



3rd Quarter 2018 Earnings

October 31, 2018



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Included with the press release financial tables are reconciliations of the differences between the historical non-GAAP financial measures contained in this presentation, which exclude acquisition-related and exit and realignment charges, and their most directly comparable GAAP financial measures.

A photograph of two surgeons in an operating room. They are wearing blue scrubs, blue bouffant caps, and blue surgical masks. The surgeon on the left is looking down at a patient's arm, while the surgeon on the right is holding a surgical instrument. The background shows a large surgical light and various pieces of medical equipment. The text is overlaid on the left side of the image.

Cody Phipps
Chairman, President & CEO

Robert Snead
Interim CFO, GVP Global Solutions

Highlights

- **Revenue** growth of 5.6% for 3Q18 with contributions from Byram and Halyard
- **Global Solutions**
 - Efficiency improvement and operating performance are top priorities
 - Byram continues to exceed our expectations
- **Global Products**
 - Halyard revenue growth on track
 - Higher production costs anticipated for 4Q18 and 2019
- **Outlook** – adjusted net income per diluted share in a range of \$1.20 to \$1.25

3Q18 Summary – GAAP Reported Results

(S in millions, except per share amounts)

	<u>3Q18</u>	<u>3Q17</u>	<u>% change</u> <u>Fav/(Unfav)</u>
Net revenue	\$2,464.9	\$2,334.0	5.6%
Gross margin	352.6	301.9	16.8%
Operating expenses	323.5	263.0	-23.0%
Operating Income	\$21.4	\$29.7	-28.0%
Net income per share	(\$0.01)	\$0.18	nm

- Revenue growth driven by Byram and Halyard revenue contributions
- Gross margin negatively affected by \$6.6 million increase in LIFO provision
- Operating expenses reflect higher warehouse and delivery expenses partially offset by lower SaaS¹ implementation expenses

1. Software as a Service

3Q18 Summary – Adjusted Results

(S in millions, except per share amounts)

	<u>3Q18</u>	<u>3Q17</u>	<u>% change</u> <u>Fav/(Unfav)</u>
Net revenue	\$2,464.9	\$2,334.0	5.6%
Gross margin	352.6	301.9	16.8%
Operating expenses	323.5	263.0	-23.0%
Operating Income	\$48.8	\$48.5	0.7%
Net income per share	\$0.32	\$0.40	-20.0%

- Revenue growth for the quarter of 5.6% includes contributions of \$61 million from Byram and \$240 million from Halyard (before elimination of \$52 million intercompany sales)
- Quarterly results include LIFO provision of \$4.7 million, a \$6.6 million increase in LIFO expense (\$0.08 per share) vs prior year

1. See GAAP/Non-GAAP reconciliation slide on page 10.

Global Solutions Results



<i>(S in millions)</i>	<u>Q318</u>	<u>Q317</u>	<u>% change</u>
Net revenue	\$2,243.8	\$2,290.8	-2%
Operating Income	24.2	37.6	-36%

- Byram, acquired in August 2017, contributed \$61 million to quarterly revenue growth
- Results negatively affected by:
 - Lower than expected growth from new and existing customers
 - Continuing margin pressure
 - Increase in the LIFO provision
 - Warehouse inefficiencies in certain facilities
 - Increased expenses incurred to develop new customer solutions

Global Products Results



<i>(S in millions)</i>	<u>Q318</u>	<u>Q317</u>	<u>% change</u>
Net revenue	\$349.9	\$124.5	nm
Operating Income	27.6	10.5	nm

- Results reflect full quarter of Halyard contribution, \$240 million in revenues
- Operating income increase driven primarily by Halyard contributions
- Higher production costs expected in 4Q18 and 2019

Balance Sheet/Capital Deployment

- Dividend of \$0.075 per share declared by the board for the 4th quarter of 2018, representing a \$0.185 per share reduction
- Cash balance at September 30, 2018 was \$125 million
- Year-to-date operating cash flow of \$123 million
- Long-term debt of \$1.64 billion at September 30, 2018, more than \$60 million in debt reduction since close of Halyard S&IP acquisition

GAAP/Non-GAAP Reconciliation



<i>(dollars in thousands, except per share data)</i>	Three Months Ended September 30,	
	2018	2017
Operating income (loss), as reported (GAAP)	\$ 21,357	\$ 29,671
Acquisition-related intangible amortization	10,366	5,071
Acquisition-related and exit and realignment charges	7,727	9,299
Fair value adjustments related to purchase accounting	9,029	-
Other	348	4,441
Operating income, adjusted (non-GAAP) (Adjusted Operating Income)	\$ 48,827	\$ 48,482
Net income (loss) per diluted common share, as reported (GAAP)	\$ (0.01)	\$ 0.18
Acquisition-related intangible amortization, per diluted common share	0.14	0.06
Acquisition-related and exit and realignment charges, per diluted common share	0.10	0.11
Fair value adjustments related to purchase accounting	0.11	-
Other, per diluted common share	-	0.05
Tax adjustments	(0.02)	-
Net income per diluted common share, adjusted (non-GAAP) (Adjusted EPS)	\$ 0.32	\$ 0.40