK

- Some unpredictability of the Coronavirus remains
- Re-affirming net sales increase of 2% to 4% on a constant currency basis compared to the prior year
- Reducing top-end of earnings guidance due to increased manufacturing and transportation costs
- Now expect to earn $1.10 to $1.20 adjusted diluted EPS

# ΔVΔNOS: SOLID START AT HALFWAY POINT

- Confident in ability to execute strategy
- Will take necessary steps to drive gross and operating margin improvement and deliver significant free cash flow in second half

AVANOS

***The best at getting patients back to the things that matter***

# APPENDICES

Non-GAAP Reconciliations

# NON-GAAP RECONCILIATIONS
## In millions

| | Gross Profit | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2021 | 2020 | 2021 | 2020 |
| As reported | **$ 85.7** | $ 86.5 | **$ 177.0** | $ 188.6 |
| COVID-19 related expenses | **-** | 2.1 | **-** | 2.5 |
| 2020 Restructuring charges | **2.8** | - | **3.0** | - |
| Post divestiture restructuring charges | **1.7** | 0.6 | **2.6** | 1.1 |
| Post divestiture transition charges | **3.7** | 0.3 | **3.8** | 1.1 |
| Acquisition and integration-related charges | **-** | 0.1 | **-** | 0.2 |
| Intangibles amortization | **1.7** | 1.6 | **3.3** | 3.3 |
| As adjusted non-GAAP | **$ 95.6** | $ 91.2 | **$ 189.7** | $ 196.8 |
| Gross profit margin, as reported | **46.0 %** | 52.8 % | **48.2 %** | 54.8 % |
| Gross profit margin, as adjusted | **51.3 %** | 55.7 % | **51.7 %** | 57.2 % |

| | Operating (Loss) Profit | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2021 | 2020 | 2021 | 2020 |
| As reported | **$ (7.3)** | $ (1.8) | **$ (19.7)** | $ (1.2) |
| COVID-19 related expenses | **0.2** | 3.2 | **0.2** | 3.7 |
| 2020 Restructuring charges | **8.5** | - | **8.7** | - |
| Post divestiture restructuring charges | **1.7** | - | **2.6** | 0.5 |
| Post divestiture transition charges | **3.6** | 3.1 | **3.6** | 7.1 |
| Acquisition and integration-related charges | **0.2** | 2.1 | **0.6** | 3.9 |
| EU MDR Compliance | **1.0** | - | **1.2** | - |
| Litigation and legal | **2.7** | 1.2 | **25.2** | 3.4 |
| Intangibles amortization | **4.1** | 4.9 | **8.3** | 9.7 |
| As adjusted non-GAAP | **$ 14.7** | $ 12.7 | **$ 30.7** | $ 27.1 |

# NON-GAAP RECONCILIATIONS
## In millions

| | (Loss) Income Before Taxes | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | **2021** | 2020 | **2021** | 2020 |
| As reported | **$ (8.2)** | $ (5.9) | **$ (21.4)** | $ (8.9) |
| COVID-19 related expenses | **0.2** | 3.2 | **0.2** | 3.7 |
| 2020 Restucturing charges | **8.5** | - | **8.7** | - |
| Post divestiture restructuring charges | **1.7** | - | **2.6** | 0.5 |
| Post divestiture transition charges | **3.6** | 3.1 | **3.6** | 7.1 |
| Acquisition and integration-related charges | **0.2** | 2.1 | **0.6** | 3.9 |
| EU MDR Compliance | **1.0** | - | **1.2** | - |
| Litigation and legal | **2.7** | 1.2 | **25.2** | 3.4 |
| Intangibles amortization | **4.1** | 4.9 | **8.3** | 9.7 |
| As adjusted non-GAAP | **$ 13.8** | $ 8.6 | **$ 29.0** | $ 19.4 |

| | Tax Benefit (Provision) | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | **2021** | 2020 | **2021** | 2020 |
| As reported | **$ 46.1** | $ 2.9 | **$ 51.7** | $ 9.6 |
| Tax effects of adjusting items | **(47.1)** | (3.8) | **(57.0)** | (7.4) |
| Effects of the CARES Act and other | **(2.7)** | (1.5) | **(2.5)** | (7.5) |
| As adjusted non-GAAP | **$ (3.7)** | $ (2.4) | **$ (7.8)** | $ (5.3) |
| Effective tax rate, as reported | **562.2 %** | 49.2 % | **241.6 %** | 107.9 % |
| Effective tax rate, as adjusted | **26.8 %** | 27.9 % | **26.9 %** | 27.3 % |

# NON-GAAP RECONCILIATIONS
## In millions, except per share amounts

| | Net Income (Loss) | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | **2021** | **2020** | **2021** | **2020** |
| As reported | **$ 37.9** | $ (3.0) | **$ 30.3** | $ 0.7 |
| COVID-19 related expenses | **0.2** | 3.2 | **0.2** | 3.7 |
| 2020 Restructuring charges | **8.5** | - | **8.7** | - |
| Post divestiture restructuring charges | **1.7** | - | **2.6** | 0.5 |
| Post divestiture transition charges | **3.6** | 3.1 | **3.6** | 7.1 |
| Acquisition and integration-related charges | **0.2** | 2.1 | **0.6** | 3.9 |
| EU MDR Compliance | **1.0** | - | **1.2** | - |
| Litigation and legal | **2.7** | 1.2 | **25.2** | 3.4 |
| Intangibles amortization | **4.1** | 4.9 | **8.3** | 9.7 |
| Tax effects of adjusting items | **(47.1)** | (3.8) | **(57.0)** | (7.4) |
| Tax effects of the CARES Act and other | **(2.7)** | (1.5) | **(2.5)** | (7.5) |
| As adjusted, non-GAAP | **$ 10.1** | $ 6.2 | **$ 21.2** | $ 14.1 |
| Diluted EPS, as reported | **$ 0.78** | $ (0.06) | **$ 0.62** | $ 0.02 |
| Diluted EPS, as adjusted | **$ 0.21** | $ 0.13 | **$ 0.44** | $ 0.29 |

# NON-GAAP RECONCILIATIONS

## In millions, except per share amounts

**EBITDA**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| EBITDA, as reported | **$ 2.2** | $ 9.0 | **$ (0.5)** | $ 20.2 |
| COVID-19 related expenses | **0.2** | 3.2 | **0.2** | 3.7 |
| 2020 Restructuring charges | **8.5** | - | **8.7** | - |
| Post divestiture restructuring charges | **1.7** | - | **2.6** | 0.5 |
| Post divestiture transition charges | **3.6** | 3.1 | **3.6** | 7.1 |
| Acquisition and integration-related charges | **0.2** | 2.1 | **0.6** | 3.9 |
| EU MDR Compliance | **1.0** | - | **1.2** | - |
| Litigation and legal | **2.7** | 1.2 | **25.2** | 3.4 |
| Adjusted EBITDA | **$ 20.1** | $ 18.6 | **$ 41.6** | $ 38.8 |

**Free Cash Flow**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Cash provided by (used in) operating activities | **$ 15.3** | $ 1.1 | **$ 12.0** | $ (4.7) |
| Capital expenditures | **(5.8)** | (6.9) | **(11.5)** | (12.1) |
| Free Cash Flow | **$ 9.5** | $ (5.8) | **$ 0.5** | $ (16.8) |

# NON-GAAP RECONCILIATIONS

## In millions, except per share amounts

| | 2021 Outlook | | | | |
|---|---|---|---|---|---|
| | Estimated Range | | | | |
| Diluted earnings per share (GAAP) | $ | 0.02 | to | $ | 0.26 |
| Intangibles amortization | | 0.26 | to | | 0.26 |
| Restructuring initiatives | | 0.20 | to | | 0.16 |
| Litigation and legal | | 0.52 | to | | 0.46 |
| Other | | 0.10 | to | | 0.06 |
| Adjusted diluted earnings per share (non-GAAP) | $ | 1.10 | to | $ | 1.20 |