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<<Rick Wise, Analyst, Stifel>>

I'd like to welcome Avanos Medical and Michael Greiner, the Interim Chief Executive Officer and Scott Galovan, Senior Vice President of Strategy and Corporate Development. I'm very excited, Michael, to have you here. I mean, this is a time of enormous change for Avanos and obviously for you.

And I'm personally very excited at the change. I've followed the company since the spin off and I think that, the work you've done in transforming the company so far. I'm really anxious to hear your thoughts, looking ahead as interim CEO.

So before your latest appointment, Michael, you were Chief Transformation Officer and Chief Financial Officer. So what are your – talk to us about your top priorities as interim CEO? What are you able to do now that you couldn't before? What are your intentions and top priorities now?

<<Michael Greiner, Interim Chief Executive Officer>>

So, great question. So as you talked about, the transformation has gone by and large very well. We'll do some updates over the next quarter and a couple other conferences and year-end earnings call around where we are against those transformation targets. But if you look at our absolute dollars on OpEx, where we are looking to take gross margin, our balance sheet, we are on target. The thing that has unfortunately left us a little behind on some of the margin expansion targets is our revenue is lighter than we anticipated it being and majority of that is in HA.

So we'll show some walks over the coming weeks and months to show that we have done what we said we were going to do on the transformation, except for HA, which we misread that market and I'll talk about that in a little bit. And so the question is, so what are you going to do in the interim role? And the very first job in my mind is figure out what we're going to do with HA. It still throws off free cash flow, it still has a margin profile that is accretive to the overall company.

But when it's shrinking 20% quarter-over-quarter, year-over-year, even though we have some stability right now, it just creates a lot of qualitative headline risk more than anything else. And so we've got to act I think swiftly in 2025 around HA because when you look at the other parts of the business, they have by and large executed as anticipated. We've had quarters like last quarter with North America.

COOLIEF wasn't where we thought it would be. We've had some supply chain issues, but by and large, those things have been transitory. HA price declines through ASP plus 6% is not a transitory issue. That's an issue that we're going to continue to deal with into 2025 and beyond.

So that's one of the first priorities is figuring that out and having that not be the distraction that it has been. Two, with regards to what can I do now that I wasn't doing? It's interesting. I was Chief Transformation Officer, we led the priorities as a group, we tied those priorities to the company level strategy. But somehow as a CEO, when I say the same things I've been saying for two years, they all of a sudden are like, wow, that's really brilliant. I'm like I've been saying this for two years.

So I think just keeping the momentum on the transformation, but in a way that broadens the audience to have the teams work together more effectively is really important. And I know it sounds simple and it is simple, but it's amazing how execution improves just by better communication, better cross functional execution and understanding our priorities together. So we've done some things in the company on a weekly basis to make sure those things are happening.

The last thing I would just say is, when you think about the areas of execution on the transformation that really has set us up so that we can have a good conversation around 2025, around 2026, looking at our portfolio maybe a little bit differently than we did a year and a half ago when we embarked upon the overall transformation during Investor Day. So I'm excited to layer in more strategic priorities that we have going forward and doing that over, like I said, the coming weeks and months. But it is – we are set up. And the reason why I'm excited about this interim role and hopefully becoming permanent is we are set up for a long, mid to long-term opportunity for consistent success. Something we have not done.

The frustration and the complaints from investors is, you put together two good quarters and then you have a sloppy quarter. You put together two good quarters and there's a piece of the quarter that you roll out that is just inconsistent, unexpected. It's not what you signaled. And those are all legitimate pushbacks and concerns.

And so, pull this all together. Transformation by and large is on target. We're executing against almost all, if not all of those targets that we had established and that is allowing us to execute more cleanly going forward. And that's going to be the big focus we have, here going in 2025.

<<Rick Wise, Analyst, Stifel>>

That's a great start to the conversation. And I hate to pick at the scab of HA. I can't help myself but I mean, I can say it for you, but rather, who say it. So what are just common sense rational options here? And I just can't help but think if you could just take that away, how much better the risk would be?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah. So I think speaking about it differently to that point, however you speak about it, whether it's its own segment, whether you just normalize it out, whether you hold it out separately from the rest of the business, there's a way we can speak about it, obviously, that would, I think deemphasize the importance of it. I think the level we have with it at this point is it still throws off cash flow. It still is accretive overall to the bottom line.

That’s not always going to be the case. We get out into further years, it will not be the case. So that’s an easy discussion in 2027 and beyond. 2025 and 2026 is a little bit tougher discussion because it’s thrown off cash flow and it’s accretive. That doesn’t mean we shouldn’t do things around it or maybe just rip the band aid off. And these are all things that we’re considering right now.

And like I said, more to come on that. But yeah, it is – the qualitative impact from our acquisition of OrthogenRx in HA on our market cap far outweighs the fact that financially it’s actually been an okay acquisition from an ROIC standpoint when you look at what we paid versus the cash flow that’s being generated.

So yeah, but to your point, Rick, it is a distraction. The reality is we missed an understanding, a key understanding of how the market establishes ASP. We are in Medicaid, Medicare only in the 3 and 5 shot markets. Almost all of our competitors are in the Medicaid, Medicare and the commercial private payer. There are things you can do on the commercial private payer side to help elevate and keep your ASP higher. That is not available in Medicaid and Medicare.

We did not understand those pricing dynamics. And so when we lower price quarterly to compete on price, we lower our ASP. When other competitors lower price to compete on price in Medicaid, Medicare, they have other means over on the commercial side that they don’t lower ASP. And so we are. We’re kind of stuck here. Now we could go after the commercial market and participate in that, but that would take 18 months or so. There’s investment behind that. Is that really where we want to play? Probably doesn’t make sense longer term.

<<Rick Wise, Analyst, Stifel>>

And so to ask a rude question a little bit, is there – could there be a buyer for the business, maybe one of the existing larger players…

<<Michael Greiner, Interim Chief Executive Officer>>

Sure. I mean we would look at…

<<Rick Wise, Analyst, Stifel>>

I would think it would be positive.

<<Michael Greiner, Interim Chief Executive Officer>>

Sure, we could look at that. And like I said, we will look at more to come on this in the coming weeks and months, but we will look at all possible outcomes with our HA product categories, both the 3 and 5 shot.

<<Rick Wise, Analyst, Stifel>>

Right. And you're not exactly a turnaround anymore. I mean, the balance sheet is in good shape, solid cash flow, most of the portfolio performing well. And yet, it's sort of interesting. Are we seven years after spinoff, something like that?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah, more than that but yeah.

<<Rick Wise, Analyst, Stifel>>

More than that, all right, I mean, it's interesting for me to hear you talk about culture and being heard and communication. One big new spin-off, Solventum the CEO is always talking about in his initial efforts, winning hearts and minds. And I'm sort of thinking about those words as you say that, gosh, what are folks not getting and what do you have to do to win their hearts and minds?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah. So I think – and I'd love to hear Scott's view as well on this, but I think two things in particular, Rick. When you carve out of a large multinational $20 billion company that has all sorts of governance and other things in place and there's reasons for it, and then you try to spin out to $1 billion plus company and then you divest of a business and rename yourself and then divest of another business and get smaller and focus on the med device space, there's just constant change. And so people trying to understand where exactly is the strategy going and communicating that over and over and over again. I was reading an article the other day that said for new CEOs who are trying to win hearts and minds, they use a different phrase, but basically that you need to repeat yourself so frequently that you're sick of hearing your self-talk.

And so I got to get to a point where I'm sick of hearing my self-talk on these winning the hearts and minds because I think that's critical for us to be successful. But it is – culture is, a lot of people talk about, oh, we'll just change culture. You don't just change culture. You change your behaviors, you change your expectations, you change your accountability and when you do that consistently over time, your culture changes.

And I would argue that we've been more transactionally focused than strategically focused often over the last seven plus years. And because of that, we really haven't changed our behaviors or expectations of behaviors and therefore we've still inherited and owned in good portions of our company. A large company culture, which tends to be a little bit slower, tends to be more risk averse, tends to work in your silos with subject matter experts.

A simple example that I said the other day to the team, I said, look, subject matter experts aren't going to help us get to where we need to be. Problem solvers that look across functions and look at what we're trying to do as a company. That's going to help us get to where we need to be.

But when you come from a big company, everybody's a subject matter expert and that's needed because you're a big company. As a small company, we need people that are willing to take out the trash and collect receivables and step up for a special project. In order to do that efficiently and effectively, we need well rounded utility type players versus people that are subject matter experts. That doesn't mean – of course, we need our tax expert or we need our regulatory expert, but by and large, we need people that are willing to step into the spaces that are empty and raise their hand and say, I'm going to go win as a team.

So that's a lot of what we're talking about with the shift in behaviors is we're going to win as a team or we're going to lose as a team. But it's going to be as a team. It's not going to be as individual functions, it's not going to be in silos, it's not going to be with CYA, covering ourselves because we don't want to be the one that's held accountable, that's stopping. We're going to be held accountable to each other and we're going to win together. And I think we've got a really good platform to do that around.

But Scott, I'd love to know.

<<Scott Galovan, Senior Vice President-Strategy and Corporate Development>>

Yeah, I would just add to your point around the underlying inconsistency that we've had that Michael referenced, which while it's been relatively isolated to certain parts of the portfolio, as we start to win more together, that will have a really positive effect on culture. So winning – the underlying winning and performance and seeing that through some of the key metrics is ultimately, I think what will help change our culture as well to one of we feel like we're collaborative, we feel like we're working together, moving in the right direction.

<<Michael Greiner, Interim Chief Executive Officer>>

And Rick, every 500,000, 600,000 for us matters, 600,000-ish is a penny. So we operate and we do that across six, seven different product brands. So we operate, we often talk about internally, we operate on the head of a pin. Unfortunately, a lot of what we've seen over the last few years is that 500,000 or 600,000 is going against us. But the same is true going for us to Scott's point. So you start winning a little bit, that's 500,000 more.

You start winning a little bit more, that's 1.2 million more. And so changing that dynamic where we do operate on the head of the pin, but if we execute more consistently and flawlessly together, winning as a team, all of a sudden instead of the two 500,000 going against us, the two 500,000 that quarter go for us. But we have to own that as an organization.

<<Rick Wise, Analyst, Stifel>>

It's hard for me not to notice that Scott's here, strategy, corporate development. I mean I assume you're sending. There's a symbolism and practicality of you being here, but I hear you say the words, but we're going to look at the portfolio differently perhaps. And whether you or Scott want to talk about that and maybe from through this angle, what do you think are the core keeper sort of hubs that you want to build your vision of Avanos around and maybe what's a little less important?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah, no, it's a great point. So we already talked about HA. We've got to do something with HA. That's not a long-term hold for a whole range of reasons. After that and I don't think I'm breaking news here. Owning a digestive health business of $400 million, animal feeding business of $400 million and a pain business with a couple of different platforms that call it $300-or-so million, that's hard to do because neither are scaled, you've got a bunch of costs that are allocated across and there's no real synergies on the selling and marketing side whatsoever.

So longer term, are those two businesses that belong together as a publicly traded company at $700 million? Probably not. The question is what do you do with that? Given that there are components of the pain business to your question, like IVP now surgical pain with the NOPAIN Act, Game Ready that all individually have some interesting tailwinds and can perform consistently mid single-digits combined, our digestive business, which has been our crown jewel for many years. And I think some of the frustration for investors understandably is, man, you look at your market cap, you look at your metrics on a digestive standalone business, that's the value of your company.

If you were just to say, look, there's a $400 million business growing consistently 6%, 7% with 25% plus standalone EBITDA margins, what value would you give it? Well, probably higher than what our market cap is today. So by definition then the pain business is in the marketplace zero value or actually negative value right now, right? And yet that makes no sense to me because the pain business, although we may not be the best long-term owners of that, clearly has value. Game Ready is a leader in its space. It's going to grow consistently mid-single to high single digits.

The IVP business with our Semtech standard RF, our new Diros Technology, Trident, and then obviously COOLIEF, which is best in class cooled RF. Tremendous set of category products that grow. It's similar to Game Ready mid-single to high single and then surgical pain with the NOPAIN Act and the reimbursement we just got, that's not going to grow mid-single to high single. But could that grow 2% to 4% consistently? Especially given ambIT growing 30% should continue to grow at that rate? And you finally get ON-Q with some tailwinds as opposed to one headwind after another that we've had for it for the last four or five years.

And you look at those businesses and you're like they're not worth zero. We've done a lot of work through transformation that each of them is some level of profitability, some more than others. And then obviously you've got a real tailwind in the digestive business with what we have there. And we've got a great balance sheet, right? We're going to end the year with net debt of $20 million, less than a quarter turn of leverage, which gives us a lot of flexibility and optionality around M&A, which we've already signaled we would – unless something really unique fell into our lap, majority of our effort and time right now is looking at either NICU assets to help complement the NEOMED feeding device or other digestive health assets, including nutrition.

<<Rick Wise, Analyst, Stifel>>

Got you. That’s a great rundown. Just because you mentioned it, the NOPAIN Act, the new reimbursement, talk about for folks who are not familiar with the implications, talk about the new reimbursement policy. How will it affect non-opioid drug and device reimbursement next year?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah, so two things that are of interest – actually, three. One, we’re the only med device company within the NOPAIN Act that got a reimbursement outcome. So we’re very excited about that. We got it for ON-Q and ambIT, which is also very exciting. We felt fairly confident in ON-Q. We didn’t know how they would think about our electronic pump ambIT. So that’s an exciting outcome as well.

And it now covers, I won’t go through all the fancy math, but the easy way to think about it, it covers the cost of the product. So where it was included in the package DRG, it now covers that cost. And so if you think about, if you’re a physician using this, now you have more profitability in the remainder of whatever procedure you’re doing where an ON-Q or an ambIT would be relevant. So we’re still trying to assess how much of a positive this is. But it’s no doubt it’s a positive. It creates a different dialogue at the call point than we’ve been having for the last several years.

Two issues with ON-Q and ambIT – well, three. One of them is, is all the historical issues we’ve had, whether it be the 503B fillers, whether it be a drug shortage by Pfizer, whatever it might be. But those are all in the rear view mirror. We’ve had some supply chain issues. Those are in the rear view mirror. That’s been one issue with the product. It’s been often on the market.

Two, because it didn’t have separate reimbursement, it was hard to convince docs to use it, even though it was and is remains the best long lasting, multiday non-opioid post-surgical pain product available. And so those first two things now are taken care of with this reimbursement.

The third thing is it does take a little bit longer to administer, right? The catheter based at the incision point usually requires an anesthesiologist, takes a little bit more time to do. And if you’re not getting reimbursed, do you really want to spend that time to do that when you have other options available that may not be as good, but they’re legitimate options.

Now that you’re getting paid for it and we’ve had lots of customers who have gone in other modalities, would you come back and reconsider it again? Because you do know from a patient standpoint that patient gets to go home, they can heal in the comfort of their own home, they have legitimate multiday pain relief that are self-titrated or bolus depending on if you’re using the electronic.

And so I think there’s a real opportunity for us to reengage a lot of our customers who have walked away and giving them a reason to reconsider ON-Q again, especially given that it is the best non-opioid long-lasting pain option out there. Yet I think ultimately that’s what the NOPAIN Act is intended to do, which is influence behaviour, right? Influence behavior of physicians to move away from opioids. And now given that there’s payment outside the DRG, we think that that'll help drive some of that behavior. How much exactly to Michael's point, we will see what the adoption does, but we do think there's a reason for physicians to come back to the therapy or new physicians to adopt it.

<<Rick Wise, Analyst, Stifel>>

So does this turnaround ON-Q after the headwinds?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah, I would be careful using the word turnaround. That makes it sound like it's all of a sudden they grow 8%, 9%. But does this – at a minimum, does this flatten out the curve that has been declining for years? Absolutely. And could this provide at least a little bit of growth tailwind in 2025 and then we'll see after 2025 what could happen post that.

But what it does do, to your point earlier, Rick about, large portions of our portfolio have been performing, but we have pockets that have not. And those pockets continue to be a distraction. HA, we already talked about ON-Q has been another one. So if we can just make ON-Q a non-distraction, then people can start focusing on other parts of the portfolio that actually have been performing very consistently.

Again, you look at our Investor Day targets, put aside the percentages because we're going to be off of our revenue and therefore we're off our revenue off of an 85% gross margin product in HA. So you just run that through the income statement. But we said we would be at a certain number for OpEx with SG&A and R&D. We're going to be exactly at that number.

We said where our balance sheet would be from a standpoint of net cash and net debt, we will be within shouting range of that number. We indicated that we would be allocating capital towards share repurchases when we think there's a dislocation in an understanding of the marketplace versus what we believe our intrinsic value is. We've done $85 million of share repurchases. We just got approval for another $25 million of share repurchases. So we've allocated capital successfully there.

We said we would be doing M&A in particular DH enteral feeding. We've looked at a lot of assets. I think if investors knew what we looked at and what we walked away from or what we were willing to lose based on valuations that we got outbid, they would say stay disciplined, right? You've got a nice balance sheet. Don't go chase something that you don't need to go chase. So I feel really good about 90% of our transformation. But the HA and a little bit ON-Q performance over the last 18 months has really put a veil over people fully understanding what's underneath our set of financials, which is actually quite attractive.

<<Rick Wise, Analyst, Stifel>>

That's a great way to think about it. And before I leave some of these bigger picture topics, I know it's not your call precisely, but the decision on a permanent CEO, how is it progressing?

Do you have any perspective you can share? And should we imagine that the Board will come to – likely want to come to a decision quickly, maybe by year end? Is that too ambitious?

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah, my guess is year-end is probably a little ambitious. I do believe that they want me to run this interim CEO as if I'm moving towards the permanent CEO role. So I have decision making authority on some things. If you're just asking somebody to attend the flowers, you wouldn't necessarily have. So that's encouraging. And I'm trying to take the bull by the horns and do that.

But my guess is they want to – and I think it's the appropriate thing to do as a publicly traded company. They want to look and see what other prospects might be out there and skill sets might be out there. I bring obviously a whole bunch of set of skill sets, but there's some skill sets that I don't necessarily have in my background and somebody else might bring those skill sets, but may lack other skill sets. So they probably want to look at that. And I appreciate that, but that will take into – my guess is that would take into the first quarter of next year.

<<Rick Wise, Analyst, Stifel>>

Got you. Looking ahead, it's – maybe put your CFO hat back on. Let's talk a little bit about the 2025 outlook. Given what you're sort of lining up for us, I mean, transformation, efficiency, better team building, some interesting reimbursement angles, maybe some of the headwinds a little less bad, potentially, possibly, maybe. How do we think about the numbers I was just checking before we talked? And consensus estimates have something like 3.5% growth, i.e., below your mid-single digit long-term target. How do you want us to think about 2025 at this point on a preliminary basis?

<<Michael Greiner, Interim Chief Executive Officer>>

So I think a couple of things, whether it be me or somebody else, they're going to want to use this opportunity as a reset, right? So, being in a position where we're not constantly operating on ahead of the pin, where we have to operate flawlessly each quarter in order to meet consensus, I think giving us a little bit of breathing room would be smart for the new CEO to do. And so, yes, that's below our mid-single digit, but that's probably smart to want to set that up to be below mid-single digit.

That being said, there are a lot of tailwinds going into 2025 when you look at each individual product category. That's exciting. NeoMed will continue to grow at least the first part of the year double digits. We keep signaling that we're in the later innings, but the reality is those later innings keep getting extended and we'll obviously take it.

Our legacy business continues to grow solidly 4% or 5%. We have good price mechanics there and taking some share. And as we talked about the pain business, in total, the pain business is a tough business. But when you strip out each of what I would describe as the four components, it actually starts to get quite a bit more attractive and it provides some optionality as to what where we would want to invest and what we want to do there.

I mean, we don't talk a lot about two of our off balance sheet investments, Synaptrics and FUSMobile. We talked about it during Investor Day. We continue to have board seats there, our investment we're following very closely. Those are game changers on the pain scene should they move forward. And they're 18 to 24 months out. These aren't five year projects that are R&D, the hopes and wishes.

These are – they're getting close to submissions and a lot of studies have been done and they're game changers on how we think about interventional pain, which is super exciting. So we've got a lot of good things going for us. But the reality is if you're a publicly traded company, the one thing you have to have going for you is consistently meeting and beating consensus. And that is an area that we have not consistently done over the last handful of years. And I think this gives us an opportunity to establish targets where we are very comfortably within that cushion that we're going to be able to meet and exceed.

<<Rick Wise, Analyst, Stifel>>

I mean, it's again common sense. It sounds great. You've been talking about that for a long time. So it's exciting to see that potentially be there. And on the expense control side, you've been working that hard. Are there any obvious big easy, low hanging fruit opportunities?

<<Michael Greiner, Interim Chief Executive Officer>>

No, I think the low – back to – when people have asked me about what is the transformation in a couple sentences and what I've shared is it's shifting our DNA on a whole bunch of areas and really embedding in our DNA an approach around how we go to business each day, how do we go to market, how we treat each other. All the things we just talked about, which I've been saying for two years, but now all of a sudden it's magic.

And so the – to that front on the cost side, the low hanging fruit we've done but the consistency of cost management discipline. And if you have somebody resign, you don't automatically backfill. Do you need to go to each of those selling and marketing conferences? Do we have a different reporting structure? When you think about spans and layers, who are we using as third-party providers? Do we outsource some stuff? Those disciplines are being embedded in the organization.

So we don't have big cost out remaining. We've got our $50 million out from our original transformation. We have another $20 million plus that's offsetting the stranded cost for the RH divestiture and we'll continue to look for opportunities to take out costs. But that's more an embedded cost management discipline that we have in the organization now.

<<Rick Wise, Analyst, Stifel>>

I hate to stop because there's a lot more to talk about, but that's a great summation and appreciate your directness and your honesty about setting up. It sounds like this is an exciting story once you go through this reset.

<<Michael Greiner, Interim Chief Executive Officer>>

Yeah. Look, we’re still – we’re small to mid, but we’re complex because we have all of these subscale categories. But we are leaders or second in all these categories. And if we can execute more consistently, I think we get more people believing what we can do and that’s on us. We have to own that. And that’s part of the energy I’m trying to bring into this new role.

<<Rick Wise, Analyst, Stifel>>

Congratulations. Great, exciting. We’ll be watching with great interest.

<<Michael Greiner, Interim Chief Executive Officer>>

Great. Thank you, Rick.

<<Rick Wise, Analyst, Stifel>>

Thank you for being here. Thank you both.

<<Michael Greiner, Interim Chief Executive Officer>>

Thank you.

<<Rick Wise, Analyst, Stifel>>

Thanks, Scott.