



Integra LifeSciences Reports Second Quarter 2019 Financial Results

July 24, 2019

Reported revenues increased 4.8% to \$383.6 million; organic revenues increased 6.6%

GAAP and adjusted earnings per diluted share were \$0.34 and \$0.73, respectively

The Company reaffirms revenue guidance and updates EPS guidance

PLAINSBORO, N.J., July 24, 2019 (GLOBE NEWSWIRE) -- [Integra LifeSciences Holdings Corporation](#) (NASDAQ: IART), a leading global medical technology company, today reported financial results for the second quarter ending June 30, 2019.

Second Quarter 2019 Highlights

- Reported revenues were \$383.6 million, an increase of 4.8% compared to the second quarter of 2018, and organic revenues increased 6.6% over the prior-year quarter;
 - Reported revenues in the Codman Specialty Surgical segment increased 4.1% compared to the second quarter of 2018;
 - Reported revenues in the Orthopedics and Tissue Technologies segment increased 6.1% compared to the second quarter of 2018;
 - Foreign currency exchange rate changes negatively impacted reported revenues by \$4.0 million in the second quarter of 2019;
- GAAP gross margin was 62.6%, an increase of 20 basis points compared to the second quarter of 2018. Adjusted gross margin was 67.4%, unchanged from the prior-year quarter;
- Adjusted EBITDA margin was 25.5%, an increase of 200 basis points compared to the second quarter of 2018;
- GAAP earnings per diluted share were \$0.34, more than double the prior-year quarter;
- Adjusted earnings per diluted share were \$0.73, an increase of 21.7% over the second quarter of 2018;
- The Company reaffirms its revenue guidance for the full-year 2019, which includes total reported revenues of \$1.515 billion to \$1.525 billion and organic revenue growth of approximately 5%;
- The Company reaffirms its GAAP earnings per diluted share guidance range for the full-year 2019 of \$1.46 to \$1.53. The Company is raising guidance for adjusted earnings per diluted share to a new range of \$2.70 to \$2.75.

"Strong performance across our entire product portfolio, and in particular new product launches, drove our second quarter results," said Peter Arduini, Integra's president and chief executive officer. "As we near the end of the Codman integration, we are experiencing a more stable operating environment and realizing the strategic benefits of the combined organizations."

The company reported GAAP net income of \$29.7 million, or \$0.34 per diluted share, in the second quarter of 2019, compared to GAAP net income of \$11.4 million, or \$0.14 per diluted share, in the second quarter of 2018. The improvement was driven by higher revenues, lower integration costs, improved operating leverage and lower interest expense.

Adjusted net income for the second quarter of 2019 was \$63.4 million, an increase of 25.4% from the prior year. The increase in adjusted net income is a result of higher revenues, improved operating leverage and lower interest expense. Adjusted earnings per diluted share for the second quarter of 2019 was \$0.73, an increase of 21.7% over the prior year's quarter.

Adjusted EBITDA for the second quarter of 2019 was \$97.9 million, or 25.5% of revenue, a 200 basis point improvement compared to \$85.9 million, or 23.5% of revenue, in the second quarter of 2018. This increase was driven mostly by improved operating leverage.

2019 Full-Year Outlook

The Company reaffirms its revenue guidance for the full-year 2019, which includes total reported revenues of \$1.515 billion to \$1.525 billion and organic revenue growth of approximately 5%.

The Company reaffirms its GAAP earnings per diluted share guidance range for the full-year 2019 of \$1.46 to \$1.53. The Company is raising guidance for adjusted earnings per diluted share to a new range of \$2.70 to \$2.75 from its prior range of \$2.65 to \$2.72.

In the future, the company may record, or expects to record, certain additional revenues, gains, expenses, or charges as described in the Discussion of Adjusted Financial Measures below, which will be excluded from the calculation of adjusted EBITDA, adjusted earnings per share for historical periods and in adjusted earnings per share guidance.

Conference Call and Presentation Available Online

Integra has scheduled a conference call for 8:30 AM ET today, Wednesday, July 24, 2019, to discuss financial results for the second quarter and

forward-looking financial guidance. The conference call will be hosted by Integra's senior management team and will be open to all listeners. Additional forward-looking information may be discussed in a question and answer session following the call.

Integra's management team will reference a presentation during the conference call. The presentation can be found on investor.integralife.com.

Access to the live call is available by dialing (888) 394-8218 and using the passcode 2606382. The call can also be accessed via a webcast link provided on investor.integralife.com. A replay of the call will be available through July 29, 2019 by dialing (888) 203-1112 and using the passcode 2606382. The webcast will also be archived on the website.

About Integra

Integra LifeSciences is a global leader in regenerative technologies, neurosurgical and extremity orthopedic solutions dedicated to limiting uncertainty for clinicians, so they can focus on providing the best patient care. Integra offers a comprehensive portfolio of high quality, leadership brands that include AmnioExcel®, Bactiseal®, Cadence®, Certas™, Codman®, CUSA®, DuraGen®, DuraSeal®, ICP Express®, Integra®, MediHoney®, MicroFrance®, PriMatrix®, Salto Talaris®, SurgiMend®, TCC-EZ®, Titan™ and VersaTru™. For the latest news and information about Integra and its brands, please visit www.integralife.com.

This news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties and reflect the Company's judgment as of the date of this release. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements. Some of these forward-looking statements may contain words like "will," "believe," "may," "could," "would," "might," "possible," "should," "expect," "intend," "plan," "anticipate," or "continue," the negative of these words, other terms of similar meaning or they may use future dates. Forward-looking statements contained in this news release include, but are not limited to, statements concerning future financial performance, including projections for revenues, expected revenue growth (both reported and organic), GAAP and adjusted net income, GAAP and adjusted earnings per diluted share, non-GAAP adjustments such as acquisition and integration-related charges, litigation charges, impairment charges, intangible asset amortization, structural optimization charges, EU Medical Device Regulation-related charges and income tax expense (benefit) related to non-GAAP adjustments and other items. It is important to note that the Company's goals and expectations are not predictions of actual performance. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from predicted or expected results. Such risks and uncertainties include, but are not limited to, the following: the Company's ability to execute its operating plan effectively; the Company's ability to achieve sales growth in a timely fashion and execute on its channel expansion in its Orthopedics and Tissue Technologies segment; the Company's ability to successfully integrate the Codman Neurosurgery business and other acquired businesses, including the realignment of acquired global sales territories; the Company's ability to manufacture and ship sufficient quantities of its products to meet its customers' demands; the ability of third-party suppliers to supply us with raw materials and finished products; global macroeconomic and political conditions; the Company's ability to manage its direct sales channels effectively; the sales performance of third-party distributors on whom the Company relies to generate revenue for certain products and geographic regions; the Company's ability to maintain relationships with customers of acquired entities and businesses; physicians' willingness to adopt and third-party payors' willingness to provide or maintain reimbursement for the Company's recently launched, planned and existing products; initiatives launched by the Company's competitors; downward pricing pressures from customers; the Company's ability to secure regulatory approval for products in development; the Company's ability to remediate quality systems violations; fluctuations in hospitals' spending for capital equipment; the Company's ability to comply with and obtain approvals for products of human origin and comply with regulations regarding products containing materials derived from animal sources; difficulties in controlling expenses, including costs to procure and manufacture our products; the impact of changes in management or staff levels; the impact of goodwill and intangible asset impairment charges if future operating results of acquired businesses are significantly less than the results anticipated at the time of the acquisitions, the Company's ability to leverage its existing selling organizations and administrative infrastructure; the Company's ability to increase product sales and gross margins, and control non-product costs; the Company's ability to achieve anticipated growth rates, margins and scale and execute its strategy generally; the amount and timing of acquisition and integration-related costs; the geographic distribution of where the Company generates its taxable income; the effect of legislation effecting healthcare reform in the United States and internationally; fluctuations in foreign currency exchange rates; the amount of our bank borrowings outstanding and other factors influencing liquidity; and the economic, competitive, governmental, technological, and other risk factors and uncertainties identified under the heading "Risk Factors" included in Item 1A of Integra's Annual Report on Form 10-K for the year ended December 31, 2018 and information contained in subsequent filings with the Securities and Exchange Commission.

These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise.

Discussion of Adjusted Financial Measures

In addition to our GAAP results, we provide certain non-GAAP measures, including organic revenues, adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted net income, adjusted earnings per diluted share, free cash flow and adjusted free cash flow conversion. Organic revenues consist of total revenues excluding the effects of currency exchange rates, revenues from current-period acquisitions and product discontinuances. Adjusted EBITDA consists of GAAP net income excluding: (i) depreciation and amortization; (ii) other income (expense); (iii) interest income and expense; (iv) income tax expense (benefit); and (v) those operating expenses also excluded from adjusted net income. The measure of adjusted net income consists of GAAP net income, excluding: (i) structural optimization charges; (ii) acquisition and integration-related charges; (iii) litigation charges; (iv) EU Medical Device Regulation-related charges; (v) discontinued product lines charges; (vi) intangible asset amortization expense; (vii) income tax impact from adjustments. The adjusted earnings per diluted share measure is calculated by dividing adjusted net income attributable to diluted shares by diluted weighted average shares outstanding. The measure of free cash flow consists of GAAP net cash provided by operating activities less purchases of property and equipment. The adjusted free cash flow conversion measure is calculated by dividing free cash flow by adjusted net income.

Reconciliations of GAAP revenues to adjusted revenues and GAAP Adjusted Net Income to adjusted EBITDA, and adjusted net income, and GAAP earnings per diluted share to adjusted earnings per diluted share all for the quarters ended June 30, 2019 and 2018, and the free cash flow and free cash flow conversion for the quarters ended June 30, 2019 and 2018, appear in the financial tables in this release.

The Company believes that the presentation of organic revenues and the other non-GAAP measures provide important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. For further information regarding why Integra believes that these non-GAAP financial measures provide useful information to investors, the specific manner in

which management uses these measures, and some of the limitations associated with the use of these measures, please refer to the Company's Current Report on Form 8-K regarding this earnings press release filed today with the Securities and Exchange Commission. This Current Report on Form 8-K is available on the SEC's website at www.sec.gov or on our website at www.integralife.com.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended June 30,	
	2019	2018
Total revenues, net	\$ 383,645	\$ 366,190
Costs and expenses:		
Cost of goods sold	143,671	137,565
Research and development	17,633	19,108
Selling, general and administrative	165,378	176,597
Intangible asset amortization	11,004	5,286
Total costs and expenses	337,686	338,556
Operating income	45,959	27,634
Interest income	2,710	174
Interest expense	(13,384)	(17,504)
Other income, net	1,098	2,427
Income before taxes	36,383	12,731
Income tax expense	6,647	1,355
Net income	\$ 29,736	\$ 11,376
Net income per share:		
Diluted net income per share	\$ 0.34	\$ 0.14
Weighted average common shares outstanding for diluted net income per share	86,257	83,513

The following table presents revenues disaggregated by the major sources for the three months ended June 30, 2019 and 2018 (amounts in thousands):

	Three Months Ended June 30,		
	2019	2018	Change
Neurosurgery	\$ 177,411	\$ 170,589	4.0%
Precision Tools and Instruments	71,847	68,915	4.3%
Total Codman Specialty Surgical	\$ 249,258	\$ 239,504	4.1%
Wound Reconstruction and Care	82,282	78,311	5.1%
Extremity Orthopedics	21,762	22,017	(1.2)%
Private Label	30,343	26,358	15.1%
Total Orthopedics and Tissue Technologies ⁽¹⁾	134,387	126,686	6.1%
Total reported revenues	\$ 383,645	\$ 366,190	4.8%
Impact of changes in currency exchange rates	3,958	—	
Less contribution of revenues from divested products	(1,364)	(2,390)	
Less contribution of revenues from discontinued products	(6,288)	(7,361)	
Total organic revenues ⁽²⁾	\$ 379,951	\$ 356,439	6.6%

(1) Prior period amounts were reclassified between categories within Orthopedics and Tissue Technologies segment to conform to the current period presentation.

(2) Organic revenues have been adjusted to exclude foreign currency (current period) and to account for divested and discontinued products.

Items included in GAAP net income and location where each item is recorded are as follows:

(In thousands)

Three Months Ended June 30, 2019

Item	Total Amount	COGS(a)	SG&A(b)	Amort.(c)	Tax(d)
Structural optimization charges	3,017	2,153	864	—	—
Acquisition and integration-related charges ⁽¹⁾	12,821	2,857	9,964	—	—
Litigation charges	1,051	—	1,051	—	—
EU Medical Device Regulation charges	114	—	114	—	—
Discontinued product lines charges	2,321	2,321	—	—	—
Intangible asset amortization expense	22,339	11,334	—	11,005	—
Estimated income tax impact from above adjustments and other items	(8,048)	—	—	—	(8,048)
Total adjustments	\$ 33,615	\$ 18,665	\$ 11,993	\$ 11,005	\$ (8,048)

Depreciation expense	10,319	—	—	—	—
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- a. COGS - Cost of goods sold
- b. SG&A - Selling, general and administrative
- c. Amort. - Intangible asset amortization
- d. Tax - Income tax expense (benefit)

(1) Acquisition and integration-related charges are associated with the Codman Neurosurgery acquisition and include banking, legal, consulting, systems, and other expenses.

Three Months Ended June 30, 2018

(In thousands)

Item	Total Amount	COGS (a)	SG&A (b)	Amort. (c)	OI&E (d)	Tax (e)
Structural optimization charges	6,947	2,022	4,134	—	791	—
Acquisition and integration-related charges ⁽¹⁾	23,697	4,614	19,083	—	—	—
Litigation charges	1,502	—	1,502	—	—	—
Intangible asset amortization expense	16,729	11,443	—	5,286	—	—
Estimated income tax impact from above adjustments and other items	(9,740)	—	—	—	—	(9,740)
Total adjustments	\$ 39,135	\$ 18,079	\$ 24,719	\$ 5,286	\$ 791	\$ (9,740)

Depreciation expense	10,177	—	—	—	—	—
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- a. COGS - Cost of goods sold
- b. SG&A - Selling, general and administrative
- c. Amort. - Intangible asset amortization
- d. OI&E - Interest (income) expense, net and other (income) expense, net
- e. Tax - Income tax expense (benefit)

(1) Acquisition and integration-related charges are associated with the Derma Sciences and Codman Neurosurgery acquisitions and include banking, legal, consulting, systems, and other expenses.

RECONCILIATION OF NON-GAAP ADJUSTMENTS - GAAP NET INCOME TO ADJUSTED EBITDA
(UNAUDITED)
(In thousands)

Three Months Ended June 30,	
2019	2018

GAAP net income	\$	29,736	\$	11,376
Non-GAAP adjustments:				
Depreciation and intangible asset amortization expense		32,658		26,906
Other income, net	\$	(1,098)		(2,427)
Interest expense, net		10,674		16,539
Income tax benefit		6,647		1,355
Discontinued product lines charges		2,321		—
Structural optimization charges		3,017		6,947
Litigation Charges		1,051		1,502
EU Medical Device Regulation charges		114		—
Acquisition and integration-related charges ⁽¹⁾		12,821		23,697
Total of non-GAAP adjustments		68,205		74,519
Adjusted EBITDA	\$	97,941	\$	85,895

(1) Acquisition and integration-related charges are associated with the Derma Sciences and Codman Neurosurgery acquisitions and include banking, legal, consulting, systems, and other expenses.

RECONCILIATION OF NON-GAAP ADJUSTMENTS - GAAP NET INCOME TO MEASURES OF ADJUSTED NET
INCOME AND ADJUSTED EARNINGS PER SHARE
(UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended June 30,			
	2019	2018		
GAAP net income	\$	29,736	\$	11,376
Non-GAAP adjustments:				
Structural optimization charges		3,017		6,947
Acquisition and integration-related charges ⁽¹⁾		12,821		23,697
EU Medical Device Regulation charges		114		—
Litigation Charges		1,051		1,502
Discontinued product lines charges		2,321		—
Intangible asset amortization expense		22,339		16,729
Estimated income tax impact from adjustments and other items		(8,048)		(9,740)
Total of non-GAAP adjustments		33,615		39,135
Adjusted net income	\$	63,351	\$	50,511
Adjusted diluted net income per share	\$	0.73	\$	0.60
Weighted average common shares outstanding for diluted net income per share		86,257		83,513

(1) Acquisition and integration-related charges are associated with the Derma Sciences and Codman Neurosurgery acquisitions and include banking, legal, consulting, systems, and other expenses.

CONDENSED BALANCE SHEET DATA
(UNAUDITED)

(In thousands)

	June 30, 2019	December 31, 2018		
Cash and cash equivalents	\$	176,084	\$	138,838
Accounts receivable, net		296,507		265,737
Inventories, net		296,505		280,347

Senior credit facility	1,249,537	1,233,013
Accounts receivable securitization	102,400	121,200
Stockholders' equity	\$ 1,420,951	\$ 1,375,796

CONDENSED STATEMENT OF CASH FLOWS
(UNAUDITED)

(In thousands)	Six Months Ended June 30,	
	2019	2018
Net cash provided by operating activities	\$ 78,008	\$ 77,744
Net cash used in investing activities	(33,220)	(8,032)
Net cash used in financing activities	(7,799)	(56,978)
Effect of exchange rate changes on cash and cash equivalents	257	(3,898)
Net increase in cash and cash equivalents	\$ 37,246	\$ 8,836

RECONCILIATION OF NON-GAAP ADJUSTMENTS - GAAP OPERATING CASH FLOW TO
MEASURES OF FREE CASH FLOW AND FREE CASH FLOW CONVERSION
(UNAUDITED)
(In thousands)

	Three Months Ended June 30,	
	2019	2018
Net cash provided by operating activities	\$ 48,530	\$ 36,212
Purchases of property and equipment	(17,664)	(19,999)
Free cash flow	30,866	16,213
Adjusted net income ⁽¹⁾	\$ 63,351	\$ 50,511
Adjusted free cash flow conversion	48.7 %	32.1 %

	Twelve Months Ended June 30,	
	2019	2018
Net cash provided by operating activities	\$ 199,953	\$ 134,538
Purchases of property and equipment	(76,105)	(56,880)
Adjusted free cash flow	123,848	77,658
Adjusted net income ⁽¹⁾	\$ 226,552	\$ 183,758
Adjusted free cash flow conversion	54.7 %	42.3 %

(1) Adjusted net income for quarters ended June 30, 2018 and 2019 are reconciled above. Adjusted net income for remaining quarters in the trailing twelve months calculation have been previously reconciled and are publicly available in the Quarterly Earnings Call Presentations on our website at investor.integralife.com under Events & Presentations.

The Company calculates adjusted free cash flow conversion by dividing its free cash flow by adjusted net income. The Company believes this measure is useful in evaluating the significance of the cash special charges in its adjusted earnings measures.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
RECONCILIATION OF NON-GAAP ADJUSTMENTS - GUIDANCE

(In millions, except per share amounts)	Recorded Year to Date	Projected Year Ended December 31, 2019	
	June 30, 2019	Range	
GAAP net income	\$ 62.5	127.0	133.0
Non-GAAP adjustments:			
Structural optimization charges	7.8	17.0	
Litigation charges	2.3	2.3	
Acquisition and integration charges	32.3	45.0	
Discontinued product lines charges	3.7	3.7	
Intangible asset amortization expense	39.0	71.0	
EU Medical Device Regulation-related charges	1.2	10.0	
Estimated income tax impact from adjustments and other items ⁽¹⁾	(29.0)	(41.0)	
Total of non-GAAP adjustments	57.3	108.0	
Adjusted net income	\$ 119.8	\$ 235.0	\$ 240.0
GAAP diluted net income per share	\$ 0.72	\$ 1.46	\$ 1.53
Non-GAAP adjustments detailed above (per share)	\$ 0.67	\$ 1.24	
Adjusted diluted net income per share	\$ 1.39	\$ 2.70	\$ 2.75
Weighted average common shares outstanding for diluted net income per share	86.4	87.0	87.0

GUIDANCE - SPECIAL CHARGES

Item	YTD	FY					
	Amount	Guidance	COGS	SG&A	R&D	Amort.	Tax
Structural optimization charges	7.8	17.0	6.0	11.0	—	—	—
Litigation charges	2.3	2.3	—	2.3	—	—	—
Acquisition-related charges	32.3	45.0	8.0	36.0	1.0	—	—
Discontinued product lines charges	3.7	3.7	3.7	—	—	—	—
Intangible asset amortization expense	39.0	71.0	45.0	—	—	26.0	—
EU Medical Device Regulation-related charges	1.2	10.0	—	10.0	—	—	—
Estimated income tax impact from adjustments and other items ⁽¹⁾	(29.0)	(41.0)	—	—	—	—	(41.0)
Total	57.3	108.0	62.7	59.3	1.0	26.0	(41.0)

(1) Includes a one-time tax benefit of \$10.8 million related to a federal tax holiday in Switzerland granted in March 31, 2019

Investor Relations Contacts:

Pravara Emany
Senior Vice President, Strategy, Treasury & Investor Relations
(609) 936-2488
pravara.emany@integralife.com

Michael Beaulieu
Director, Investor Relations
(609) 750-2827
michael.beaulieu@integralife.com

Media Contact:

Laurene Isip
Senior Director, Global Corporate Communications
(609) 750-7984
laurene.isip@integralife.com

