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# Avanos Medical, Inc. (AVNS)

KeyBanc Capital Markets Life Sciences & MedTech Investor Forum

## CORPORATE PARTICIPANTS

### Joseph F. Woody

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

### Dave Crawford

*Vice President-Treasurer & Investor Relations, Avanos Medical, Inc.*

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## OTHER PARTICIPANTS

### Matthew Mishan

*Analyst, KeyBanc Capital Markets, Inc.*

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## MANAGEMENT DISCUSSION SECTION

### Matthew Mishan

*Analyst, KeyBanc Capital Markets, Inc.*

Good afternoon, everyone and welcome to the Inaugural KeyBanc Life Sciences & MedTech Investor Forum. My name is Matt Mishan, I'm a senior medtech analyst. I'm pleased to be joined by CEO, Joe Woody; and Treasurer, Dave Crawford from Avanos. If you have any questions, there's a Q&A box in the bottom of your screen that goes to me and I'll do my best to get to them as we run through the fireside.

And with that, I think we're just going to – we're just going to throw out some questions and go from there. So, Joe welcome. Dave, welcome.

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### Joseph F. Woody

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

Thank you.

## QUESTION AND ANSWER SECTION

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Could you provide a little bit of history like this is a company that's gone through two major spins and all the challenges over the last couple of years just [ph] only to (00:00:42) run into a pandemic?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah. You know the company spun from Kimberly-Clark six years ago and a lot has really been accomplished in that timeframe. I came in 2017 and we made a decision to divest of our S&IP business. I thought we got a really good value for that business, but over the course of a couple of years, we were providing service level agreements. We had to put in a new IT system. And really most of our businesses performed really as projected with the exception that we did have a dislodgement of our acute pain business due to drug supply shortage and 503B FDA involvement. These are [ph] folks that fills (00:01:21) the pumps for our customers. But now we've had a chance to get most of that behind us. And, of course, as you mentioned that a pandemic comes along. But I feel like the organization really performed well in the pandemic. We had a good performance, kept our balance sheet very clean along the way. And we're set for a good year here in 2021.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

So, you've been cautious – I mean, you've been cautious in the pace of recovery. You've been rightfully so from call it since July. I think July-August of last year. You said we wouldn't be recovering as fast in the fourth quarter, you were right. So – but how are you – and then you were cautious on your last call as well. I'm curious now how you would characterize the transition from like December to January surge that everyone was experiencing to February, March vaccine optimism that seems to be generally taking hold.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah. It turned out we had the right view. I think a realistic view of how long it might take to get back to "new normal." And that panned out in the fourth quarter, especially in January – sorry, in December as company saw the electives change. That's continued into January and February, but is getting better.

But what we're watching is how fast these vaccinations can get out. What does it mean when we get a flare up? I mean even today in the news we're talking about half the states going on the uptick. Again, I don't think it's going to be something that can't be managed, but it could have impacts into the way people go back, especially into the hospital for elective surgeries, probably less so in the outpatient setting. For example, we're seeing that part of our business accelerated a bit quicker, for example, than acute pain where you have to stay overnight.

That said, I think as we get into the second quarter there's an opportunity for us and others that haven't been providing guidance to likely do that with our earnings report, because I think through April, we'll have a lot more knowledge and information. Things are becoming a bit more measurable and easier to see, let's say. But it did turn out – I mean it's interesting because we took a little bit of hit with our approach. It turned out to be the right approach. But it was good because we're able to manage our cost better that way.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

And the other thing that's popping up for folks is that there's a concern around inflation in supply chain logistics. Like what are you seeing on the ground as far as being able to get the parts you need, the raw materials you need and so forth?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

We've not seen an impact in Q1, but we're starting to hear about [ph] resin (00:04:08) as an example, coupled with sort of a pullback in those raw materials as the pandemic began. But lo and behold, as the pandemic began, the need for these materials really increased. Then there were things like the distribution right now during the pandemic and the Texas ice storm. So, there could be some impact. At the moment, it doesn't look like something that's material. For us, we're keeping an eye on it. Our supply chain team has done a really good job really throughout the pandemic, keeping the factories running, getting the raw materials that we need. But I think this is more of an industry-wide issue and probably a global issue really. And even other industries like automakers and so forth that some companies could come in to some delays based upon this. But we're not ominous. We're not seeing a big impact at the moment.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. So longer-term now, I think you guys have been generally communicating a framework of how to look at normalized organic growth and margin expansion opportunities, but are looking at a way to formalize it later this year at some point? Is that...

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah, I think a couple of things. I mean I think one is to the extent that things continue as they are now, we get through April, there's a likelihood that the earnings call for Q1 that we would give some guidance for the year. But beyond that, what you're referring to is sort of the business has gone through a reset if you will. We talked about that a little bit in the upfront. But we think late summer, early fall, you have to watch the vaccinations. Maybe there's some sort of event that's a virtual and a live event that we can pull together. And I think it'd be great for investors to get a chance to look at the pipeline, to look at where we're getting this margin expansion a little bit more detail and meet some of the new management team members and talk about really the levers and milestones in the business that can continue that growth, which we feel like in a non-pandemic situation is mid-single digit on the top line.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

And just lastly before moving on to some of the specific stuff around your business. I think you were very – in the fourth quarter, you were able to point to deductibles not resetting, you were able to point to high unemployment. You were able to point to specific factors outside of the surge that would keep procedures down. As you're going through the year, I mean, do you have [ph] outside of the timing (00:06:42) of vaccine distribution, what do you see as a limiting factor?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

I mean, I think really that as the electives come back for our business and pain – and acute pain in particular where you have the overnight stay, that – as we move in April that's going to start to take an uptick where in December, and January and February had slowed a bit. And then we're seeing, as I said earlier, the outpatient – hospital outpatient department, the COOLIEF procedures and our Interventional Pain business start to come back a bit faster.

And so, we're keeping an eye on the hospitals, the way they're managing, setting up for patients the protocols they have in place for infection, the access that our salespeople have, that all seems to be even over the past week or two are getting better. We're not as worry about the unemployment because obviously some of the stimulus packages. And in fact that there are some focused on companies now looking at hiring and bringing people back.

I think when we come around to the fourth quarter of 2021, we normally get an uptick of about 13% to 15% for example in our ON-Q business. Q1 is typically slow. We realized that last year. That should come back, and generally the conversation that I've had with a lot of colleagues and you're probably having with all of the businesses that you cover is there definitely is a certain level of pent-up demand. And I know that the surgeons and the physicians are getting anxious to get back, involve with their patients. So, I think what we have ahead of us, unless something happens that's unforeseen, should be pretty good for the second half.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. You brought in Bill Haydon to run your Pain segment. What are some of the early changes he has been able to identify? What do you hope for him in that role?

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

I think one thing that he's done is put a nice structure in place to bring the businesses together to create efficiencies, not only that are good for cost, but also for the way we approach our customer with a whole package of pain and offerings that we have. I mean, he has a background in strategy and strategic marketing, which was a gap that we wanted to fill in the overarching business to better clarify what our differentiable positions were in particular in Acute Pain.

It's a little bit more evident. In COOLIEF, he has a good background in M&A and the businesses that he has worked in. And that's something we want to shift our attention to now. In Pain, we've been making acquisitions in the chronic care business, but now have a real opportunity to shift to the pain business. So growth which is obviously a big part of the story there, that's his background and he comes from the cardiovascular business where there's a lot of interaction with key opinion leaders and key accounts and really achieving standard of care.

And so, so far so good. We've been really pleased with what he's brought to the table. He also has a good approach to portfolio management. So, I think that we can do some further work in our R&D portfolio to make sure we gain the returns that we want. So, very excited about that and [ph] we will have lots of (00:09:54) success in the future.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Is there a work you can do to differentiate yourself with ON-Q – to better differentiate yourself with ON-Q versus EXPAREL. It seems like EXPAREL has come back very quickly. My guess is that's because you're trying to get

people in and out of procedures. [ph] And the more minimally invasive you're doing that you do (00:10:21), the better it is more outpatients. But how do you differentiate ON-Q from EXPAREL, and start driving more volume there?

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah. So, a couple of things. One is, I think that their comeback is related to the higher percentage of work they do in the ambulatory surgical center. And obviously, they have the [indiscernible] (00:10:40) advantage there. And so, I think some of that is there and you're right some of the procedures that don't require multiple night stay or where you're not looking for five days of pain relief. So, that's probably an answer there. But we feel like with the electronic pump and the innovations that we can put on that, coupled with having the elastomeric pumps in our portfolio. Obviously, we have some breakthrough coming along. But then using what we offer to the customer to follow the patient, getting more data available to anesthesiologists and surgeons, and then really you know there's a couple of articles that were in the Anesthesiology Journal in this past edition that talked about products like EXPAREL versus single shot [ph] administered at the hospital versus just plain (00:11:24) bupivacaine delivered through a pump.

And some of the economic and even though the time of pain relief is pretty positive pointing really towards the single shots and toward pumps like ours. So, I remind investors that we are looking for a certain portion of this market in a lot of ways. We don't even compete in the same way because today we're not in the ambulatory surgical center. We're working our way in there through some reimbursement approaches, but for us to get back over the line of where there was a dislodgement in the market and to grow low-single digit in this business along with the other things we're doing and the other acquisitions that we'll make will really allow us to deliver our plan. There is a potential in the future with the electronic nerve block for us to have breakthrough if you will and maybe obsolete some of the technologies, which is why we're committed to the market. We're definitely encouraged by what we're seeing. I think we have to have the clarity of the elective procedures back and a good full year for investors to see that execution for them to really feel comfortable in the execution.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Just before going to the electronic nerve block, let's do the reimbursement potential. Has anything developed positively from the opioid [ph] relief bill (00:12:40)? I remember there was part of it where they wanted to incentivize not opioid-based alternatives. I mean, are they working towards that to work people away from opioids and willing to compensate hospitals, ASCs, outpatient for the use of [indiscernible] (00:13:07).

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

I mean the positive is they are listening. Obviously, we had an administration change. We're picking that back up on our own with other companies and of course, [ph] AvaMed (00:13:16) is involved in that as well. I do think there's an opportunity because the opioid issue still stands. In fact, in some cases, in some pockets of the country has worsened with the pandemic, but that could take some time. It may not be a near-term opportunity. That said beyond that we're looking at some different approaches to billing and the utilization of our products and we could have some breakthroughs there. We're not ready to talk about them yet. So, we have sort of a parallel path to try to get that ambulatory surgical center reimbursement and one of the avenues could eventually be through [ph] the end of (00:13:51) product.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*



And could you discuss the electronic nerve block and why you think that could be a breakthrough technology? And then really kind of when you could potentially communicate some milestones to the investors or around that?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*



So I think at the Investor Day this year we can talk about milestones where in-patients now are having great success and we can probably provide a lot more data that would be interesting and exciting to investors. And we're focusing on total knee with that and I think that has the opportunity to lengthen quite substantially pain relief and we focused on total knee because that's where a big bulk of our business is today.

A lot of this goes all the way back to before my time, when the Pain Center of Excellence was formed. And really, that was to attract PhD, scientists to make connections with incubators and companies that can help us with this technology. One result has been the electronic nerve block and others the advancements of the [ph] console and probes (00:15:00) in COOLIEF that we're seeing a lot of success and new customers even during the pandemic buying capital from us. And then the understanding of COOLIEF at the cellular level has come from that group.

So, there's more that we can do there. We're also kind of reaching out an open innovation. So we've invested in a focused ultrasonic approach to pain relief that's non-invasive and we have two or three other areas that we want to go into. So over time, I think that's going to work for us. I think everybody including myself want – it can't happen soon enough, but these things that are more breakthrough-oriented and new to the market take a little bit longer.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*



Okay. I mean, that's all – all of that sounds very exciting. And some of it seems [ph] real (00:15:47). Switching over to COOLIEF, where are you with – that's an area you've done a really good job of developing like a value proposition and delivering on data and clinical trials. And I think that's one of the reasons why you've been successful in changing reimbursement [indiscernible] (00:16:12) in 2019 and then again in the ASCs in 2020. Where are you in completing the three clinical trials that you've put together and moving that market with data?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*



Yeah. I mean we're complete, as you know, with the steroid, complete right there on HA. We have the standard versus [ph] RF (00:16:40) to go. And then the key, though, is not so much the finishing of the study. It's the publishing and peer-review, which will take place as we enter 2022. And I'm not sure everybody understands that that's going to allow us to – if you just set aside a moment reimbursement for COOLIEF in the orthopedic setting, the first thing that's going to do is allow us to go to payers outside of Medicare and manage Medicare and get better coverage. We essentially – even though that business is growing double-digit and it's significant for us, we're kind of fighting for every reimbursement, I think that's going to be a good thing. The second thing that allows – so that's really for the whole base of procedures.

The second thing it allows for is to get the patients more readily through, they can come to the hospital outpatient departments now and have that procedure done by interventional pain specialists. In a longer term, I think there's an opportunity for us to pursue orthopedic reimbursement in the private office, a longer – definitely a longer trail. So it's more of a phasic approach, we start to see some benefit in reimbursement sort of the second half of 2022.

We know if we can reach the patients in social media and we demonstrate that we can do that and direct to consumer advertising, they almost overwhelm the websites and they really come into the offices. But the issues, they're not getting the reimbursement done easily, sort of stops the ability to expand that further.

Although we are currently growing the [ph] OAD business in our hospital outpatient departments with IVP (00:18:05). So, double-digit growth in that setting can get better by the reimbursement in the private setting. And then ultimately alternative site, which takes longer ambulatory surgical center or the orthopedic office is a great opportunity. I think we're going through the process. We've invested like we have a lot more investment to make. But the data is so strong, two years of pain relief and lots of evidence that we will eventually get there.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Can you make it intuitive – like can you make it intuitive to the doctors that the outcomes or better and make it intuitive to the payers that you save the money over time. [indiscernible] (00:18:57) we're just looking for like an intuitive value proposition that makes sense to us?

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah. I mean so that's starting now we're doing a lot of medical education. We've done a lot virtually not only in COOLIEF business, but we did that a lot in the Acute Pain business with ambIT and ON-Q. And we're starting that process now. I think it will be intuitive. I can tell you that our salespeople on that team, they deal with very excited and anxious orthopedic surgeons that just want to get their hands on this because they see what it could do. It's also a way for them to capture patients and manage them all the way through to the total knee that really give them good pain relief on the way.

So we will be and we have been and will continue to be educating along the way. I don't think it's a – there's a lack of excitement amongst orthopedic surgeons. I think they're just as eager for us to get reimbursement as we are on a business level. I think we lost you, Matt.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

I need to be unmuted.

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

There you go. There you go.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. Sorry. There was a...

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Even happens [ph] in these settings (00:20:05).

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

There was a caravan of police going down the road, and I tried to mute it for a second, so you wouldn't have to talk over that. So apologies.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Thank you.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

In respiratory health, I think it was basically in 2020, you benefited from the BALLARD closed suction catheter, which works in conjunction with the ventilators. If near-term, what kind of headwind do you have to jump over from last year? And then, alternatively, is there a potential that, like, international adoption of that technology is an offset to that?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah. So we've tied about \$25 million of our sales last year in closed suction to treatment of COVID-19 patients, and we looked at tray sales that are typically two months in arrears. We feel like it's been good utilization. That said, that's a difficult number to overcome as the pandemic slows, as the management of these patients changes from a little bit less ventilation. But the positives are that our digestive health business has remained steady. We're getting a lot of growth from NeoMed and CORTRAK. And then, essentially, as the elective procedures come back in both the Interventional Pain business and the Acute Pain business, it really will make up for a year where you have a little bit of comparator issue with closed suction. So we're very confident of the growth in the business in total this year.

**Dave Crawford**

*Vice President-Treasurer & Investor Relations, Avanos Medical, Inc.*

A

Hey, Matt. The only other thing I'd add to that comment by Joe is the cold and flu season this year because of all the social distancing and mask wearing is going to be a lot lighter. So, that'll be a small headwind as we think about the results compared to last year as well.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Good point.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. And then in digestive health, is – first, has it fully normalized for you around the [ph] MIC-KEY, I mean, that was 1,000 issue (00:22:23) early last year. And then how did you deal that before. I feel like still like you got lost in the COVID last year. I think [ph] you weren't able (00:22:23) to talk about too much.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

That's right. And just to remind everyone chronic care is two-thirds of our business, the greater portion of our cash and EBITDA. So, it is important to us, but look, in Q3, we felt like we've been fairly normalized in digestive health. The legacy business there sort of grows 3%, 4-ish percent. But then the NeoMed has been growing double-digit. And we think it has a long runway for double-digit and opportunity for extension into the international markets.

CORTRAK has been more of a high single digit grower and we've got some benefit from the pandemic. But again taking that international, and the international business just in the last three years or so has gone from about \$130 million to \$190 million. Some of that is the M&A, the acquisitions in there. Some of that's also the performance of putting talented people in, putting programs in place to translate the standard of care in the US, into EMEA, into Asia-Pac. But generally feeling really good about digestive health in total and we think that as Dave outlined, respiratory health even with flu is manageable for us.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. I want to switch over to margins because they have fallen in recent quarters...

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Right.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

...and I was held back – I was held back [indiscernible] (00:23:50) these guys got high market share products in the hospital, [ph] referring revenue (00:23:57) and 60% plus gross margins, which gives you an opportunity to drive a lot of operating leverage in the business. And then over the last year, year-and-a-half we started seeing that 60-ish slipped down into high 50s and now almost like mid-50s. Just how confident are you that we can get that gross margin back up above 60%?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

I'm confident that we'll get there over time. I think what we're experiencing is a big shift and with the elective procedures, our high margin products will then go down and then the lower margin products come up, so closed suction being an example of that. But even if you took the quarter – the fourth quarter, we had a lot of oral care placement and that's one of our lowest gross margin products. Then you sort of fold in the other sort of point in time and then I will say one time event, hopefully it's one time event the pandemic that there's a lot of costs associated with the manufacturing and the raw materials and everything else to keep the plant safe and operational.

We also had some one-offs on some transfer pricing in Mexico, things that won't reoccur that was in the fourth quarter. But the big driver going forward is going to definitely be the mix change and then we've been after a lot of COGS that we're continuing this year for further cost out and I think it's going to benefit and help us. I don't see us as a mid-60s. I see us more as a 60s type of the business. And then certainly we can enhance that obviously with the right M&A as well.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. And then, I mean, if we get the gross margin lift, how do you see cost coming back on the operating line through the next, let's call it four quarters and what else can be done to drive like margin expansion...

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

...on the bottom line, yeah?

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Well, one thing is we're going to get the benefit of sales rising, which is always a good thing and coming back, but also the need for less investment. In total, we had to put the clinical study investment in the government relations, the health economics. So we're in a position with growth in sales to get a drop-through in the business. I think you've seen some other things too. We had a restructure at the end of the year with [ph] a little over \$7 million (00:26:19) benefit to us for 2021, which was a restructure of my senior team and some restructuring of our corporate costs.

We've talked about \$20 million in OpEx that we think [indiscernible] (00:26:32) that, never asked to come back. I think a lot of people are realizing that. But it maybe even more exciting is that people are getting the notion that I can do more with less. In some cases, they're learning [ph] the need (00:26:44) three or four people to do the job of one or two. Maybe not all of the marketing or spend or even in some cases the R&D are really going to give us the right return for the markets that we're in. So this continuous improvement will go with us forward in the way we look at business. So what happened is [ph] there is a lot (00:27:04) for a mindset change as well.

The big lever though was not that we weren't ever going to get to this, but we were a little bit hamstrung with the IT deployment and carving out obviously, the S&IP business. So it took us longer to get to that cost to be more related to other medical device companies than we would have liked. But we're certainly there now. And that's definitely one of those things that we have behind this that was sort of in our way and we're pretty excited about it.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yes. So you have the IT system, which I believe functioned very well throughout the course of 2020. And you've integrated your previous acquisition at this point into the new IT system.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

[ph] Do you expect the (00:27:50) free cash flow inflection in 2021? I guess now – I guess, we need some targets.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

Yeah.

A

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

And so what does the acquisition pipeline look for you to start driving some sale leverage of these costs?

Q

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

It's pretty robust. And we're thinking that we'd like to do one or two of the same type of acquisitions that we've been making. Again, at the moment, we're a little bit more active in the Pain space because we've just come off of being active in the chronic care space. And we feel like we need to do some things there.

A

Their targets where we've had relationships over a period of time, where they're either small private equity or founder type of businesses where I think we can agree a good valuation through our process, which we feel like is pretty disciplined. They can be accretive deals, go into our channel. And I think that's the type of deals for now or at least in the next two years that really benefit us the execution, [ph] not getting to (00:28:49) execution, those type of – the NeoMed or CORTRAK type of acquisitions to bring us growth, but also then get some synergy and help us drive EBITDA as well. So we're confident that we get [indiscernible] (00:29:04) you can never predict these things. I mean I said one year and we got to two. I'd like to see that happen again this year. And it's an important part of our strategy. So we're very active in it.

**Dave Crawford**

*Vice President-Treasurer & Investor Relations, Avanos Medical, Inc.*

Matt, I would add to, I think, finding the acquisition is a big part of it, but it's also then integrating it. I think we're starting to develop some expertise in doing some integration. We did three of them, all from the work in home environment last year. And with the new IT system, you're really only having to integrate those assets once. So I think that'll be a big part of the story as we go through and being able to recognize some of the synergies quicker than what we did in the previous acquisitions due to the IT complexity [ph] increased (00:29:43).

A

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Okay. Are you seeing some targets come through that are worried about capital gains and are looking at 2021 as you know what, this is probably a good to sell the business and maybe it gives them some impetus to do that?

Q

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

I think there's a little of that with some of the founder-owned businesses, especially at the level that that we're looking for certain because a few more have become active that weren't as active. I can't completely pinpoint it to that. I think other aspects of it or we – the investment they might need to make to keep the growth going as opposed to having the [indiscernible] (00:30:28) with more scale. But we're seeing a good active pipeline that we think we can take action on.

A

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. So the near-term effect with Avanos is it seems like pain has come – it seems like pain is coming back a little faster here, I think you were quoting like 90% of pre-COVID, is that fully backed or maybe it's coming back a little bit faster, a little bit much – a little bit of a headwind from the flu around chronic care, but [ph] nothing (00:31:02) you guys are not going to be able to overcome. And then the longer term picture is starting to evolve around some clinical data, pipeline, reimbursements and acquisitions?

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah, yeah. I think you said it well. And what we've been saying a lot is we have a very simple and clear plan and pathway for the next 24 months that we feel is going to be a good value-creating effort. And then, as you move out beyond that, then we're on to the next, thinking about what's next. There might be something, a little bit more transformational for us. But transformational for us is not selling the [ph] farm, it's basically that we move (00:31:46) this up to more of \$100, \$200, \$300 acquisition that has a little bit more impact. We've looked at a few of those. Dave, do you want to add something?

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**Dave Crawford**

*Vice President-Treasurer & Investor Relations, Avanos Medical, Inc.*

A

Yeah. I'd just say, too, I think, Joe, you summarized it well. The other thing I would add, though, is we've gone back to the original question that you had, Matt. There was a lot of stuff going on in the last couple of years with the divestiture, the IT, the separation. You've seen in the past five, six quarters really being solely focused on running the business and improved execution. And I think that's going to carry over as we go [ph] into next (00:32:18) year and into 2022 and beyond. I don't think you can underestimate. Getting that behind us has really allowed us to more be free and focused on running the business.

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah. Sure.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

It seems like you're going to exit COVID with good underlying business momentum...

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Yeah.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

...which is very positive. And then what are your broader markets look like? Once we get through this, what are your broader markets look like in 2022?

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

So, I think good mid-single-digit opportunity and an opportunity to improve there in the international markets with good momentum in chronic care that seems to remain consistent and sustainable. Good momentum for double-digit growth, which is so important to us in COOLIEF and then working toward that better reimbursement through

the papers and the payer. We're getting Acute Pain back to growth, which we certainly will do this year, but then making that into 2022 more sustainable with a better articulation of the strategy and the differentiation. And just a very solid number one, number two position in chronic care legacy I call it that looks to remain solid in the US where we've done a good job servicing our customers.

So, I think we're going to maintain to hold that. That's a lot of contracting and GPO, IDN-based business where we're in a good position there. And then we've come back to, you talked about cash that's enabling us to get back to a capacity level when I started or we made those four acquisitions. So we're kind of right back there again where we can do that again. So I think keeping the execution up and making the right acquisitions will really be a good story.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Good. Here in Georgia, when are you guys going back to the office?

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

A

Well, with the vaccinations improving, they're not completely there yet. We could see that there would be some form of going back, although smaller footprint probably with everything that's changed as we get to the middle or end of the summer. But it changes every day as we all know as you think about how to manage that. I think a lot of people like being at home, but they want to get out of home and go out to dinner and do some other things. So we'll see.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Right. I'm looking forward to all that.

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**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

All right.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

All right.

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**Dave Crawford**

*Vice President-Treasurer & Investor Relations, Avanos Medical, Inc.*

Thanks, Matt.

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**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Thank you, Joe.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

Thank you.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Thank you, Dave.

**Joseph F. Woody**

*Chief Executive Officer & Executive Director, Avanos Medical, Inc.*

All right. Have a good evening. Bye-bye.

**Matthew Mishan**

*Analyst, KeyBanc Capital Markets, Inc.*

Bye.

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