



# Q3 2019 Earnings Call

October 24, 2019

# Safe Harbor Statement

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This presentation contains forward-looking statements that are based on management's current expectations and beliefs and are subject to a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those described. 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 in this document include without limitation statements regarding Integra's future financial and operating results, such as those identified in this presentation as full-year 2019 guidance and other statements regarding expected revenue growth (both reported and organic), operating margins, capital expenditures, cash and other metrics for 2019, franchise performance within business areas, segments and geographies, Integra's ability to realize the benefits of, and successfully integrate, the Codman Neurosurgery business, as well as other statements regarding Integra's plans, objectives, expectations and intentions. No forward-looking statement can be guaranteed and actual results may differ materially from those we anticipate or project depending upon a number of factors. These factors include, but are not limited to the effects of disruption caused by the Codman acquisition making it more difficult for Integra to execute its operating plan effectively or to maintain relationships with employees, vendors and other business partners; Integra'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 remediate quality systems violations; the Company's ability to achieve sales growth in a timely fashion and successfully execute on its channel expansion in its Orthopedics and Tissue Technologies segment; 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; the difficulty of predicting the timing or outcome of product development efforts and regulatory agency approvals or actions, if any; physicians' willingness to adopt and third-party payers' willingness to provide reimbursement for Integra's existing, recently launched and planned products; difficulties or delays in manufacturing; the availability and pricing of third party sourced products and materials; sales growth of recently launched products; competition from other products (domestic or foreign); and other risks and uncertainties discussed in Integra's filings with the SEC, including under the heading "Risk Factors" in Item 1A of Integra's Annual Report on Form 10-K for the year ended December 31, 2018 and subsequent quarterly reports on Form 10-Q. Integra undertakes no obligation to update any forward-looking statements as a result of new information, future developments or otherwise, except as expressly required by law. All forward-looking statements in this document are qualified in their entirety by this cautionary statement.

# Non-GAAP Financial Measures

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In addition to our GAAP results, we provide 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, acquired revenues 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; and, (viii) Impairment charges. 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.

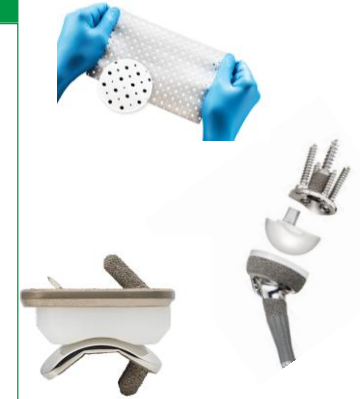
The Company believes that the presentation of the various organic revenue, adjusted EBITDA, adjusted net income, adjusted EPS, free cash flow, and free cash flow conversion measures provide important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations.

# Third Quarter Highlights



## Total Company View

- Revenues of \$379.1M; organic growth 4.7%; International delivered >10% organic growth
  - *Tightening full-year reported revenue guidance to \$1.517B - \$1.522B and reaffirming organic revenue growth of approximately 5%*
- Adjusted earnings per diluted share of \$0.68, an increase of 15.3% over prior year
  - *Lowering 2019 full-year GAAP earnings per diluted share guidance range to \$0.61 to \$0.66 and reaffirming adjusted earnings per diluted share range of \$2.70 to \$2.75*
- Acquired Arkis Biosciences and Rebound Therapeutics, both of which bring new, advanced technologies to drive future growth in our neurosurgery portfolio



## Codman Specialty Surgical

- Broad based strength across product portfolios in Hydrocephalus Mgmt., Advanced Energy, Dural Access & Repair and Instruments
- Have successfully completed all substantial Codman integration activities following the third quarter exit of the TSA in Japan and taking control of additional indirect markets (Day 2 countries)

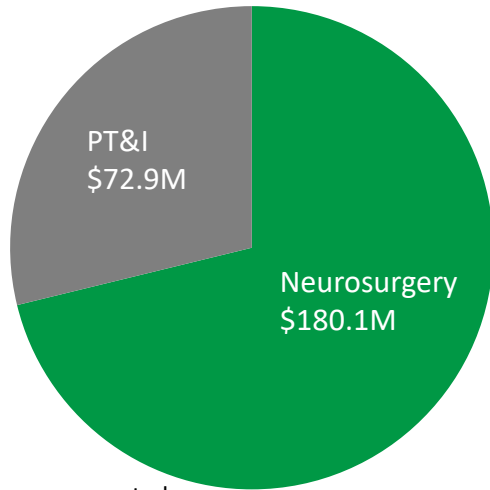
## Orthopedics & Tissue Technologies

- Wound Reconstruction & Care growth led by Advanced Wound Care and Surgical Reconstruction
  - Investing in capacity to meet greater demand
- Private Label underperformed in the quarter
- Extremity Orthopedics growth driven by dedicated channel and recently-launched products
  - U.S. Ortho increased high single digits

**Q3 Outperformance Driven by CSS and International**

# Codman Specialty Surgical

Third Quarter 2019 Revenues  
\$253.0M; 5.8% YoY Growth



\$ in millions as reported

## Q3 2019 Performance Drivers\*

- **Neurosurgery**
  - Broad-based strength across Hydrocephalus Mgmt., Advanced Energy, Dural Access & Repair
- **Precision Tools and Instruments**
  - Strong growth in MicroFrance and Mayfield product lines
- **International increased double digits**
  - Minimal disruption from TSA exits
  - Strength in Neurosurgery including Dural Access & Repair and Hydrocephalus Mgmt.
  - Strong growth in Europe, China, and Japan

\*All commentary represents organic performance

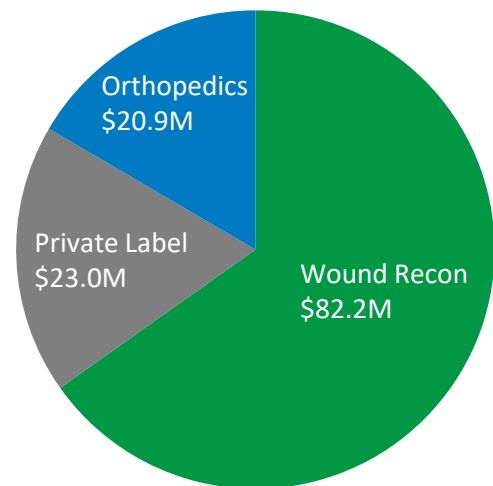
Revenues	Q3 2019	Q3 2018	Growth	Q3 YTD 2019	Q3 YTD 2018	Growth	July 2019 Guidance	October 2019 Guidance
Reported	\$253.0M	\$239.0M	5.8%	\$736.8M	\$714.7M	3.1%	Slightly > 2%	~3%
Organic**	\$246.4M	\$229.7M	7.3%	\$725.8M	\$688.9M	5.3%	Slightly > 4%	~5%

**Global Strength Across the Segment; Raising Full-Year CSS Guidance**

\*\*Amount excludes \$8.3M in Q3 2019 and \$9.3M in Q3 2018 related to divested and discontinued products.

# Orthopedics & Tissue Technologies

## Third Quarter 2019 Revenues \$126.1M; -0.6% YoY Growth



\$ in millions as reported

## Q3 2019 Performance Drivers\*

- **Wound Reconstruction**
  - Outpatient Wound Care increased mid-single digits
  - Plastic & Reconstructive Surgery grew double digits
- **Private Label**
  - Declined double digits based on timing
  - Revising full year sales guidance to be flat
- **Orthopedics**
  - Increased low single digits with high single digit growth in the U.S.
  - Globally, ankle and shoulder exceeded expectations growing nearly 20%
- **International increased mid-single digits**
  - Strong growth in Regenerative portfolio in Europe

\*All commentary represents organic performance

Revenues	Q3 2019	Q3 2018	Growth	Q3 YTD 2019	Q3 YTD 2018	Growth	July 2019 Guidance	October 2019 Guidance
Reported	\$126.1M	\$126.8M	(0.6%)	\$385.6M	\$374.5M	3.0%	5% - 7%	~4%
Organic**	\$126.5M	\$126.4M	0.1%	\$387.7M	\$373.3M	3.8%	6% - 8%	~5%

**OTT Slightly Below Expectations Due to Lower Sales in Private Label**

\*\* Amount excludes \$0.1M in Q3 2019 and \$0.4M in Q3 2018 related to discontinued products.

# Third Quarter and YTD Results / Full-Year 2019 Guidance

% of Revenues	Q3 2019	Q3 2018	Change	Q3 YTD 2019	Q3 YTD 2018	Change	July 2019 Guidance	October 2019 Guidance
Total Revenues	\$379.1	\$365.9	3.6%	\$1,122.4	\$1,089.1	3.1%	\$1.515B - \$1.525B	\$1.517B - \$1.522B
Gross Margin	62.4%	60.8%	+160BPS	63.0%	61.0%	+200BPS	~63%	No Change
Adj. Gross Margin <sup>(1)</sup>	67.0%	67.0%	-	67.6%	67.0%	+60BPS	~67.5%	No Change
Net Income	(\$27.6)	\$13.3	NM	\$34.9	\$35.7	(2.2%)	\$127M - \$133M	\$53M - \$58M
Adj. Net Income <sup>(1)</sup>	\$58.7	\$50.6	16.0%	\$178.5	\$147.2	21.3%	\$235M - \$240M	No Change
Adj. EBITDA Margin <sup>(1)</sup>	24.2%	23.0%	+120BPS	24.7%	23.3%	+140BPS	~24.5%	No Change
Diluted Shares Out (M) <sup>(2)</sup>	86.5	86.3	0.2%	86.6	83.1	4.2%	87	No Change
Earnings per Share	(\$0.32)	\$0.15	NM	\$0.40	\$0.43	(7.0%)	\$1.46 - \$1.53	\$0.61 - \$0.66
Adj. Earnings per Share <sup>(1)</sup>	\$0.68	\$0.59	15.3%	\$2.06	\$1.77	16.4%	\$2.70 - \$2.75	No Change

**Reaffirming Full-Year Organic Revenue Growth Guidance of Approximately 5%**  
**Expect Q4 Revenue of \$395M - \$400M**

(1) These are non-GAAP financial measures. Please see the appendix of this presentation for a reconciliation to the nearest GAAP measure.

(2) For the purposes of GAAP EPS, Basic weighted average shares outstanding as of Sept 20, 2019 were 85.7m

7 Note: Numbers may not add due to rounding

# Cash Flow and Other Measures

(In millions)	Q3 2019	Q3 2018	Change	July 2019 Guidance	October 2019 Guidance
Operating Cash Flow	\$64.2	\$79.3	(\$15.1)	\$220M - \$230M	No Change
CapEx	\$13.6	\$16.7	(\$3.1)	~\$60M	~\$65M
Free Cash Flow <sup>(1)</sup>	\$50.6	\$62.6	(\$12.0)	\$160M - \$170M	\$155M - \$165M
TTM FCF Conversion <sup>(1)</sup>	47.7%	51.8%	(4.1Pts)	> 70%	~65%
Depreciation	\$10.4	\$10.7	(2.8%)	~\$45M	No Change
Amortization	\$16.6	\$21.4	(22.4%)	\$72M	No Change

## Higher Capital Spending in 2019 for Capacity Expansion

(1) These are non-GAAP financial measures. Please see the appendix of this presentation for a reconciliation to the nearest GAAP measure.

Note: Numbers may not add due to rounding



# Key Focus Areas for 2019 (from February 2019)

- Complete Codman integration and exit remaining TSAs
- Leveraging larger and more focused global commercial teams
- Execute over 10 new product introductions
- Increase investments in Regenerative Technologies
- Execute Enterprise contracts to drive broad product portfolios in Neurosurgery & Regenerative Technologies

2019 Financial Targets	
~5% Organic Growth	~100 BPS Gross Margin & EBITDA Margin Expansion
10% - 12% Adjusted EPS Growth	Acceleration in Operating Cash Flow (2H2019)

**Company is Positioned to Achieve 2019 Financial Targets and Meaningful Progress Made in All Focus Areas**



# Appendix

## Non-GAAP Reconciliations



# Third Quarter and YTD 2019 & 2018 Organic Growth Reconciliation

(In millions)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018
<b>Codman Specialty Surgical</b>	\$253.0	\$239.0	\$736.8	\$714.7
<b>Orthopedics and Tissue Technologies</b>	\$126.1	\$126.8	\$385.6	\$374.5
<b>Total Reported Revenues</b>	<b>\$379.1</b>	<b>\$365.9</b>	<b>\$1,122.4</b>	<b>\$1,089.1</b>
Revenues from divested products <sup>(1)</sup>	(0.5)	(2.1)	(3.3)	(7.0)
Revenues from discontinued products <sup>(1)</sup>	(7.9)	(7.6)	(17.2)	(19.9)
Revenues ex divested/ discontinued products	<b>\$370.7</b>	<b>\$356.2</b>	<b>\$1,101.9</b>	<b>\$1,062.2</b>
Impact of changes in currency exchange	2.4	-	11.6	-
<b>Total Organic Revenues</b>	<b>\$373.0</b>	<b>\$356.2</b>	<b>\$1,113.5</b>	<b>\$1,062.2</b>
<i>Organic Revenue Growth</i>	<i>4.7%</i>		<i>4.8%</i>	

(1) Organic Revenue has been adjusted for 2019 and 2018 to account for divestitures and discontinued products.

Note: Numbers may not add due to rounding

# Third Quarter and YTD 2019 & 2018 Organic Growth Reconciliation

(In millions)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018
Neurosurgery	\$180.1	\$171.7	\$523.9	\$509.2
Precision Tools and Instruments	\$72.9	\$67.4	\$212.9	\$205.5
<b>Total Codman Specialty Surgical</b>	<b>\$253.0</b>	<b>\$239.0</b>	<b>\$736.8</b>	<b>\$714.7</b>
Wound Reconstruction and Care	\$82.2	\$80.5	\$239.4	\$230.8
Extremity Orthopedics	\$20.9	\$20.5	\$65.3	\$65.4
Private Label	\$23.0	\$25.8	\$80.9	\$78.2
<b>Total Orthopedics and Tissue Technologies</b>	<b>\$126.1</b>	<b>\$126.8</b>	<b>\$385.6</b>	<b>\$374.5</b>
<b>Total Reported Revenues</b>	<b>\$379.1</b>	<b>\$365.9</b>	<b>\$1,122.4</b>	<b>\$1,089.1</b>
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<i>Organic Revenue Growth</i>	<i>4.7%</i>		<i>4.8%</i>	

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# Third Quarter and YTD 2019 & 2018 Adjusted EBITDA Margin Reconciliation

(In millions)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018
<b>GAAP Net (Loss) Income</b>	<b>(\$27.6)</b>	<b>\$13.3</b>	<b>\$34.9</b>	<b>\$35.7</b>
Depreciation and intangible asset amortization expense	27.0	32.1	86.7	86.1
Other income, net	(1.6)	(1.8)	(6.0)	(6.4)
Interest expense, net	11.0	14.4	32.4	49.6
Income tax expense (benefit)	0.1	(2.3)	(1.2)	(2.8)
Acquisition and integration charges <sup>(1)</sup>	74.5	23.5	106.8	76.1
Structural optimization charges	5.4	3.3	13.2	11.9
Discontinued product lines charges	3.1	-	6.8	-
Litigation charges	(2.3)	1.6	-	3.1
EU Medical Device Regulation	2.0	-	3.2	-
<b>Total of non-GAAP adjustments:</b>	<b>119.2</b>	<b>71.0</b>	<b>242.0</b>	<b>217.7</b>
<b>Adjusted EBITDA</b>	<b>\$91.6</b>	<b>\$84.3</b>	<b>\$276.9</b>	<b>\$253.3</b>
Total Revenues	\$379.1	\$365.9	\$1,122.4	\$1,089.1
<b>Adjusted EBITDA Margin</b>	<b>24.2%</b>	<b>23.0%</b>	<b>24.7%</b>	<b>23.3%</b>

(1) Acquisition and integration-related charges are associated with the Derma Sciences, Codman Neurosurgery, Arkis Biosciences, and Rebound Therapeutics acquisitions and include banking, legal, consulting, systems, and other expenses. The charges for the three months ended 2019 also include a \$59.9 million in-process research and development expense related to the Rebound Therapeutics acquisition.

Note: Numbers may not add due to rounding

# Third Quarter and YTD 2019 and 2018 Adjusted EPS Reconciliation

(In millions)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018
<b>GAAP Net Income</b>	<b>(\$27.6)</b>	<b>\$13.3</b>	<b>\$34.9</b>	<b>\$35.7</b>
Acquisition and integration charges <sup>(1)</sup>	74.5	23.5	106.8	76.1
Structural optimization charges	5.4	3.3	13.2	11.9
Discontinued product line charges	3.1	-	6.8	-
Litigation charges	(2.3)	1.6	-	3.1
EU Medical Device Regulation	2.0	-	3.2	-
Intangible asset amortization expense	16.6	21.4	55.6	55.1
Estimated income tax impact from adjustments and other items <sup>(2)</sup>	(12.9)	(12.6)	(42.0)	(34.7)
Total of non-GAAP adjustments:	86.4	37.3	143.6	111.5
<b>Adjusted Net Income</b>	<b>\$58.7</b>	<b>\$50.6</b>	<b>\$178.5</b>	<b>\$147.2</b>
<b>Adjusted Diluted Net Income per Share</b>	<b>\$0.68</b>	<b>\$0.59</b>	<b>\$2.06</b>	<b>\$1.77</b>
Weighted average common shares outstanding for diluted net income from continuing operations per share	86.5	86.3	86.6	83.1

(1) Acquisition and integration-related charges are associated with the Derma Sciences, Codman Neurosurgery, Arkis Biosciences, and Rebound Therapeutics acquisitions and include banking, legal, consulting, systems, and other expenses. The charges for the three months ended 2019 also include a \$59.9 million in-process research and development expense related to the Rebound Therapeutics acquisition.

(2) Includes one-time tax benefit of \$10.8 million related to a federal tax holiday in Switzerland, which was finalized during the quarter ended March 31, 2019.

Note: Numbers may not add due to rounding

# Third Quarter 2019 and 2018 (TTM) Free Cash Flow Reconciliation

(In millions)	Q3 2019	Q3 2018	TTM Q3 2019	TTM Q3 2018
Net Cash from Operating Activities	\$64.2	\$79.3	\$184.9	\$168.6
Purchases of Property and Equipment	(13.6)	(16.7)	(73.0)	(65.8)
<b>Free Cash Flow</b>	<b>\$50.6</b>	<b>\$62.6</b>	<b>\$111.9</b>	<b>\$102.8</b>
Adjusted Net Income	\$58.7	\$50.6	\$234.7	\$198.3
<b>Adjusted Free Cash Flow Conversion</b>	<b>86.2%</b>	<b>123.7%</b>	<b>47.7%</b>	<b>51.8%</b>

Note: Numbers may not add due to rounding

# Third Quarter and YTD 2019 & 2018 Gross Margin Reconciliation

(In millions)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018
<b>Reported Gross Profit</b>	<b>\$236.5</b>	<b>\$222.6</b>	<b>\$707.2</b>	<b>\$664.1</b>
Structural optimization charges	1.1	1.0	4.3	4.0
Acquisition and integration charges	1.8	5.5	6.1	22.4
Discontinued product line charges	3.1	-	6.8	-
Intangible asset amortization expense	11.5	16.2	34.2	39.1
<b>Adjusted Gross Profit</b>	<b>\$253.9</b>	<b>\$245.2</b>	<b>\$758.6</b>	<b>\$729.6</b>
Total Revenues	\$379.1	\$365.9	\$1,122.4	\$1,089.1
<b>Adjusted Gross Margin</b>	<b>67.0%</b>	<b>67.0%</b>	<b>67.6%</b>	<b>67.0%</b>

Note: Numbers may not add due to rounding



# Third Quarter and YTD 2019 & 2018 Adjusted SG&A Reconciliation

(In millions)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018
<b>Reported SG&amp;A</b>	<b>\$173.1</b>	<b>\$173.4</b>	<b>\$513.3</b>	<b>\$513.5</b>
Structural optimization charges	3.8	2.4	8.4	7.1
Acquisition and integration charges	12.8	18.1	39.2	53.7
Litigation charges	0.8	1.6	3.1	3.1
EU Medical Device Regulation	2.0	-	3.2	-
<b>Adjusted SG&amp;A</b>	<b>\$153.7</b>	<b>\$151.3</b>	<b>\$459.5</b>	<b>\$449.5</b>
Total Revenues	\$379.1	\$365.9	\$1,122.4	\$1,089.1
<b>Adjusted SG&amp;A (% of Revenues)</b>	<b>40.6%</b>	<b>41.4%</b>	<b>40.9%</b>	<b>41.3%</b>

Note: Numbers may not add due to rounding



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**Q&A**