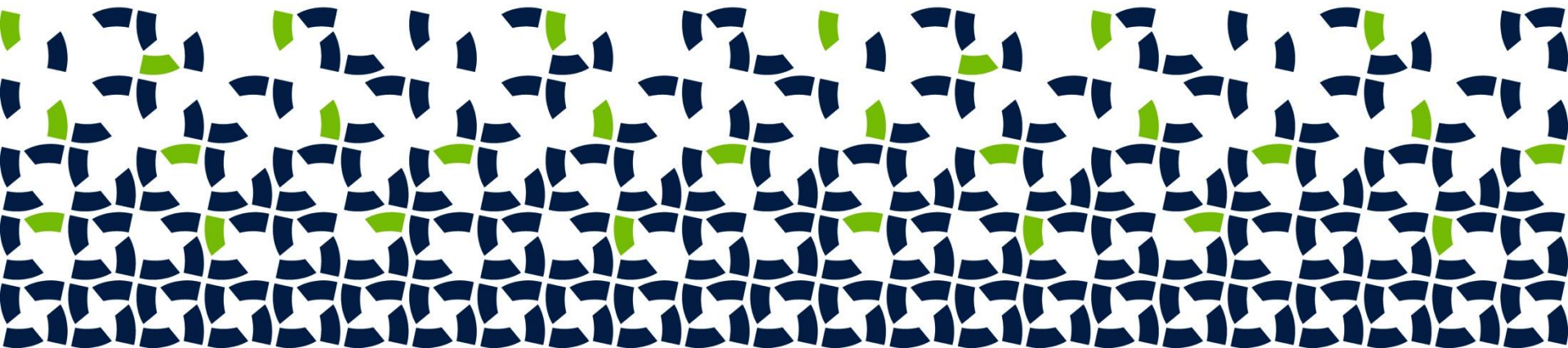
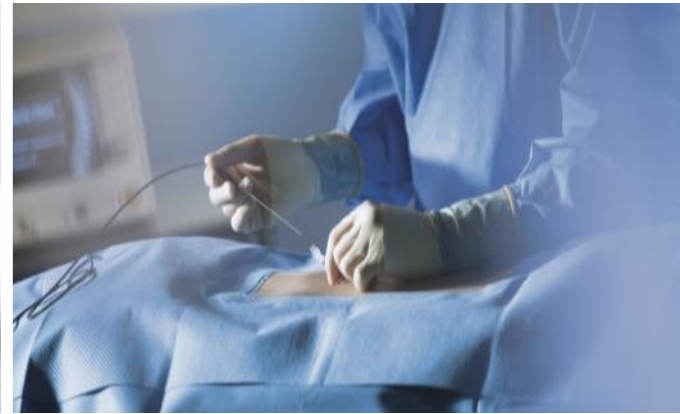




# THIRD QUARTER 2016 EARNINGS CALL

November 2, 2016



# THIRD QUARTER EARNINGS CALL AGENDA



## Third Quarter Update

– Robert Abernathy, Chairman  
and Chief Executive Officer



## Third Quarter Results and 2016 Outlook

– Steve Voskuil, Chief Financial Officer

# CONFERENCE CALL REMINDERS

## FORWARD-LOOKING INFORMATION

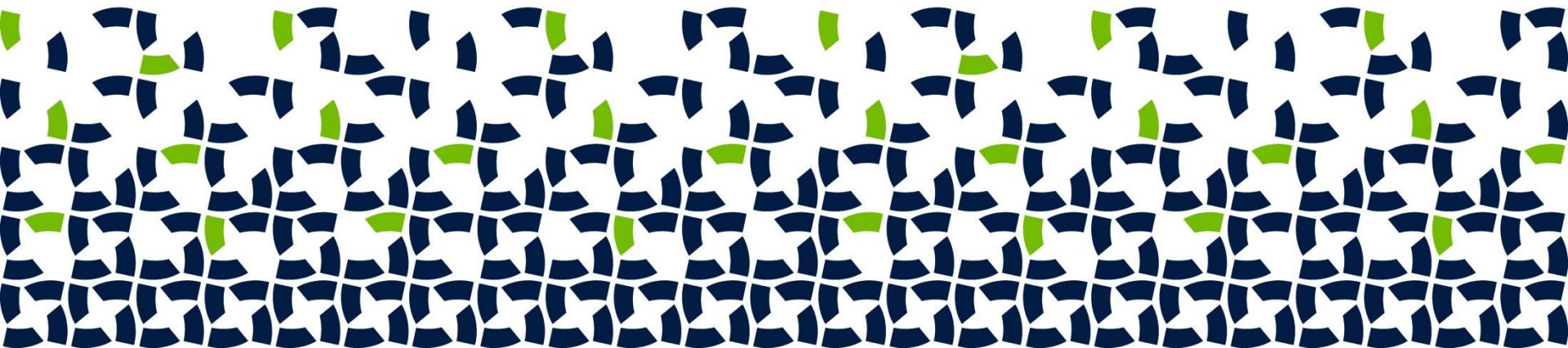
Certain matters in this presentation and conference call, including our 2016 outlook, expectations and planning assumptions, and any estimates, projections, and statements relating to our business plans or objectives, constitute forward-looking statements and are based upon management's expectations 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](http://www.halyardhealth.com/investors)).

**THIRD QUARTER UPDATE**  
**ROBERT ABERNATHY, CHAIRMAN AND**  
**CHIEF EXECUTIVE OFFICER**



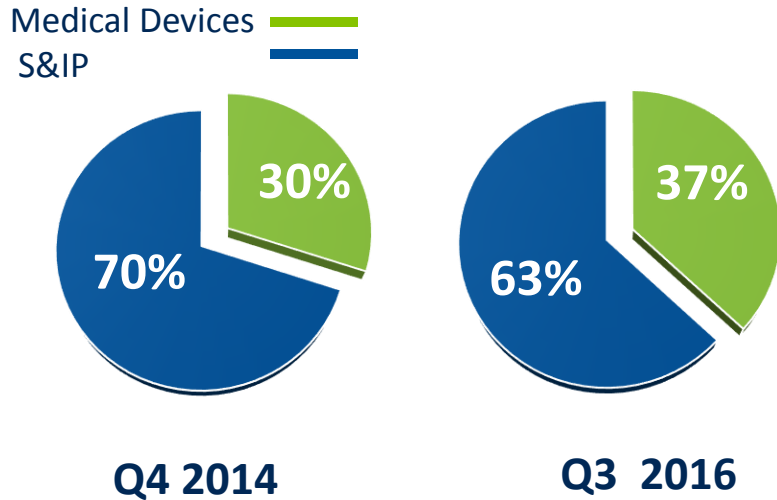
# SECOND ANNIVERSARY

- Established Halyard and introduced our long-term strategy:
  - Transform Halyard into leading medical devices company
- Made meaningful advances against goals

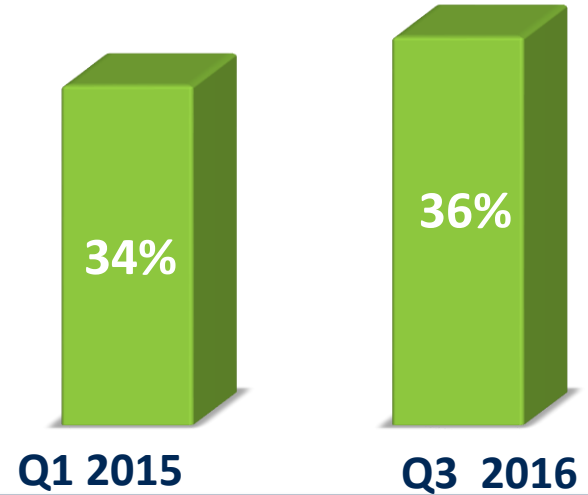


# SECOND ANNIVERSARY ACHIEVEMENTS

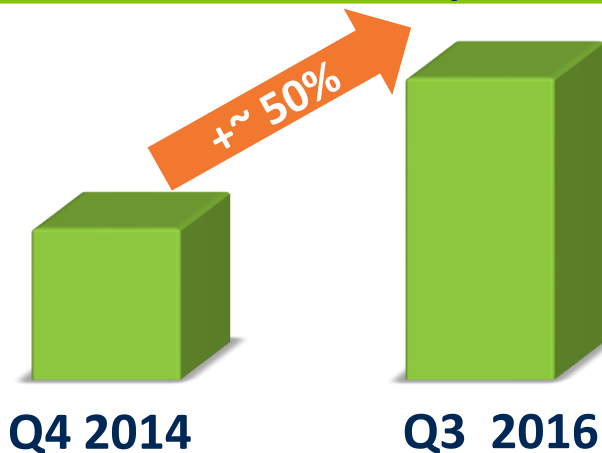
## Sales Mix



## Adjusted Gross Margin

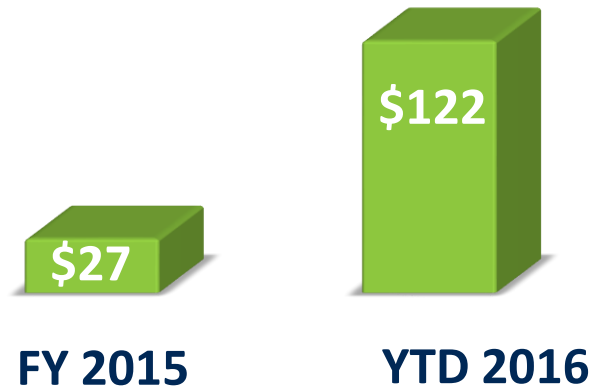


## Medical Devices Research & Development



## Free Cash Flow

\$ in Millions





# EXECUTING OUR TWO PRIORITIES



Delivering our 2016 plan

Fueling our growth pipeline

# FUELING GROWTH PIPELINE

## CORPAK Acquisition

- CORPAK results better than expected
  - Accelerated synergies in our headquarters and sales teams
  - Effective integration
- Largely driven by CORPAK, raising full-year adjusted diluted EPS to \$1.87 to \$1.97
- Leveraging Digestive Health portfolio
  - Deepen relationships with existing customers
  - Create new sales opportunities
  - Drive growth in new geographies





# FUELING GROWTH PIPELINE

## Research and Development

- Differentiate portfolio through innovation
  - On track to deliver new product launches
- Launched ON-Q Trac, a mobile app
  - Enables healthcare providers access to real-time patient generated data
  - Improves patient engagement, outcomes and quality of care



# FUELING PIPELINE GROWTH

- Fund growth investments with our strong balance sheet and ability to generate cash
- Capital deployment
  - Repay CORPAK related borrowing
  - Build capacity to fund additional investments



# DELIVERING OUR 2016 PLAN

- Delivered another solid quarter
- Reported adjusted diluted EPS of \$0.48
- Net sales of \$398 million
  - Up 2 percent over last year



# DELIVERING OUR 2016 PLAN

- Medical Devices sales increased 15 percent
  - Bolstered by CORPAK
  - Organic growth at the mid-point of guidance
- S&IP sales declined 4 percent, constant currency
  - 3 percent price erosion in line with expectations
- Recently launched S&IP products resonating well with healthcare professionals



# SUMMARY

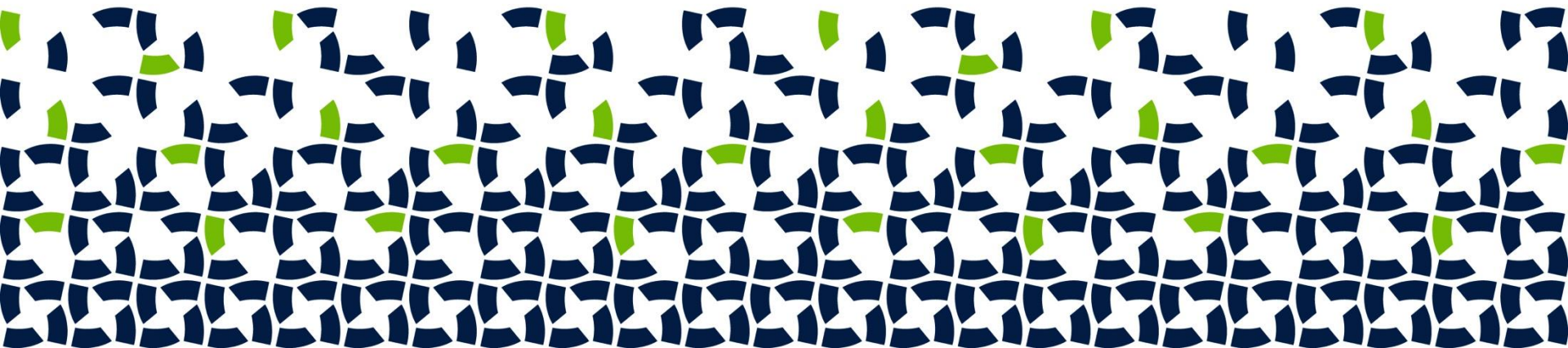
- Encouraged by progress year-to-date
- Advanced our transformation
- Three solid quarters
- Poised to achieve 2016 objectives





# THIRD QUARTER 2016 RESULTS

STEVE VOSKUIL, CHIEF FINANCIAL OFFICER



# THIRD QUARTER SUMMARY

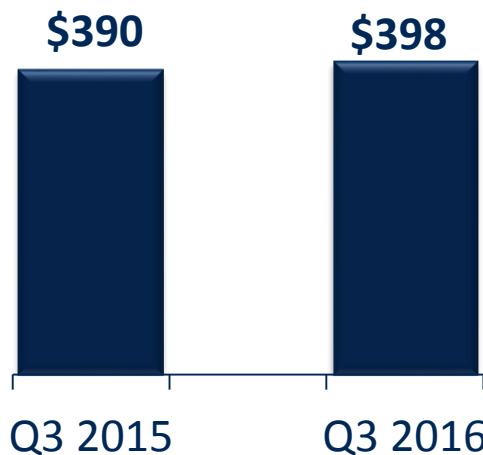
- Exceeded adjusted diluted EPS expectations
- On track to meet planning assumptions



# THIRD QUARTER CONSOLIDATED PERFORMANCE

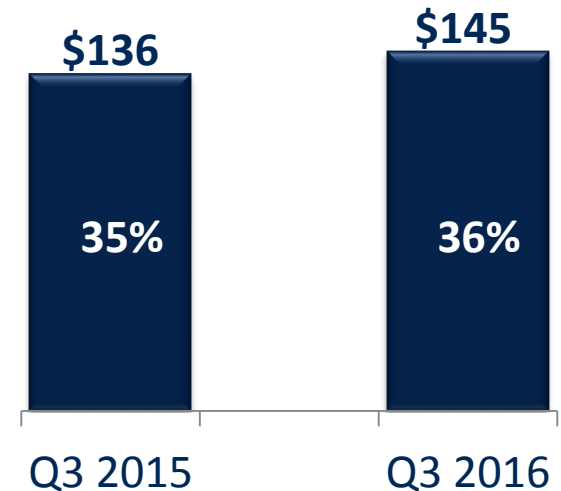
In millions

## Total Net Sales



Change in NS	Q3
Total Change	2%
Volume	-%
Price/Mix	-2%
Currency	1%
Other	3%

## Adjusted Gross Profit

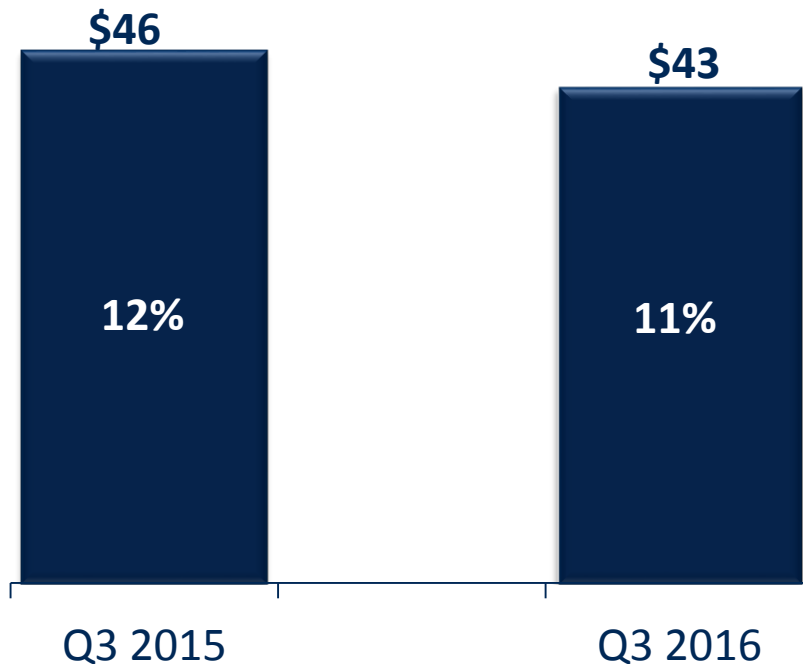


- Sales increased 2 percent
- CORPAK contributed 3 percent
- Gross margin driven by portfolio shift to Medical Devices and favorable currency exchange rates
- Benefits partially offset by lower S&IP selling prices

# THIRD QUARTER CONSOLIDATED PERFORMANCE

In millions

## Adjusted Operating Profit



- Adjusted operating profit excludes:
  - \$7 million post-spin related charges
  - \$4 million acquisition-related charges
  - \$5 million for litigation matters
  - \$6 million intangible amortization expense

# THIRD QUARTER SUMMARY

- Adjusted EBITDA of \$53 million
- Reported adjusted diluted EPS of \$0.48
- Performance strengthened by:
  - Accelerated CORPAK synergies
    - Anticipate slightly smaller year-over-year CORPAK earnings increase in 2017
  - Shift in timing of some SG&A expenses to the fourth quarter





# THIRD QUARTER MEDICAL DEVICES

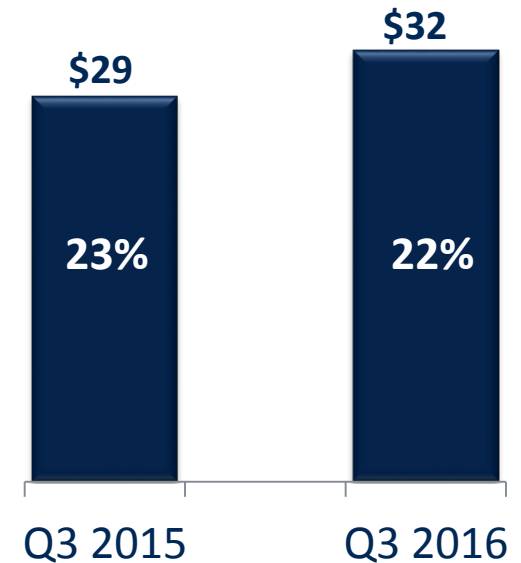
In millions

## Devices Net Sales



Change in NS	Q3
Total Change	15%
Volume	4%
Price/Mix	-%
Currency	1%
Other	10%

## Operating Profit

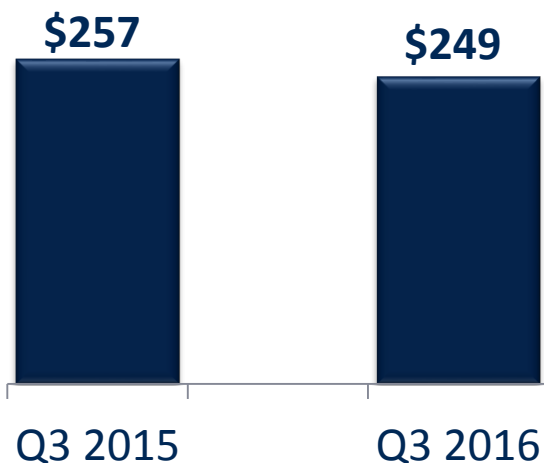


- Delivered another solid quarter
- Four percent organic growth and 11 percent from CORPAK
- Higher operating profit driven by higher sales volumes across all categories; partially offset by higher selling and R&D spending to support growth

# THIRD QUARTER S&IP

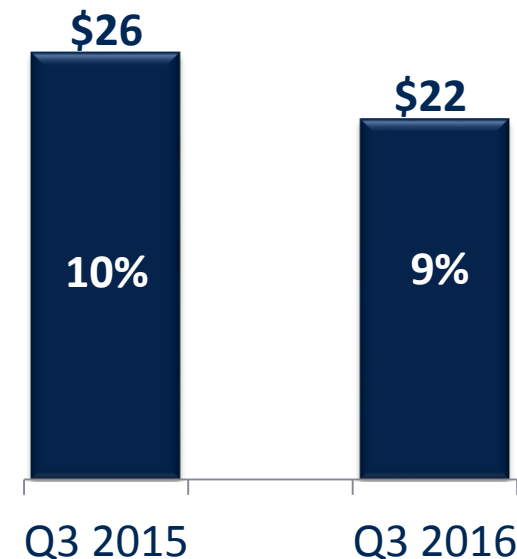
In millions

## S&IP Net Sales



Change in NS	Q3
Total Change	-3%
Volume	-2%
Price/Mix	-3%
Currency	1%
Other	1%

## Operating Profit



- Exam Glove volume growth driven by our focus and higher than anticipated sales to Kimberly-Clark
- Surgical Drapes and Gowns volume lower, as anticipated, due to previously communicated account losses
- Lower selling prices, in line with expectations
- Lower operating profit; lower selling prices partially offset by favorable currency exchange rates and manufacturing cost savings

# BALANCE SHEET AND CASH FLOW

- Ended the quarter with \$87 million of cash
- Generated free cash flow of \$42 million for the quarter and \$122 million YTD
- Rebuilding acquisition capacity faster than anticipated



# 2016 Outlook

	February	August	November
<b>Adjusted diluted EPS</b>	\$1.50 to \$1.70 <sup>1</sup>	\$1.70 to \$1.90	<b>\$1.87 to \$1.97</b>
Net sales, excluding CORPAK	-2 to -5 percent	-2 to -4 percent	-2 to -4 percent
Medical Devices, excluding CORPAK	3 to 5 percent	3 to 5 percent	3 to 5 percent
S&IP, excluding sales to Kimberly-Clark	-3 to -5 percent	-2 to -4 percent	-2 to -4 percent
<b>S&amp;IP sales to Kimberly-Clark</b>	\$40 to \$45 million	\$40 to \$45 million	<b>\$50 to \$55 million</b>
Corporate sales	\$5 to \$15 million	\$5 to \$15 million	\$5 to \$15 million
FX translation impact on net sales	-0.5 to -1.5 percent	Flat	Flat
Commodity inflation	\$5 to \$10 million	Flat	Flat
Research & Development	\$35 to \$40 million	\$35 to \$40 million	\$35 to \$40 million
Spin-related transitional costs	\$10 to \$15 million	\$10 to \$15 million	\$10 to \$15 million
Adjusted effective tax rate	33 to 35 percent	33 to 35 percent	33 to 35 percent

<sup>1</sup> April 11, 2016 updated guidance from \$1.45 to \$1.65 to **\$1.50 to \$1.70** for CORPAK acquisition

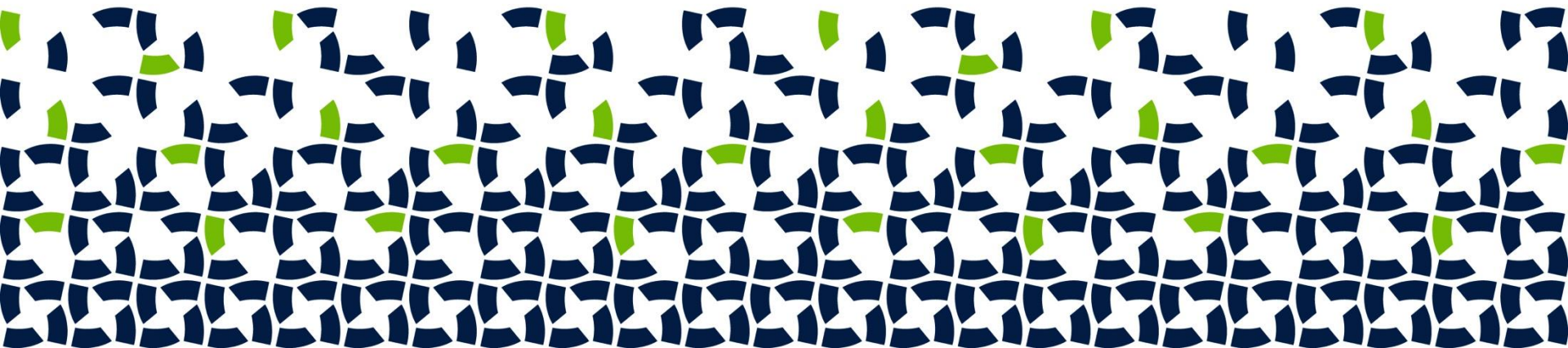
Note: Guidance updates denoted in bold green text.

# THIRD QUARTER SUMMARY

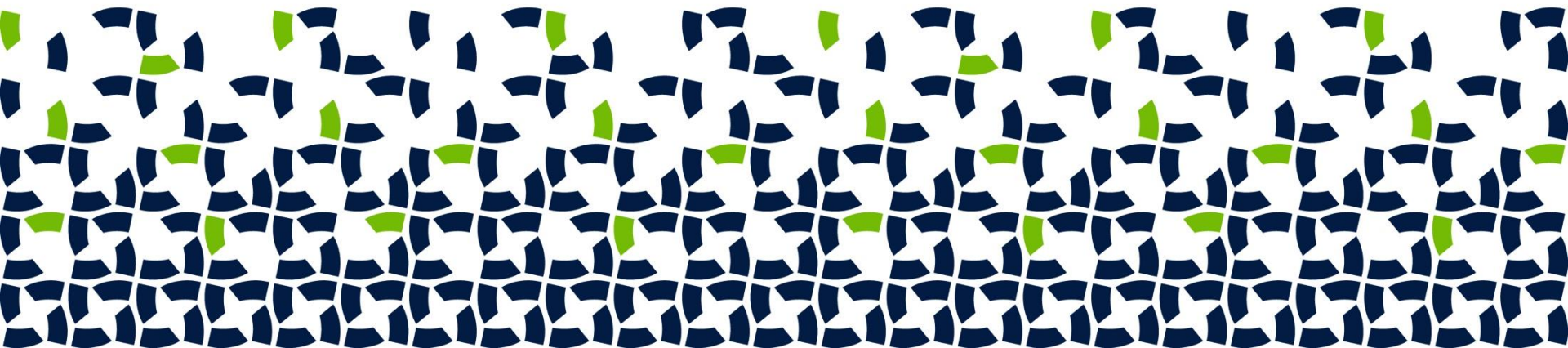
- We have made progress on transformation objectives
- Strong balance sheet
- Well-positioned to advance our strategic plan



# Q&A



# APPENDICES



# NON-GAAP RECONCILIATIONS

## In millions

	Gross Profit				Operating Profit			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
As reported	\$ 138.0	\$ 131.0	\$ 415.2	\$ 398.0	\$ 20.9	\$ (461.2)	\$ 71.6	\$ (398.2)
Spin-related transition charges	4.5	4.1	4.6	8.2	6.7	16.0	10.6	46.4
Manufacturing strategic changes	—	—	—	0.3	—	—	—	(12.0)
Acquisition-related charges	1.5	—	5.0	—	4.4	—	14.7	—
Goodwill impairment	—	—	—	—	—	475.5	—	475.5
Litigation and legal	—	—	—	—	5.1	9.1	15.1	9.1
Intangibles amortization	0.8	0.7	2.3	2.3	5.6	6.5	16.5	19.2
As adjusted non-GAAP	\$ 144.8	\$ 135.8	\$ 427.1	\$ 408.8	\$ 42.7	\$ 45.9	\$ 128.5	\$ 140.0

# NON-GAAP RECONCILIATIONS

## In millions

	Income Before Taxes				Income Tax Provision			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
As reported	\$ 12.7	\$ (469.0)	\$ 47.4	\$ (423.0)	\$ (3.6)	\$ (1.5)	\$ (17.6)	\$ (17.8)
<i>Effective tax rate, as reported</i>					28.3%	-0.3%	37.1%	-4.2%
Spin-related transition charges	6.7	16.0	10.6	46.4	(2.3)	(6.3)	(3.9)	(17.7)
Manufacturing strategic changes	—	—	—	(12.0)	—	—	—	3.6
Acquisition-related charges	4.4	—	14.7	—	(1.7)	—	(5.6)	—
Goodwill impairment	—	475.5	—	475.5	—	—	—	—
Litigation and legal	5.1	9.1	15.1	9.1	(1.9)	(3.5)	(5.7)	(3.5)
Intangibles amortization	5.6	6.5	16.5	19.2	(2.3)	(2.4)	(6.2)	(7.4)
Thailand statutory tax rate change	—	—	—	—	—	—	3.7	—
As adjusted non-GAAP	\$ 34.5	\$ 38.1	\$ 104.3	\$ 115.2	\$ (11.8)	\$ (13.7)	\$ (35.3)	\$ (42.8)
<i>Effective tax rate, as adjusted</i>					34.2%	36.0%	33.8%	37.2%

# NON-GAAP RECONCILIATIONS

## In millions

	Net Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
As reported	\$ 9.1	\$ (470.5)	\$ 29.8	\$ (440.8)
Diluted EPS, as reported	\$ 0.19	\$ (10.10)	\$ 0.63	\$ (9.46)
Spin-related transition charges	4.4	9.7	6.7	28.7
Manufacturing strategic changes	—	—	—	(8.4)
Acquisition-related charges	2.7	—	9.1	—
Goodwill impairment	—	475.5	—	475.5
Litigation and legal	3.2	5.6	9.4	5.6
Intangibles amortization	3.3	4.1	10.3	11.8
Thailand statutory tax rate change	—	—	3.7	—
As adjusted non-GAAP	\$ 22.7	\$ 24.4	\$ 69.0	\$ 72.4
Diluted EPS, as adjusted	\$ 0.48	\$ 0.52	\$ 1.47	\$ 1.55

# NON-GAAP RECONCILIATIONS

## In millions

	EBITDA			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 9.1	\$ (470.5)	\$ 29.8	\$ (440.8)
Interest expense, net	8.2	7.8	24.2	24.8
Income tax provision	3.6	1.5	17.6	17.8
Depreciation and amortization	16.6	16.3	48.4	48.6
EBITDA, as reported	37.5	(444.9)	120.0	(349.6)
Spin-related transition charges	6.7	16.0	10.6	45.6
Manufacturing strategic changes	—	—	—	(12.0)
Acquisition-related charges	4.0	—	14.4	—
Goodwill impairment	—	475.5	—	475.5
Litigation and legal	5.1	9.1	15.1	9.1
Adjusted EBITDA	\$ 53.3	\$ 55.7	\$ 160.1	\$ 168.6



# NON-GAAP RECONCILIATIONS

In millions

	Gross Profit	
	Three Months Ended September 30, 2016	Three Months Ended March 31, 2015
As reported	\$ 138.0	\$ 132.1
Spin-related transition charges	4.5	2.0
Manufacturing strategic changes	—	0.3
Acquisition-related charges	1.5	—
Goodwill impairment	—	—
Litigation and legal	—	—
Intangibles amortization	0.8	0.8
As adjusted non-GAAP	\$ 144.8	\$ 135.2

# NON-GAAP RECONCILIATIONS

## In millions

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	Twelve Months Ended December 31, 2015
Cash Provided by Operating Activities	\$ 49.9	\$ 143.9	\$ 97.6
Capital expenditures	(7.6)	(21.7)	(70.4)
<b>Free Cash Flow</b>	<b>\$ 42.3</b>	<b>\$ 122.2</b>	<b>\$ 27.2</b>

	2016 Outlook Estimated Range	
Adjusted diluted earnings per share	\$ 1.87	to \$ 1.97
Amortization	(0.30)	to (0.30)
Spin-related transition expenses	(0.20)	to (0.16)
Acquisition related charges	(0.23)	to (0.18)
Other	(0.31)	to (0.28)
Diluted earnings per share (GAAP)	<u>\$ 0.83</u>	<u>to \$ 1.05</u>