

AVANOS

**FIRST
QUARTER 2022
EARNINGS
CALL**

MAY 4TH, 2022

AGENDA AND SPEAKERS



Joe Woody
Chief Executive Officer

Update on Business
Progress Against 2022 Priorities



Michael Greiner
*Senior Vice President and
Chief Financial Officer*

Review First Quarter Results
Discuss 2022 Planning Environment

Q&A

OVERVIEW

FORWARD-LOOKING INFORMATION

Certain matters in this presentation and conference call, including expectations and planning assumptions, including any comments about our expected 2022 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 PERFORMANCE

- Operational and commercial execution against a range of challenging macro-economic dynamics
- Remain focused on getting patients back to the things that matter as we meet needs of customers



FIRST QUARTER PERFORMANCE: SOLID START

- Net Sales increased 9% to \$197 million (including OrthogenRx sales), 3% organic growth in constant currency
- Earned \$0.26 of adjusted diluted EPS
- Delivered strong results in Interventional Pain (high single-digit growth), Digestive Health and Acute Pain (mid single-digit growth)
- Respiratory Health grew 3% compared to pre-pandemic 19Q1
- OrthogenRx sales in line with internal expectations

EXPANDING GROSS MARGIN

- Adjusted gross margin improved 410 basis points compared to first quarter 2021 and 340 basis points compared to fourth quarter 2021
- Favorable product mix, cost savings and manufacturing efficiencies
- Raw material availability, inflation and transportation challenges remain
- Confident that gross margin headwinds are transitory and not permanent change to our operating structure

OPERATING EXPENSE PROFILE

- Our SG&A margin profile shows an increased investment in the first half of the year to support 2022 growth
- Commitment remains to deliver SG&A as percent of revenue less than 40% on annualized go-forward basis

MOMENTUM ACROSS PAIN PRODUCTS

- Return of elective procedures
- On-Q returned to growth; Coolief mid single-digit growth
- Expecting low single-digit growth in Q2 and double-digit in H2
- Building on the momentum and product enhancements made in 2021:
 - On-Q and ambIT: Continued adoption of PainBlock Pro
 - COOLIEF: Launch and conversion to our advanced cooled radio frequency probe kits

CHRONIC CARE GROWTH DRIVEN BY DIGESTIVE HEALTH

- Positive trend in Digestive Health continues
- Maintained double-digit growth in NeoMed
- Soft performance in Respiratory Health due to product availability. We expect growth to revert to historical rates in Q2 and beyond

FREE CASH FLOW GENERATION

- Ability to generate consistent and repeatable cash flow
- Excluding one-time tax and legal settlements, generated \$26 million of normalized free cash flow in 2021
- Continue to focus on generating improved operating results and disciplined working capital management
- Anticipate to generate approximately \$90 million in 2022

DEPLOYING CAPITAL TOWARDS M&A

- M&A pipeline remains healthy
- 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

ΔVΔNOS: SOLID START FOR THE YEAR

- Product portfolio resilience
- Macro environment uncertainties remain
- Our 2022 priorities:
 - Deliver solid organic growth
 - Improve gross margin profile
 - Generate free cash flow
- Will build quarter-over-quarter momentum throughout 2022

First Quarter 2022 Results

Michael Greiner
Senior Vice President and
Chief Financial Officer

MAINTAINING FOCUS ON EXECUTION

- Solid organic growth, OrthogenRx execution and gross margin improvement
- Additional SG&A spending in our first quarter related to selling and marketing investments planned later in the year and inflationary costs on compensation and outside services

MAINTAINING FOCUS ON EXECUTION

- Total sales of \$197 million increased 9% versus prior year
 - 10% increase in volume, 7% OrthogenRx acquisition and 3% organic
 - 1% favorable impact from price
 - 1% unfavorable impact from currency
- Adjusted EPS of \$0.26

CHRONIC CARE FIRST QUARTER NET SALES

Consolidated net sales totaled \$197 million

- Chronic Care sales, excluding Maxter, flat to PY at \$119 million
- Mid single-digit growth in Digestive Health
 - NeoMed grew 32% from continued conversion to ENFit
- Respiratory Health headwind from PY comparison and product supply challenges

Chronic Care Sales *
Millions



PAIN MANAGEMENT FIRST QUARTER NET SALES

Consolidated net sales totaled \$197 million

- Pain Management sales, excluding OrthogenRx, of \$63 million, more than 6% above prior year
- Return to growth for ON-Q as hospitalizations declined and elective procedure volume increased
- Continued mid single-digit growth for Coolief, Game Ready and ambIT

Pain Management Sales *
Millions



FIRST QUARTER PERFORMANCE

Gross Margin improvement

Adjusted Gross Profit and Margin

Millions

\$111

\$94

52%

56%

Q1 2021

Q1 2022

Adjusted Operating Profit and Margin

Millions

\$18

\$16

9%

9%

Q1 2021

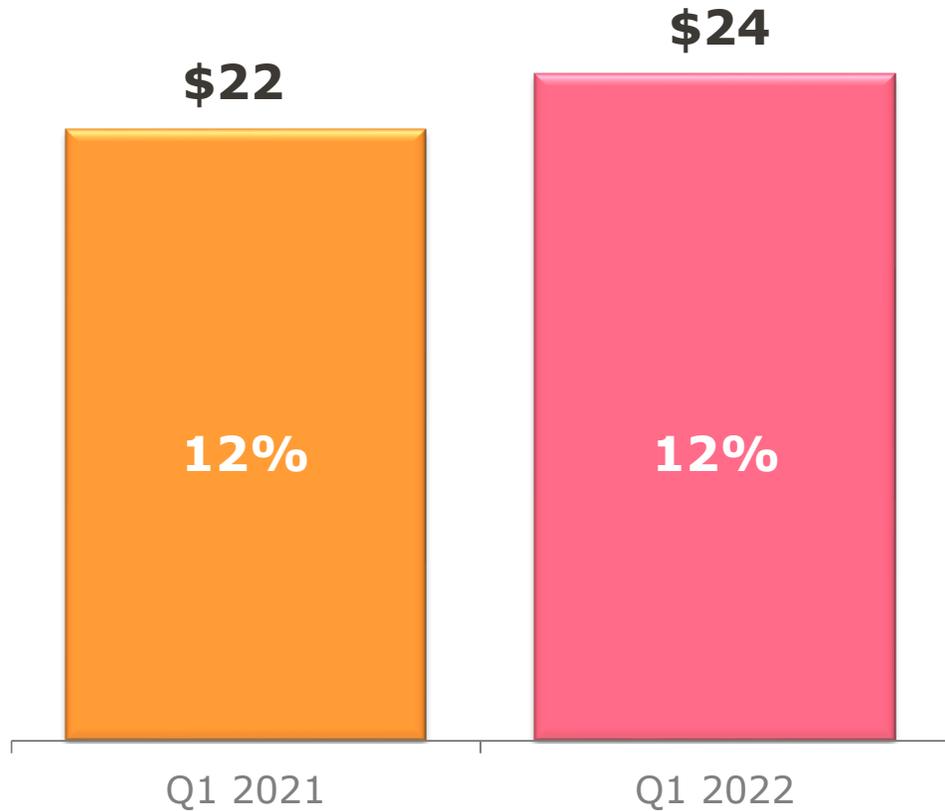
Q1 2022

FIRST QUARTER PERFORMANCE

Earned \$0.26 of Adjusted Diluted EPS

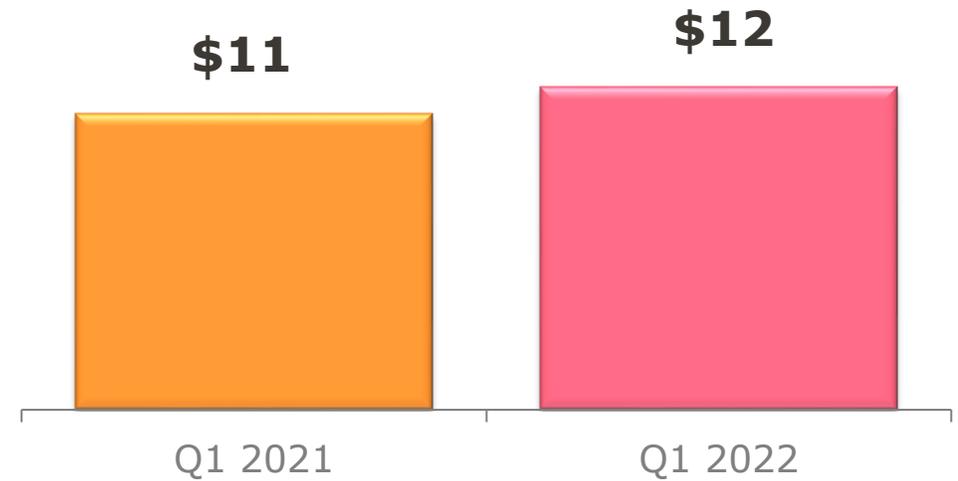
Adjusted EBITDA

Millions



Adjusted Net Income

Millions



BALANCE SHEET AND CASH FLOW

- Keeping a healthy balance sheet and generating meaningful cash flow remain key go-forward priorities
- Ended quarter with \$104 million of cash on hand
- \$255 million debt outstanding
- Free cash flow was an outflow of \$3 million

2022 OUTLOOK

- Product supply challenges, global environment uncertainties and inflation remain
- Re-affirm external guidance
 - Organic sales growth of 3% to 6% on a constant currency basis versus prior year
 - Adjusted gross margin of 55% to 57%
 - Continued SG&A spend control, below 40% of sales for the year
 - Free cash flow approximately \$90 million
 - Expect to earn \$1.55 to \$1.75 adjusted diluted EPS
- Higher earnings in second half of year due to higher sales, gross margin expansion and operating expense leverage

ΔVΔNOS: STRONG START TO THE YEAR

- Meaningful progress towards value creation goals
- Confident in ability to execute strategy
- Will take necessary steps to drive gross and operating margin improvement and deliver significant free cash flow



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 March 31,	
	2022	2021
As reported	\$ 107.2	\$ 91.3
2020 Restructuring charges	—	0.2
Post divestiture restructuring charges	—	0.9
Post divestiture transition charges	—	0.1
Acquisition and integration-related charges	0.7	—
Intangibles amortization	3.1	1.6
As adjusted, non-GAAP	\$ 111.0	\$ 94.1
Gross profit margin, as reported	54.3 %	50.5 %
Gross profit margin, as adjusted	56.2 %	52.1 %

	Operating (Loss) Profit	
	Three Months Ended March 31,	
	2022	2021
As reported	\$ 9.2	\$ (12.4)
2020 Restructuring charges	—	0.2
Post divestiture restructuring charges	—	0.9
Acquisition and integration-related charges	1.7	0.4
EU MDR Compliance	1.6	0.2
Litigation and legal	—	22.5
Intangibles amortization	5.7	4.2
As adjusted, non-GAAP	\$ 18.2	\$ 16.0

NON-GAAP RECONCILIATIONS

In millions

	(Loss) Income Before Taxes	
	Three Months Ended March 31,	
	2022	2021
As reported	\$ 7.9	\$ (13.2)
2020 Restructuring charges	—	0.2
Post divestiture restructuring charges	—	0.9
Post divestiture transition charges	—	—
Acquisition and integration-related charges	1.7	0.4
EU MDR Compliance	1.6	0.2
Litigation and legal	—	22.5
Intangibles amortization	5.7	4.2
As adjusted, non-GAAP	\$ 16.9	\$ 15.2

	Tax Benefit (Provision)	
	Three Months Ended March 31,	
	2022	2021
As reported	\$ (2.1)	\$ 5.6
Tax effects of adjusting items	(2.5)	(9.9)
Effects of the CARES Act and other	—	0.2
As adjusted non-GAAP	\$ (4.6)	\$ (4.1)
Effective tax rate, as reported	26.6 %	42.4 %
Effective tax rate, as adjusted	27.2 %	27.0 %

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net (Loss) Income	
	Three Months Ended March 31,	
	2022	2021
As reported	\$ 5.8	\$ (7.6)
2020 Restructuring charges	—	0.2
Post divestiture restructuring charges	—	0.9
Post divestiture transition charges	—	—
Acquisition and integration-related charges	1.7	0.4
EU MDR Compliance	1.6	0.2
Litigation and legal	—	22.5
Intangibles amortization	5.7	4.2
Tax effects of adjusting items	(2.5)	(9.9)
Tax effects of the CARES Act and other	—	0.2
As adjusted, non-GAAP	\$ 12.3	\$ 11.1
Diluted EPS, as reported	\$ 0.12	\$ (0.16)
Diluted EPS, as adjusted	\$ 0.26	\$ 0.23

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	EBITDA	
	Three Months Ended March 31,	
	2022	2021
EBITDA, as reported	\$ 20.3	\$ (2.7)
2020 Restructuring charges	—	0.2
Post divestiture restructuring charges	—	0.9
Post divestiture transition charges	—	—
Acquisition and integration-related charges	1.7	0.4
EU MDR Compliance	1.6	0.2
Litigation and legal	—	22.5
Adjusted EBITDA	\$ 23.6	\$ 21.5

	Free Cash Flow	
	Three Months Ended March 31,	
	2022	2021
Cash provided by (used in) operating activities	\$ 1.8	\$ (3.3)
Capital expenditures	(5.0)	(5.7)
Free Cash Flow	\$ (3.2)	\$ (9.0)

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	2022 Outlook	
	Estimated Range	
Diluted earnings per share (GAAP)	\$	1.05 to \$ 1.30
Intangibles amortization		0.25 to 0.25
Other		0.25 to 0.20
Adjusted diluted earnings per share (non-GAAP)	\$	1.55 to \$ 1.75