

AVANOS

SECOND QUARTER 2020 EARNINGS CALL

August 4, 2020

ΔAGENDA ΔAND SPEΔKERS



Joe Woody
Chief Executive Officer

Update on Response to Pandemic
Second Quarter Performance
Progress Against 2020 Priorities

Q&A



Michael Greiner
*Senior Vice President and
Chief Financial Officer*

Actions to Address Pandemic
Review Second Quarter Results

OVERVIEW

FORWARD-LOOKING INFORMATION

Certain matters in this presentation and conference call, including our 2020 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, risks related to the ongoing COVID-19 pandemic, competition, market demand, economic condition, S&IP separation execution and IT implementation, 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).

WE STAND TOGETHER

- We need to start by understanding and acknowledging the systemic issues of racial and gender inequality
- Senior leadership team is beginning a listening journey
 - Further understand employees' perspectives and feelings
 - Identify what we're doing right and where we're coming up short
- Launched a strategic initiative focused on developing and implementing an Avanos diversity, equality and inclusion plan
- Made a significant donation to the Equal Justice Initiative
- It's the right thing to do from a social and business standpoint

MEETING THE URGENT NEEDS OF PATIENTS WITH CRITICAL PRODUCTS

- Pleased with team's strategic execution and commitment to meet patients' needs
- Team demonstrated resilience and executed responsibilities to the highest standard
- Team's work ethic brings to life our values of
 - Speed
 - Collaboration
 - Customer centric
- Our values have proven instrumental in helping us respond to the pandemic

FOCUSED ON THREE PRIORITIES DURING THE PANDEMIC

- Maintaining the health and safety of our employees and their families
- Ensuring we have sufficient supply of our Respiratory Health products used to treat COVID-19 patients
- Preserving our strong financial metrics and meeting the needs of customers, while ensuring we're well-positioned for future growth

MAINTAINING THE HEALTH AND SAFETY OF EMPLOYEES

- Significant challenge in maintaining production at our plants
- Implemented prevention measures and protocols before, during and after each shift
 - Increased number of buses to transport employees, to maintain physical distancing
 - Instituted procedures to ensure everyone passes a temperature screening
 - Added physical barriers to ensure physical distancing
 - Modified schedules to provide time for enhanced cleaning
- Mexican auditor made special note of our positive measures taken
- Appreciate efforts of the product supply and plant leadership for keeping our team safe



MAINTAINING HEALTH AND SAFETY OF EMPLOYEES

- Global field sales teams meeting in-person with health care providers at health care facilities
- Provided sales teams with PPE and training
- Teams equipped to perform their jobs safely



ENSURING AVAILABILITY OF LIFE-ENABLING RESPIRATORY HEALTH PRODUCTS

- Accelerated demand continued and some products remained on backorder
- Cross-functional team allocated products to customers, while preventing stockpiling
- Team designed, installed and started a new production line
- Complex, multifaceted project that touched all aspects of our supply chain
- Employees dedication is a testament to the strength of the Avanos team

PRESERVING SOLID FINANCIAL POSITION

- Implemented strategic cost containment measures and cash preservation measures
- Executed on our plans and delivered savings and reduced unusual costs; drove positive cash flow from operations
- Limited capital spending to maintenance of facilities and to boost production for Respiratory Health products
- Entering second half of the year in a strong financial position

SECOND QUARTER PERFORMANCE

- Pleased with faster resumption of elective procedures than expected
- Sales totaled \$164 million and adjusted diluted EPS were \$0.13
- Saw monthly sequential improvement in Pain Management franchises
- April U.S. volumes at a trough of roughly 25% of pre-COVID-19 levels
- Sales grew to approximately 75% of normal volume by end of the quarter
- Drivers of a sustained recovery will likely vary regionally
- Partnering with hospitals, customers, consultants and market experts to gain insights of the recovery and help frame forecast model
- Anticipate elective procedures will increase in 2H20, but now expect recovery will continue into 2021

SECOND QUARTER PERFORMANCE

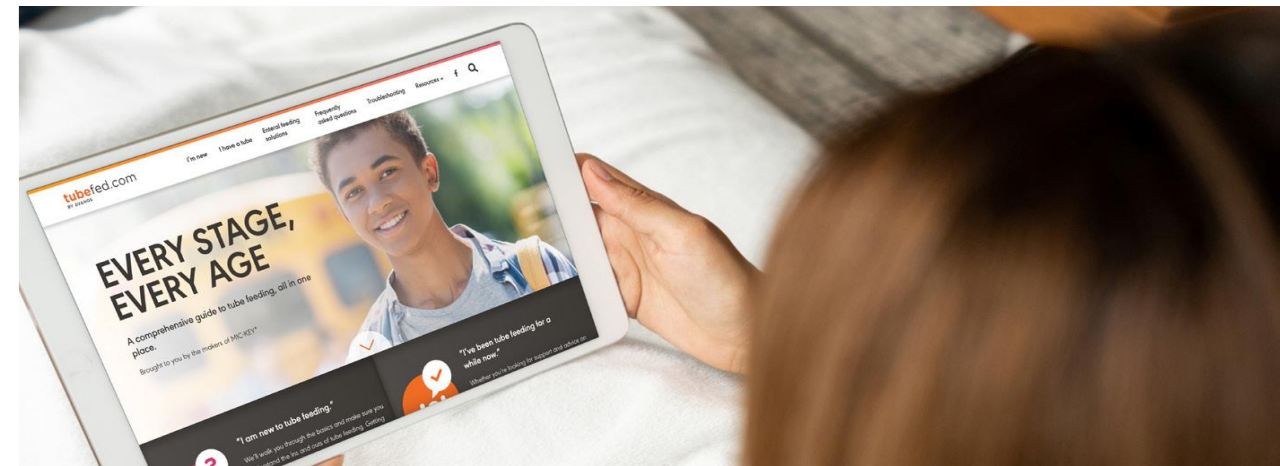
- Demand continued for our clinically-proven Respiratory Health products
- Expect elevated demand to continue into 2H20, but at a slower rate
- Fewer elective procedures and patients delaying tube replacement impacted Digestive Health's performance
- Anticipate these headwinds will continue to some extent through the balance of the year
- Market leading Chronic Care business remains strong and is well-positioned to grow mid-single digits

PROGRESSING ON 2020 PRIORIT TO BUILD SALES MOMENTUM

- Raising awareness of our non-narcotic pain therapies
 - Conducted webinar and VuMedi sessions attended by 4,000 healthcare professionals
 - Research published in the *Journal of Orthopedic Experience and Innovation* found TKA patients who used ON-Q needed fewer opioids to manage their post-operative pain
- Leiters as a pre-filled alternative continued to grow
- In June, Leiters filled the highest volume of pumps

PROGRESSING ON 2020 PRIORITY TO BUILD SALES MOMENTUM

- Most comprehensive enteral feeding portfolio
- Enteral feeding portfolio that offers solutions for every stage and age of feeding
- Introduced campaign that brings MIC-KEY, CORPAK and NEOMED under one family of brands
- Launched website Tubefed.com, to further educate clinicians, caregivers and patients
- A family of Avanos brands helps grow and protect our Digestive Health franchise



PROGRESSING ON 2020 PRIORITIES

- Integration of Game Ready, NeoMed and Summit
 - On schedule with integration plans
 - Expect to close associated facilities in 2H20
 - Began integrating companies into our IT systems
- Realizing efficiencies from new IT system
 - Conduct more in-depth analysis
 - Reductions in accounts receivables
 - Improve process times for transactions
- Delivered improve cash flow
 - Strengthening already solid balance sheet
 - Well-positioned for growth post COVID

ΔVΔNOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- MICROCOOL litigation update
- U.S. Court of Appeals for the 9th Circuit reversed the judgement and instructed the trial court to dismiss the case
- Ninth Circuit ruled that the class action against Kimberly-Clark should not have been allowed to proceed and sent case back to trial court
- A great outcome for Avanos

ΔVΔNOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Managing challenges with a strategic focus
- Meeting customers' needs
- Positioning for long-term growth

Second Quarter 2020 Results

Michael Greiner
Senior Vice President and
Chief Financial Officer

WE STAND TOGETHER

- Important to understand our employees' perspectives and unique experiences and use those insights to progress as a company
- Diversity and inclusiveness a key determinant in companies reaching their full potential
- Confident team will lean into needed dialogue on systemic inequalities

TAKING STRATEGIC STEPS TO MITIGATE IMPACT OF PANDEMIC

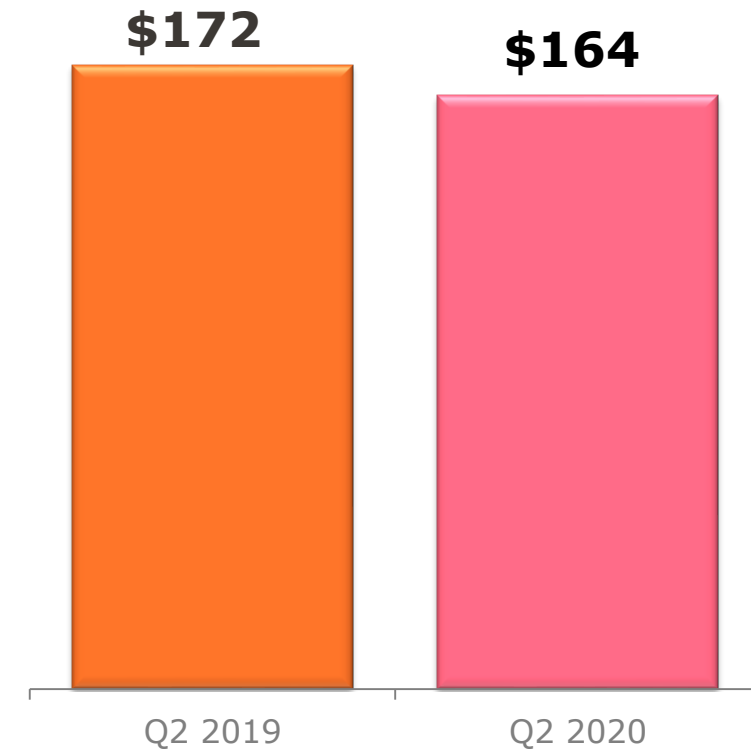
- Given continued uncertainty, not updating full-year 2020 guidance
- Modeled multiple sales, earnings and cash flow sensitivity outcomes
- Under the most bearish scenario, confident we can maintain a similar financial position as we ended the quarter
- Preserved solid balance sheet with \$185 million of cash on hand at quarter end
- Looking to enhance efficiency of our working capital by reducing inventory
- CARES Act update
 - Working to file amended U.S. Federal tax returns
 - Significant refunds should further enhance our return to positive FCF in 2021

SECOND QUARTER PERFORMANCE

- Net sales declined 5% to \$164 million
 - Organic sales declined 11%
 - NeoMed and Summit acquisitions contributed 6% of growth
- Chronic Care grew 18%
 - Driven by demand for closed suction catheters and Oral Care products and NeoMed acquisition
 - Demand for CORPAK related to COVID offset by legacy MIC-KEY business
- Pain Management sales declined 38%
 - Leiters presented strong 2Q results with record levels in June
 - Placed more COOLIEF generators than planned
- International delivered double-digit growth
 - Global demand for Respiratory Health products and CORPAK

Net Sales

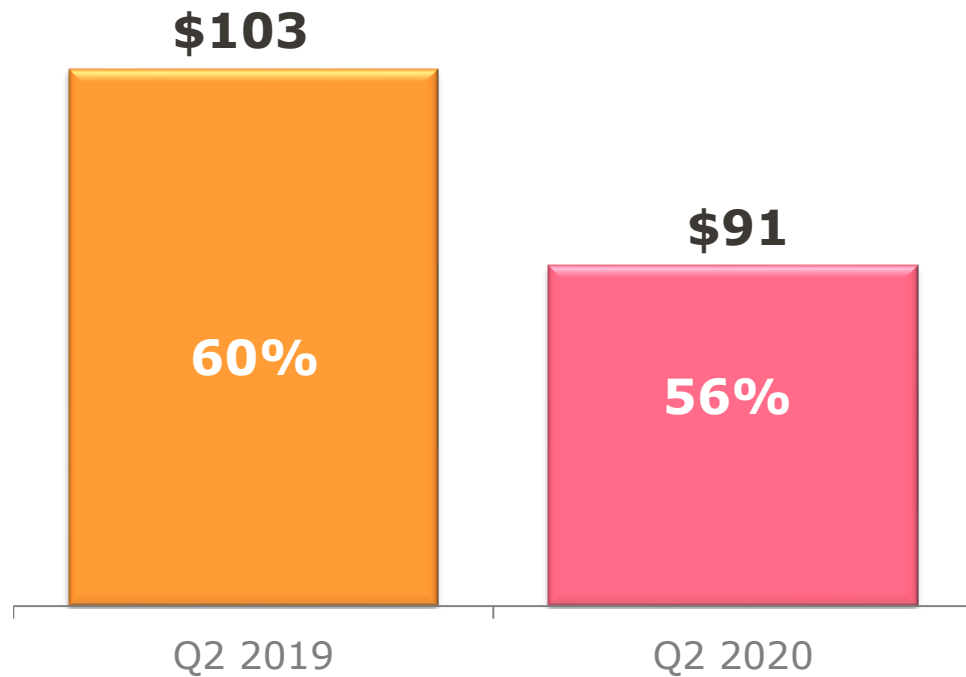
Millions



SECOND QUARTER PERFORMANCE

Adjusted Gross Profit and Margin

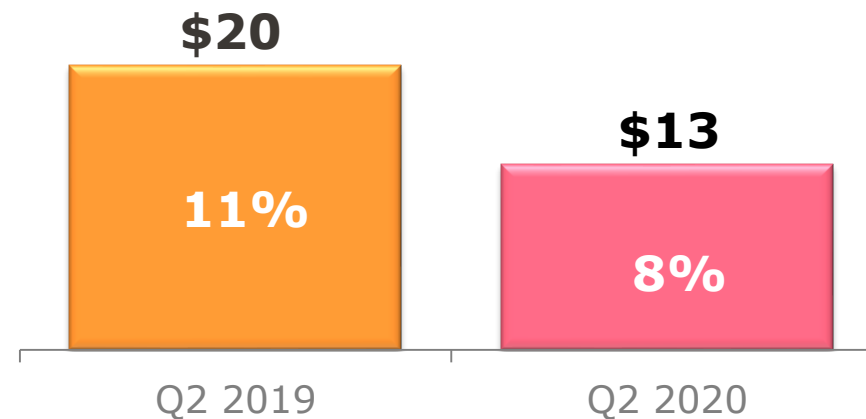
Millions



- Contraction due to unfavorable sales mix
- Elevated costs associated with COVID-19

Adjusted Operating Profit and Margin

Millions



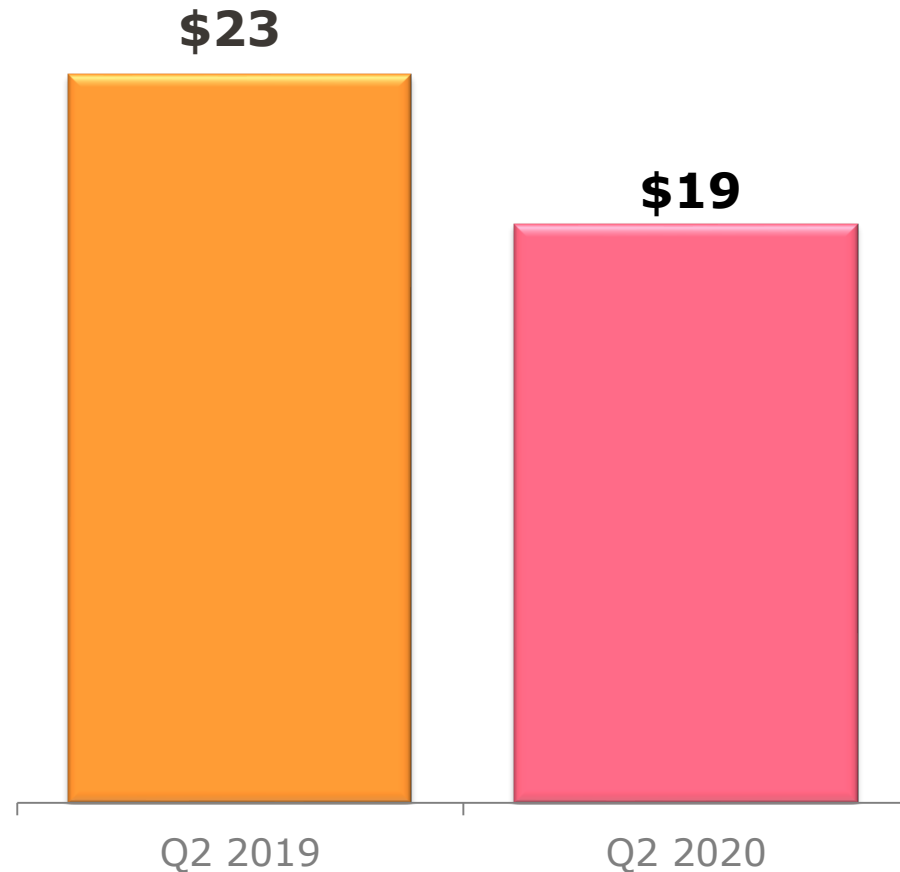
- Impacted by lower revenue and adjusted gross margin

SECOND QUARTER PERFORMANCE

Earned \$0.13 of Adjusted Diluted EPS, Ahead of our Expectations

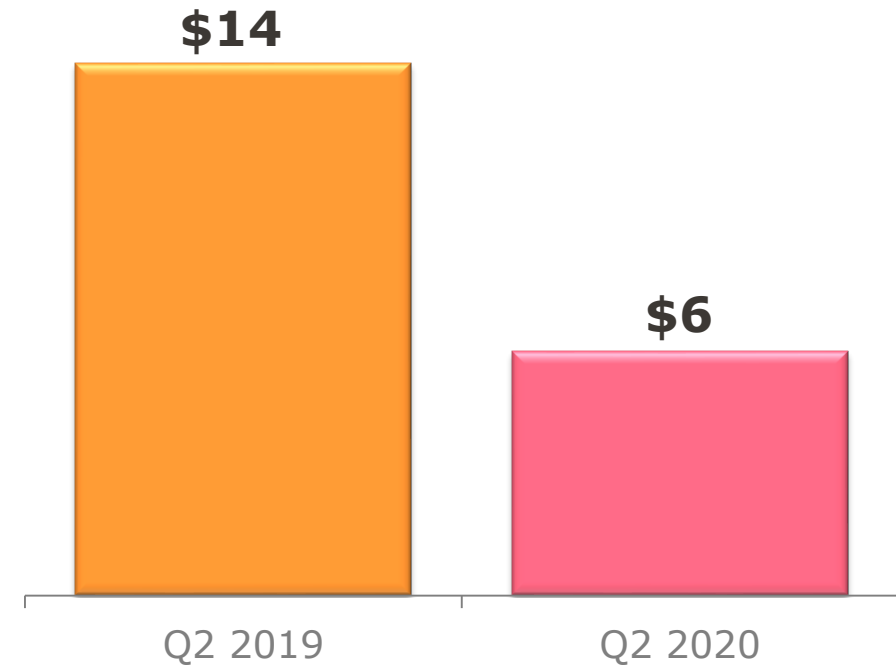
Adjusted EBITDA

Millions



Adjusted Net Income

Millions



ENSURING FINANCIAL POSITION AND LIQUIDITY REMAIN STRONG

- Delivered sales and earnings that exceeded our expectations
- Team showed resilience and exhibited our values
- Met customer demand and positioned portfolio for long-term growth
- Committed to getting patients back to things that matter



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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
As reported	\$ 86.5	\$ 98.7	\$ 188.6	\$ 197.5
Gross profit margin, as reported	52.8 %	57.3 %	54.8 %	58.7 %
COVID-19 related expenses	2.1	-	2.5	-
Post divestiture restructuring and IT charges	0.6	1.2	1.1	1.8
Post divestiture transition charges	0.3	2.4	1.1	2.8
Acquisition and integration-related charges	0.1	-	0.2	-
Intangibles amortization	1.6	1.1	3.3	2.4
As adjusted non-GAAP	\$ 91.2	\$ 103.4	\$ 196.8	\$ 204.5
Gross profit margin, as adjusted	55.7%	60.0%	57.2%	60.8%

	Operating (Loss) Profit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating (loss) profit, as reported	\$ (1.8)	\$ (9.8)	\$ (1.2)	\$ (34.4)
COVID-19 related expenses	3.2	-	3.7	-
Post divestiture restructuring and IT charges	-	5.8	0.5	7.8
Post divestiture transition charges	3.1	13.5	7.1	32.2
Acquisition and integration-related charges	2.1	0.7	3.9	1.4
Litigation and legal	1.2	4.7	3.4	13.4
Intangibles amortization	4.9	4.6	9.7	9.5
As adjusted non-GAAP	\$ 12.7	\$ 19.5	\$ 27.1	\$ 29.9

NON-GAAP RECONCILIATIONS

In millions

	(Loss) Income Before Taxes			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
As reported	\$ (5.9)	\$ (11.3)	\$ (8.9)	\$ (37.2)
COVID-19 related expenses	3.2	-	3.7	-
Post divestiture restructuring and IT charges	-	5.8	0.5	7.8
Post divestiture transition charges	3.1	13.5	7.1	32.2
Acquisition and integration-related charges	2.1	0.7	3.9	1.4
Litigation and legal	1.2	4.7	3.4	13.4
Intangibles amortization	4.9	4.6	9.7	9.5
As adjusted non-GAAP	\$ 8.6	\$ 18.0	\$ 19.4	\$ 27.1

	Tax Benefit/(Provision)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
As reported	\$ 2.9	\$ 3.3	\$ 9.6	\$ 8.9
Effective tax rate, as reported	49.2 %	29.2 %	107.9 %	23.9 %
Tax effects of adjusting items	(3.8)	(7.8)	(7.4)	(15.6)
Effects of the CARES Act and other	(1.5)	-	(7.5)	-
As adjusted non-GAAP	\$ (2.4)	\$ (4.5)	\$ (5.3)	\$ (6.7)
Effective tax rate, as adjusted	27.9 %	25.0 %	27.3 %	24.7 %

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net (Loss) Income			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
As reported	\$ (3.0)	\$ (8.0)	\$ 0.7	\$ (28.3)
Diluted EPS, as reported	\$ (0.06)	\$ (0.17)	\$ 0.02	\$ (0.60)
COVID-19 related expenses	3.2	-	3.7	-
Post divestiture restructuring and IT charges	-	5.8	0.5	7.8
Post divestiture transition charges	3.1	13.5	7.1	32.2
Acquisition and integration-related charges	2.1	0.7	3.9	1.4
Litigation and legal	1.2	4.7	3.4	13.4
Intangibles amortization	4.9	4.6	9.7	9.5
Tax effects of adjusting items	(3.8)	(7.8)	(7.4)	(15.6)
Tax effects of the CARES Act and Other	(1.5)	-	(7.5)	-
As adjusted, non-GAAP	\$ 6.2	\$ 13.5	\$ 14.1	\$ 20.4
Diluted EPS, as adjusted	\$ 0.13	\$ 0.28	\$ 0.29	\$ 0.43

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	EBITDA			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
EBITDA, as reported	\$ 9.0	\$ (1.3)	\$ 20.2	\$ (17.5)
COVID-19 related expenses	3.2	-	3.7	-
Post divestiture restructuring and IT charges	-	5.8	0.5	7.8
Post divestiture transition charges	3.1	13.5	7.1	32.2
Acquisition and integration-related charges	2.1	0.7	3.9	1.4
Litigation and legal	1.2	4.7	3.4	13.4
Adjusted EBITDA	\$ 18.6	\$ 23.4	\$ 38.8	\$ 37.3

	Free Cash Flow			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash used in operating activities	\$ 1.1	\$ (31.9)	\$ (4.7)	\$ (55.0)
Capital expenditures	(6.9)	(22.9)	(12.1)	(35.4)
Free Cash Flow	\$ (5.8)	\$ (54.8)	\$ (16.8)	\$ (90.4)