

AVANOS

**SECOND
QUARTER
2019
EARNINGS
CALL**

AUGUST 6, 2019

AGENDA AND SPEAKERS



Joe Woody
Chief Executive Officer

Overview of our performance,
priorities, and transformation



Dave Crawford
Vice President, Investor Relations

Second Quarter Financial Performance
2019 Outlook

Q&A

OVERVIEW

FORWARD-LOOKING INFORMATION

Certain matters in this presentation and conference call, including our 2019 outlook, expectations and planning assumptions, 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 currency exchange risks, cost savings and reductions, raw material, energy, and other input costs, competition, market demand, economic condition, S&IP separation execution, availability of drugs used in our Acute Pain products, other supply chain disruptions, 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).

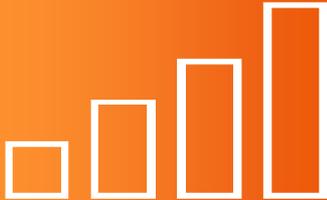
BUSINESS OVERVIEW



- Second quarter results
- Discuss our franchises
- Update on growth initiatives
- Progress on transitioning into a pure-play medical device company

EXECUTING AGAINST 2019 PRIORITIES

1



DELIVER

Results in line with our plan

2



INVEST

In growth initiatives

3



RIGHT-SIZE

Successful go-live of new IT system

4



DEPLOY

Two acquisitions to broaden our franchises and strengthen business

DELIVERING SOLID PERFORMANCE

- 7% top-line growth
- Adjusted diluted EPS of \$0.28
- Expect results to accelerate in back half of the year
- Industry-wide headwinds in Acute Pain to continue through the year
- Narrowing full-year 2019 adjusted diluted earnings from \$1.15 to \$1.35 to \$1.15 to \$1.25



DELIVERING SOLID PERFORMANCE

- Market-leading Chronic Care business delivered mid-single digit growth
 - Solid performance across Digestive Health and Respiratory Health
- Building on strong momentum with the acquisition of NeoMed
 - Leader in quality neonatal-focused specialized feeding devices, including ENFit products
 - Strengthens our Digestive Health offering



DELIVERING SOLID PERFORMANCE

- International business delivered results in line with plan
 - On track to accelerate to high-single digit growth this year
 - Anticipate sales growing double-digits within the next year
- Coolief delivered double-digit growth in North America
- CMS 2020 proposed rules released last week; included new codes for both knee and sacroiliac joint as anticipated
 - Proposed rules undervalue reimbursement for knee procedures
 - Our Government Affairs, Reimbursement and Health Economics teams will prepare a response to CMS during comment period
 - Additionally, the teams will reach out to medical societies and KOLs to support their responses
 - Aim to have reimbursement for knee procedures properly valued when final 2020 rules are released in Q4

ACUTE PAIN UPDATE

- Continue to see pressure
- Three factors affected performance
 - Impact from pain pump-filler disruption
 - Continuing industry-wide drug shortage for the balance of the year
 - Increased trialing of other solutions by customers
- Confident in our ability to win back business, based on what we're seeing and hearing
- Recovering from market disruption will take longer than anticipated
- Impacting current year growth and profitability
- Confident in business fundamentals and market's need for ON-Q

ACCELERATING ACUTE PAIN'S RETURN TO GROWTH

- Acquiring a line of electronic infusion pumps from Summit Medical
 - Addresses gap in our Acute Pain portfolio
 - Furthers our leadership in infusion pumps
 - \$7 million in sales and expect mid-single digit growth
 - Transaction to close later this month
- Partnership with Leiters continues to benefit customers
 - Sales through Leiters grew double-digits, sequentially
- Partnership agreement with BioQ
 - Ready-to-use delivery system for infusible drugs
 - Will simplify customers' supply chain and address pharmacist concerns
- Continue to move forward with our development of electronic pain relief solutions
- Returning business to growth in 2020 is our top priority



ACCELERATING INVESTMENT IN INTERVENTIONAL PAIN

- Significant investment in clinical evidence and marketing
- Health economics model published demonstrating a single treatment of Coolief is highly cost effective compared to a steroid injection for patients with OA knee pain
- Anticipate publication of several key clinical trials
- New data shows Coolief demonstrates greater pain relief after six months when compared to hyaluronic acid
- A separate trial showed pain relief following a single treatment of Coolief can extend to 24 months
- Clinical and preclinical outcomes data accepted for presentation at industry-leading conferences

ACCELERATING INVESTMENT IN INTERVENTIONAL PAIN

- DTP television advertising campaign resulted in more than 425,000 visits to www.mycoolief.com
- 44% sought out a physician
- Continue to see several thousand weekly visits
- Field hundreds of calls weekly into the Coolief call center
- Raised patient awareness to 17% in targeted markets and 30% in markets that saw the ads in 2018 and 2019
- Expect sales to accelerate in targeted markets

TRANSFORMING OUR COST BASE

A woman in a white shirt is working at a desk. She is looking down at a tablet device. On the desk, there is a laptop, a keyboard, a mouse, a smartphone, a calculator, and a large monitor displaying various charts and graphs. The background is a light-colored wooden desk.

- Achieved major milestone
- Global implementation of new IT system
- Significant catalyst in transformation
- Will generate increased efficiency and cost savings over time

ΔVΔNOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Higher growth potential, improved gross margin and focused on innovation and commercial execution
- Strong balance sheet for M&A following S&IP divestiture
- Completed 3 strategic acquisitions
 - Game Ready and Summit Medical leverage Acute Pain call points
 - NeoMed strengthens our Digestive Health portfolio
- Announced three-phase cost reduction plan
- Implemented new IT system
- Accelerated R&D spending on breakthrough innovation

ΔVΔNOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Invested in new capabilities:
 - Established government affairs team, which advocates for non-opioid alternatives and maintains a dialogue with Congress to encourage improved reimbursement for opioid-sparing therapies
 - Built-out reimbursement and health economics capabilities
 - Increased investment to generate a compendium of clinical data for Coolief and show differentiation to other therapies

ΔVΔNOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Solid momentum outside of Acute Pain
- Two year organic growth of 8%, excluding Acute Pain
- Double-digit top-line growth in Interventional Pain
- Chronic Care a consistent mid-single digit growth business

ΔVΔNOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Achieved significant milestones
- Confident in the strategy laid out post S&IP divestiture
- Positioned to accelerate top-line growth
- Flexible balance sheet to pursue M&A
- Continue to right size cost structure and look for areas of savings and efficiency
- Making solid progress and well-positioned to achieve our objectives

SECOND QUARTER 2019 RESULTS

Dave Crawford

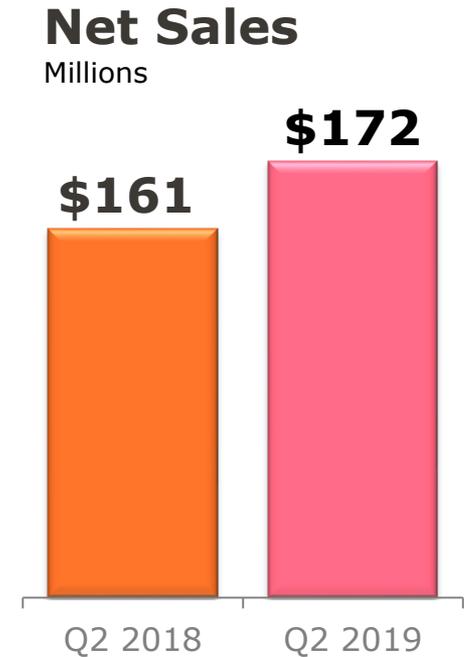
Vice President, Investor Relations

GLOBAL GO-LIVE OF NEW IT SYSTEM

- Implemented new IT system
 - Went live in North America and Asia Pacific regions
 - Will generate increased efficiency and cost savings over time
- Implementation of size and scope will require:
 - Adjustments during initial transition
 - Potential for short-term timing adjustments to sales in back half of the year

SECOND QUARTER PERFORMANCE

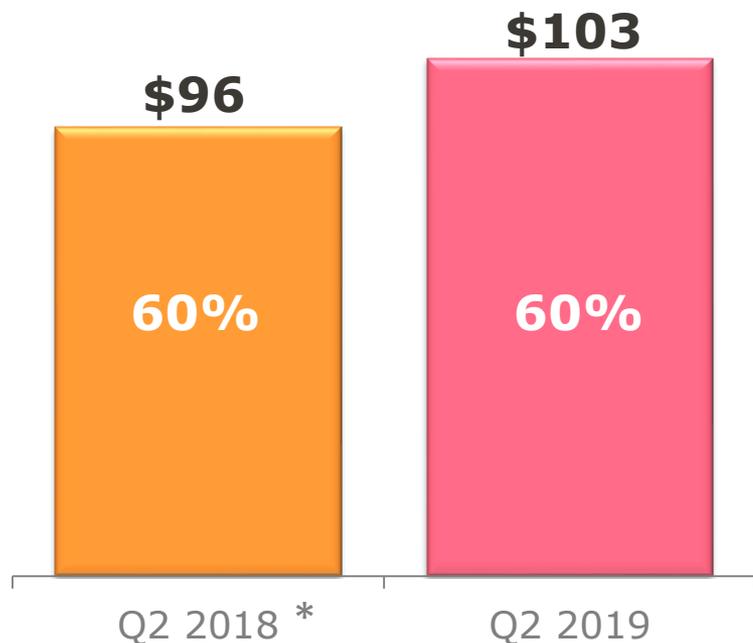
- Sales increased 7% to \$172 million
 - Game Ready contributed 5% of growth
 - 5% organic volume growth
 - 3% unfavorable product mix and lower selling price
 - 1% unfavorable currency exchange rates
- Coolief delivered double-digit growth in North America
- Continued strong demand for Corpak and legacy enteral feeding products in Digestive Health
- New oral care contracts and gained share in pediatric Microcuff drove Respiratory Health performance
- Chronic Care a consistent mid-single-digit growth business
- Headwinds continue in Acute Pain



SECOND QUARTER PERFORMANCE

Adjusted Gross Profit and Margin

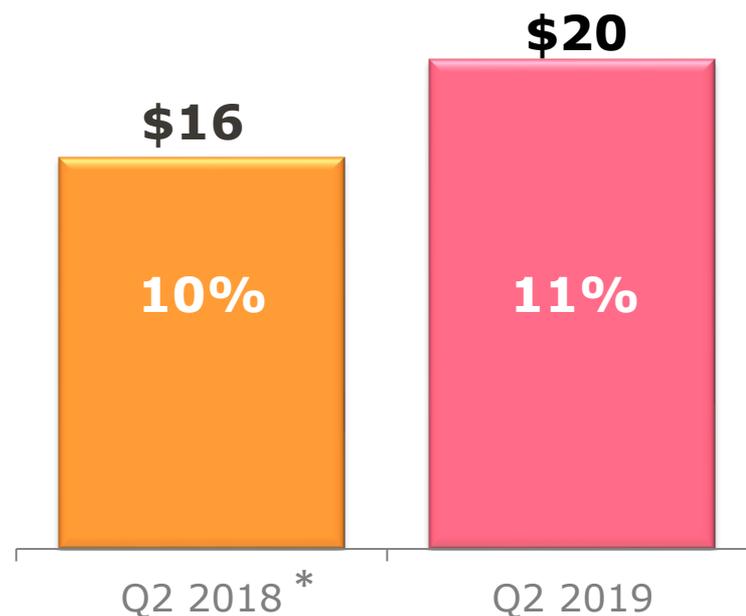
Millions



- Performance impacted by unfavorable pricing and changes in product mix

Adjusted Operating Margin and Profit

Millions



- 2019 results impacted by increased investments and expected dis-synergies

*2018 results include costs that were included in the S&IP business

SECOND QUARTER PERFORMANCE

- Adjusted EBITDA was \$23 million, compared to \$36 million
- Adjusted net income totaled \$14 million, compared to \$23 million
- Earned adjusted diluted EPS of \$0.28
 - Slightly ahead of our expectations
 - Controlled expenses
 - Lower sales commissions and incentives
- Ended the quarter with \$288 million of cash on hand
- Balance sheet remains strong

2019 FULL-YEAR OUTLOOK

- Outlook includes Game Ready, and now NeoMed
- NeoMed's 2018 sales totaled \$38 million
- Acquisition is slightly accretive to earnings this year
- Expect revenue growth of 8% to 10%, in constant currency
- Earn adjusted diluted EPS of \$1.15 to \$1.25

WELL-POSITIONED TO SUCCEED

- Expect accelerating performance in 2H19
- Strong financial profile
- On track to achieve 2019 priorities



Q & A

APPENDICIES

2019 Outlook Summary

Non-GAAP Reconciliations

2019 OUTLOOK SUMMARY

	February 26	May 7	August 6
Adjusted diluted EPS	\$1.15 to \$1.35	\$1.15 to \$1.35	\$1.15 to \$1.25*
Medical Device net sales, constant currency and including Game Ready, and now NeoMed	6% to 8%	6% to 8%	8% to 10%*
FX translation impact on net sales	Even	Even	Even
Adjusted effective tax rate	23% to 25%	23% to 25%	23% to 25%

Text in pink denotes a change

* Now includes Game Ready and NeoMed

NON-GAAP RECONCILIATIONS

In millions

	Gross Profit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ 98.7	\$ 94.7	\$ 197.5	\$ 185.8
<i>Gross profit margin, as reported</i>	57.3%	58.9%	58.7%	58.6%
Restructuring and IT charges	1.2	0.6	1.8	0.6
Post divestiture transition charges	2.4	-	2.8	-
Intangibles amortization	1.1	1.0	2.4	1.9
As adjusted non-GAAP	\$ 103.4	\$ 96.3	\$ 204.5	\$ 188.3
<i>Gross profit margin, as adjusted</i>	60.0%	59.9%	60.8%	59.3%

	Operating (Loss) Profit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ (9.8)	\$ 8.8	\$ (34.4)	\$ 1.8
Restructuring and IT charges	5.8	3.9	7.8	6.8
Post divestiture transition charges	13.5	(3.3)	32.2	(3.3)
Acquisition-related charges	0.7	0.3	1.4	0.3
Litigation and legal	4.7	1.2	13.4	2.9
Intangibles amortization	4.6	4.7	9.5	9.2
As adjusted non-GAAP	\$ 19.5	\$ 15.6	\$ 29.9	\$ 17.7

NON-GAAP RECONCILIATIONS

In millions

	(Loss) Income Before Taxes			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ (11.3)	\$ 1.1	\$ (37.2)	\$ (13.7)
Restructuring and IT charges	5.8	3.9	7.8	6.8
Post divestiture transition	13.5	(3.3)	32.2	(3.3)
Term Loan B retirement loss	-	4.2	-	4.2
Acquisition-related charges	0.7	0.3	1.4	0.3
Litigation and legal	4.7	1.2	13.4	2.9
Intangibles amortization	4.6	4.7	9.5	9.2
As adjusted non-GAAP	<u>\$ 18.0</u>	<u>\$ 12.1</u>	<u>\$ 27.1</u>	<u>\$ 6.4</u>

	Tax (Provision) Benefit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ 3.3	\$ 0.2	\$ 8.9	\$ 3.7
<i>Effective tax rate, as reported</i>	29.2%	(18.2%)	23.9%	27.0%
Tax effects of adjusting items	(7.8)	(2.6)	(15.6)	(5.1)
As adjusted non-GAAP	<u>\$ (4.5)</u>	<u>\$ (2.4)</u>	<u>\$ (6.7)</u>	<u>\$ (1.4)</u>
<i>Effective tax rate, as adjusted</i>	25.0%	19.8%	24.7%	21.9%

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	(Loss) Income from Continuing Operations			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ (8.0)	\$ 1.3	\$ (28.3)	\$ (10.0)
Diluted EPS, as reported	\$ (0.17)	\$ 0.03	\$ (0.60)	\$ (0.21)
Restructuring and IT charges	5.8	3.9	7.8	6.8
Post divestiture transition	13.5	(3.3)	32.2	(3.3)
Term Loan B retirement loss	-	4.2	-	4.2
Acquisition-related charges	0.7	0.3	1.4	0.3
Litigation and legal	4.7	1.2	13.4	2.9
Intangibles amortization	4.6	4.7	9.5	9.2
Tax effects	(7.8)	(2.6)	(15.6)	(5.1)
As adjusted, non-GAAP	\$ 13.5	\$ 9.7	\$ 20.4	\$ 5.0
Adjusted EPS	\$ 0.28	\$ 0.20	\$ 0.43	\$ 0.11

	Income from Discontinued Operations, net of tax			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ -	\$ 34.0	\$ -	\$ 65.5
Diluted EPS, as reported	\$ -	\$ 0.70	\$ -	\$ 1.39
Divestiture-related charges	-	5.2	-	17.4
Gain on Divestiture	-	(89.9)	-	(89.9)
Tax provision	-	64.1	-	60.9
As adjusted non-GAAP	\$ -	\$ 13.4	\$ -	\$ 53.9
Diluted EPS, as adjusted	\$ -	\$ 0.28	\$ -	\$ 1.15

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net (Loss) Income			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
As reported	\$ (8.0)	\$ 35.3	\$ (28.3)	\$ 55.5
Diluted EPS, as reported	\$ (0.17)	\$ 0.73	\$ (0.60)	\$ 1.18
Restructuring and IT charges	5.8	3.9	7.8	6.8
Post divestiture transition charges	13.5	(3.3)	32.2	(3.3)
Divestiture-related charges	-	5.2	-	17.4
Gain on Divestiture	-	(89.9)	-	(89.9)
Term Loan B retirement loss	-	4.2	-	4.2
Acquisition-related charges	0.7	0.3	1.4	0.3
Litigation and legal	4.7	1.2	13.4	2.9
Intangibles amortization	4.6	4.7	9.5	9.2
Tax Provision	(7.8)	61.5	(15.6)	55.8
As adjusted non-GAAP	\$ 13.5	\$ 23.1	\$ 20.4	\$ 58.9
Diluted EPS, as adjusted	\$ 0.28	\$ 0.48	\$ 0.43	\$ 1.25

NON-GAAP RECONCILIATIONS

In millions

	EBITDA			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
EBITDA, as reported	\$ (1.3)	\$ 118.5	\$ (17.5)	\$ 160.4
Restructuring and IT charges	5.8	3.9	7.8	6.8
Post divestiture transition charges	13.5	(3.3)	32.2	(3.3)
Divestiture-related charges	-	5.2	-	17.4
Gain on Divestiture	-	(89.9)	-	(89.9)
Acquisition-related charges	0.7	0.3	1.4	0.3
Litigation and legal	4.7	1.2	13.4	2.9
Adjusted EBITDA	\$ 23.4	\$ 35.9	\$ 37.3	\$ 94.6

	Free Cash Flow			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cash used in operating activities	\$ (31.9)	\$ (96.7)	\$ (55.0)	\$ (70.4)
Capital expenditures	(22.9)	(11.1)	(35.4)	(20.7)
Free Cash Flow	\$ (54.8)	\$ (107.8)	\$ (90.4)	\$ (91.1)