

AVANOS

**THIRD
QUARTER 2021
EARNINGS
CALL**

November 2, 2021

AGENDA AND SPEAKERS



Joe Woody
Chief Executive Officer

Update on Quarter
Progress Against 2021 Priorities



Michael Greiner
*Senior Vice President and
Chief Financial Officer*

Review Third Quarter Results
Update on Planning Assumptions

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 2021 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

- Encouraged by our commercial team's resiliency in response to challenging dynamics brought on by pandemic
- Remain focused on getting patients back to the things that matter as we meet needs of customers



THIRD QUARTER PERFORMANCE

- Net Sales decreased 1% to \$184 million
- Earned \$0.25 of adjusted diluted EPS
- Delivered solid results in each of our product categories
- Delta variant impacted elective procedures, slowing sales of On-Q

THIRD QUARTER PERFORMANCE

- Gross margins improved 90 basis points compared to second quarter
- Gross margins will improve through the fourth quarter and into 2022
- Transportation and other manufacturing challenges remain
- Confident that gross margin headwinds are transitory and not permanent change to our operating structure

OPERATING EXPENSE EFFICIENCIES

- Additional efficiencies reduced operating expenses
- Finding ways to increase productivity and lower cost structure
- Offsetting some gross margin headwinds
- Commitment to deliver SG&A as percent of revenue less than 40% on go-forward basis

SOLID REVENUE OUTCOMES ACROSS PRODUCT PORTFOLIO

- Digestive health up 2% globally versus prior year and up 6% in North America
- Respiratory health down versus prior year primarily related to pandemic related volume from prior year
- Interventional Pain grew almost 5% versus prior year
- Acute Pain down 1% versus prior year as result of greater than anticipated pause in elective surgical procedures impacting ON-Q

ENHANCED PRODUCT OFFERINGS STRENGTHEN PAIN MANAGEMENT PROFILE

- Successful limited launch of next generation COOLIEF Cooled radiofrequency probe kits in Q3
 - Full launch in place for Q4
- New probes make it easier for physicians to perform COOLIEF procedures
- Strengthens Cooled RF leadership position

ENHANCED PRODUCT OFFERINGS STRENGTHEN PAIN MANAGEMENT PROFILE

- Launched Pain Block Pro
 - Differentiated app and data collection vehicle to track, monitor, and improve patient outcomes
 - Helps us engage patients and improve their experience
- Continuing to see momentum in Channel partnership agreements
- Delivering electronic pump ambIT into ASC setting to capture additional procedure volumes



STRENGTHENING GROWTH PROFILE IN CHRONIC CARE

- Positive trend in Digestive Health continues
- Maintained double digit growth in NeoMed
- Corpak Standard of Care strategy accelerating CorTrak hardware sales to record levels
- Respiratory Health sales down as expected given prior year pandemic tailwind
 - Nominal flu season modeled for 2021
 - No current spike in buying activity across Respiratory portfolio

RECAPTURING GROSS MARGINS

- Remain focused on recapturing gross margin lost since start of pandemic with meaningful progress throughout Q3
- Anticipate further gains through Q4
- Confident these headwinds are transitory

FREE CASH FLOW GENERATION

- Beginning to generate consistent and repeatable cash flow
- Generated \$18 million of free cash flow in Q3 and \$10 million in Q2
- Received \$47 million of Cares Act related tax refunds; paid \$22 million to DOJ to settle outstanding litigation
- Continue to focus on generating improved operating results and disciplined working capital management

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
- Strong return on capital deployed remains a focus

ΔVΔNOS: STRONG FINISH TO THE YEAR

- Over last four quarters all material outstanding litigation has been resolved
 - Reduces range of uncertainty and legal expenses
 - Enables more opportunity in M&A and additional capital to repurchase shares
- Well-positioned to advance strategies across four areas of value creation as we complete 2021 and begin 2022

Third Quarter 2021 Results

Michael Greiner
Senior Vice President and
Chief Financial Officer

TEAM OVERCOMING CHALLENGES

- Total sales of \$184 million decreased 1% versus prior year
- Progress against 2021 value creation initiatives establish baseline for a solid 2022
 - Mid single digit top-line growth
 - Improved gross and operating margins
 - Consistent free cash flow generation
 - M&A execution

THIRD QUARTER CHRONIC CARE REVENUE PERFORMANCE

- Chronic Care sales declined 2% to \$117 million
- \$8 million prior year pandemic tailwind for Respiratory Health
 - Adjusting for 2020 tailwind Respiratory Health sales would have been up with improvements across the category
 - No meaningful growth in our closed-suction catheters despite spread of the Delta COVID variant
 - No additional benefit from pandemic and a normal start to cold and flu season assumed in back half of 2021
- Growth in Digestive Health mitigated by decline in our International markets
 - NeoMed grew double digits from continued conversion to ENFit

Chronic Care Sales

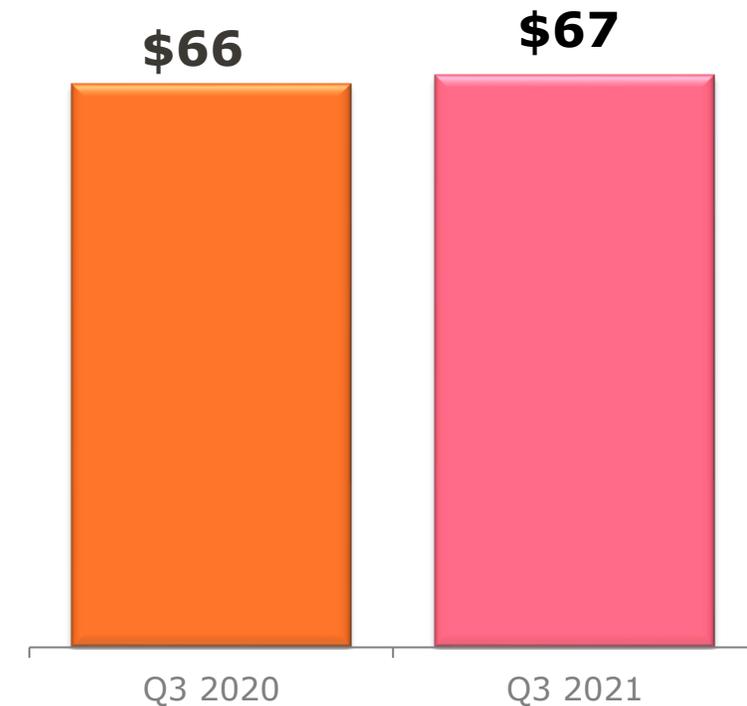
Millions



THIRD QUARTER PAIN MANAGEMENT REVENUE PERFORMANCE

- Pain Management sales of \$67 million, 1% higher versus prior year
- Strong performance across our RF-ablation products, COOLIEF, Game Ready and ambIT; partially offset by ON-Q
- Sales growth hampered from impacts brought on by the Delta variant and a slowdown in electives
- Partially offset by introduction of Pain Block Pro, Channel Partner growth and expansion into the ASC
- Supply constraints and raw material shortages have impacted our ability to meet demand within the Game Ready business

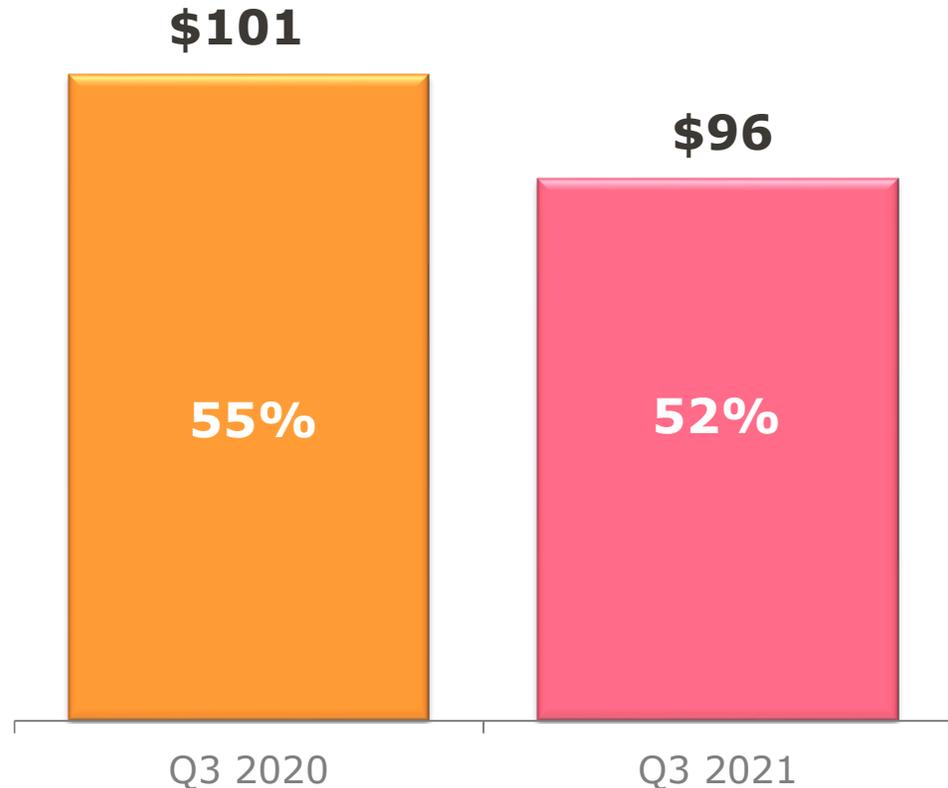
Pain Management Sales
Millions



THIRD QUARTER PERFORMANCE

Adjusted Gross Profit and Margin

Millions

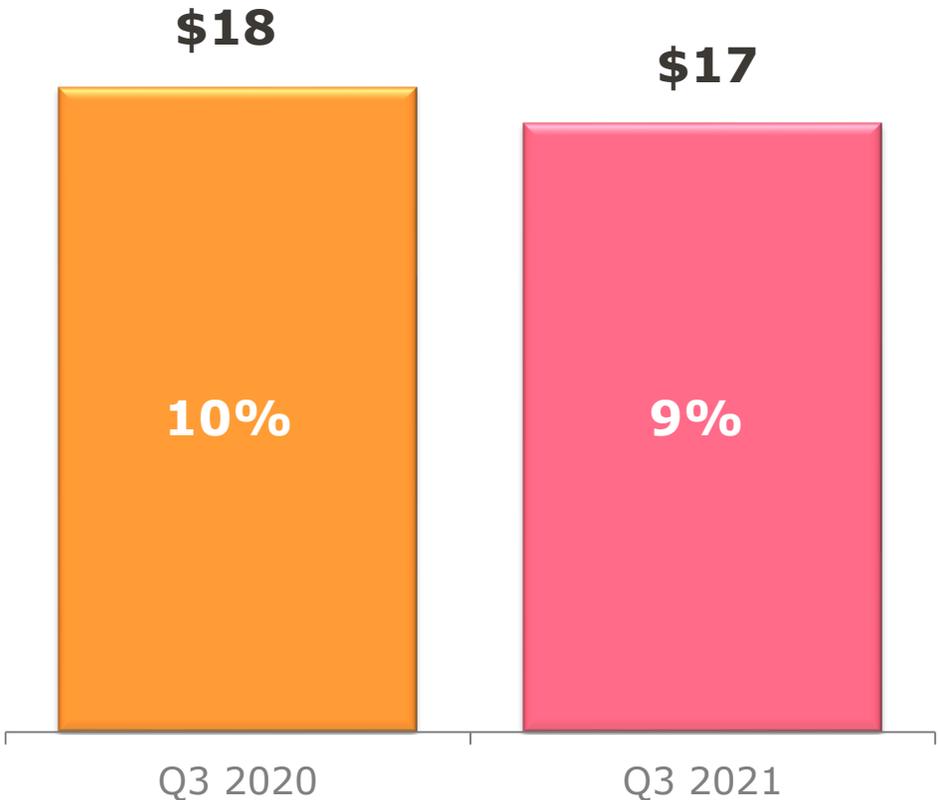


- Adjusted gross margin decreased to 52%
- Progress on gross margin through the quarter and expect improvement to occur in the fourth quarter
- Gross margin impacted by higher transportation costs and unfavorable mix; partially offset by lower write-off expenses
- Ocean freight costs increased due to global capacity constraints
- Unfavorable mix driven by lower sales of Closed Suction Catheters and ON-Q

THIRD QUARTER PERFORMANCE

Adjusted Operating Profit and Margin

Millions



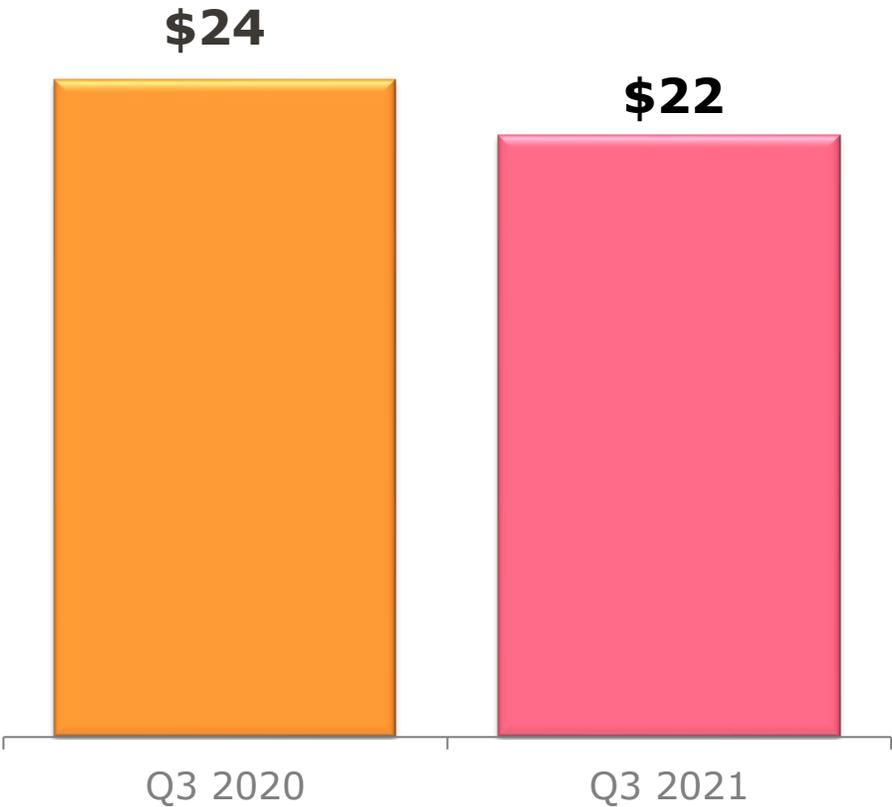
- Lower sales and unfavorable gross margin
- Partially offset by lower spend

THIRD QUARTER PERFORMANCE

Earned \$0.25 of Adjusted Diluted EPS

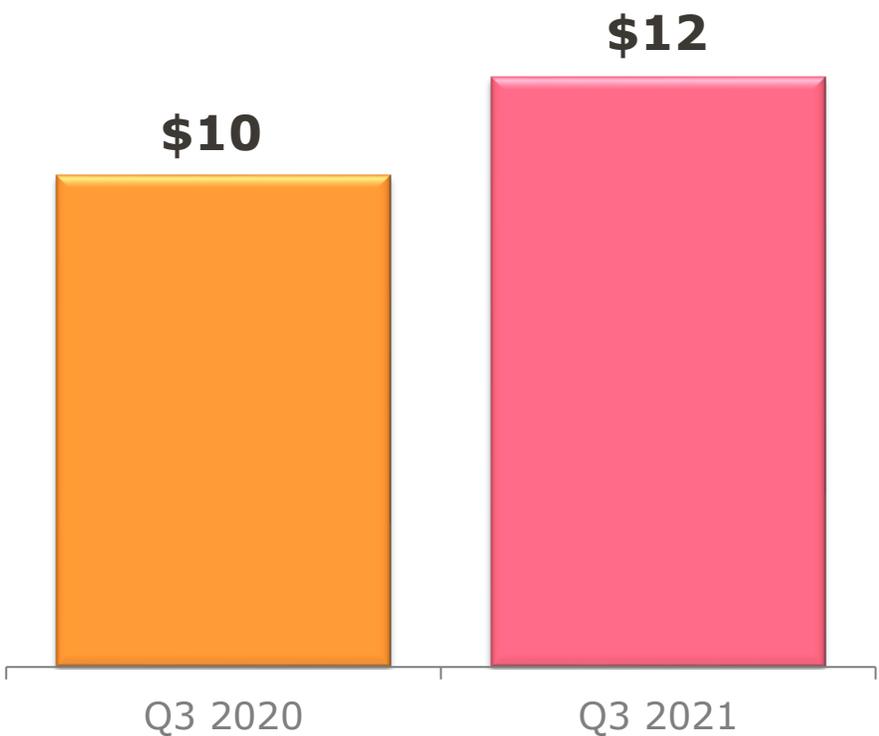
Adjusted EBITDA

Millions



Adjusted Net Income

Millions



BALANCE SHEET AND CASH FLOW

- Healthy and flexible balance sheet, and generating meaningful cash flow remain key go-forward priority
- As of October 31st have \$110 million of cash on hand; \$130 million debt outstanding on revolving credit facility
- Over \$200 million of available capacity for capital allocation priorities

2021 OUTLOOK

- Pandemic retains some unpredictability
- Re-affirming expected net sales increase of 2% to 4% on a constant currency basis versus prior year
- We managed our SG&A/R&D cost structure, but we remain in an uncertain environment with regards to our supply chain
- We maintain our guidance of \$1.10 to \$1.20 adjusted diluted EPS but likelihood we fall out of the low end of the range has increased

ΔVΔNOS: GREAT PROGRESS IN 2021

- Confident in ability to execute strategy
- Will take necessary steps to drive gross and operating margin improvement and deliver significant free cash flow as we look towards 2022



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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
As reported	\$ 90.4	\$ 95.8	\$ 267.4	\$ 284.4
COVID-19 related expenses	—	1.8	—	4.3
2020 Restructuring charges	1.1	—	4.1	—
Post divestiture restructuring charges	2.9	0.9	5.5	2.0
Post divestiture transition charges	—	0.6	3.8	1.7
Acquisition and integration-related charges	0.1	0.6	0.1	0.8
Intangibles amortization	1.7	1.7	5.0	5.0
As adjusted, non-GAAP	\$ 96.2	\$ 101.4	\$ 285.9	\$ 298.2
Gross profit margin, as reported	49.1 %	51.6 %	48.5 %	53.7 %
Gross profit margin, as adjusted	52.3 %	54.6 %	51.9 %	56.3 %

	Operating (Loss) Profit			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
As reported	\$ 3.6	\$ (0.1)	\$ (16.1)	\$ (1.3)
COVID-19 related expenses	—	3.2	0.2	6.9
2020 Restructuring charges	1.7	—	10.4	—
Post divestiture restructuring charges	2.9	0.9	5.5	1.4
Post divestiture transition charges	—	1.1	3.6	8.2
Acquisition and integration-related charges	0.1	5.7	0.7	9.6
EU MDR Compliance	1.2	—	2.4	—
Litigation and legal	3.3	2.4	28.5	5.8
Intangibles amortization	4.2	4.9	12.5	14.6
As adjusted, non-GAAP	\$ 17.0	\$ 18.1	\$ 47.7	\$ 45.2

NON-GAAP RECONCILIATIONS

In millions

	(Loss) Income Before Taxes			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
As reported	\$ 2.9	\$ (4.2)	\$ (18.5)	\$ (13.1)
COVID-19 related expenses	—	3.2	0.2	6.9
2020 Restructuring charges	1.7	—	10.4	—
Post divestiture restructuring charges	2.9	0.9	5.5	1.4
Post divestiture transition charges	—	1.1	3.6	8.2
Acquisition and integration-related charges	0.1	5.7	0.7	9.6
EU MDR Compliance	1.2	—	2.4	—
Litigation and legal	3.3	2.4	28.5	5.8
Intangibles amortization	4.2	4.9	12.5	14.6
As adjusted, non-GAAP	\$ 16.3	\$ 14.0	\$ 45.3	\$ 33.4

	Tax Benefit (Provision)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
As reported	\$ (38.0)	\$ 23.5	\$ 13.7	\$ 33.1
Tax effects of adjusting items	33.4	(3.8)	(23.6)	(11.2)
Effects of the CARES Act and other	0.2	(23.5)	(2.3)	(31.0)
As adjusted non-GAAP	\$ 1.7	\$ 0.6	\$ 2.6	\$ 1.1
Effective tax rate, as reported	1310.3 %	559.5 %	74.1 %	252.7 %
Effective tax rate, as adjusted	27.0 %	27.1 %	26.9 %	27.2 %

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net (Loss) Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
As reported	\$ (35.1)	\$ 19.3	\$ (4.8)	\$ 20.0
COVID-19 related expenses	—	3.2	0.2	6.9
2020 Restructuring charges	1.7	—	10.4	—
Post divestiture restructuring charges	2.9	0.9	5.5	1.4
Post divestiture transition charges	—	1.1	3.6	8.2
Acquisition and integration-related charges	0.1	5.7	0.7	9.6
EU MDR Compliance	1.2	—	2.4	—
Litigation and legal	3.3	2.4	28.5	5.8
Intangibles amortization	4.2	4.9	12.5	14.6
Tax effects of adjusting items	33.4	(3.8)	(23.6)	(11.2)
Tax effects of the CARES Act and other	0.2	(23.5)	(2.3)	(31.0)
As adjusted, non-GAAP	\$ 11.9	\$ 10.2	\$ 33.1	\$ 24.3
Diluted EPS, as reported	\$ (0.73)	\$ 0.40	\$ (0.10)	\$ 0.42
Diluted EPS, as adjusted	\$ 0.25	\$ 0.21	\$ 0.69	\$ 0.51

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	EBITDA			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
EBITDA, as reported	\$ 13.2	\$ 10.6	\$ 12.7	\$ 30.8
COVID-19 related expenses	—	3.2	0.2	6.9
2020 Restructuring charges	1.7	—	10.4	—
Post divestiture restructuring charges	2.9	0.9	5.5	1.4
Post divestiture transition charges	—	1.1	3.6	8.2
Acquisition and integration-related charges	0.1	5.7	0.7	9.6
EU MDR Compliance	1.2	—	2.4	—
Litigation and legal	3.3	2.4	28.5	5.8
Adjusted EBITDA	\$ 22.4	\$ 23.9	\$ 64.0	\$ 62.7

	Free Cash Flow			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash provided by (used in) operating activities	\$ 23.2	\$ 1.1	\$ 35.2	\$ (3.6)
Capital expenditures	(4.8)	(3.0)	(16.3)	(15.1)
Free Cash Flow	\$ 18.4	\$ (1.9)	\$ 18.9	\$ (18.7)

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	<u>2021 Outlook</u>	
	<u>Estimated Range</u>	
Diluted earnings per share (GAAP)	\$	0.02 to \$ 0.26
Intangibles amortization		0.26 to 0.26
Restructuring initiatives		0.20 to 0.16
Litigation and legal		0.52 to 0.46
Other		0.10 to 0.06
Adjusted diluted earnings per share (non-GAAP)	\$	<u>1.10 to \$ 1.20</u>