



HALYARD

**FOURTH QUARTER
2016 EARNINGS CALL**

February 27, 2017

FOURTH QUARTER EARNINGS CALL AGENDA



Fourth Quarter Update

Robert Abernathy

Chairman and Chief Executive Officer



Fourth Quarter Results and 2017 Outlook

Steve Voskuil

Chief Financial Officer

CONFERENCE CALL REMINDERS

FORWARD-LOOKING INFORMATION

Certain matters in this presentation and conference call, including our 2017 outlook, expectations and planning assumptions, and any estimates, projections, and statements relating to our business plans or objectives, 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, 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 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.halyardhealth.com/investors).



FOURTH QUARTER UPDATE

ROBERT ABERNATHY

CHAIRMAN AND CHIEF EXECUTIVE OFFICER



HALYARD

FULL-YEAR 2016 UPDATE

- Strong year with many achievements:
 - Delivered results ahead of our financial plan
 - Integrated our first acquisition
 - Increased R&D investment
 - Generated \$160 million of free cash flow
- Accomplished our 2016 priorities
- Advanced our transformation into a leading Medical Devices company

2016 PRIORITIES

Deliver plan

Fuel growth pipeline

FOURTH QUARTER AND FULL-YEAR RESULTS

- Fourth quarter adjusted diluted EPS of \$0.50
- Full-year adjusted diluted EPS of \$1.97
- Fourth quarter net sales totaled \$410 million
- Net sales for 2016 were \$1.6 billion
- Medical Devices and S&IP produced sales in line with, or above, expectations



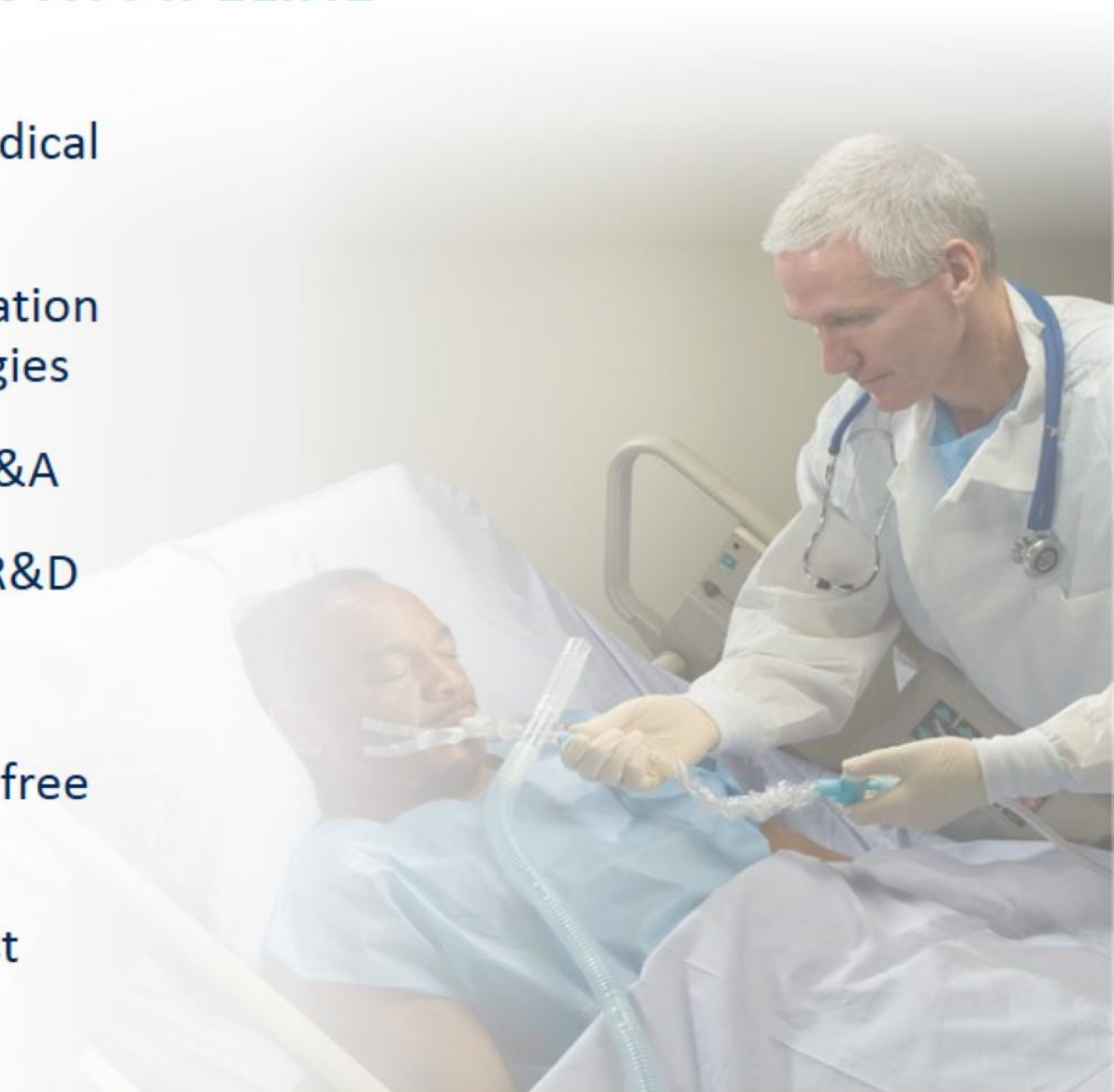
DELIVERING OUR PLAN

- Medical Devices sales in line with expectations
 - Sales increased 15% for the quarter; 11% for the year
 - Strengthened by CORPAK and demand across all categories
- S&IP sales in line with expectations
 - Sales down 2% for the year
 - Declined 4% for the quarter



FUELING OUR GROWTH PIPELINE

- CORPAK augmented Medical Devices portfolio
- Ahead of plan on integration and realization of synergies
- Continuing to pursue M&A
- Invested \$41 million in R&D
- Launched 11 products
- Generated \$160 million free cash flow
- Well-positioned to invest for more growth



2017 PRIORITIES

Deliver plan

Fuel growth pipeline

DELIVER OUR 2017 PRIORITIES

- Medical Devices net sales expected to grow 7% to 9%
- S&IP net sales expected to be flat to down 2%
- 2017 total net sales to be flat to up 2%
- Continued investment in innovation
 - Launch more than dozen products
 - Accelerate Medical Devices growth
 - Maintain leading S&IP market positions
- Execute M&A to round out Medical Devices portfolio and enhance performance
- Deliver adjusted diluted EPS of \$1.70 to \$2.00
 - Incorporates anticipated commodity inflation of \$10M to \$20M

HALYARD TRANSFORMATION



OUR PORTFOLIO TRANSFORMATION



- Shifting to Medical Devices cornerstone of strategy
 - Medical Devices now represent 38% of portfolio
 - Generated 64% of operating profit
- Advancing shift to high margin, faster growing Medical Devices through:
 - Continued R&D investment
 - Increased market adoption of non-opioid pain therapies
 - M&A



OUR COMPANY TRANSFORMATION



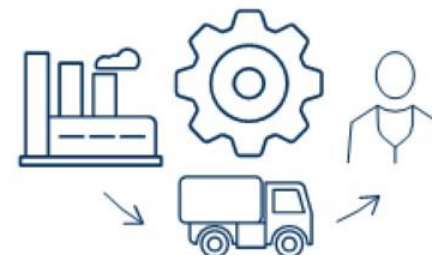
DRIVING IT EFFICIENCIES

- Laying the foundation for systems consolidation



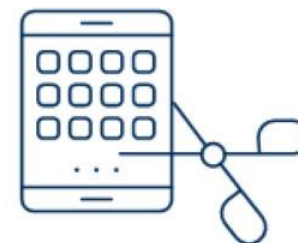
ENHANCING SUPPLY CHAIN EFFICIENCIES

- Helping deliver an improvement in working capital



REMAINING FOCUSED ON LONG-RANGE TAX PLANNING

- 2016 adjusted effective tax rate of 31.9%



OUR CULTURE TRANSFORMATION



- Driving thought leadership across the healthcare landscape
- Emphasizing value-based innovation
- Empowering team to make bold decisions

VISION

FOR THE FUTURE
OF HALYARD



SUMMARY

- Pleased with 2016 accomplishments
- Carrying momentum into 2017
- Well positioned to continue transforming into a leading Medical Devices company





FOURTH QUARTER 2016 RESULTS

STEVE VOSKUIL
CHIEF FINANCIAL OFFICER



HALYARD

FOURTH QUARTER CONSOLIDATED PERFORMANCE

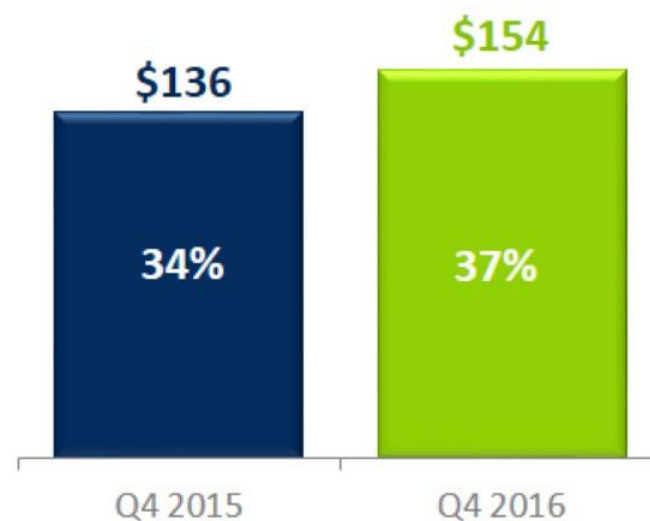
In millions

Total Net Sales



- Net sales increased 2%
- CORPAK contributed 3% of the growth

Adjusted Gross Profit



- Gross margin expansion driven by portfolio shift, manufacturing savings, and favorable currency exchange rates
- Benefits more than offset lower selling prices in S&IP

FOURTH QUARTER CONSOLIDATED PERFORMANCE

In millions

Adjusted Operating Profit



Adjusted operating profit excludes:

- \$10 million post-spin related charges
- \$3 million for acquisition-related charges
- \$5 million for litigation matters
- \$6 million intangible amortization expense

FOURTH QUARTER SUMMARY

- Adjusted EBITDA of \$51 million
- Reported adjusted diluted EPS of \$0.50
- Performance strengthened by:
 - 25.7% adjusted tax rate
 - Favorable exchange rates, primarily the Mexican peso
 - Higher S&IP volumes
- Partially offsetting these benefits:
 - Higher-than-expected S&IP price loss
 - Timing of planned R&D and SG&A expense

FOURTH QUARTER MEDICAL DEVICES

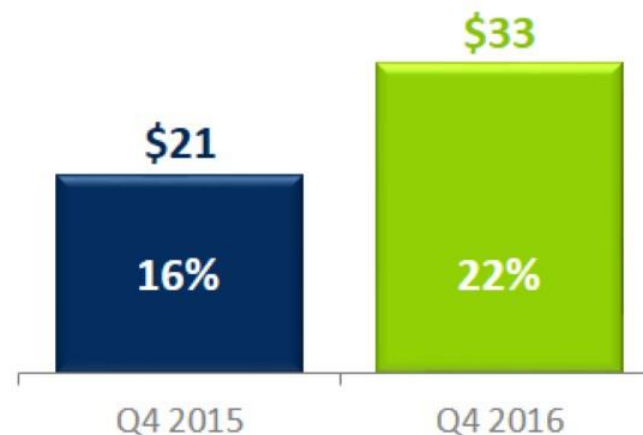
In millions

Net Sales



- Delivered another solid quarter of 15% growth
- CORPAK contributed 10%

Operating Profit



- Operating profit increased 57% driven by:
- Higher volumes, partially offset by higher planned selling expense and R&D investment

FOURTH QUARTER SURGICAL & INFECTION PREVENTION

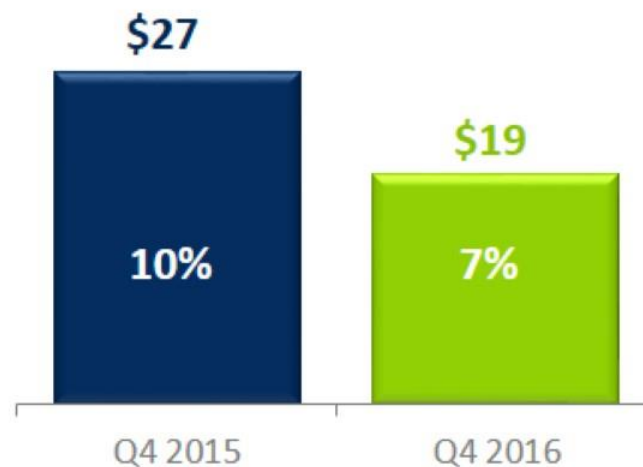
In millions

Net Sales



- Volumes flat; volume growth in Exam Gloves offset by lower volume in Surgical Drapes and Gowns
- Lower selling prices primarily in Exam Gloves and Sterilization

Operating Profit

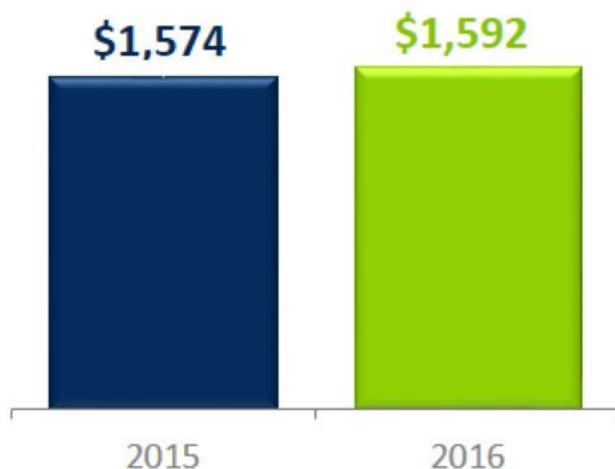


- Lower selling prices
- Offset by manufacturing savings and favorable exchange rates

2016 CONSOLIDATED PERFORMANCE

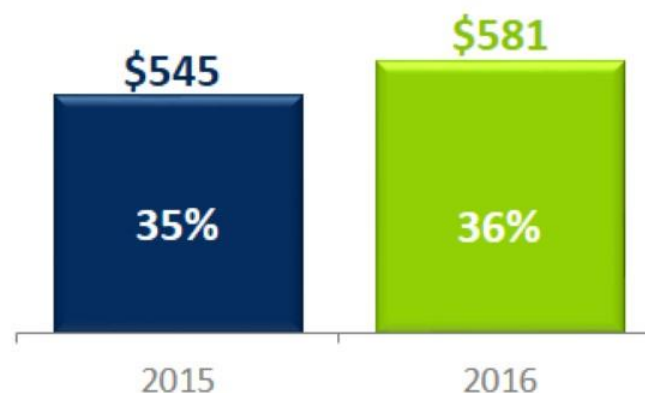
In millions

Total Net Sales



- Net sale increased 1%
- CORPAK contributed 2% of the growth

Adjusted Gross Profit



- Gross margin expansion driven by shift to Medical Devices, cost savings and favorable currency exchange rates
- Benefits more than offset lower S&IP selling prices

2016 CONSOLIDATED PERFORMANCE

In millions

Adjusted Operating Profit



Adjusted EBITDA



- Higher gross margin offset by higher planned R&D to support growth opportunities

2016 MEDICAL DEVICES

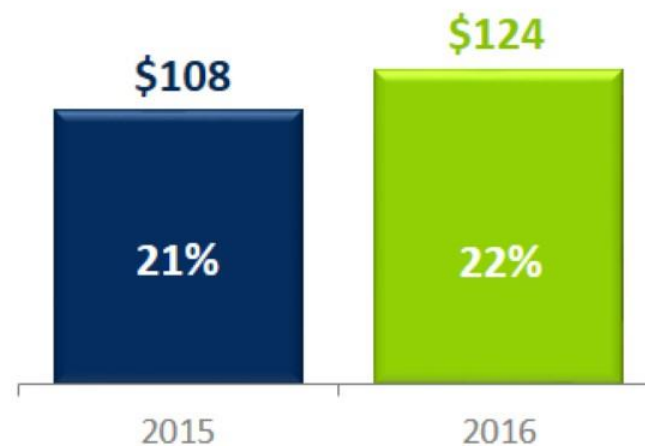
In millions

Net Sales



- Net sales increased 11%
- Four percent organic growth across all categories
- CORPAK contributed 7% of the growth

Operating Profit



- Achieved positive operating leverage
- Higher volumes more than offset investments to support growth opportunities

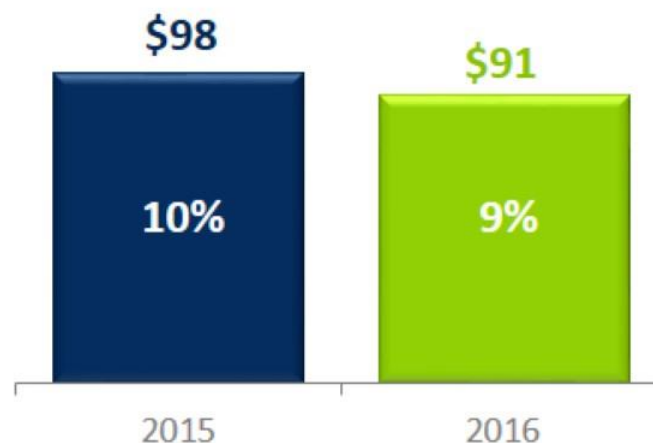
2016 SURGICAL & INFECTION PREVENTION

In millions

Net Sales



Operating Profit



- Volume up 2% from demand for Exam Gloves
- Lower selling prices of 3.5%
- Price loss concentrated in Exam Gloves and Sterilization

- Operating profit impacted by lower selling prices
- Partially offset by favorable currency exchange rates and manufacturing cost savings

BALANCE SHEET AND CASH FLOW

- Ended the year with \$114 million of cash
- Generated strong free cash flow
 - \$38 million for the quarter
 - \$160 million for 2016
- Significantly decreased inventories
- Repaid remaining debt used to acquire CORPAK

2017 OUTLOOK SUMMARY

	2017 Planning Assumptions
Adjusted diluted EPS	\$1.70 to \$2.00
Net sales	0% to 2%
Medical Devices <i>Includes 3% growth attributed to CORPAK</i>	7% to 9%
S&IP, excluding sales to Kimberly-Clark <i>Contemplates 2% to 4% lower selling prices</i>	0% to -2%
S&IP sales to Kimberly-Clark	\$40M to \$45M
Corporate sales	\$10M to \$15M
FX translation impact on net sales	0% to -2%
Commodity inflation	\$10M to \$20M
Research & Development	\$40M to \$45M
Adjusted effective tax rate	32% to 34%

SUMMARY

- Delivered adjusted diluted EPS ahead of guidance
- Strong balance sheet
- Committed to invest in growth opportunities
- Advancing transformation into leading Medical Devices company





HALYARD

Q&A



APPENDICES



NON-GAAP RECONCILIATIONS

In millions

	Gross Profit				Operating Profit			
	Three Months Ended		Year Ended		Three Months Ended		Year Ended	
	December 31,		December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
As reported	\$ 142.7	\$ 133.6	\$ 557.9	\$ 531.6	\$ 15.8	\$ 20.5	\$ 87.4	\$ (377.7)
Spin-related transition charges	9.2	1.7	13.9	9.9	10.3	7.5	21.0	53.9
Manufacturing strategic changes	—	—	—	0.3	—	—	—	(12.0)
Acquisition-related charges	0.7	—	5.6	—	3.0	—	17.6	—
Goodwill impairment	—	—	—	—	—	(1.5)	—	474.0
Litigation and legal	—	—	—	—	5.0	7.8	20.1	16.9
Intangibles amortization	0.9	0.9	3.2	3.2	5.7	6.6	22.2	25.8
As adjusted non-GAAP	<u>\$ 153.5</u>	<u>\$ 136.2</u>	<u>\$ 580.6</u>	<u>\$ 545.0</u>	<u>\$ 39.8</u>	<u>\$ 40.9</u>	<u>\$ 168.3</u>	<u>\$ 180.9</u>

NON-GAAP RECONCILIATIONS

In millions

	Income Before Taxes				Income Tax Provision			
	Three Months Ended		Year Ended		Three Months Ended		Year Ended	
	December 31,		December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
As reported	\$ 7.9	\$ 12.5	\$ 55.3	\$ (410.5)	\$ 2.1	\$ 2.0	\$ (15.5)	\$ (15.8)
<i>Effective tax rate, as reported</i>					-26.6%	-16.0%	28.0%	-3.8%
Spin-related transition charges	10.3	7.5	21.0	53.9	(2.9)	(3.4)	(6.9)	(21.1)
Manufacturing strategic changes	—	—	—	(12.0)	—	—	—	3.6
Acquisition-related charges	3.0	—	17.6	—	(1.2)	—	(6.7)	—
Goodwill impairment	—	(1.5)	—	474.0	—	—	—	—
Litigation and legal	5.0	7.8	20.1	16.9	(1.8)	(2.8)	(7.5)	(6.3)
Intangibles amortization	5.7	6.6	22.2	25.8	(2.0)	(2.2)	(8.3)	(9.6)
Regulatory tax changes	—	—	—	—	(2.4)	—	1.4	—
As adjusted non-GAAP	\$ 31.9	\$ 32.9	\$ 136.2	\$ 148.1	\$ (8.2)	\$ (6.4)	\$ (43.5)	\$ (49.2)
<i>Effective tax rate, as adjusted</i>					25.7%	19.5%	31.9%	33.2%

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Net Income			
	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
As reported	\$ 10.0	\$ 14.5	\$ 39.8	\$ (426.3)
Diluted EPS, as reported	\$ 0.21	\$ 0.31	\$ 0.85	\$ (9.15)
Spin-related transition charges	7.4	4.1	14.1	32.8
Manufacturing strategic changes	—	—	—	(8.4)
Acquisition-related charges	1.8	—	10.9	—
Goodwill impairment	—	(1.5)	—	474.0
Litigation and legal	3.2	5.0	12.6	10.6
Intangibles amortization	3.7	4.4	13.9	16.2
Regulatory tax changes	(2.4)	—	1.4	—
As adjusted non-GAAP	\$ 23.7	\$ 26.5	\$ 92.7	\$ 98.9
Diluted EPS, as adjusted	\$ 0.50	\$ 0.57	\$ 1.97	\$ 2.11

NON-GAAP RECONCILIATIONS

In millions

	EBITDA			
	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
Net income (loss)	\$ 10.0	\$ 14.5	\$ 39.8	\$ (426.3)
Interest expense, net	7.9	8.0	32.1	32.8
Income tax provision	(2.1)	(2.0)	15.5	15.8
Depreciation and amortization	16.8	16.8	65.2	65.4
EBITDA, as reported	32.6	37.3	152.6	(312.3)
Spin-related transition charges	10.3	7.5	21.0	53.1
Manufacturing strategic changes	—	—	—	(12.0)
Acquisition-related charges	2.6	—	17.0	—
Goodwill impairment	—	(1.5)	—	474.0
Litigation and legal	5.0	7.8	20.1	16.9
Adjusted EBITDA	<u>\$ 50.5</u>	<u>\$ 51.1</u>	<u>\$ 210.7</u>	<u>\$ 219.7</u>

NON-GAAP RECONCILIATIONS

In millions, except per share amounts

	Free Cash Flow			
	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Cash Provided by Operating Activities	\$ 44.9	\$ 23.0	\$ 188.8	\$ 97.6
Capital expenditures	(7.4)	(6.0)	(29.1)	(70.4)
Free Cash Flow	<u>\$ 37.5</u>	<u>\$ 17.0</u>	<u>\$ 159.7</u>	<u>\$ 27.2</u>

	2017 Outlook			
	Estimated Range			
Adjusted diluted earnings per share	\$ 1.70	to	\$ 2.00	
Amortization	(0.28)	to	(0.28)	
Spin-related transition expenses	(0.05)	to	(0.03)	
Acquisition related charges	(0.09)	to	(0.07)	
Other	(0.27)	to	(0.17)	
Diluted earnings per share (GAAP)	<u>\$ 1.01</u>	to	<u>\$ 1.45</u>	