
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 001-36440

AVANOS

AVANOS MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

46-4987888

(State or other jurisdiction of incorporation)

(I.R.S. Employer Identification No.)

5405 Windward Parkway

Suite 100 South

Alpharetta, Georgia 30004

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (844) 428-2667

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Trading Symbol

Name of exchange on which registered

Common Stock - \$0.01 Par Value

AVNS

New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 24, 2024, there were 45,948,994 shares of the registrant's common stock outstanding.

Table of Contents

PART I – FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Income Statements for the Three and Six Months Ended June 30, 2024 and 2023</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2024 and 2023</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2024 and December 31, 2023</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Three and Six Months Ended June 30, 2024 and 2023</u>	<u>7</u>
<u>Unaudited Condensed Consolidated Cash Flow Statements for the Six Months Ended June 30, 2024 and 2023</u>	<u>8</u>
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4. Controls and Procedures</u>	<u>29</u>

PART II – OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>30</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>30</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>30</u>
<u>Item 5. Other Information</u>	<u>30</u>
<u>Item 6. Exhibits</u>	<u>31</u>
<u>Signatures</u>	<u>32</u>

Information Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are included throughout this Form 10-Q, including in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "may," "believe," "will," "expect," "intend," "predict," "potential," "project," "estimate," "anticipate," "plan," or "continue" and similar expressions, among others. The matters discussed in these forward-looking statements are based on the current plans and expectations of our management and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. These factors include, but are not limited to:

- general economic conditions, particularly in the United States;
- weakening of economic conditions that could adversely affect the level of demand for our products;
- pricing pressures generally, including cost-containment measures that could adversely affect the price of or demand for our products;
- fluctuations in global equity and fixed-income markets;
- our ability to successfully execute on or achieve the expected benefits of our restructuring initiative;
- supply chain issues and inflationary pressures;
- a resurgence of the ongoing COVID-19 pandemic;
- the competitive environment;
- the loss of current customers or the inability to obtain new customers;
- cybersecurity threats, including breaches of or cyberattacks on our information systems;
- the ongoing regional conflicts between Russia and Ukraine and in the Middle East;
- concentration of our manufacturing operations in Mexico;
- financial conditions affecting the banking system and the potential threats to the solvency of commercial banks
- litigation and enforcement actions;
- disruption in the supply of raw materials or the distribution of finished goods;
- price fluctuations in key commodities;
- fluctuations in currency exchange rates;
- changes in governmental regulations that are applicable to our business;
- our ability to realize the intended benefits of our restructuring initiatives or our divestiture, acquisition or merger transactions;
- changes in asset valuations, including write-downs of assets such as inventory, accounts receivable or other assets for impairment or other reasons; and
- any other matters described in Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "Form 10-K") and Part II, Item 1A - "Risk Factors" in this Form 10-Q.

You are cautioned not to unduly rely on such forward-looking statements when evaluating the information in this Form 10-Q. Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith, and is believed to have a reasonable basis. There can be no assurance that any such expectation or belief will be achieved or accomplished.

Any forward-looking statement made in this Form 10-Q speaks only as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(in millions, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024		2023	
	\$ 171.7	\$ 169.4	\$ 337.8	\$ 328.7
Net Sales				
Cost of products sold	76.1	71.6	147.4	139.5
Gross Profit	95.6	97.8	190.4	189.2
Research and development	6.3	6.8	13.3	14.3
Selling and general expenses	80.9	93.0	164.5	181.8
Other expense, net	2.1	0.1	2.3	1.3
Operating Income (Loss)	6.3	(2.1)	10.3	(8.2)
Interest income	3.0	0.5	3.6	1.0
Interest expense	(3.1)	(3.5)	(6.2)	(7.0)
Income (Loss) Before Income Taxes	6.2	(5.1)	7.7	(14.2)
Income tax (provision) benefit	(1.9)	0.8	(2.9)	2.1
Income (Loss) from Continuing Operations	4.3	(4.3)	4.8	(12.1)
Loss from discontinued operations, net of tax	(2.5)	(63.8)	(3.9)	(56.5)
Net Income (Loss)	\$ 1.8	\$ (68.1)	\$ 0.9	\$ (68.6)
Basic Earnings (Loss) Per Share				
Continuing operations	\$ 0.09	\$ (0.09)	\$ 0.10	\$ (0.26)
Discontinued operations	(0.05)	(1.37)	(0.08)	(1.21)
Basic Earnings (Loss) Per Share	\$ 0.04	\$ (1.46)	\$ 0.02	\$ (1.47)
Diluted Earnings (Loss) Per Share				
Continuing operations	\$ 0.09	\$ (0.09)	\$ 0.10	\$ (0.26)
Discontinued operations	(0.05)	(1.37)	(0.08)	(1.21)
Diluted Earnings (Loss) Per Share	\$ 0.04	\$ (1.46)	\$ 0.02	\$ (1.47)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in millions)**

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net Income (Loss)	\$ 1.8	\$ (68.1)	\$ 0.9	\$ (68.6)
Other Comprehensive (Loss) Income, Net of Tax				
Unrealized currency translation adjustments	(6.1)	2.9	(8.3)	7.4
Defined benefit plans	0.1	—	(0.2)	—
Cash flow hedges	(2.0)	—	(2.0)	—
Total Other Comprehensive Loss, Net of Tax	(8.0)	2.9	(10.5)	7.4
Comprehensive Loss	\$ (6.2)	\$ (65.2)	\$ (9.6)	\$ (61.2)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)
(Uaudited)

	June 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 92.2	\$ 87.7
Accounts receivable, net of allowances	123.0	142.8
Inventories	163.9	163.2
Prepaid and other current assets	22.3	28.8
Assets held for sale	72.7	64.5
Total Current Assets	474.1	487.0
Property, Plant and Equipment, net	110.7	117.2
Operating Lease Right-of-Use Assets	29.4	26.8
Goodwill	794.4	796.1
Other Intangible Assets, net	226.2	239.5
Deferred Tax Assets	6.3	6.5
Other Assets	16.7	19.3
TOTAL ASSETS	\$ 1,657.8	\$ 1,692.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 10.2	\$ 8.6
Current portion of operating lease liabilities	14.4	12.8
Trade accounts payable	51.4	56.3
Accrued expenses	79.5	93.2
Liabilities held for sale	52.7	63.7
Total Current Liabilities	208.2	234.6
Long-Term Debt	164.9	159.4
Operating Lease Liabilities	28.8	28.3
Deferred Tax Liabilities	23.4	23.8
Other Long-Term Liabilities	10.5	10.0
Total Liabilities	435.8	456.1
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - \$ 0.01 par value - authorized 20,000,000 shares, none issued	—	—
Common stock - \$ 0.01 par value - authorized 300,000,000 shares, 45,913,043 outstanding as of June 30, 2024 and 46,174,337 outstanding as of December 31, 2023	0.5	0.5
Additional paid-in capital	1,671.5	1,663.6
Accumulated deficit	(314.0)	(314.9)
Treasury stock	(98.5)	(85.9)
Accumulated other comprehensive loss	(37.5)	(27.0)
Total Stockholders' Equity	1,222.0	1,236.3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,657.8	\$ 1,692.4

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions)
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Common Stock	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Additional Paid-in Capital, beginning of period	1,667.7	1,651.0	1,663.6	1,646.4
Exercise or redemption of share-based awards	—	—	0.5	0.6
Stock-based compensation expense	3.8	3.9	7.4	7.9
Additional Paid-in Capital, end of period	1,671.5	1,654.9	1,671.5	1,654.9
Accumulated Deficit, beginning of period	(315.8)	(253.6)	(314.9)	(253.1)
Net income (loss)	1.8	(68.1)	0.9	(68.6)
Accumulated Deficit, end of period	(314.0)	(321.7)	(314.0)	(321.7)
Treasury Stock, beginning of period	(95.0)	(67.9)	(85.9)	(66.8)
Purchases of treasury stock	(3.5)	(2.6)	(12.6)	(3.7)
Treasury Stock, end of period	(98.5)	(70.5)	(98.5)	(70.5)
Accumulated Other Comprehensive Loss, beginning of period	(29.5)	(31.3)	(27.0)	(35.8)
Other comprehensive (loss) income, net of tax	(8.0)	2.9	(10.5)	7.4
Accumulated Other Comprehensive Loss, end of period	(37.5)	(28.4)	(37.5)	(28.4)
Total Stockholders' Equity, end of period	\$ 1,222.0	\$ 1,234.8	\$ 1,222.0	\$ 1,234.8

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
(in millions)
(Uunaudited)

	Six Months Ended June 30,	
	2024	2023
Operating Activities		
Net income (loss)	\$ 0.9	\$ (68.6)
Depreciation and amortization	22.7	23.6
Stock-based compensation expense	7.4	7.9
Goodwill impairment	—	59.1
Net loss on asset dispositions and impairments	0.3	—
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	0.8	18.9
Inventories	(7.8)	(13.1)
Prepaid expenses and other assets	4.0	0.4
Accounts payable	—	(1.8)
Accrued expenses	(10.7)	(37.1)
Deferred income taxes and other	2.2	1.3
Cash Provided by (Used in) Operating Activities	19.8	(9.4)
Investing Activities		
Capital expenditures	(10.0)	(8.0)
Proceeds from RH Divestiture post-closing settlement	2.1	—
Acquisition of assets and investments in businesses	—	(2.5)
Cash Used in Investing Activities	(7.9)	(10.5)
Financing Activities		
Secured debt repayments	(3.1)	(3.1)
Revolving credit facility proceeds	20.0	—
Revolving credit facility repayments	(10.0)	(20.0)
Purchases of treasury stock	(12.6)	(3.7)
Proceeds from the exercise of stock options	0.5	0.6
Payment of contingent consideration liabilities	(0.5)	—
Cash Used in Financing Activities	(5.7)	(26.2)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1.7)	0.2
Increase (Decrease) in Cash and Cash Equivalents	4.5	(45.9)
Cash and Cash Equivalents - Beginning of Period	87.7	127.7
Cash and Cash Equivalents - End of Period	\$ 92.2	\$ 81.8

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Accounting Policies

Background and Basis of Presentation

Avanos Medical, Inc. is a medical technology company focused on delivering clinically superior medical device solutions that will help patients get back to the things that matter. Headquartered in Alpharetta, Georgia, we are committed to addressing some of today's most important healthcare needs, including providing a vital lifeline for nutrition to patients from hospital to home, and reducing the use of opioids while helping patients move from surgery to recovery. We develop, manufacture and market our recognized brands globally and hold leading market positions in multiple categories across our portfolio. References herein to "Avanos," "the Company," "we," "our" and "us" refer to Avanos Medical, Inc. and its consolidated subsidiaries.

Interim Financial Statements

We prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements, and the condensed consolidated financial statements in this Form 10-Q should be read in conjunction with the Form 10-K. Our unaudited interim condensed consolidated financial statements contain all necessary material adjustments, which are of a normal and recurring nature, to fairly state our financial condition, results of operations and cash flows for the periods presented.

Use of Estimates

Preparation of our condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Estimates are used in accounting for, among other things, certain amounts included in discontinued operations, certain amounts included in assets and liabilities held for sale, distributor rebate accruals, future cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies, and deferred tax assets and potential income tax assessments. Actual results could differ from these estimates, and the effect of any change could be material to our financial statements. Changes in these estimates are recorded when known.

Goodwill

We test goodwill for impairment annually or more frequently whenever events or circumstances more likely than not indicate that the fair value of the reporting unit may be below its carrying value. We operate as a single reportable operating segment with one reporting unit. The fair value of our reporting unit is estimated using a combination of income (discounted cash flow analysis) and market approaches. The income approach is dependent upon several assumptions regarding future periods such as sales growth and a terminal growth rate. A weighted average cost of capital ("WACC") was used to discount future estimated cash flows to their present values. The WACC was based on externally observable data considering market participants' cost of equity and debt, optimal capital structure and risk factors specific to us. The market approach estimates the value of our company using a market capitalization methodology.

We determined that the fair value of our reporting unit exceeded the net carrying amount in our most recent goodwill impairment test on July 1, 2023. However, there can be no assurance that the assumptions and estimates made for purposes of the annual goodwill impairment test will prove to be accurate. Volatility in the equity and debt markets, or increases in interest rates, could result in a higher discount rate. Changes in sales volumes, selling prices and costs of goods sold, and increases in interest rates could cause changes in our forecasted cash flows. Unfavorable changes in any of the factors described above, as well as a decline in our stock price, could result in a goodwill impairment charge in the future.

Hedging and Derivatives

All derivative instruments are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of derivatives are either recorded in the income statement or other comprehensive income, as appropriate. The effective portion of the gain or loss on derivatives designated as cash flow hedges is included in other comprehensive income in the period that changes in fair value occur, and is reclassified to income in the same period that the hedged item affects income. Our policies allow the use of derivatives for risk management purposes and prohibit their use for speculation. Our policies also prohibit the use of any leveraged derivative instrument. Consistent with our policies, foreign currency derivative instruments are entered into with major financial institutions. At inception, we formally designate certain derivatives as cash flow hedges and establish how the effectiveness of these hedges will be assessed and measured. This process links the derivatives to the transactions they are hedging. See Note 11, "Derivative Financial Instruments", for disclosures about derivative instruments and hedging activities.

Recently Adopted Accounting Pronouncements

Effective January 1, 2023, we adopted ASU No. 2021-08, *Business Combinations: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU pertains to acquired revenue contracts with customers in a business combination and addresses diversity in practice and inconsistency related to recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. Adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes: Improvement to Income Tax Disclosures*. This ASU pertains to disaggregation of income tax disclosures and enhances annual income tax disclosures to address investor requests for more information about the tax risks and opportunities present in an entity's worldwide operations. The two primary enhancements disaggregate existing income tax disclosures related to the effective tax rate reconciliation and income taxes paid, and requires entities to disclose a tabular reconciliation of expected tax and reported tax on income from continuing operations using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5% of the expected tax further broken out by nature and/or jurisdiction. Additionally, this ASU requires disclosure around income taxes paid (net of refunds received) broken out between federal, state, local and foreign, and income taxes paid (net of refunds received) to an individual jurisdiction when greater than 5% of total income taxes paid. This ASU will be effective for annual periods beginning after December 15, 2024, with early adoption permitted. Adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting: Improvements to Reportable Segment Disclosures*. This ASU enhances segment reporting under Topic 280 by expanding the breadth and frequency of segment disclosures, and aims to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. This ASU will be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. Adoption of this ASU will require us to expand our current disclosures around significant expenses and disclose an aggregate amount and composition of other segment items related to our single operating segment. On an annual basis, this ASU will require us to disclose the Chief Operating Decision Maker's (CODM) title and position, as well as how the CODM uses each reported measure of segment profit or loss to assess performance and allocate resources to the segment. We will retrospectively adopt this ASU in the fiscal period ending December 31, 2024 as required by ASU No. 2023-07.

In August 2023, the FASB issued ASU No. 2023-05, *Business Combinations: Joint Venture Formations*. This ASU is intended to address diversity in practice regarding accounting and provide decision-useful information related to contributions made to joint ventures and requires entities that qualify as either a joint venture or a corporate joint venture to apply a new basis of accounting upon the formation of the joint venture. Specifically, the ASU provides that a joint venture or a corporate joint venture must initially measure its assets and liabilities at fair value on the formation date. This ASU will be effective for all newly formed joint venture entities with a formation date on or after January 1, 2025, with early adoption permitted. Joint ventures formed prior to the adoption date may elect to apply the new guidance retrospectively back to their original formation date. Adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

Note 2. Discontinued Operations

On June 7, 2023, we entered into a Purchase Agreement ("Purchase Agreement") by and among us and certain of our affiliates and SunMed Group Holdings, LLC ("Buyer") pursuant to which Buyer agreed to purchase substantially all of the assets primarily relating to or primarily used in our Respiratory Health ("RH") business (the "RH Divestiture"). On October 2, 2023, we closed the RH Divestiture for a total purchase price of \$ 110 million in cash, subject to certain adjustments as provided in the Purchase Agreement based on the indebtedness and inventory transferred to Buyer at the closing and the chargebacks assumed by Buyer but that would otherwise have been payable by the Company and its subsidiaries on or after October 2, 2023 to distributors of the Company's RH products located in the United States (the "Initial Closing").

The RH Divestiture represents a key component of Avanos' ongoing three-year transformation process, and is aimed at accelerating the Company's efforts to focus its portfolio on markets where it is well positioned to succeed.

At or before the closing of the RH Divestiture, we and Buyer entered into various transition services agreements pursuant to which we, Buyer and each company's respective affiliates provide to each other various transitional services, including, but not limited to, product manufacturing and distribution, facilities, order fulfillment, invoicing, quality assurance, regulatory support, audit support and other services. The services generally commenced on the closing date of the Divestiture and terminate no later than one to three years thereafter.

We have also entered into distribution agreements with Buyer under which we will remain a limited risk distributor for RH products on Buyer's behalf for sales outside of the United States. As a result, we had \$ 8.6 million of RH products included in "Prepaid expenses and other current assets" in the accompanying consolidated balance sheet as of June 30, 2024, compared to \$ 11.9 million as of December 31, 2023. We anticipate the limited risk distributor arrangements will terminate no later than three years from the date of the Purchase Agreement.

As a result of the RH Divestiture, the results of operations from our RH business are reported as "Net Loss from discontinued operations, net of tax" and the related assets and liabilities are classified as "held for sale" in the condensed consolidated financial statements.

Pursuant to an agreement under which we provide manufacturing services for the Buyer, certain manufacturing facilities and equipment did not transfer to the Buyer upon the Initial Closing, and remained in "Assets Held for Sale" as of June 30, 2024 with a corresponding liability representing our obligation to transfer the manufacturing facilities and equipment to the buyer at a later date. Likewise, the results of operations from these manufacturing operations continue to be classified as "Net Loss from discontinued operations, net of tax". We expect the remaining manufacturing facilities and equipment to transfer to the buyer by the end of 2024.

The following table summarizes the financial results of our discontinued operations for all periods presented herein (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net Sales	\$ 13.6	\$ 30.4	\$ 30.5	\$ 62.8
Cost of products sold	15.6	18.6	31.5	37.9
Gross Profit	(2.0)	11.8	(1.0)	24.9
Research and development	—	0.2	—	0.6
Selling and general expenses	—	3.8	—	7.7
Pretax loss on classification as discontinued operations	—	72.3	—	72.3
Other expense, net	1.4	0.1	4.3	0.2
Loss from discontinued operations before income taxes	(3.4)	(64.6)	(5.3)	(55.9)
Income tax benefit (provision) from discontinued operations	0.9	0.8	1.4	(0.6)
Net Loss from discontinued operations, net of tax	\$ (2.5)	\$ (63.8)	\$ (3.9)	\$ (56.5)
<hr/>				
Loss Per Share				
Basic	\$ (0.05)	\$ (1.37)	\$ (0.08)	\$ (1.21)
Diluted	\$ (0.05)	\$ (1.37)	\$ (0.08)	\$ (1.21)

In accordance with accounting principles generally accepted in the United States ("GAAP"), only expenses specifically identifiable and related to a business to be disposed may be allocated to discontinued operations. Accordingly, the cost of products sold, research and development, selling and general expenses and other expense, net in discontinued operations include expenses incurred directly to solely support our respiratory health business.

Details on assets and liabilities classified as held for sale in the accompanying consolidated balance sheets are presented in the following table (in millions):

	June 30, 2024	December 31, 2023
Assets held for sale - discontinued operations		
Inventories	\$ 25.7	\$ 17.5
Property, Plant and Equipment, net	44.0	43.9
Operating Lease Right-of-Use Assets	3.0	3.1
Total assets classified as held for sale	\$ 72.7	\$ 64.5
Liabilities held for sale - discontinued operations		
Current Portion of Operating Lease Liabilities	\$ 0.8	\$ 0.8
Accrued expenses	50.8	61.3
Non-Current Operating Lease Liability	1.1	1.6
Total liabilities held for sale - discontinued operations	\$ 52.7	\$ 63.7

Assets and liabilities held for sale as of June 30, 2024 were classified as current since we expect the RH Divestiture to be completed within one year.

The following table provides operating and investing cash flow information for our discontinued operations (in millions):

	Six Months Ended June 30,	
	2024	2023
Operating Activities:		
Depreciation and amortization	\$ —	\$ 2.6
Stock-based compensation expense	—	0.1
Investing Activities:		
Capital expenditures	0.2	0.6

Note 3. Restructuring Activities

Post-RH Divestiture Restructuring Plan

During 2024, we initiated a post-RH Divestiture restructuring plan (the "Plan"). The Plan is intended to align our organizational structure and operational footprint with our remaining business. We expect the Plan will be substantially complete by the end of 2025 and currently expect to incur up to \$ 7.5 million of cash expenses, primarily for employee termination benefits. In the three and six months ended June 30, 2024, we incurred \$ 3.4 million and \$ 4.1 million, respectively, of costs related to the Plan. These costs were included in "Selling and general expenses" in the accompanying condensed consolidated income statements.

Transformation Process

In January 2023, we initiated a three-year restructuring initiative intended to align the Company under a single commercial organization, rationalize our product portfolio, undertake additional cost management activities to enhance the Company's operating profitability and pursue efficient capital allocation strategies (the "Transformation Process"). The RH Divestiture represents a key component of our three-year transformation process. We expect the Transformation Process will be substantially complete by the end of 2025.

We expect to incur up to \$ 30.0 million of cash expenses in connection with the Transformation Process, consisting of between \$ 9.0 million and \$ 12.0 million of program management consulting and employee retention expenses; between \$ 8.0 million and \$ 11.0 million of expenses associated with manufacturing and supply chain improvements and portfolio rationalization; and the remainder for expenses associated with organization design and alignment and other related activities. These amounts include between \$ 6.0 million and \$ 8.0 million of employee severance and benefits costs.

In the three and six months ended June 30, 2024, we incurred expenses of \$ 1.6 million and \$ 4.5 million, respectively, primarily related to employee severance and benefits costs in connection with the Transformation Process, compared to \$ 9.8 million and \$ 18.7 million in the three and six months ended June 30, 2023. These costs were included in "Cost of products sold" and "Selling and general expenses" in the accompanying condensed consolidated income statements. Plan-to-date we have incurred expenses of \$ 32.7 million in connection with the Transformation Process.

Restructuring Liability

Our liability for costs associated with our restructuring initiatives as of June 30, 2024 is summarized below (in millions):

	As of June 30, 2024
Beginning balance	\$ 2.3
Restructuring and transformation costs, excluding non-cash charges	7.0
Payments and adjustments, net	(6.7)
Ending balance	<u><u>\$ 2.6</u></u>

Note 4. Business Acquisition

Diros Technology

On June 17, 2023 we entered into a definitive agreement to acquire Diros Technology Inc. ("Diros"), a leading manufacturer of innovative radiofrequency ablation ("RFA") products used to treat chronic pain conditions. On July 24, 2023, we closed the acquisition of Diros. The total purchase price paid in connection with our acquisition of Diros was \$ 53.0 million, consisting of \$ 2.5 million in cash paid upon entry into the definitive agreement and \$ 50.5 million in cash paid at closing (subject to certain working capital and other adjustments), with up to an additional \$ 7.0 million payable in contingent cash consideration based on achievement of certain performance objectives defined in the purchase agreement (the "Diros Acquisition"). The purchase price for the Diros Acquisition was funded by proceeds from our Revolving Credit Facility. The accompanying condensed consolidated income statement includes \$ 5.1 million and \$ 9.8 million of net sales from Diros for the three and six months ended June 30, 2024, respectively. In the three and six months ended June 30, 2024, we incurred \$ 0.4 million and \$ 0.6 million of costs in connection with the Diros Acquisition, which are included in "Selling and general expenses." In the six months ended June 30, 2024, we made contingent consideration payments of \$ 0.5 million and to date we have made contingent consideration payments of \$ 2.0 million.

Under the acquisition method of accounting for business combinations, the purchase price paid is allocated to the underlying net assets in proportion to their respective fair values. Any excess of the purchase price over the estimated fair values is recorded as goodwill. Fair values of assets acquired and liabilities assumed are being determined using discounted cash flow analyses and the fair value of the contingent consideration is being estimated using a Monte Carlo simulation. Assumptions supporting the estimated fair values are based on facts and circumstances that existed on the valuation date. The purchase price allocation is shown in the table below (in millions):

Current assets, net of cash acquired	\$ 7.5
Current liabilities, excluding contingent consideration	(7.0)
Contingent consideration	(5.3)
Other noncurrent assets (liabilities), net	(0.5)
Deferred tax liabilities	(8.1)
Identifiable intangible assets	29.6
Goodwill	33.4
Total	<u><u>\$ 49.6</u></u>

The identifiable intangible assets relating to the Diros Acquisition include the following (in millions, except years):

	Identifiable Intangible Asset	Weighted Average Useful Lives
	Amount	(Years)
Trade names and trademarks	\$ 2.9	15
Customer relationships	21.2	14
Developed technology and other	5.5	13
Total	<u><u>\$ 29.6</u></u>	

The following unaudited pro forma financial information is presented in the table below for the three and six months ended June 30, 2023 as if the Diros Acquisition had occurred on January 1, 2022 (in millions except per share amounts):

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Net sales	\$ 172.6	\$ 335.4
Net loss from continuing operations	(4.1)	(11.7)
Loss from discontinued operations, net of tax	(63.8)	(56.5)
Net Loss	\$ (67.9)	\$ (68.2)
Basic Loss Per Share		
Continuing operations	\$ (0.09)	\$ (0.25)
Discontinued operations	\$ (1.36)	\$ (1.21)
Basic Loss Per Share	\$ (1.45)	\$ (1.46)
Diluted Loss Per Share		
Continuing operations	\$ (0.09)	\$ (0.25)
Discontinued operations	\$ (1.36)	\$ (1.21)
Diluted Loss Per Share	\$ (1.45)	\$ (1.46)

The pro forma financial information has been adjusted to include the effects of the Diros Acquisition, including acquisition-related costs, amortization of acquired intangibles and related tax effects. The pro-forma financial information is not necessarily indicative of the results of operations that would have been achieved.

Note 5. Supplemental Balance Sheet Information

Accounts Receivable

Accounts receivable consist of the following (in millions):

	June 30, 2024	December 31, 2023
Accounts receivable	\$ 128.1	\$ 134.0
Income tax receivable	0.1	14.1
Allowances and doubtful accounts:		
Doubtful accounts	(4.6)	(5.1)
Sales discounts	(0.6)	(0.2)
Accounts receivable, net	\$ 123.0	\$ 142.8

Losses on receivables are estimated based on known troubled accounts and historical experience. Receivables are considered impaired and written off when it is probable that payments due will not be collected. We incurred no expense for uncollectible accounts for the three months ended June 30, 2024 and \$ 0.1 million of expense for the six months ended June 30, 2024, compared to \$ 0.4 million and \$ 0.6 million for the three and six months ended June 30, 2023, respectively.

Inventories

Inventories at the lower of cost (determined on the FIFO method) or net realizable value consists of the following (in millions):

	June 30, 2024	December 31, 2023
Raw materials	\$ 49.6	\$ 50.3
Work in process	24.2	19.8
Finished goods	86.2	88.5
Supplies and other	3.9	4.6
Total Inventory	\$ 163.9	\$ 163.2

We had no expense for inventory write-offs and obsolescence in the three months ended June 30, 2024 and \$ 1.5 million of expense for inventory write-offs and obsolescence in the six months ended June 30, 2024, compared to \$ 2.4 million and \$ 3.4 million in the three and six months ended June 30, 2023, respectively.

Property, Plant and Equipment

Property, plant and equipment consists of the following (in millions):

	June 30, 2024	December 31, 2023
Land	\$ 1.3	\$ 1.3
Buildings and leasehold improvements	37.2	38.0
Machinery and equipment	184.9	182.8
Construction in progress	16.5	18.0
	239.9	240.1
Less accumulated depreciation	(129.2)	(122.9)
Total	\$ 110.7	\$ 117.2

Depreciation expense was \$ 5.0 million and \$ 10.3 million for the three and six months ended June 30, 2024, respectively, compared to \$ 4.5 million and \$ 9.4 million for the three and six months ended June 30, 2023, respectively.

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows (in millions):

	Goodwill
Balance, December 31, 2023	\$ 796.1
Currency translation adjustment	(1.7)
Balance, June 30, 2024	\$ 794.4

Intangible assets subject to amortization consist of the following (in millions):

	June 30, 2024			December 31, 2023		
	Gross	Accumulated	Net Carrying	Gross	Accumulated	Net Carrying
	Carrying	Amortization	Amount	Carrying	Amortization	Amount
Trademarks	\$ 41.6	\$ (29.4)	\$ 12.2	\$ 42.0	\$ (28.8)	\$ 13.2
Patents and acquired technologies	248.5	(176.7)	71.8	248.6	(171.9)	76.7
Other	207.2	(65.0)	142.2	207.7	(58.1)	149.6
Total	\$ 497.3	\$ (271.1)	\$ 226.2	\$ 498.3	\$ (258.8)	\$ 239.5

Amortization expense for intangible assets is included in "Cost of products sold" and "Selling and general expenses" and was \$ 6.3 million and \$ 12.4 million for the three and six months ended June 30, 2024, respectively, compared to \$ 5.8 million and \$ 11.6 million for the three and six months ended June 30, 2023, respectively. As of June 30, 2024 we had unrealized currency translation adjustments of \$ 0.3 million related to our acquired intangibles from the acquisition of Diros.

Amortization expense for the remainder of 2024, the following four years and thereafter is estimated as follows (in millions):

	Amount
Remainder of 2024	\$ 13.1
2025	25.0
2026	24.5
2027	22.8
2028	22.6
Thereafter	<u>118.2</u>
Total	<u>\$ 226.2</u>

Accrued Expenses

Accrued expenses consist of the following (in millions):

	June 30, 2024	December 31, 2023
Accrued rebates and customer incentives	\$ 21.8	\$ 17.7
Accrued salaries and wages	25.8	31.5
Accrued taxes and other	6.1	16.7
Other	25.8	27.3
Total	<u>\$ 79.5</u>	<u>\$ 93.2</u>

Other Long-Term Liabilities

Other long-term liabilities consist of the following (in millions):

	June 30, 2024	December 31, 2023
Accrued compensation and benefits	\$ 6.6	\$ 5.9
Other	3.9	4.1
Total	<u>\$ 10.5</u>	<u>\$ 10.0</u>

Note 6. Fair Value Information

The following fair value information is based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels in the hierarchy used to measure fair value are:

Level 1: Unadjusted quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following table includes the fair value of our financial instruments for which disclosure of fair value is required (in millions):

	Fair Value Hierarchy Level	June 30, 2024		December 31, 2023	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	1	\$ 92.2	\$ 92.2	\$ 87.7	\$ 87.7
Liabilities					
Revolving Credit Facility	2	\$ 60.0	\$ 60.0	\$ 50.0	\$ 50.0
Term Loan Facility	2	115.1	115.1	118.0	118.0
Contingent consideration related to acquisition	3	3.3	3.3	5.3	5.3

Cash equivalents are recorded at cost, which approximates fair value due to their short-term nature. The fair value of amounts borrowed under our Revolving Credit Facility and Term Loan Facility approximates carrying value because borrowings are subject to a variable rate as described in Note 7, "Debt".

Note 7. Debt

As of June 30, 2024 and December 31, 2023, our respective debt balances were as follows (in millions):

	Weighted-Average Interest Rate	Maturity	June 30, 2024	December 31, 2023
Revolving Credit Facility	6.86 %	2027	\$ 60.0	\$ 50.0
Term Loan Facility	6.79 %	2027	115.6	118.8
			175.6	168.8
Unamortized debt issuance costs			(0.5)	(0.8)
Current portion of long-term debt			(10.2)	(8.6)
Total Long-Term Debt, net			\$ 164.9	\$ 159.4

On June 24, 2022, we entered into a credit agreement (the "Credit Agreement") with certain lenders which established credit facilities in an aggregate principal amount of \$ 500.0 million, consisting of a five-year senior secured term loan of \$ 125.0 million (the "Term Loan Facility") and a five-year senior secured revolving credit facility allowing borrowings of up to \$ 375.0 million, with a letter of credit sub-facility in an amount of \$ 75.0 million (the "Revolving Credit Facility"). All obligations under the Credit Agreement and certain hedging agreements and cash management arrangements thereunder are: (i) guaranteed by each of the Company's direct and indirect, existing and future, material wholly owned domestic subsidiaries ("Guarantors") and (ii) secured by a first priority lien on substantially all the assets of the Company and the Guarantors. The Credit Agreement contains an accordion feature that allows us to incur incremental term loans under the Term Loan Facility or under new term loan facilities or to increase the amount of the commitments under the Revolving Credit Facility, including through the establishment of one or more tranches under the Revolving Credit Facility. The Credit Agreement will mature on June 24, 2027.

Borrowings under the Term Loan Facility and Revolving Credit Facility bear interest at our option at either: (i) an adjusted term secured overnight financing rate ("SOFR"), plus a margin ranging between 1.50 % to 2.00 % per annum, depending on our consolidated total leverage ratio; (ii) an adjusted daily simple SOFR rate, plus a margin ranging between 1.50 % to 2.00 % per annum, depending on our consolidated total leverage ratio; or (iii) a base rate (calculated as the greatest of (a) the prime rate, (b) the NYFRB rate (being the greater of the federal funds effective rate or the overnight bank funding rate) plus 0.50 %, and (c) the one month adjusted term SOFR rate plus 1.00 %), plus a margin ranging between 0.50 % to 1.00 % per annum, depending on our consolidated total leverage ratio. The unused portion of the Revolving Credit Facility will be subject to a commitment fee ranging between 0.20 % to 0.25 % per annum, depending on our consolidated total leverage ratio. Unamortized debt discount and issuance costs are being amortized to interest expense over the life of the Term Loan Facility using the interest method, resulting in an effective interest rate of 6.6 % as of June 30, 2024.

The Credit Agreement requires compliance with certain customary operational and financial covenants. As of June 30, 2024, we were in compliance with these covenants. In addition, the Credit Agreement contains certain other customary limitations on our ability to, among other things: incur additional indebtedness; pay dividends on or repurchase or redeem our capital stock; make loans, investments and acquisitions; sell, transfer or otherwise dispose of assets; guarantee other obligations; create or grant liens; and enter into certain types of transactions with affiliates. Notwithstanding such limitations, the Credit Agreement allows us to pay dividends, repurchase stock and make investments up to an "Available Amount," as defined in the Credit Agreement, provided no event of default has occurred and certain financial ratios have been achieved on a pro forma basis. We are permitted to prepay all or a portion of the Term Loan Facility and the Revolving Credit Facility at any time without premium or penalty.

Debt Payments

The Credit Agreement requires quarterly principal installment payments on the Term Loan Facility of 10 % of the total principal borrowed for the first eight quarters following funding and then quarterly installment payments of 20 % of the total principal borrowed, at which time the remaining unpaid principal amount of the Term Loan Facility is due and payable by the Company upon the maturity date of June 24, 2027. The current portion of the Term Loan Facility is \$ 10.2 million. Interest is payable quarterly. We have the right to voluntarily prepay the Term Loan Facility in accordance with the terms of the Credit Agreement. Interest is payable at the same rates set forth above for the Revolving Credit Facility.

During the six months ended June 30, 2024, we repaid \$ 3.1 million of the Term Loan Facility. During the six months ended June 30, 2024, we borrowed \$ 20.0 million and repaid \$ 10.0 million of the Revolving Credit Facility. As of June 30, 2024, we had letters of credit outstanding of \$ 6.7 million.

As of June 30, 2024, the aggregate amounts of long-term debt that will mature during each of the next four years are as follows (in millions):

	Amount
Remainder of 2024	\$ 5.5
2025	9.4
2026	10.2
2027	150.5
2028	—
Total	<u><u>\$ 175.6</u></u>

Note 8. Accumulated Other Comprehensive Income

The changes in the components of Accumulated Other Comprehensive Income ("AOCI"), net of tax, are as follows (in millions):

	Unrealized Currency Translation	Cash Flow Hedges	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance, December 31, 2023	\$ (27.0)	\$ —	\$ —	\$ (27.0)
Other comprehensive (loss) income	(8.3)	(2.0)	(0.2)	(10.5)
Balance, June 30, 2024	<u><u>\$ (35.3)</u></u>	<u><u>\$ (2.0)</u></u>	<u><u>\$ (0.2)</u></u>	<u><u>\$ (37.5)</u></u>

The net changes in the components of AOCI, including the tax effect, are as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Unrealized currency translation	\$ (6.1)	\$ 2.9	\$ (8.3)	\$ 7.4
Defined benefit pension plans	0.1	—	(0.2)	—
Defined benefit pension plans, net of tax	0.1	—	(0.2)	—
Cash flow hedges	(2.0)	—	(2.0)	—
Change in AOCI	<u><u>\$ (8.0)</u></u>	<u><u>\$ 2.9</u></u>	<u><u>\$ (10.5)</u></u>	<u><u>\$ 7.4</u></u>

Note 9. Stock-Based Compensation

Stock-based compensation expense is included in "Cost of products sold," "Research and development," and "Sales and general expenses." Stock-based compensation expense for the three and six months ended June 30, 2024 and 2023 is shown in the table below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Stock options	\$ —	\$ 0.1	\$ —	\$ 0.3
Time-based restricted share units	2.4	2.5	4.9	5.4
Performance-based restricted share units	1.4	1.3	2.4	2.1
Employee stock purchase plan	—	—	0.1	0.1
Total stock-based compensation	<u><u>\$ 3.8</u></u>	<u><u>\$ 3.9</u></u>	<u><u>\$ 7.4</u></u>	<u><u>\$ 7.9</u></u>

Note 10. Commitments and Contingencies

Legal Matters

We are subject to various legal proceedings, claims and governmental inspections, audits or investigations pertaining to issues such as contract disputes, product liability, tax matters, patents and trademarks, advertising, governmental regulations,

employment and other matters. Under the terms of the distribution agreement we entered into with Kimberly-Clark Corporation ("Kimberly-Clark") prior to our 2014 spin-off from Kimberly-Clark, legal proceedings, claims and other liabilities that are primarily related to our business are our responsibility and we are obligated to indemnify and hold Kimberly-Clark harmless for such matters.

Government Investigation

In June 2015, we were served with a subpoena from the Department of Veterans Affairs Office of the Inspector General ("VA OIG") seeking information related to the design, manufacture, testing, sale and promotion of MicroCool and other surgical gowns produced by the Company. In July 2015, we became aware that the VA OIG subpoena and an earlier VA OIG subpoena served on Kimberly-Clark requesting information about gown sales to the federal government were related to a United States Department of Justice ("DOJ") investigation. In May 2016, April 2017 and September 2018, we received additional subpoenas from the DOJ seeking further information related to the Company's surgical gowns.

On July 6, 2021, we entered into a Deferred Prosecution Agreement ("DPA") with the DOJ that resolved their criminal investigation related to our MicroCool surgical gowns. Pursuant to the terms of the DPA, in July 2021 the Company made a payment of \$ 22.2 million. The DPA term expired on July 7, 2024. Under the DPA, the DOJ has up to six months following the term's expiration to seek dismissal of the case.

Patent Litigation

We operate in an industry characterized by extensive patent litigation. Competitors may claim that our products infringe upon their intellectual property. Resolution of patent litigation or other intellectual property claims is typically time consuming and costly and can result in significant damage awards and injunctions that could prevent the manufacture and sale of the affected products or require us to make significant royalty payments in order to continue selling the affected products.

At any given time, we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time.

General

While we maintain general and professional liability, product liability and other insurance, our insurance policies may not cover all of these matters and may not fully cover liabilities arising out of these matters. In addition, we may be obligated to indemnify our directors and officers against these matters.

We record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. For any matters that are reasonably possible to result in loss and for which no possible loss or range of loss is disclosed in this Form 10-Q, management has determined that it is unable to estimate the possible loss or range of loss because, in each case, at least the following facts applied: (a) the matter is at an early stage of the proceedings; (b) the damages are indeterminate, unspecified or determined to be immaterial; and (c) significant factual issues have yet to be resolved. At present, although the results of litigation and claims cannot be predicted with certainty, we believe that the ultimate resolution of any pending legal proceeding to which we are a party will not have a material adverse effect on our business, financial condition, results of operations or liquidity.

Environmental Compliance

We are subject to federal, state and local environmental protection laws and regulations with respect to our business operations. We believe we are operating in compliance with, or are taking action aimed at ensuring compliance with, these laws and regulations. None of our compliance obligations with environmental protection laws and regulations, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition, results of operations or liquidity.

Note 11. Derivative Financial Instruments

During the second quarter of 2024, we began to enter into derivative instruments to hedge a portion of forecasted cash flows denominated in Mexican pesos. The derivative instruments used to manage these exposures are designated and qualify as cash flow hedges. The derivative liability for foreign exchange contracts was \$ 2.3 million as of June 30, 2024 and is included in the condensed consolidated balance sheet in accrued expenses.

The effective portion of the gain or loss on a derivative instrument is initially recorded in AOCI, net of related income taxes, and recognized in earnings in the same period that the hedged exposure affects earnings. The loss recognized in earnings was not material in the three months ended June 30, 2024. As of June 30, 2024, the aggregate notional values of outstanding foreign currency swap contracts designated as cash flow hedges were \$ 39.0 million.

Note 12. Earnings Per Share (“EPS”)

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share is calculated by dividing net income by the number of common shares outstanding and the effect of all dilutive common stock equivalents outstanding during each period, as determined using the treasury stock method.

The calculation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2024 and 2023 is set forth in the following table (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss) from continuing operations	\$ 4.3	\$ (4.3)	\$ 4.8	\$ (12.1)
Net loss from discontinued operations	(2.5)	(63.8)	(3.9)	(56.5)
Net income (loss)	<u><u>\$ 1.8</u></u>	<u><u>\$ (68.1)</u></u>	<u><u>\$ 0.9</u></u>	<u><u>\$ (68.6)</u></u>
Weighted Average Shares Outstanding:				
Basic weighted average shares outstanding	45.9	46.8	46.1	46.7
Dilutive effect of stock options and restricted share unit awards	0.4	—	0.5	—
Diluted weighted average shares outstanding	46.3	46.8	46.6	46.7
Earnings (Loss) Per Share				
Basic:				
Continuing Operations	\$ 0.09	\$ (0.09)	\$ 0.10	\$ (0.26)
Discontinued Operations	(0.05)	(1.37)	(0.08)	(1.21)
Basic Loss Per Share	<u><u>\$ 0.04</u></u>	<u><u>\$ (1.46)</u></u>	<u><u>\$ 0.02</u></u>	<u><u>\$ (1.47)</u></u>
Diluted:				
Continuing Operations	\$ 0.09	\$ (0.09)	\$ 0.10	\$ (0.26)
Discontinued Operations	(0.05)	(1.37)	(0.08)	(1.21)
Diluted Earnings (Loss) Per Share	<u><u>\$ 0.04</u></u>	<u><u>\$ (1.46)</u></u>	<u><u>\$ 0.02</u></u>	<u><u>\$ (1.47)</u></u>

Restricted share units (“RSUs”) contain provisions allowing for the equivalent of any dividends paid on common stock during the restricted period to be reinvested into additional RSUs at the then fair market value of the common stock on the date the dividends are paid. Such awards are to be included in the EPS calculation under the two-class method. Currently, we do not anticipate any cash dividends for the foreseeable future and our outstanding RSU awards are not material in comparison to our weighted average shares outstanding. Accordingly, all EPS amounts reflect shares as if they were fully vested and the disclosures associated with the two-class method are not presented herein.

For both the three and six months ended June 30, 2024, 1.3 million of potentially dilutive stock options and RSU awards were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

Note 13. Business and Products Information

We conduct our business in one operating and reportable segment that provides our medical device products to healthcare providers and patients globally with manufacturing facilities in the United States and Mexico.

Avanos develops, manufactures and markets its recognized brands globally and holds leading market positions in multiple categories across its portfolio. Our management evaluates net sales by product category within our single reportable segment as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Digestive Health	\$ 97.7	\$ 93.0	\$ 192.4	\$ 181.8
Pain Management and Recovery:				
Surgical pain and recovery	32.3	34.8	63.5	69.5
Interventional pain	41.7	41.6	81.9	77.4
Total Pain Management and Recovery	74.0	76.4	145.4	146.9
Total Net Sales	\$ 171.7	\$ 169.4	\$ 337.8	\$ 328.7

Digestive Health is a portfolio of products such as our MIC-KEY enteral feeding tubes, Corpak patient feeding solutions and NeoMed neonatal and pediatric feeding solutions.

Pain Management and Recovery is a portfolio of products including:

- Surgical pain and recovery products such as ON-Q and ambIT surgical pain pumps and Game Ready cold and compression therapy systems; and
- Interventional pain solutions, which provide minimally invasive pain relief therapies, such as our COOLIEF pain therapy, OrthogenRx's knee osteoarthritis HA pain relief injection products and Diros' RFA products used to treat chronic pain conditions.

Liabilities for estimated returns, rebates and incentives are presented in the table below (in millions):

	June 30, 2024	December 31, 2023
Accrued rebates	\$ 12.6	\$ 10.4
Accrued customer incentives	9.2	7.3
Accrued rebates and customer incentives	21.8	17.7
Accrued sales returns ^(a)	0.1	0.1
Total estimated liabilities	\$ 21.9	\$ 17.8

(a) Accrued sales returns are included in "Other" in the accrued expenses table in Note 5, "Supplemental Balance Sheet Information".

Due to the nature of our business, we receive purchase orders for products under supply agreements which are normally fulfilled within three to four weeks. Our performance obligations under purchase orders are satisfied and revenue is recognized at a point in time, which is upon shipment or upon delivery of our products, depending on shipping terms. Accordingly, we normally do not have transactions that give rise to material unfulfilled performance obligations.

Note 14. Share Repurchase Program

On July 28, 2023, the Board of Directors approved a new one-year program under which we may repurchase up to \$ 25.0 million of our common stock. Repurchases under this program will be made from time to time at management's discretion on the open market or through privately negotiated transactions in compliance with Rule 10b-18 under the Exchange Act, subject to market conditions, applicable legal requirements and other relevant factors. We have established a pre-arranged trading plan under Rule 10b5-1 of the Exchange Act in connection with this share repurchase program. This share repurchase program does not obligate us to purchase any particular amount of common stock and may be suspended, modified or discontinued by us without prior notice. In the third quarter of 2023, we repurchased \$ 9.2 million of our common stock and during the fourth quarter of 2023, we repurchased an additional \$ 5.8 million of our common stock.

For the six months ended June 30, 2024, our repurchases of our common stock were as summarized in the table below.

	Shares Repurchased		Aggregate Purchase			Amount Remaining in Program for Purchase	
	# of Shares	Program to Date	Price (in millions)	Average Price per Share	(in millions)		
First quarter of 2024	342,680	1,085,333	\$ 6.7	\$ 19.45	\$ 3.3		
Second quarter of 2024	169,571	1,254,904	\$ 3.3	\$ 19.67	\$ —		

In addition to the share repurchase program, we withheld 135,097 shares of common stock for \$ 2.6 million in taxes associated with stock-based compensation transactions for the six months ended June 30, 2024.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Avanos is a medical technology company focused on delivering clinically superior medical device solutions that help patients get back to the things that matter. We are committed to addressing some of today's most important healthcare needs, including providing a vital lifeline for nutrition to patients from hospital to home, and reducing the use of opioids while helping patients move from surgery to recovery. We develop, manufacture and market our recognized brands globally and hold leading market positions in multiple categories across our portfolio.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide investors with an understanding of our recent performance, and should be read in conjunction with the condensed consolidated financial statements contained in Item 1, "Financial Statements" in this Form 10-Q and our audited consolidated financial statements and related notes included in the Form 10-K. This MD&A contains forward-looking statements. Refer to "Information Concerning Forward-Looking Statements" at the beginning of this Form 10-Q for an explanation of these types of statements.

The following will be discussed and analyzed:

- Restructuring Activities;
- Divestiture of the Respiratory Health Business;
- Discontinued Operations;
- Business Acquisition;
- Results of Operations and Related Information;
- Liquidity and Capital Resources; and
- Critical Accounting Policies and Use of Estimates.

Restructuring Activities

Post-RH Divestiture Restructuring Plan

During 2024, we initiated a restructuring plan (the "Plan") following the divestiture of our Respiratory Health ("RH") business in the fourth quarter of 2023 (the "RH Divestiture"). The Plan is intended to align our organizational structure and operational footprint with our remaining business. We expect the Plan will be substantially complete by the end of 2025 and currently expect to incur up to \$7.5 million of cash expenses, primarily for employee termination benefits. In the three and six months ended June 30, 2024, we incurred \$3.4 million and \$4.1 million, respectively, of costs related to the Plan. These costs were included in "Selling and general expenses" in the accompanying condensed consolidated income statements.

Transformation Process

In January 2023, we initiated a three-year restructuring initiative pursuant to which we plan to: (i) combine our Chronic Care and Pain Management franchises into a single commercial organization focused on the Digestive Health and Pain Management & Recovery product categories; (ii) rationalize our product portfolio including certain low-margin, low-growth product categories through targeted divestitures; (iii) undertake additional cost management activities to enhance the Company's operating profitability; and (iv) pursue efficient capital allocation strategies, including through acquisitions that meet the Company's strategic and financial criteria (the "Transformation Process").

By 2025, we expect total gross savings of between \$45.0 million and \$55.0 million compared to 2022, most of which will be achieved in 2024. We expect the Transformation Process will be substantially complete by the end of 2025.

We expect to incur up to \$30.0 million of cash expenses in connection with the Transformation Process, consisting of between \$9.0 million and \$12.0 million of program management consulting and employee retention expenses, between \$8.0 million and \$11.0 million of expenses associated with manufacturing and supply chain improvements and portfolio rationalization; and the remainder for expenses associated with organization design and alignment and other related activities. These amounts include between \$6.0 million and \$8.0 million of employee severance and benefits costs. The accompanying condensed consolidated income statements for the three and six months ended June 30, 2024 include costs of \$1.6 million and \$4.5 million, respectively, incurred in connection with the Transformation Process in "Selling and general expenses."

Divestiture

On October 2, 2023, we closed the sale of our RH business to SunMed Group Holdings, LLC ("Buyer") for a total purchase price of \$110 million in cash, subject to certain adjustments as provided in the Purchase Agreement based on the indebtedness and inventory transferred to Buyer at the closing and the chargebacks assumed by Buyer but that would otherwise have been

payable by the Company and its subsidiaries on or after October 2, 2023 to distributors of the Company's RH products located in the United States.

The RH Divestiture represents a key component of the Transformation Process, and is aimed at accelerating the Company's efforts to focus its portfolio on markets where it is well positioned to succeed.

In conjunction with the RH Divestiture, we and Buyer entered into various transition services agreements pursuant to which we, Buyer and each company's respective affiliates will provide to each other various transitional services, including, but not limited to, product manufacturing and distribution, facilities, order fulfillment, invoicing, quality assurance, regulatory support, audit support and other services. The services generally commenced on the closing date of the RH Divestiture and terminate no later than one to three years thereafter.

Discontinued Operations

As a result of the RH Divestiture, the results of operations from our RH business are reported as "Loss from discontinued operations, net of tax" and the related assets and liabilities are classified as "held for sale" in the condensed consolidated financial statements. Net sales from discontinued operations were \$13.6 million and \$30.5 million in the three and six months ended June 30, 2024, compared to \$30.4 million and \$62.8 million in the three and six months ended June 30, 2023.

Business Acquisition

On June 17, 2023 we entered into a definitive agreement to acquire Diros Technology Inc. ("Diros"), a leading manufacturer of innovative radiofrequency ablation ("RFA") products used to treat chronic pain conditions. On July 24, 2023, we closed the acquisition of Diros for approximately \$53.0 million, consisting of \$2.5 million cash paid upon entry into the definitive agreement and \$50.5 million in cash paid at closing (subject to certain working capital and other adjustments), with an additional \$7.0 million payable in contingent cash consideration based on achievement of certain performance objectives defined in the purchase agreement (the "Diros Acquisition"). The purchase price for the Diros Acquisition was funded by proceeds from our Revolving Credit Facility.

See Note 4, "Business Acquisition" in Item 1 of this Form 10-Q for further details regarding the acquisition.

Results of Operations and Related Information

Use of Non-GAAP Measures

In this section, we present "Adjusted operating profit," which is a profitability measure that is not calculated in accordance with accounting principles generally accepted in the United States ("GAAP") and is therefore referred to as non-GAAP financial measure. We provide this non-GAAP measure because we use it to measure our operational performance and provide greater insight into our ongoing business operations. This measure is not intended to be, and should not be, considered separately from, or an alternative to, the most directly comparable GAAP financial measures. A reconciliation of the non-GAAP measure to the most directly comparable GAAP financial measures is provided below under "Adjusted operating profit."

Net Sales

Our net sales are summarized in the following table for the three and six months ended June 30, 2024 and 2023 (in millions):

	Three Months Ended			Six Months Ended			Change	
	June 30,		Change	June 30,		Change		
	2024	2023		2024	2023			
Digestive Health	\$ 97.7	\$ 93.0	5.1 %	\$ 192.4	\$ 181.8	5.8 %		
Pain Management and Recovery:								
Surgical pain and recovery	32.3	34.8	(7.2)%	63.5	69.5	(8.6)%		
Interventional pain	41.7	41.6	0.2 %	81.9	77.4	5.8 %		
Total Pain Management and Recovery	74.0	76.4	(3.1)%	145.4	146.9	(1.0)%		
Total Net Sales	\$ 171.7	\$ 169.4	1.4 %	\$ 337.8	\$ 328.7	2.8 %		
	Total		Volume	Pricing/Mix		Currency		
Net sales - percentage change	QTD	1.4 %	3.5 %	(1.8) %	(0.3) %			
Net sales - percentage change	YTD	2.8 %	4.3 %	(1.4) %	(0.1) %			

Product Category Descriptions

Digestive Health is a portfolio of products such as our MIC-KEY enteral feeding tubes, Corpak patient feeding solutions and NeoMed neonatal and pediatric feeding solutions.

Pain Management and Recovery is a portfolio of products including:

- Surgical pain and recovery products such as ON-Q and ambIT surgical pain pumps and Game Ready cold and compression therapy systems; and
- Interventional pain solutions, which provide minimally invasive pain relief therapies, such as our COOLIEF pain therapy, OrthogenRx's knee osteoarthritis hyaluronic acid ("HA") pain relief injection products and Diros' RFA products used to treat chronic pain conditions.

Second Quarter of 2024 Compared to Second Quarter of 2023

For the three months ended June 30, 2024, net sales were \$171.7 million, an increase of 1.4% compared to the prior year period due to continued strong demand and volume in our Digestive Health portfolio, primarily from our NeoMed neonatal and pediatric feeding solutions, as well as continued demand for Game Ready. This was partially offset by lower demand and pricing for our HA products.

First Six Months of 2024 Compared to the First Six Months of 2023

For the six months ended June 30, 2024, net sales were \$337.8 million, an increase of 2.8% compared to the prior year period, primarily due to continued strong demand and volume in our Digestive Health portfolio and Game Ready products. This was partially offset by lower demand and pricing for our HA products.

Net Sales by Geographic Region

Net sales by region is presented in the table below (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,			Change
	2024	2023	Change	2024	2023	Change	
North America	\$ 136.6	\$ 134.2	1.8 %	\$ 268.7	\$ 264.6	1.5 %	
Europe, Middle East and Africa	23.5	22.8	3.1	46.5	40.2	15.7	
Asia Pacific and Latin America	11.6	12.4	(6.5)	22.6	23.9	(5.4)	
Total net sales	\$ 171.7	\$ 169.4	1.4 %	\$ 337.8	\$ 328.7	2.8 %	

Gross Profit (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net sales	\$ 171.7	\$ 169.4	\$ 337.8	\$ 328.7
Cost of products sold	76.1	71.6	147.4	139.5
Gross profit	95.6	97.8	190.4	189.2
Gross profit margin	55.7 %	57.7 %	56.4 %	57.6 %

Second Quarter of 2024 Compared to Second Quarter of 2023

For the three months ended June 30, 2024 compared to the prior year period, gross profit margin decreased primarily due to costs related to our Transformation Process priorities and plant separation costs associated with the RH Divestiture, partially offset by favorable volume and product mix.

First Six Months of 2024 Compared to the First Six Months of 2023

For the six months ended June 30, 2024 compared to the prior year period, gross profit margin decreased primarily due to unfavorable pricing for our HA products, slightly offset by overall favorable product mix.

Research and Development (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Research and development	\$ 6.3	\$ 6.8	\$ 13.3	\$ 14.3
Percentage of net sales	3.7 %	4.0 %	3.9 %	4.4 %

Research and development consists primarily of compensation for personnel and expenses for product trial costs, outside laboratory and license fees, the cost of laboratory equipment and facilities and asset write-offs for equipment associated with unsuccessful product launches. Research and development has historically ranged between 4% and 6% of net sales.

Selling and General Expenses (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Selling and general expenses	\$ 80.9	\$ 93.0	\$ 164.5	\$ 181.8
Percentage of net sales	47.1 %	54.9 %	48.7 %	55.3 %

Selling and general expenses decreased in both the three and six months ended June 30, 2024, as compared to the prior year periods, driven by savings realized from the execution on the Transformation Process and disciplined spending.

Other Expense, net (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Other expense, net	\$ 2.1	\$ 0.1	\$ 2.3	\$ 1.3
Percentage of net sales	1.2 %	0.1 %	0.7 %	0.4 %

Other expense, net was \$2.1 million and \$2.3 million for the three and six months ended June 30, 2024, respectively, compared to \$0.1 million and \$1.3 million in the three and six months ended June 30, 2023, respectively.

Operating Profit (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating profit (loss)	\$ 6.3	\$ (2.1)	\$ 10.3	\$ (8.2)
Operating profit margin	3.7 %	(1.2)%	3.0 %	(2.5)%

The items previously described drove operating profit to \$6.3 million and \$10.3 million for the three and six months ended June 30, 2024, respectively, compared to operating loss of \$2.1 million and \$8.2 million for the three and six months ended June 30, 2023, respectively.

Adjusted Operating Profit

A reconciliation of adjusted operating profit, a non-GAAP measure, to operating profit (loss) is provided in the table below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating profit (loss), as reported (GAAP)	\$ 6.3	\$ (2.1)	\$ 10.3	\$ (8.2)
Acquisition and integration-related charges	2.2	0.3	2.5	1.8
Restructuring and transformation charges	1.6	9.8	4.5	18.7
Post-RH Divestiture transition charges	0.5	—	1.5	—
Post-RH Divestiture restructuring	3.4	—	4.1	—
Divestiture related	—	3.7	—	3.7
EU MDR Compliance	1.5	0.9	2.8	2.0
Intangibles amortization	6.3	5.8	12.4	11.6
Adjusted operating profit (non-GAAP)	\$ 21.8	\$ 18.4	\$ 38.1	\$ 29.6

The items noted in the table above are described below:

Acquisition and integration-related charges: Acquisition and integration-related charges were \$2.2 million and \$0.3 million for the three months ended June 30, 2024 and 2023 respectively, and \$2.5 million and \$1.8 million for the six months ended June 30, 2024 and 2023, respectively. Expenses in the three and six months ended June 30, 2024 were driven by the acquisition of Diros and expenses in the three and six months ended June 30, 2023 were related to our acquisition of OrthogenRx, Inc.

Restructuring and transformation charges: In January 2023, we initiated the Transformation Process, a three-year restructuring initiative intended to align the Company under a single commercial organization, rationalize our product portfolio, undertake additional cost management activities to enhance the Company's operating profitability and pursue efficient capital allocation strategies. In the three and six months ended June 30, 2024 we incurred \$1.6 million and \$4.5 million, respectively, of expenses related to the Transformation Process, primarily for employee severance and benefits costs. In the three and six months ended June 30, 2023 we incurred \$9.8 million and \$18.7 million, respectively, of expenses related to the Transformation Process, which consisted of costs associated with program management consulting and employee retention expenses and employee severance and benefits costs.

Post-RH Divestiture transition charges: In conjunction with the divestiture of our RH business, we incurred professional services fees, equipment write-offs and incremental labor charges of approximately \$0.5 million and \$1.5 million for the three and six months ended June 30, 2024, respectively.

Post-RH Divestiture restructuring charges: We initiated a post-RH Divestiture restructuring plan intended to align our organizational structure and operational footprint with our remaining business. In the three and six months ended June 30, 2024, we incurred expenses of \$3.4 million and \$4.1 million, respectively, related to the Plan, which primarily consisted of employee severance and benefits costs.

Divestiture-Related Charges: In conjunction with the divestiture of our RH business, we incurred accounting, legal and other professional fees of approximately \$3.7 million for the three and six months ended June 30, 2023.

EU MDR Compliance: The European Union Medical Device Regulation (the "EU MDR") brings significant new requirements for our medical devices sold in the European Union. Incremental costs associated with EU MDR compliance are primarily related to re-certification of our products under the enhanced standards. We incurred \$1.5 million and \$2.8 million of costs for EU MDR compliance for the three and six months ended June 30, 2024, respectively, and \$0.9 million and \$2.0 million of costs for EU MDR compliance for the three and six months ended June 30, 2023, respectively. In early 2023, the deadlines for compliance were extended after compliance was proceeding slower than expected by the European Commission due to a number of factors including insufficient capacity for timely issuance of device certifications under the new requirements. We expect the activities associated with EU MDR compliance will be substantially complete by the end of 2025.

Intangibles amortization: Intangibles amortization is related primarily to intangibles acquired in business acquisitions and was \$6.3 million and \$12.4 million for the three and six months ended June 30, 2024, respectively, and \$5.8 million and \$11.6 million for the three and six months ended June 30, 2023, respectively.

Interest Expense

Interest expense consists of interest accrued and amortization of debt issuance costs on our revolving credit facility net of interest capitalized on long-term capital projects. See Note 7, "Debt" in Item 1 of this Form 10-Q. Interest expense was \$3.1 million and \$6.2 million for the three and six months ended June 30, 2024, respectively, compared to \$3.5 million and \$7.0 million in the three and six months ended June 30, 2023, respectively. Our outstanding debt balances, net of unamortized discounts, were \$175.1 million and \$168.0 million as of June 30, 2024 and December 31, 2023, respectively.

Income Taxes

The income tax provision was \$1.9 million and \$2.9 million, respectively, in the three and six months ended June 30, 2024, compared to an income tax benefit of \$0.8 million and \$2.1 million in the three and six months ended June 30, 2023, respectively. Our effective tax rate was 30.6% and 37.7% in the three and six months ended June 30, 2024, respectively. For the three and six months ended June 30, 2023, our effective tax rate was 15.7% and 14.8%, respectively.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash on hand provided by operating activities and amounts available with our Revolving Credit Facility under our Credit Agreement. We expect our operating cash flow will be sufficient to meet our working capital requirements and fund capital expenditures in the next twelve months. In addition, with our borrowing capacity, we expect to have the ability to fund capital expenditures and other investments necessary to grow our business for the foreseeable future for both our domestic and international operations.

As of June 30, 2024, \$42.6 million of our \$92.2 million of cash and cash equivalents was held by foreign subsidiaries. We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested overseas and currently do not have plans to repatriate such earnings. We do not expect restrictions on repatriation of cash held outside of the United States to have a material effect on our overall liquidity, financial condition or results of operations for the foreseeable future.

Cash and cash equivalents increased by \$4.5 million to \$92.2 million as of June 30, 2024, compared to \$87.7 million as of December 31, 2023. The increase was primarily driven by \$19.8 million of cash provided by operations and \$20.0 million in proceeds from our revolving credit facility. This was partially offset by \$10.0 million of capital expenditures, payments of \$3.1 million on our term loan, payments of \$10.0 million on our revolving credit facility and \$12.6 million used to repurchase shares of our common stock.

In the prior year, cash and cash equivalents decreased by \$45.9 million to \$81.8 million as of June 30, 2023. The decrease was primarily driven by \$9.4 million of cash used in operating activities, payments of \$20.0 million on our revolving credit facility and \$3.1 million on our term loan and \$8.0 million of capital expenditures.

Long-Term Debt

On June 24, 2022, we entered into a credit agreement (the "Credit Agreement") with certain lenders which established credit facilities in an aggregate principal amount of \$500.0 million, consisting of a five-year senior secured term loan of \$125.0 million (the "Term Loan Facility") and a five-year senior secured revolving credit facility allowing borrowings of up to \$375.0 million, with a letter of credit sub-facility in an amount of \$75.0 million (the "Revolving Credit Facility"). All obligations under the Credit Agreement and certain hedging agreements and cash management arrangements thereunder are: (i) guaranteed by each of the Company's direct and indirect, existing and future, material wholly owned domestic subsidiaries ("Guarantors") and (ii) secured by a first priority lien on substantially all the assets of the Company and the Guarantors. The Credit Agreement contains an accordion feature that allows us to incur incremental term loans under the Term Loan Facility or under new term loan facilities or to increase the amount of the commitments under the Revolving Credit Facility, including through the establishment of one or more tranches under the Revolving Credit Facility. The Credit Agreement will mature on June 24, 2027.

Borrowings under the Term Loan Facility and Revolving Credit Facility bear interest at our option at either: (i) an adjusted term secured overnight financing rate ("SOFR"), plus a margin ranging between 1.50% to 2.00% per annum, depending on our consolidated total leverage ratio; (ii) an adjusted daily simple SOFR rate, plus a margin ranging between 1.50% to 2.00% per annum, depending on our consolidated total leverage ratio; or (iii) a base rate (calculated as the greatest of (a) the prime rate, (b) the NYFRB rate (being the greater of the federal funds effective rate or the overnight bank funding rate) plus 0.50%, and (c) the one month adjusted term SOFR rate plus 1.00%), plus a margin ranging between 0.50% to 1.00% per annum, depending on our

consolidated total leverage ratio. The unused portion of the Revolving Credit Facility will be subject to a commitment fee ranging between 0.20% to 0.25% per annum, depending on our consolidated total leverage ratio.

The Credit Agreement requires compliance with certain customary operational and financial covenants. As of June 30, 2024, we were in compliance with these covenants. In addition, the Credit Agreement contains certain other customary limitations on our ability to, among other things: incur additional indebtedness; pay dividends on or repurchase or redeem our capital stock; make loans, investments and acquisitions; sell, transfer or otherwise dispose of assets; guarantee other obligations; create or grant liens; and enter into certain types of transactions with affiliates. Notwithstanding such limitations, the Credit Agreement allows us to pay dividends, repurchase stock and make investments up to an "Available Amount," as defined in the Credit Agreement, provided no event of default has occurred and certain financial ratios have been achieved on a pro forma basis.

See Note 7, "Debt" in Item 1 of this Form 10-Q for further details regarding our debt agreements.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared by applying certain accounting policies. See Note 1, "Accounting Policies" in Item 8, "Financial Statements and Supplementary Data" in the Form 10-K, which describes our most significant accounting policies. In addition, our critical accounting policies and estimates are presented under the caption "Critical Accounting Policies and Use of Estimates" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" in the Form 10-K. Certain of these policies require management to make estimates or assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods. Management views these policies as critical accounting policies. See Note 1, "Accounting Policies" in Item 1 of this Form 10-Q for updates to our critical accounting policies and a discussion of recent accounting pronouncements. In the three and six months ended June 30, 2024, there were no significant changes to our critical accounting estimates from those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" in the Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes regarding our market risk position from the information provided under Item 7A – "Quantitative and Qualitative Disclosures About Market Risk" in the Form 10-K.

Item 4. Controls and Procedures

With the participation of management, our Chief Executive Officer (principal executive officer) and our Senior Vice President, and Chief Financial Officer (principal financial officer) carried out an evaluation, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of June 30, 2024.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various legal proceedings, claims and governmental inspections, audits or investigations pertaining to issues such as contract disputes, product liability, tax matters, patents and trademarks, advertising, governmental regulations, employment and other matters. At present, although the results of litigation and claims cannot be predicted with certainty, we believe that the ultimate resolution of any pending legal proceeding to which we are a party will not have a material adverse effect on our business, financial condition, results of operations or liquidity.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in Part I, Item 1A, "Risk Factors," of the Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description
2.2	First Amendment to Purchase Agreement dated as of October 2, 023 by and between Avanos Medical, Inc. and SunMed Group Holdings, LLC, incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on October 2, 2023
3.1	Second Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 6, 2020
3.2	Sixth Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on May 6, 2020
10.23*	Employment Offer Letter dated March 30, 2024 for Sigfrido Delgado, filed herewith
10.24*	Second Amendment to Employment Offer Letter dated June 21, 2024 for Mojirade James, filed herewith
31(a)	Section 302 CEO Certification, filed herewith
31(b)	Section 302 CFO Certification, filed herewith
32(a)**	Section 906 CEO Certification, furnished herewith
32(b)**	Section 906 CFO Certification, furnished herewith
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Management contracts, compensatory plans or arrangements.

** The certifications attached as Exhibit 32(a) and 32(b) that accompany this Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Avanos Medical, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVANOS MEDICAL, INC.

(Registrant)

July 31, 2024

By: /s/ Michael C. Greiner

Michael C. Greiner

Senior Vice President,

Chief Financial Officer and Chief Transformation Officer

(Principal Financial Officer)

July 31, 2024

By: /s/ John J. Hurley

John J. Hurley

Controller

(Principal Accounting Officer)



5405 Windward Parkway
Alpharetta, GA 30004
T 1-844-4AVANOS www.avanos.com

03/28/2024

Sig Delgado

Dear Sig,

We are pleased to extend to you an offer of employment to join Avanos Medical in the position of Senior Vice President, Integrated Supply Chain. In this role you will report to Joe Woody, the Chief Executive Officer of Avanos.

Start Date

Your anticipated start date is 5/6/2024.

Compensation

As discussed, your total annual compensation is \$1,369,000, consisting of base salary, short term incentive compensation, and long-term incentive compensation. Further details are below:

Base Salary

Your starting salary will be \$465,000.00 per year and is subject to applicable withholdings and deductions. You are paid semi-monthly on the 15th and last day of the month. If the normal check date falls on a weekend or holiday, you will be paid on the previous business day.

Short-Term Incentive

You will be eligible to participate in the Avanos Management Achievement Award Plan (MAAP). Medical Annual Incentive Plan (AIP). Your bonus incentive target will be 60% of your earned base pay (an annual target of \$279,000). Your actual bonus for 2024 will be prorated for the year.

Bonus criteria are established each year by the Compensation Committee. For the 2024 year, your bonus will be based on Avanos performance for the years against targets established by the compensation committee in March of 2024. In early 2025, the Committee will assess the extent to which those performance targets have been met and then approve the resulting payouts to officers. The complete terms and conditions of the MAAP are set forth in Avanos' Plan Document.

Long-Term Incentive

Beginning in 2025, you will be eligible for annual long-term grant incentive grants under Avanos' equity Participation Plan. For 2024, your annual target award value is \$625,000.

Future annual long-term incentive target grant amount along with the grant type and mix are subject to change by Avanos Board of Directors at their discretion. The complete terms and conditions of Avanos' Equity Participation Plan are set forth in the Plan Document.

Sign-On Award

You will also be awarded a one-time sign-on award in the amount of \$500,000. This award will be granted as of your start-date and will consist of cash in the amount of \$150,000 and time-based restricted share units in the amount of \$350,000. The cash award will be paid to you within 90 days of your start date. The number of time-based restricted share units to be granted will be equal to the sign-on equity award amount (\$350,000) divided by the closing stock price for Avanos shares on the grant date. These time-based restricted shares units will vest on the third anniversary of the grant date. The sign-on awards will be subject to applicable state and federal tax withholdings when paid.

Benefits

Avanos Medical offers a comprehensive benefits package that includes medical, dental, vision, life insurance, flexible spending accounts, company-paid disability programs and a matching 401(k) plan. You will be provided a benefits guide with details of these programs.

Vacation

As an employee of Avanos Medical you will receive four (4) personal holidays per year and accrue three (3) weeks of vacation per year. Vacation and personal holidays are prorated based on your date of hire.

Relocation

Avanos' corporate headquarters are based in Alpharetta, Georgia. Should you choose to relocate within two calendar years of your acceptance of this offer, you will be eligible to participate in Avanos' Relocation Program. Relocation must be complete within one calendar year of its commencement. Weichart Workforce Mobility Inc. administers Avanos' relocation services, and should you relocate, a Weichart representative will contact you following your initiation of the move to review the relocation program with you.

In the unlikely event that you voluntarily leave the organization within two years of your relocation, you will be obligated to repay to Avanos any relocation payments you have received under the Relocation Program.

Severance

You will be eligible to participate in Avanos' existing Severance Plan. The general terms of the plan are described in Avanos' Proxy Statement and the complete terms and conditions are set forth in Avanos' Plan Documents.

Other Considerations

This offer is contingent upon: 1) the successful completion of a background check and satisfactory results of a pre-employment drug test; verification of your legal right to work in the United States; and acknowledgment that you are not under any non-compete, non-solicitation, or any other agreements that would prevent you from working for Avanos Medical. 2) Your acceptance of Avanos' Confidentiality, Non-Solicitation and Assignment of Business Ideas Agreement. These agreements are required of all new hires of Avanos Medical because of an employee's potential access to confidential information, customer lists, and trade secrets.

Employment at Avanos Medical is at-will and can be ended by you or the company for any reason at any time. Furthermore, this letter is simply intended to provide a general description of the terms of your at-will employment. It does not constitute a contract or give rise to any contractual or quasi-contractual rights, and the offer of employment or the terms of the employment may be changed or rescinded by Avanos at any time.

We look forward to your acceptance of this offer and would appreciate your prompt response.

If you have any questions or need additional information, please feel free to give me or Joe Woody a call.

Sincerely,

/s/ John Cato

John Cato
Vice President, Human Resources

To indicate your acceptance of this offer and its terms and conditions, please sign in the space provided below:

/s/ Sig Delgado

Sig Delgado

Date: 03/30/24



5405 Windward Parkway
Alpharetta, GA 30004
T 1-844-4AVANOS www.avanos.com

June 21, 2024

Ms Mojirade James
Delivered via Hand Delivery

Re: Amendment to May 21, 2021 Offer Letter

Moji,

Based on our discussion over the past few months, I wanted to use this amendment to memorialize the changes to the Relocation and Travel sections of your original offer letter and subsequent amendments that have gone into effect.

Relocation

The original requirement was to relocate within 18 months of your July 12, 2021 start date. With the signing of this amendment, relocation to the Alpharetta area is no longer required.

Travel

Travel expenses (including airfare and hotel) related to travel to and from your home in Philadelphia to the Corporate office of Avanos Medical in Alpharetta, GA, will be considered business travel and paid for by the Company. You will be expected to book your business travel through the Company vendors and be subject to the guidelines of the Avanos Travel and Expense policy.

Unless otherwise noted, this amendment supersedes the Relocation and Travel sections of your original offer letter and subsequent amendments.

I believe this captures the totality of our conversation. If you have any questions, please feel free to contact me directly.

Regards,

Sincerely,

/s/ John W. Cato

John W. Cato
Vice President, Global Human Resources

To indicate your acceptance of this amendment and its terms and conditions, please sign in the space provided below:

/s/ Mojirade James
Mojirade James
June 21, 2024

CERTIFICATIONS

I, Joseph F. Woody, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Avanos Medical, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 31, 2024

/s/ Joseph F. Woody

Joseph F. Woody
Chief Executive Officer (Principal Executive Officer)

CERTIFICATIONS

I, Michael C. Greiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Avanos Medical, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 31, 2024

/s/ Michael C. Greiner

Michael C. Greiner
Senior Vice President, Chief Financial Officer and Chief Transformation Officer
(Principal Financial Officer)

Certification of Chief Executive Officer
Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

I, Joseph F. Woody, Chief Executive Officer of Avanos Medical, Inc., certify that, to my knowledge:

- (1) the Form 10-Q, filed with the Securities and Exchange Commission on July 31, 2024 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the accompanied report fairly presents, in all material respects, the financial condition and results of operations of Avanos Medical, Inc.

Date: July 31, 2024

/s/ Joseph F. Woody

Joseph F. Woody
Chief Executive Officer (Principal Executive Officer)

Certification of Chief Financial Officer
Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

I, Michael C. Greiner, Chief Financial Officer of Avanos Medical, Inc., certify that, to my knowledge:

- (1) the Form 10-Q, filed with the Securities and Exchange Commission on July 31, 2024 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the accompanied report fairly presents, in all material respects, the financial condition and results of operations of Avanos Medical, Inc.

Date: July 31, 2024

/s/ Michael C. Greiner

Michael C. Greiner

Senior Vice President, Chief Financial Officer and Chief Transformation Officer
(Principal Financial Officer)