



**HALYARD**

**FIRST QUARTER  
2017 EARNINGS CALL**

**May 2, 2017**

# FIRST QUARTER EARNINGS CALL AGENDA



## First Quarter Update

**Robert Abernathy**

Chairman and Chief Executive Officer



## First Quarter Results and 2017 Outlook

**Steve Voskuil**

Chief Financial Officer

# CONFERENCE CALL REMINDERS

## FORWARD-LOOKING INFORMATION

Certain matters in this presentation and conference call, including our 2017 outlook, expectations and planning assumptions, and any estimates, projections, and statements relating to our business plans or objectives, 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 currency exchange risks, cost savings and reductions, raw material, energy, and other input costs, competition, market demand, economic condition, 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 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.halyardhealth.com/investors](http://www.halyardhealth.com/investors)).



# FIRST QUARTER UPDATE

**ROBERT ABERNATHY**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER



**HALYARD**

# 2017 PRIORITIES

Deliver plan

Fuel growth pipeline

# FIRST QUARTER 2017 UPDATE

- Strong start to the year
- Net sales totaled \$396 million
- Delivered adjusted diluted EPS of \$0.48
- Performance driven by:
  - Accelerated Medical Devices growth
  - Manufacturing cost savings
  - Favorable currency exchange rates

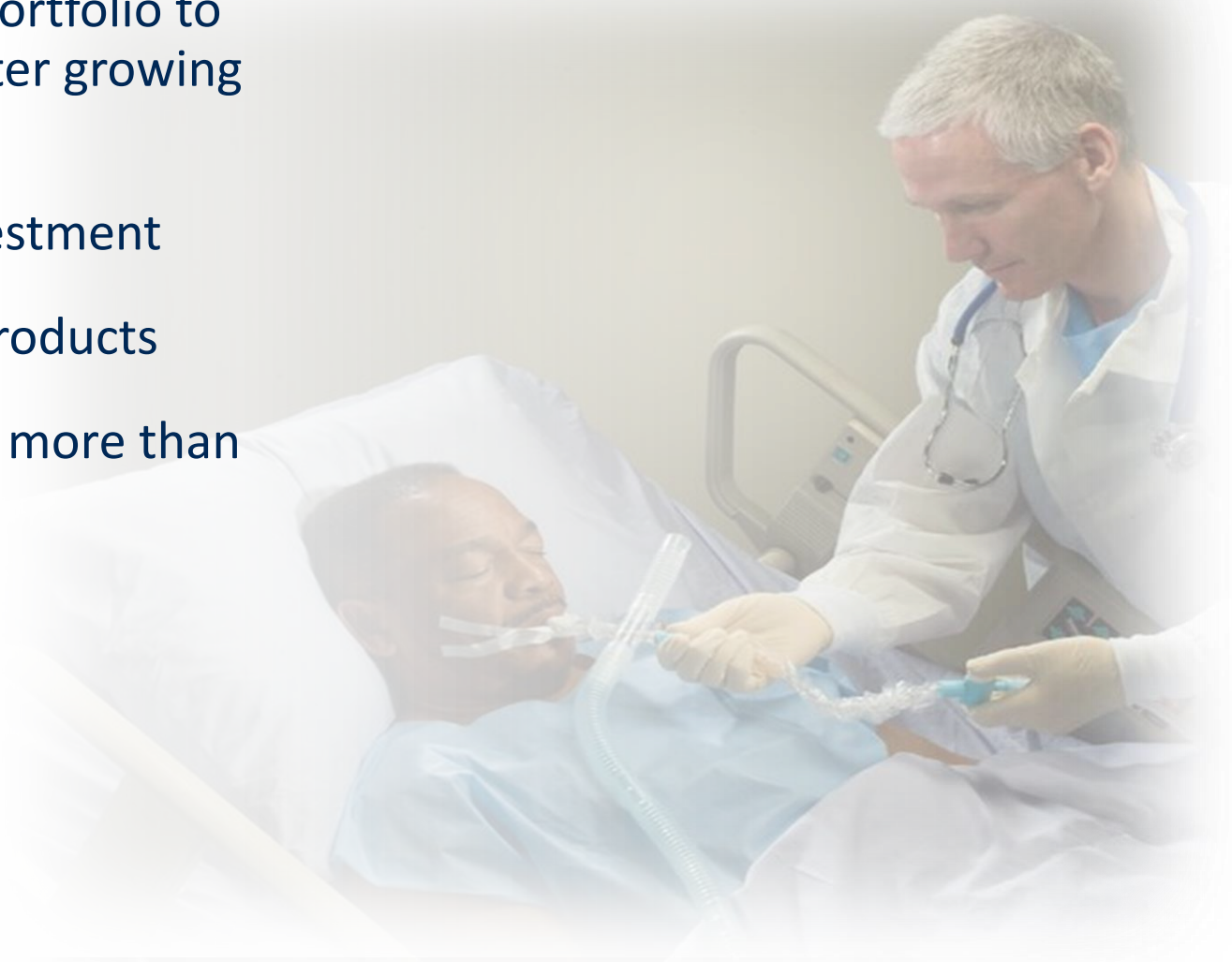
# DELIVERING OUR PLAN

- Medical Devices sales increased 15%
  - Strengthened by CORPAK
  - Solid demand across all product categories
- S&IP volume increased
  - Demand for Exam Gloves continued
  - Higher demand for Facial Protection
  - Price loss resulted in sales decline of 3%



# FUELING OUR GROWTH PIPELINE

- Investing to shift portfolio to higher margin, faster growing Medical Devices
- Doubling R&D investment
- Launched 4 new products
- On track to launch more than a dozen in 2017





# FUELING OUR GROWTH PIPELINE

- Pain Management fastest growing part of Medical Devices
- Accelerating funding for clinical outcomes data
- FDA cleared COOLIEF therapy for the management of OA knee pain
  - The first and only RF treatment cleared specifically for knee pain
- Better focus our marketing efforts on physicians and their patients

# FUELING PIPELINE GROWTH

- M&A remains important to Halyard's transformation
- Pleased with acquisition pipeline
- Focused on executing an acquisition this year



# LITIGATION UPDATE

- Disappointed with recent jury verdict
- Our long-term strategy and ability to pursue M&A has not materially changed
- The first step of a multi-step legal process
- Verdict not supported by the facts or the law
- Intend to challenge verdict through post-trial motions
- If necessary appeal to higher court

# FIRST QUARTER SUMMARY

- Generated \$27 million free cash flow
- Expect to generate \$100 million in 2017
- Financial flexibility to pursue strategic priorities
- Solid start to the year
- Reiterate 2017 adjusted diluted EPS guidance of \$1.70 to \$2.00
- Transforming into a leading Medical Devices company





# FIRST QUARTER 2017 RESULTS

**STEVE VOSKUIL**  
CHIEF FINANCIAL OFFICER

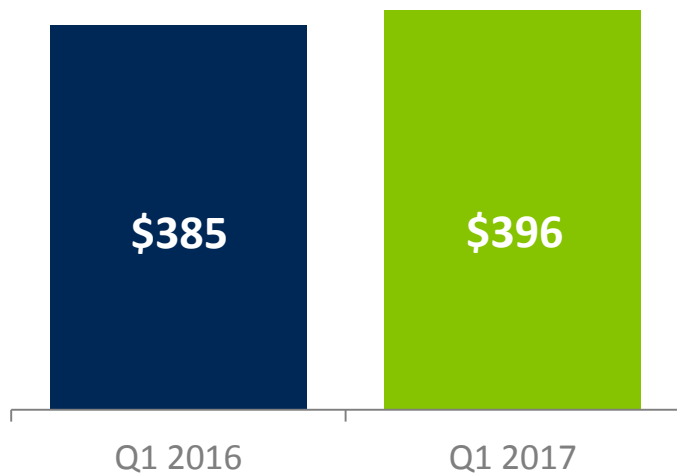


**HALYARD**

# FIRST QUARTER CONSOLIDATED PERFORMANCE

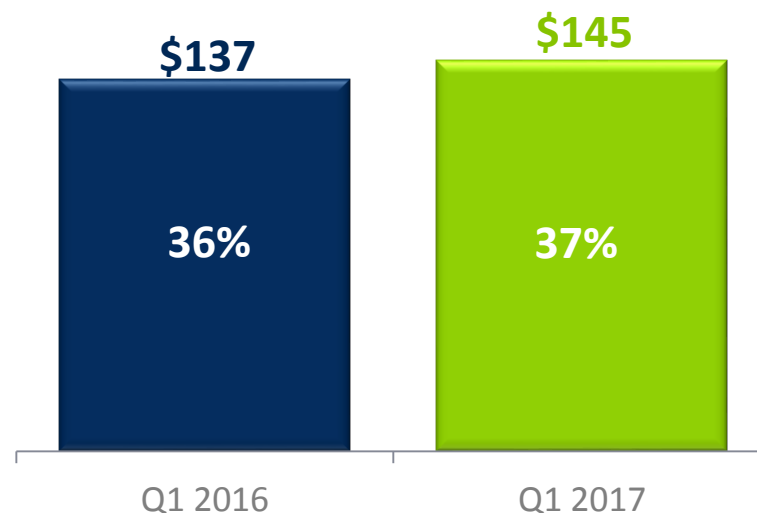
In millions

## Total Net Sales



- Net sales increased 3%
- Corpak-related sales totaled more than \$15 million
- Including Corpak, volume increased 5%, partially offset 3% lower selling price

## Adjusted Gross Profit

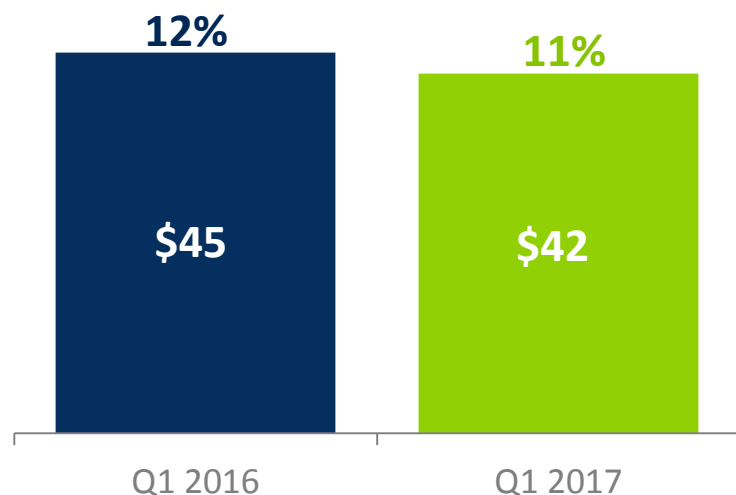


- Gross margin expansion driven by portfolio shift, manufacturing cost savings and favorable currency exchange rates
- Benefits more than offset lower selling prices and higher nitrile costs in S&IP

# FIRST QUARTER CONSOLIDATED PERFORMANCE

In millions

## Adjusted Operating Profit



## Adjusted operating profit excludes:

- \$1 million post-spin related charges
- \$2 million for acquisition-related charges
- \$8 million for litigation matters
- \$6 million intangible amortization expense

# FIRST QUARTER CONSOLIDATED PERFORMANCE

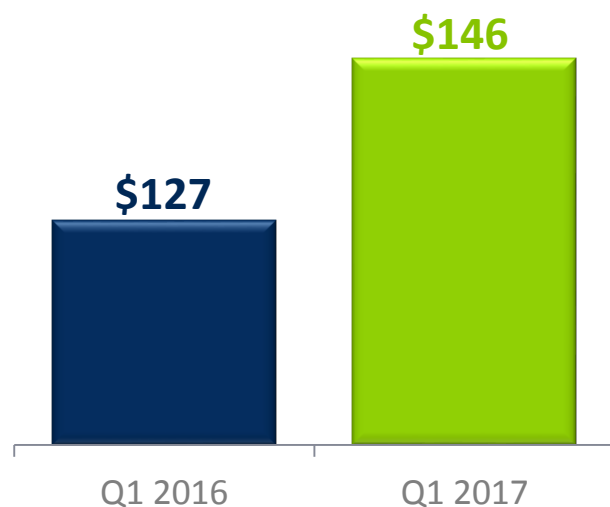
- Adjusted EBITDA of \$53 million
- Reported adjusted diluted EPS of \$0.48
- Performance benefited from:
  - Increased demand in Facial Protection
  - Greater plant and manufacturing cost savings
  - Lower than expected R&D expense
- Impacting our performance:
  - Adjusted effective tax rate of 35.2%
  - Remain confident full-year adjusted effective tax rate will range between 32% and 34%



# FIRST QUARTER MEDICAL DEVICES

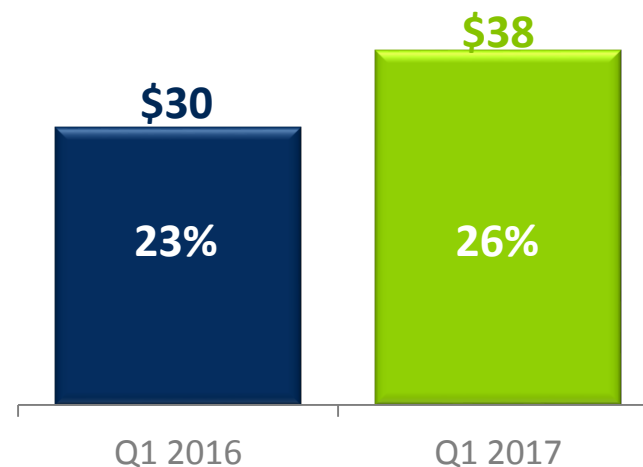
In millions

## Net Sales



- Delivered another solid quarter of 15% growth
- Organic volume increased 4%

## Operating Profit

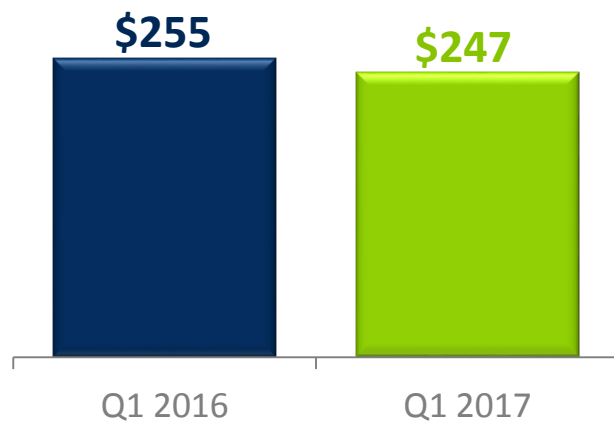


- Operating profit increased 28%
- Higher volumes, partially offset by higher planned SG&A expense

# FIRST QUARTER S&IP

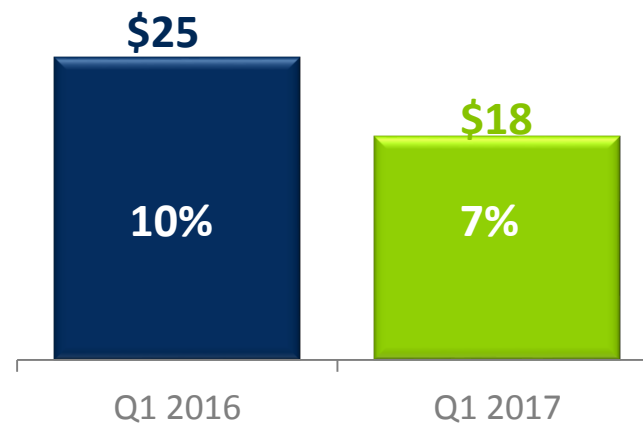
In millions

## Net Sales



- Volumes increased 1%; driven by Exam Gloves and Facial Protection offset by Surgical Drapes and Gowns
- Lower selling prices concentrated in Exam Gloves

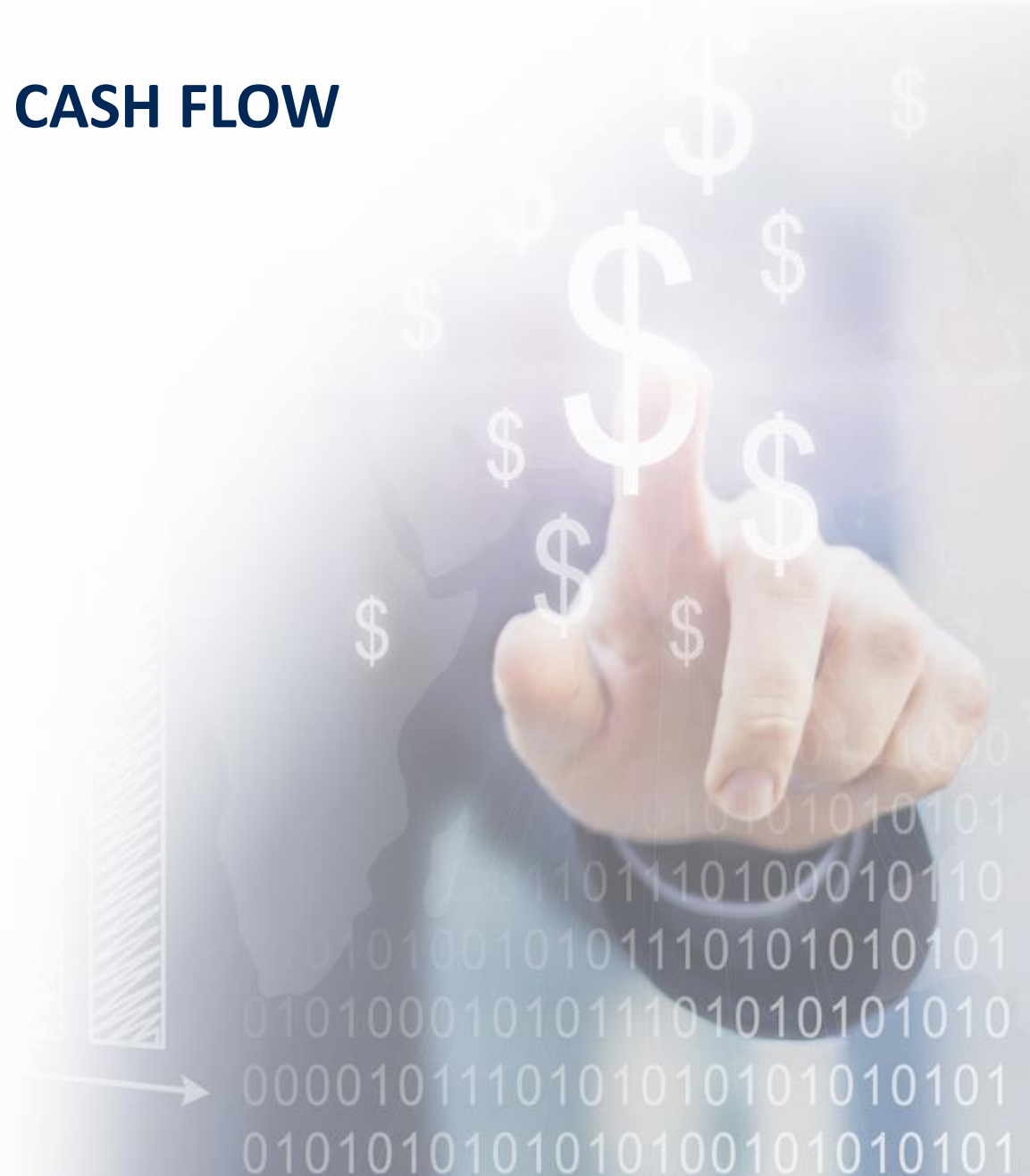
## Operating Profit



- Lower selling price and higher nitrile costs offset by manufacturing cost savings and favorable exchange rates

# BALANCE SHEET AND CASH FLOW

- Ended the quarter with \$143 million of cash
- Generated \$27 million of free cash flow
- Invested \$10 million in capital expenditures

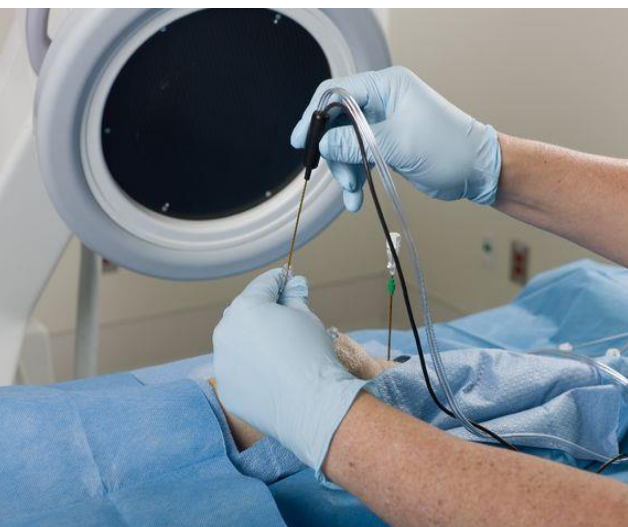


# 2017 OUTLOOK

- The timing of factors impacting second quarter:
  - Anticipate nitrile costs to rise more than 20% sequentially
  - Expect accelerated R&D investment
- Second quarter earnings expected to be our lowest for the year
- Maintaining adjusted diluted EPS outlook of \$1.70 to \$2.00
- 2017 key planning assumptions remain unchanged

# SUMMARY

- Pleased with the start to the year
- Strong balance sheet
- Committed to invest in growth opportunities
- Advancing transformation into leading Medical Devices company



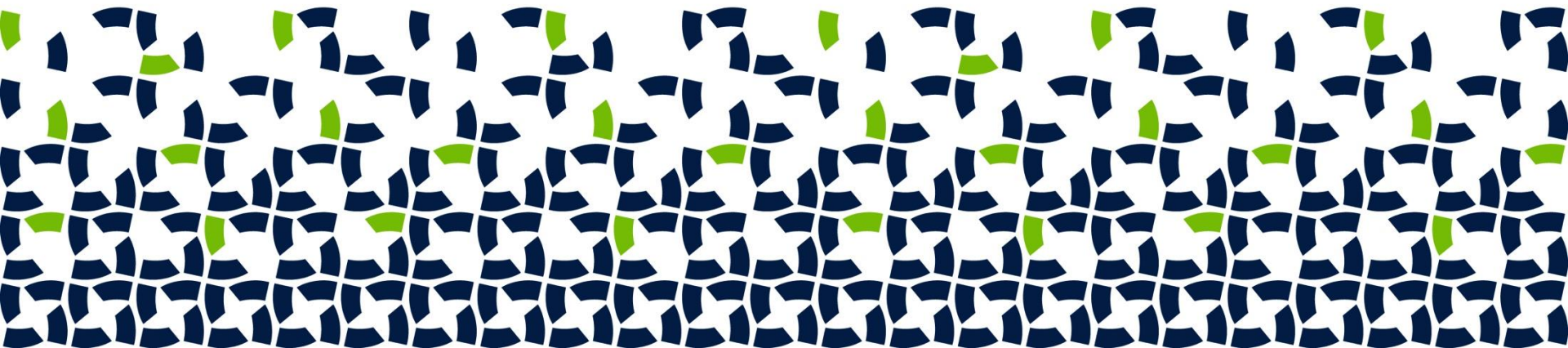


**HALYARD**

**Q&A**



# APPENDICES



# NON-GAAP RECONCILIATIONS

In millions

	Gross Profit		Operating Profit	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
As reported	\$ 142.9	\$ 136.5	\$ 26.3	\$ 33.1
Spin-related transition charges	0.1	—	0.7	1.6
Acquisition-related charges	0.5	—	1.6	1.1
Litigation and legal	—	—	8.0	3.6
Intangibles amortization	1.0	0.6	5.5	5.2
As adjusted non-GAAP	<u>\$ 144.5</u>	<u>\$ 137.1</u>	<u>\$ 42.1</u>	<u>\$ 44.6</u>



# NON-GAAP RECONCILIATIONS

In millions

	Income before taxes		Income tax provision	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2017	2016	2017	2016
As reported	\$ 19.1	\$ 25.3	\$ (6.3)	\$ (11.1)
<i>Effective tax rate, as reported</i>			33.0%	43.9%
Spin-related transition charges	0.7	1.6	(0.3)	(0.6)
Acquisition-related charges	1.6	1.1	(0.6)	(0.4)
Litigation and legal	8.0	3.6	(3.0)	(1.4)
Intangibles amortization	5.5	5.2	(2.1)	(2.0)
Regulatory tax changes	—	—	—	3.7
As adjusted non-GAAP	<u>\$ 34.9</u>	<u>\$ 36.8</u>	<u>\$ (12.3)</u>	<u>\$ (11.8)</u>
<i>Effective tax rate, as adjusted</i>			35.2%	32.1%

# NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net Income	
	Three Months Ended	
	March 31,	
	2017	2016
As reported	\$ 12.8	\$ 14.2
Diluted EPS, as reported	\$ 0.27	\$ 0.30
Spin-related transition charges	0.4	1.0
Acquisition-related charges	1.0	0.7
Litigation and legal	5.0	2.2
Intangibles amortization	3.4	3.2
Thailand statutory tax rate change	—	3.7
As adjusted non-GAAP	\$ 22.6	\$ 25.0
Diluted EPS, as adjusted	\$ 0.48	\$ 0.53

# NON-GAAP RECONCILIATIONS

In millions

	EBITDA	
	Three Months Ended	
	March 31,	
	2017	2016
EBITDA, as reported	\$ 42.5	\$ 48.7
Spin-related transition charges	0.7	1.6
Acquisition-related charges	1.4	1.1
Litigation and legal	8.0	3.6
Adjusted EBITDA	\$ 52.6	\$ 55.0

# NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Free Cash Flow			
	Three Months Ended			
	March 31,			
	2017		2016	
Cash provided by operating activities	\$	37.0	\$	42.5
Capital expenditures		(10.2)		(8.0)
Free Cash Flow	\$	26.8	\$	34.5

	2017 Outlook			
	Estimated Range			
Adjusted diluted earnings per share	\$	1.70	to	\$ 2.00
Amortization		(0.28)	to	(0.28)
Spin-related transition expenses		(0.05)	to	(0.03)
Acquisition related charges		(0.09)	to	(0.07)
Other		(0.27)	to	(0.17)
Diluted earnings per share (GAAP)	\$	<u>1.01</u>	to	<u>\$ 1.45</u>