AVANOS

THIRD QUARTER 2019 EARNINGS CALL

November 5, 2019

AGENDA AND SPEAKERS

Joe Woody
Chief Executive Officer

Review Business Performance

Update on Priorities

Dave Crawford
Vice President, Investor Relations

Third 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 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).

BUSINESS OVERVIEW

- Continuing to execute against priorities
  - Double-digit growth in COOLIEF
  - Positive results from CMS related to reimbursement for knee procedures
- Faced specific challenges
  - Under-delivered relative to our expectations
  - Challenges could continue into the fourth quarter
- Confident we have the right plan in place to address gaps, accelerate growth and deliver shareholder value
- Net sales for the quarter were $171 million and adjusted diluted EPS was $0.30

COMPLETING IT SYSTEM STABILIZATION

- Revenue shortfall of approximately $5 million in backorders related to implementation of our new IT system
- New system crucial for long-term benefit and value creation
- Experienced temporary customer and supply issues during implementation
- Working to remediate and return sales to normal levels
- Possible for some backorders to continue into the first quarter 2020

ADDITIONAL PERFORMANCE DRIVERS

- Chronic Care impacted by lower order volumes from distributors in U.S.
  - Inventory levels at distributors can produce positive or negative variability
  - No change in underlying market dynamics
- International sales in EMEA and Latin America missed expectations
- Remain confident International business is a catalyst for growth

BUSINESS OUTLOOK

- Expect third quarter shortfalls to impact fourth quarter
- Lowering sales expectations from 8% - 10% to 5% - 7%
  - Builds in potential for continued near-term backorders
- Revising full-year adjusted diluted EPS from $1.15 - $1.25 to $1.00 - $1.10
- Focused on addressing gaps while committed to long-term strategy:
  - Invest in growth
  - Prudently manage costs
  - Strategically deploy capital

GROWTH DRIVERS - COOLIEF

- COOLIEF grew over 20%
- CMS 2020 Final Rule recently released
  - Felt initial proposed rules undervalued reimbursement for knee procedures within the hospital outpatient setting
  - The new Medicare value for the knee is the same as the SIJ RF procedure
  - Makes COOLIEF for the knee viable in a hospital setting again
  - Enables patients suffering from osteoarthritis of the knee to continue to benefit from our leading non-opioid therapy
- Actively developing other avenues of growth
  - More runway for spine procedures in the U.S.
  - Investing in international component of the business
- Continuing to generate compelling evidence of COOLIEF's clinical and cost effectiveness

ACUTE PAIN UPDATE

- Acute Pain performed in-line with our expectations
- Drug supply shortage not expected to be a 2020 headwind
  - Will take time for market to return to steady state
- Focused on returning business to growth and improving overall profitability

CHRONIC CARE UPDATE

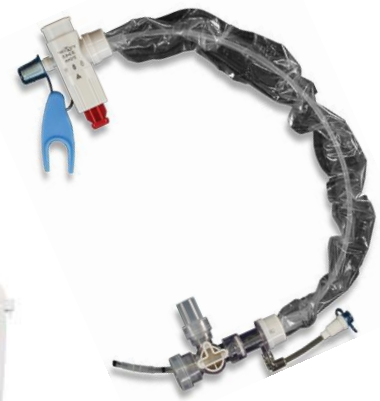
- Remains stable pool of growth and cash flow
- Market-leading franchises
- Backorders and distributor inventory drawdown impacted growth
- Expect Chronic Care to continue to grow mid-single digits

INTERNATIONAL UPDATE

- International business had a challenging quarter due to:
  - Backorders, shipping and supply chain challenges
  - Product rebranding
  - High variability in Emerging Markets
- Continue to expect growth to accelerate across all of our international regions

STRATEGICALLY DEPLOYING CAPITAL

- Acquired endOclear
  - Enhanced clinical tube clearing bolsters market-leading Respiratory Health portfolio
  - Leverages existing sales and marketing infrastructure
- Summit Medical
  - Encouraged by initial sales
  - Improved engagement with ON-Q customers
- NeoMed performed in-line with expectations
- Focused on integrating recent acquisitions
- Continue to assess growth opportunities that bring strategic value and synergies



AVANOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Committed to accelerating organic growth, pursuing M&A and taking out costs
- Made significant and necessary steps to transform business
- Addressing near-term operational challenges while focusing on fourth quarter and 2020 priorities:
  - Completing IT system and process stabilization
  - Returning Acute Pain to growth
  - Investing in COOLIEF and Corpak as catalysts for growth
  - Strategically deploying capital
  - Integrating acquired assets and delivering synergies
  - Executing on cost savings targets and developing additional savings opportunities

THIRD QUARTER 2019 RESULTS

Dave Crawford

Vice President, Investor Relations

GLOBAL IT SYSTEM IMPLEMENTATION

- Major milestone in transformation
- Since launch, we are able to effectively take orders, manufacture products, collect cash and report earnings
- Not surprising to encounter challenges with a project of this magnitude
  - Challenges require temporary manual workarounds, resulting in a short-term decreased efficiency
- Peak number of issues is behind us
- Not seeing new issues develop

STABILIZING GLOBAL IT SYSTEM

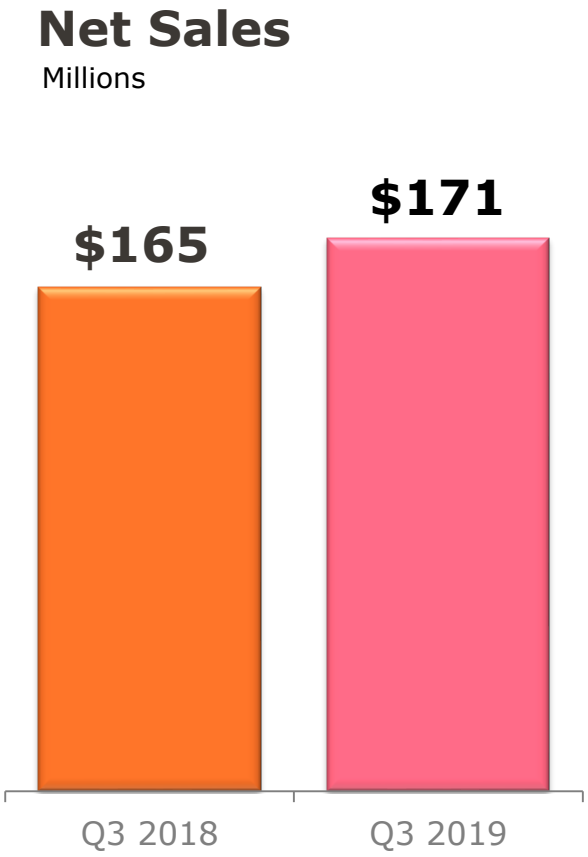
- Working to address three main challenges:
  - Change management on new technology and business process
  - Order to shipment process efficiency
  - Cash receipts and disbursements efficiency
- System stabilization and process improvement are top priorities
- Already seeing benefits of a single system
- Remain confident we'll continue to improve performance and efficiency

TRANSFORMING OUR COST STRUCTURE

- Remains a top priority
- IT and back office infrastructure are a part of the cost savings expected over the next two years
- Savings in manufacturing and other areas in SG&A are also a part of expected cost savings
- Confident we'll deliver $12-$16 million in cost savings next year

THIRD QUARTER PERFORMANCE

- Net sales increased 4% to $171 million
  - NeoMed and Summit contributed 6% of growth
  - Less than 1% decline in organic volume
  - 1% unfavorable product price and mix
- Adjusted diluted EPS of $0.30
- COOLIEF grew double-digits
  - Highest quarterly growth this year
  - Continued strong demand; but slightly below expectations
  - Shift from multi-probed kits to standard kits



BUILDING COMPENDIUM OF CLINICAL EVIDENCE FOR COOLIEF

- The *Pain Physician* Journal published a large retrospective study that further reinforces clinical effectiveness of COOLIEF
- Conducting a large, multicentered, prospective clinical trial to evaluate the effectiveness of COOLIEF compared to a hyaluronic acid injection
- Presenting outcomes data that confirm the long-term effectiveness of COOLIEF for treatment of knee osteoarthritis pain
- Disseminating data to pain physicians, orthopedic surgeons and rheumatologists via symposia at key conferences

THIRD QUARTER PERFORMANCE

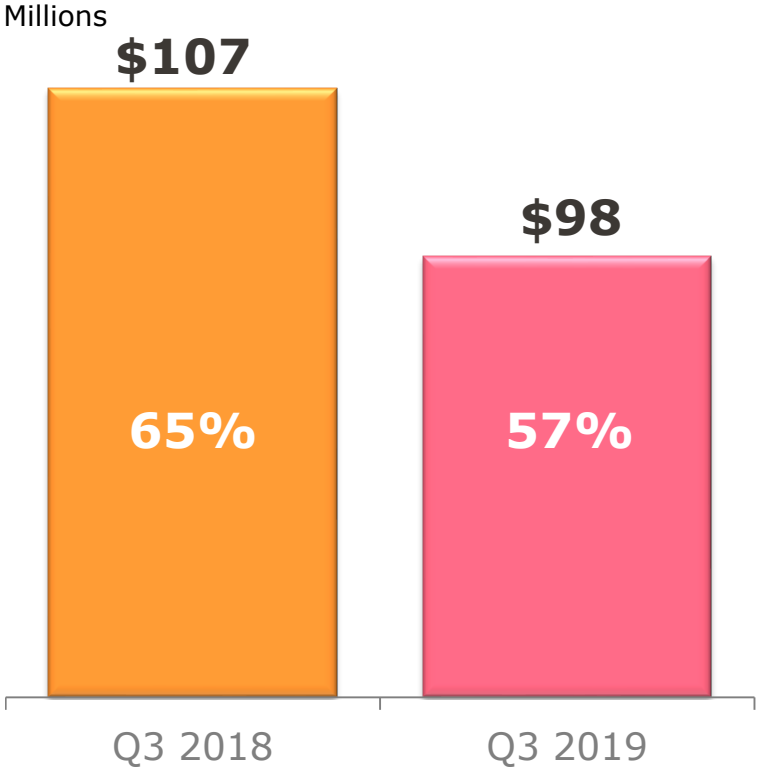
- ON-Q and IV Infusion delivered results in line with our expectations
  - ON-Q sales down mid-single digits
  - Sales through Leiters increased double-digits, sequentially
- Chronic Care performance affected by:
  - Product backorders and supply chain issues
  - Unexpected decline in purchases due to drawdown of inventories from certain distributors
- Continue to view Chronic Care as mid-single digit growth business
  - Tracing data shows consistent growth
  - Retained all key accounts
  - Underlying market dynamics remain unchanged

THIRD QUARTER PERFORMANCE

- International results impacted by backorder and supply chain issues
- Results below expectations, partly due to:
  - Tenders won, but not yet converted into orders
  - Delayed uptake in market development growth in EMEA in Pain Management
- International business key catalyst for growth
- Asia-Pacific region saw double-growth for the quarter and nearly double-digits for the year
- Believe similar growth opportunities are in our other International regions

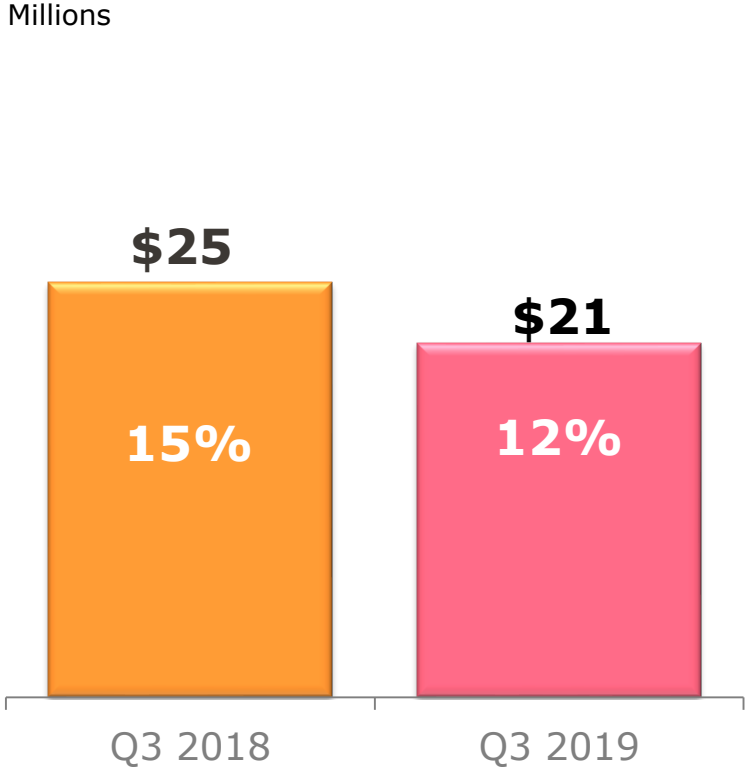
THIRD QUARTER PERFORMANCE

Adjusted Gross Profit and Margin



- 2019 performance impacted by taking down and restarting manufacturing facilities and an increase in distribution costs to alleviate backorders

Adjusted Operating Profit and Margin



- 2019 results impacted by the decline in gross margin

THIRD QUARTER PERFORMANCE

- Adjusted EBITDA was $25 million, compared to $28 million
- Adjusted net income totaled $14 million, compared to $18 million
- Ended the quarter with $214 million of cash on hand
- Free cash flow was an outflow of $24 million, due to:
  - Spending on one-time items
  - An increase in working capital related to new IT system

2019 FULL-YEAR OUTLOOK

- Outlook now includes Summit Medical and endOclear
- Revising 2019 outlook due to third quarter results and the expectation that these factors will also impact the fourth quarter
- Expect revenue growth of 5% to 7%, in constant currency
- Earn adjusted diluted EPS of $1.00 to $1.10

REMAIN CONFIDENT IN OUR STRATEGY

- Confident we're taking the necessary steps to create shareholder value
- Focused on fourth quarter and 2020 priorities

Q&A

APPENDICIES

2019 Outlook Summary

Non-GAAP Reconciliations

2019 OUTLOOK SUMMARY

	February 26	May 7	August 6	November 5
Adjusted diluted EPS	$1.15 to $1.35	$1.15 to $1.35	$1.15 to $1.25	**$1.00 to $1.10***
Medical Device net sales, constant currency and including Game Ready, and now NeoMed	6% to 8%	6% to 8%	8% to 10%	**5% to 7%***
FX translation impact on net sales	Even	Even	Even	Even
Adjusted effective tax rate	23% to 25%	23% to 25%	23% to 25%	23% to 25%

Text in pink denotes a change
* Now includes Summit Medical and Endoclear

NON-GAAP RECONCILIATIONS

In millions

	Gross Profit			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ 95.0**	$ 104.7	**$ 292.5**	$ 290.5
Gross profit margin, as reported	***55.4%***	*63.4%*	***57.6%***	*60.2%*
Post divestiture restructuring and IT charges	**0.4**	1.1	**2.2**	1.7
Post divestiture transition charges	**1.7**	-	**4.5**	-
Acquisition and integration-related charges	**-**	0.4	**-**	0.4
Intangibles amortization	**1.3**	1.1	**3.7**	3.0
As adjusted non-GAAP	**$ 98.4**	$ 107.3	**$ 302.9**	$ 295.6
Gross profit margin, as adjusted	***57.4%***	*65.0%*	***59.6%***	*61.3%*

	Operating (Loss) Profit			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ (18.1)**	$ 7.0	**$ (52.5)**	$ 8.8
Post divestiture restructuring and IT charges	**8.4**	5.4	**16.2**	12.2
Post divestiture transition charges	**10.9**	2.3	**43.1**	(1.0)
Acquisition and integration-related charges	**6.7**	0.8	**8.1**	1.1
Litigation and legal	**8.0**	3.7	**21.4**	6.6
Intangibles amortization	**5.1**	5.4	**14.6**	14.6
As adjusted non-GAAP	**$ 21.0**	$ 24.6	**$ 50.9**	$ 42.3

NON-GAAP RECONCILIATIONS

In millions

	(Loss) Income Before Taxes			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ (20.3)**	$ 5.0	**$ (57.5)**	$ (8.7)
Post divestiture restructuring and IT charges	**8.4**	5.4	**16.2**	12.2
Post divestiture transition	**10.9**	2.3	**43.1**	(1.0)
Term Loan B retirement loss	**-**	-	**-**	4.2
Acquisition and integration-related charges	**6.7**	0.8	**8.1**	1.1
Litigation and legal	**8.0**	3.7	**21.4**	6.6
Intangibles amortization	**5.1**	5.4	**14.6**	14.6
As adjusted non-GAAP	**$ 18.8**	**$ 22.6**	**$ 45.9**	**$ 29.0**

	Tax (Provision) Benefit			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ 8.8**	$ (0.8)	**$ 17.7**	$ 2.9
Effective tax rate, as reported	***43.3%***	*16.%*	***30.8%***	*33.3%*
Tax effects of adjusting items	**(13.5)**	(4.0)	**(29.1)**	(9.1)
As adjusted non-GAAP	**$ (4.7)**	$ (4.8)	**$ (11.4)**	$ (6.2)
Effective tax rate, as adjusted	***25.0%***	*21.2%*	***24.8%***	*21.4%*

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	(Loss) Income from Continuing Operations			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ (11.5)**	$ 4.2	**$ (39.8)**	$ (5.8)
Diluted EPS, as reported	**$ (0.24)**	$ 0.09	**$ (0.84)**	$ (0.12)
Post divestiture restructuring and IT charges	**8.4**	5.4	**16.2**	12.2
Post divestiture transition	**10.9**	2.3	**43.1**	(1.0)
Term Loan B retirement loss	**-**	-	**-**	4.2
Acquisition and integration-related charges	**6.7**	0.8	**8.1**	1.1
Litigation and legal	**8.0**	3.7	**21.4**	6.6
Intangibles amortization	**5.1**	5.4	**14.6**	14.6
Tax effects	**(13.5)**	(4.0)	**(29.1)**	(9.1)
As adjusted, non-GAAP	**$ 14.1**	$ 17.8	**$ 34.5**	$ 22.8
Adjusted EPS	**$ 0.30**	$ 0.37	**$ 0.72**	$ 0.48

	Income from Discontinued Operations, net of tax			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ -**	$ -	**$ -**	$ 65.5
Diluted EPS, as reported	**$ -**	$ -	**$ -**	$ 1.39
Divestiture-related charges	**-**	-	**-**	17.4
Gain on Divestiture	**-**	-	**-**	(89.9)
Tax provision	**-**	-	**-**	60.9
As adjusted non-GAAP	**$ -**	$ -	**$ -**	$ 53.9
Diluted EPS, as adjusted	**$ -**	$ -	**$ -**	$ 1.14

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net (Loss) Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
As reported	**$ (11.5)**	$ 4.2	**$ (39.8)**	$ 59.7
Diluted EPS, as reported	**$ (0.24)**	$ 0.09	**$ (0.84)**	$ 1.27
Post divestiture restructuring and IT charges	**8.4**	5.4	**16.2**	12.2
Post divestiture transitiion charges	**10.9**	2.3	**43.1**	(1.0)
Divestiture-related charges	**-**	-	**-**	17.4
Gain on Divestiture	**-**	-	**-**	(89.9)
Term Loan B retirement loss	**-**	-	**-**	4.2
Acquisition and integration-related charges	**6.7**	0.8	**8.1**	1.1
Litigation and legal	**8.0**	3.7	**21.4**	6.6
Intangibles amortization	**5.1**	5.4	**14.6**	14.6
Tax Provision	**(13.5)**	(4.0)	**(29.1)**	51.8
As adjusted non-GAAP	**$ 14.1**	$ 17.8	**$ 34.5**	$ 76.7
Diluted EPS, as adjusted	**$ 0.30**	$ 0.37	**$ 0.72**	$ 1.63

NON-GAAP RECONCILIATIONS

In millions

	EBITDA			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
EBITDA, as reported	**$ (9.4)**	$ 15.9	**$ (26.9)**	$ 176.3
Post divestiture restructuring and IT charges	**8.4**	5.4	**16.2**	12.2
Post divestiture transition charges	**10.9**	2.3	**43.1**	(1.0)
Divestiture-related charges	**-**	-	**-**	17.4
Gain on Divestiture	**-**	-	**-**	(89.9)
Acquisition and integration-related charges	**6.7**	0.8	**8.1**	1.1
Litigation and legal	**8.0**	3.7	**21.4**	6.6
Adjusted EBITDA	**$ 24.6**	$ 28.1	**$ 61.9**	$ 122.7

	Free Cash Flow			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash used in operating activities	**$ (16.6)**	$ (67.8)	**$ (71.6)**	$ (138.2)
Capital expenditures	**(7.1)**	(10.7)	**(42.5)**	(31.4)
Free Cash Flow	**$ (23.7)**	$ (78.5)	**$ (114.1)**	$ (169.6)