AVANOS

FOURTH QUARTER 2019 EARNINGS CALL

February 25, 2020

AGENDA AND SPEAKERS

Joe Woody

Chief Executive Officer

Business Update

Overview of 2020 Priorities

Q&A

Michael Greiner

Senior Vice President and Chief Financial Officer

Fourth Quarter Financial Performance

2020 Outlook

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, 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, including potential disruptions resulting from the outbreak of pandemics 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).

PERFORMANCE OVERVIEW

- Fourth quarter results
  - Sales grew 12% to $190 million
  - Earned $0.34 of adjusted diluted earnings per share
- Full-year results
  - Sales grew 7% to $698 million
  - Earned $1.07 of adjusted diluted earnings per share

FOURTH QUARTER PERFORMANCE OVERVIEW

- Chronic Care delivered solid mid-single organic growth
  - Partially recaptured missed third quarter sales
- Pain Management delivered positive organic growth
  - In Acute Pain, ON-Q sales were in line with our expectations
  - In Interventional Pain, COOLIEF delivered continued double-digit growth

U.S. FDA CLEARED FOR MARKETING THE NEW, 80-WATT COOLIEF RADIOFREQUENCY SYSTEM

- New, advanced COOLIEF RF system for neurological lesion procedures
- Easy-to-use system, comprised of:
  - Newly designed RF generator
  - Peristaltic pump
  - Therapy cables
- Enables physicians to perform a full spectrum of procedures
- Demonstrates our commitment to innovation as the Cooled RF authority
- Debut new system at the upcoming American Society of Interventional Pain Physicians annual meeting

SHOWING CLINICAL DIFFERENTIATION FOR COOLIEF

- Reported 12-month results from clinical study comparing COOLIEF to hyaluronic acid
  - Study participants who received COOLIEF experienced clinically relevant pain relief that extended up to 12-months
- 24-month data from a clinical trial that compared COOLIEF to a steroid injection was published in the medical journal *Pain Practice*
  - Data demonstrates that up to 2-years of pain relief is possible following a single COOLIEF treatment

POSITIONING FOR LONG-TERM REVENUE AND EARNINGS GROWTH

- Committed to ensuring Avanos reaches its full potential
- Four priorities for 2020:
  - Build sales momentum across four product categories
  - Integrate recent acquisitions
  - Generate positive free cash flow
  - Realize efficiencies from IT system

PAIN MANAGEMENT UPDATE

- Demand continues for opioid-sparing pain management
- Compelling portfolio of elastomeric and electronic pump solutions
- Leveraging ON-Q brand to win back customers
- Industry-wide pre-filler disruption remains a near-to-mid-term headwind
- Sales through Leiters increased by double-digits, sequentially
- Purchases by existing ON-Q customers through Leiters grew double-digits in 2019

PAIN MANAGEMENT UPDATE

- Continue to invest behind COOLIEF
- Building clinical evidence that differentiates COOLIEF and demonstrates the value to both patients and payors
- Expect publication of several studies comparing COOLIEF to hyaluronic acid in the treatment of OA knee pain
- Reaching new doctor audiences through participation in conferences and symposiums
- Focusing on driving demand and increasing awareness through a social media campaign

CHRONIC CARE UPDATE

- Focused on growing market-leading position
- Represents 60% of the business
- Remains stable pool of growth and significant cash flow
- Launch of Mic-Key SF, our next generation enteral feeding tube, helps maintain our market position
- endOclear acquisition demonstrates commitment to open innovation and provides a strategic addition to our portfolio

INTERNATIONAL – A CATALYST FOR LONG-TERM GROWTH

- Accelerated growth to double-digits in our Asia-Pacific region
- EMEA and Latin America regions fell short of our growth plan
- Confident we can enhance performance in EMEA and Latin America regions, over time with new teams

INTEGRATING RECENT ACQUISITIONS

- Stable IT environment yields more efficient integration and positions Avanos to more quickly realize targeted synergies
- NeoMed and Summit products are performing in line with our expectations
- Near-term focus is on integrating recent acquisitions: Game Ready, NeoMed and Summit
- M&A remains a catalyst for long-term growth
- Continue to assess, identify and evaluate potential opportunities

GENERATING POSITIVE FREE CASH FLOW

- Three factors position Avanos to generate positive free cash flow in 2020
- Recapture working capital inefficiencies
- Return to a normalized level of capital spending
- Decline in unusual and non-recurring costs

GAINING EFFICIENCIES FROM IT ENVIRONMENT

- Stabilizing IT environment to realize planned operational efficiencies and cost savings
- Made significant inroads in challenges faced last quarter
- Using a detailed roadmap to work through inefficiencies in 1H20
- Backorder levels close to normalized levels
- No new issues have surfaced

AVANOS: A PURE-PLAY MEDICAL DEVICE COMPANY

- Took significant and necessary steps to fundamentally transform business
  - Completed separation of the S&IP business
  - Launched new, global IT system
  - Invested to drive future growth
  - Strategically deployed capital for three acquisitions
- Have the right strategy to create shareholder value
- Confident in ability to deliver on 2020 priorities and financial guidance

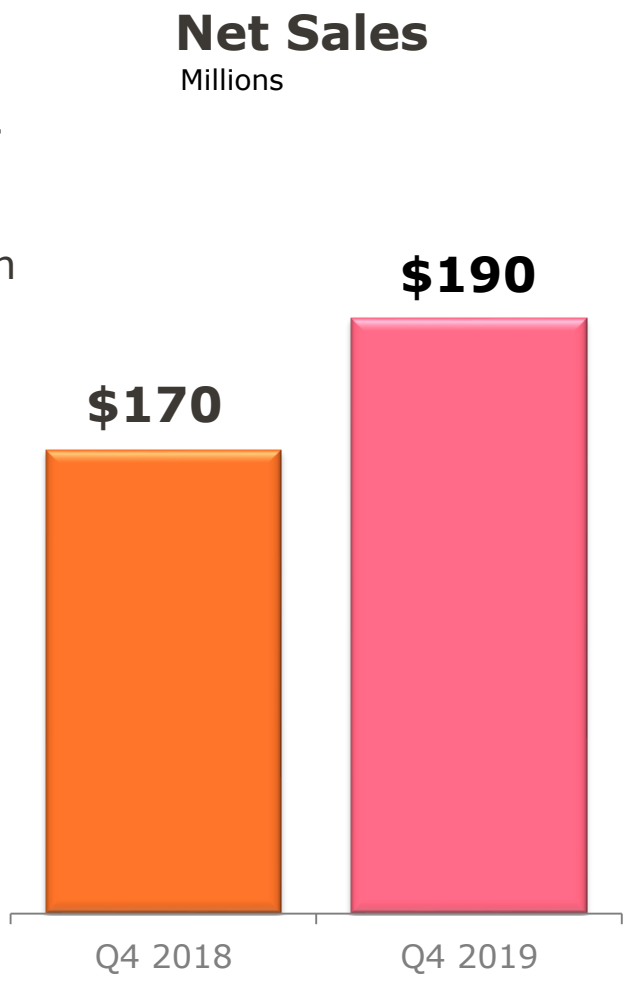
FOURTH QUARTER 2019 RESULTS

Michael Greiner

SVP and Chief Financial Officer

FOURTH QUARTER PERFORMANCE

- Net sales increased 12% to $190 million
  - Organic sales grew 4%
  - Price and sales mix, minimal impact compared to prior year
  - NeoMed and Summit products contributed 7% of growth
- Chronic Care grew mid-single digits
  - Backorders close to normalized levels
- Pain Management delivered positive organic sales growth
  - Seeing improving signs in ON-Q
  - Sales through Leiters increased double-digits, sequentially
  - In Interventional Pain, COOLIEF grew by double-digits



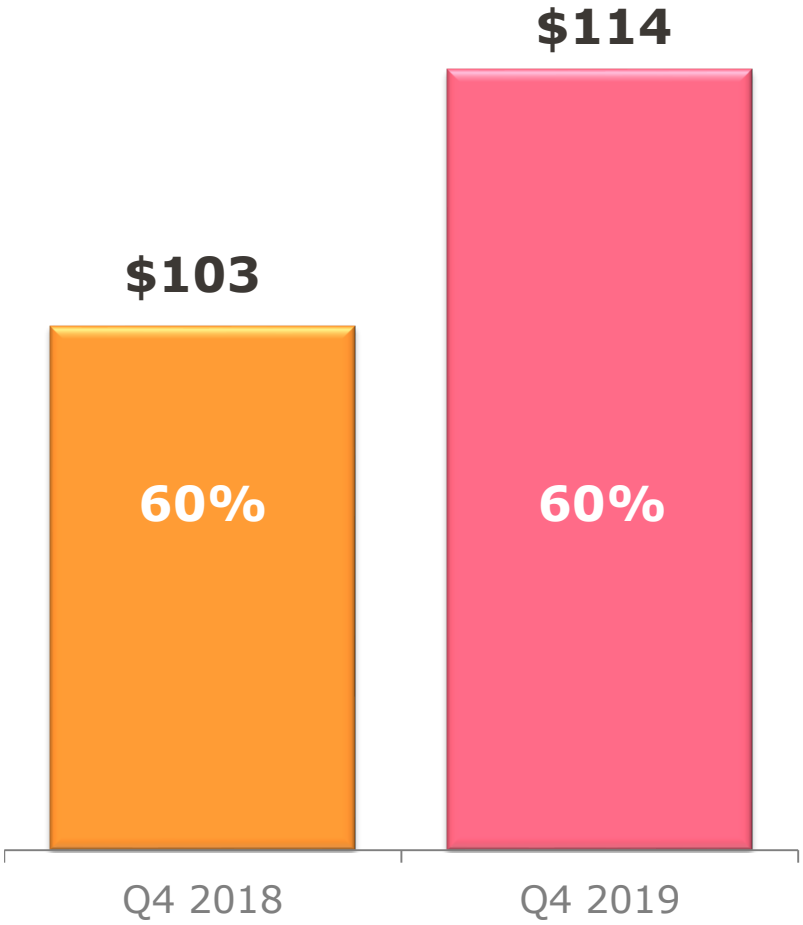
FOURTH QUARTER PERFORMANCE

- International sales increased by mid-single digits
  - Resolved some headwinds stemming from IT implementation
  - Performance driven by continued strong execution in our Asia-Pacific region
  - Sales in our Asia-Pacific region increased double-digits for second consecutive quarter
- International remains a key growth catalyst
- Confident we can deliver consistent mid-single digit growth in 2020

FOURTH QUARTER PERFORMANCE

Adjusted Gross Profit and Margin

Millions

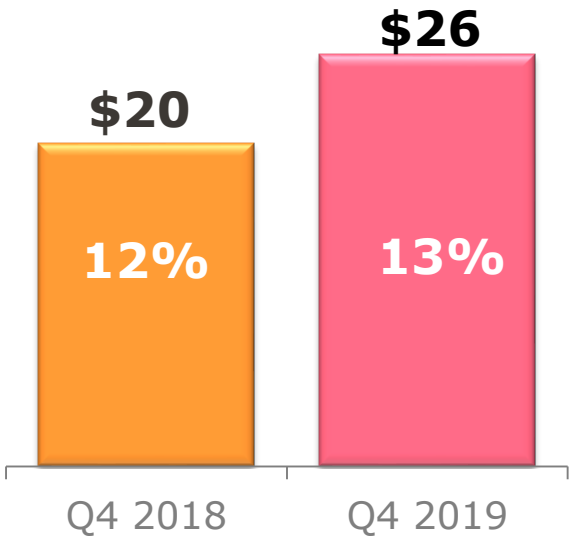


- Sequentially, adjusted gross margin expanded 260 bps driven by recovery from the third quarter's IT implementation
- Continue to see opportunities to expand gross margin, overtime through cost savings and mix shift

FOURTH QUARTER PERFORMANCE

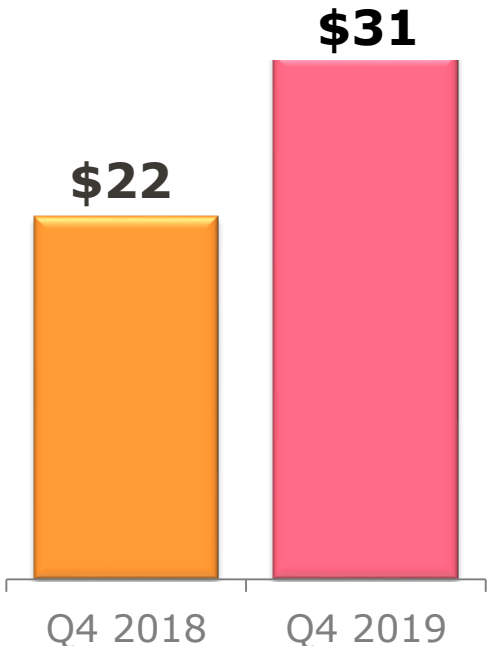
Adjusted Operating Profit and Margin

Millions



Adjusted EBITDA

Millions



Adjusted Net Income

Millions

- Incremental step-up in adjusted EBITDA compared to adjusted operating profit reflects depreciation of new IT system
- In 2020, we expect EBITDA growth will accelerate faster than EPS growth

FULL-YEAR 2019 PERFORMANCE

- Net sales totaled $698 million, a 7% increase
  - Game Ready, NeoMed and Summit bolstered growth by 7%
  - 2% organic sales volume growth, was partially offset by 1% unfavorable price and selling mix
  - Performance driven by strong demand in Interventional Pain from COOLIEF and growth in Chronic Care
- Adjusted gross margin was 60% compared to 61%, a year ago
  - 2019 adjusted gross margin reflects net impact of cost savings programs, offset by the impact of last quarter's IT implementation and recent acquisitions with a lower margin profile
- Adjusted operating profit totaled $76 million
- Ended the year with $205 million of cash on hand
- Significant available capital for M&A and other investments
- Free cash flow improved sequentially

STABILIZING GLOBAL IT SYSTEM

- Made significant advances
- Prioritizing front-end impacts
- Resolve challenges in 1H20 and focus on providing:
  - Greater visibility into the business
  - Greater efficiency by eliminating manual intervention
  - Improved working capital
- Stabilized system will position us to:
  - Drive savings and deliver operational and working capital efficiencies
  - Integrate recent and future acquisitions
- Confident we'll enter 2H20 with challenges mostly behind us

2020 OUTLOOK AND KEY PLANNING ASSUMPTIONS

- Expect net sales to grow 5% to 7% on a constant currency basis
- Expect to earn full-year adjusted diluted EPS of $1.00 to $1.20
- Expect no impact from foreign currency translation
- Expect adjusted effective tax rate to range between 25% and 27%

REMAIN CONFIDENT IN OUR STRATEGY

- Focused on helping Avanos realize its full potential
- Confident we're focused on the right drivers to create long-term shareholder value
- Leverage IT system to identify additional performance drivers

AVANOS

The best at getting patients back to the things that matter

APPENDICIES

2020 Outlook Summary

Non-GAAP Reconciliations

2020 OUTLOOK SUMMARY

	February 25
Adjusted diluted EPS	$1.00 to $1.20
Medical Device net sales, constant currency and including NeoMed and Summit Medical	5% to 7%
FX translation impact on net sales	Even
Adjusted effective tax rate	25% to 27%

NON-GAAP RECONCILIATIONS

In millions

	Gross Profit			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	**109.7**	100.4	**402.2**	390.9
Gross profit margin, as reported	***57.8 %***	*59.1 %*	***57.7 %***	*59.9 %*
Post divestiture restructuring and IT charges	**0.7**	0.7	**2.9**	2.4
Post divestiture transition charges	**1.4**	-	**5.9**	-
Acquisition and integration-related charges	**0.1**	-	**0.1**	0.4
Intangibles amortization	**1.9**	1.6	**5.6**	4.6
As adjusted non-GAAP	**$ 113.8**	$ 102.7	**$ 416.7**	$ 398.3
Gross profit margin, as adjusted	***60.0 %***	*60.4 %*	***59.7 %***	*61.1 %*

	Operating Profit			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	**(3.2)**	(8.3)	**(55.7)**	0.5
Post divestiture restructuring and IT charges	**4.0**	3.5	**20.2**	15.7
Post divestiture transition charges	**13.2**	10.2	**56.3**	9.2
Acquisition and integration-related charges	**5.0**	0.2	**13.1**	1.3
Litigation and legal	**1.1**	9.0	**22.5**	15.6
Intangibles amortization	**5.4**	5.4	**20.0**	20.0
As adjusted non-GAAP	**$ 25.5**	$ 20.0	**$ 76.4**	$ 62.3

NON-GAAP RECONCILIATIONS

In millions

	(Loss) Income Before Taxes			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	**(6.5)**	(9.4)	**(64.0)**	(18.1)
Post divestiture restructuring and IT charges	**4.0**	3.5	**20.2**	15.7
Post divestiture transition charnges	**13.2**	10.2	**56.3**	9.2
Term Loan B retirement loss	**-**	-	**-**	4.2
Acquisition and integration-related charges	**5.0**	0.2	**13.1**	1.3
Litigation and legal	**1.1**	9.0	**22.5**	15.6
Intangibles amortization	**5.4**	5.4	**20.0**	20.0
As adjusted non-GAAP	**$ 22.2**	$ 18.9	**$ 68.1**	$ 47.9

	Tax Benefit (Provision)			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	**0.4**	6.7	**18.1**	9.6
Effective tax rate, as reported	***6.2 %***	*71.3 %*	***28.3 %***	*53.0 %*
Tax effects of adjusting items	**(6.3)**	(6.0)	**(35.4)**	(15.1)
Statutory tax reform	-	(3.9)	-	(3.9)
As adjusted non-GAAP	**$ (5.9)**	$ (3.2)	**$ (17.3)**	$ (9.4)
Effective tax rate, as adjusted	***26.6 %***	*16.9 %*	***25.4 %***	*19.6 %*

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	(Loss) Income from Continuing Operations			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	**$ (6.1)**	$ (2.7)	**$ (45.9)**	$ (8.5)
Diluted EPS, as reported	**$ (0.13)**	$ 0.09	**$ (0.96)**	$ (0.69)
Post divestiture restructuring and IT charges	**4.0**	3.5	**20.2**	15.7
Post divestiture transition charges	**13.2**	10.2	**56.3**	9.2
Term Loan B retirement loss	**-**	-	**-**	4.2
Acquisition and integration-related charges	**5.0**	0.2	**13.1**	1.3
Litigation and legal	**1.1**	9.0	**22.5**	15.6
Intangibles amortization	**5.4**	5.4	**20.0**	20.0
Statutory tax reform	**-**	(3.9)	**-**	(3.9)
Tax effects	**(6.3)**	(6.0)	**(35.4)**	(15.1)
As adjusted non-GAAP	**$ 16.3**	$ 15.7	**$ 50.8**	$ 38.5
Diluted EPS, as adjusted	**$ 0.34**	$ 0.33	**$ 1.07**	$ 0.82

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Income (Loss) from Discontinued Operations, net of tax			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	$ -	$ 0.5	$ -	$ 66.0
Diluted EPS, as reported	$ -	$ 0.01	$ -	$ 1.40
Divestiture-related charges	-	-	-	12.9
Gain on Divestiture	-	(1.8)	-	(26.3)
As adjusted non-GAAP	$ -	$ (1.3)	$ -	$ 52.6
Diluted EPS, as adjusted	$ -	$ (0.03)	$ -	$ 1.11

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net (Loss) Income			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
As reported	**$ (6.1)**	$ (2.2)	**$ (45.9)**	$ 57.5
Diluted EPS, as reported	**$ (0.13)**	$ (0.05)	**$ (0.96)**	$ 1.22
Post divestiture restructuring and IT charges	**4.0**	3.5	**20.2**	15.7
Post divestiture transition charges	**13.2**	10.2	**56.3**	9.2
Divestiture-related charges	**-**	-	**-**	12.9
Gain on Divestiture	**-**	(1.8)	**-**	(26.3)
Term Loan B retirement loss	**-**	-	**-**	4.2
Acquisition and integration-related charges	**5.0**	0.2	**13.1**	1.3
Litigation and legal	**1.1**	9.0	**22.5**	15.6
Intangibles amortization	**5.4**	5.4	**20.0**	20.0
Statutory tax reform	**-**	(3.9)	**-**	(3.9)
Tax effects	**(6.3)**	(6.0)	**(35.4)**	(15.1)
As adjusted non-GAAP	**$ 16.3**	$ 14.4	**$ 50.8**	$ 91.1
Diluted EPS, as adjusted	**$ 0.34**	$ 0.30	**$ 1.07**	$ 1.93

NON-GAAP RECONCILIATIONS

In millions

	EBITDA			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
EBITDA, as reported	**$ 8.1**	$ (1.2)	**$ (18.8)**	$ 175.1
Post divestiture restructuring and IT charges	**4.0**	3.5	**20.2**	15.7
Post divestiture transition charges	**13.2**	10.2	**56.3**	9.2
Divestiture-related charges	**-**	-	**-**	17.4
Gain on Divestiture	**-**	-	**-**	(89.9)
Acquisition and integration-related charges	**5.0**	0.2	**13.1**	1.3
Litigation and legal	**1.1**	9.0	**22.5**	15.6
Adjusted EBITDA	**$ 31.4**	$ 21.7	**$ 93.3**	$ 144.4

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Cash provided by operating activities	**$ (2.9)**	$ (7.4)	**$ (74.5)**	$ (145.6)
Capital expenditures	**(8.1)**	(17.7)	**(50.6)**	(49.1)
Free cash flow	**$ (11.0)**	$ (25.1)	**$ (125.1)**	$ (194.7)