



# Q2 2019 Earnings Call

July 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. 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.

# Second Quarter Highlights



## Total Company View

- Revenues of \$383.6M; organic growth 6.6%
  - *Reaffirming full-year revenue guidance of \$1.515B - \$1.525B and organic revenue growth of approximately 5%*
- Adjusted earnings per diluted share of \$0.73, up 21.7%
  - *Reaffirming full-year GAAP earnings per diluted share guidance range of \$1.46 to \$1.53 and raising full-year guidance for adjusted earnings per diluted share to \$2.70 to \$2.75*
- Expanded Executive Leadership Team with promotion of Glenn Coleman to COO and appointment of Carrie Anderson to CFO



## Codman Specialty Surgical

- Strong demand across neurosurgery portfolio; new product launches ahead of schedule
- Continued progress with Codman TSAs and taking commercial control of Day 2 countries; on track to complete all substantial integration activities by end of Q3
- Achieving stability in global commercial channels

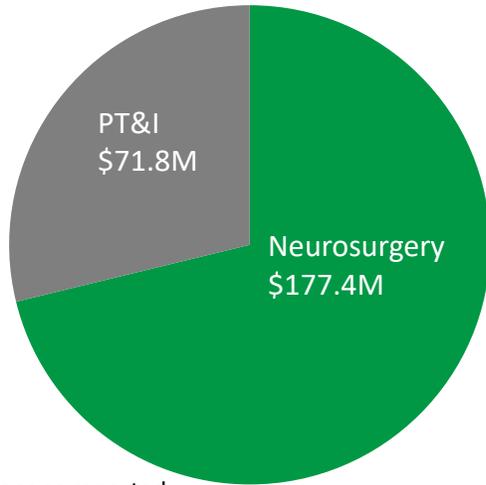
## Orthopedics & Tissue Technologies

- Broad-based growth in Wound Reconstruction business
  - Advanced Wound Care and Surgical Reconstruction leading contributors
- Performance in Orthopedics business continues to stabilize with growth in ankle and shoulder

**Second Quarter Revenue and Adjusted EPS Above Guidance**

# Codman Specialty Surgical

Second Quarter 2019 Revenues  
\$249.2M; 4.1% YoY Growth



\$ in millions as reported

## Q2 2019 Performance Drivers\*

- **Neurosurgery**
  - Broad-based strength across all franchises; mainly CSF and NCC
  - Contributions from new product launches ahead of schedule
- **Precision Tools and Instruments**
  - Strength in acute surgical instruments and cranial stabilization
- **International increased high-single digits**
  - Commercial stability in Europe
  - Strong growth in Canada, China, and Japan

\*All commentary represents organic performance

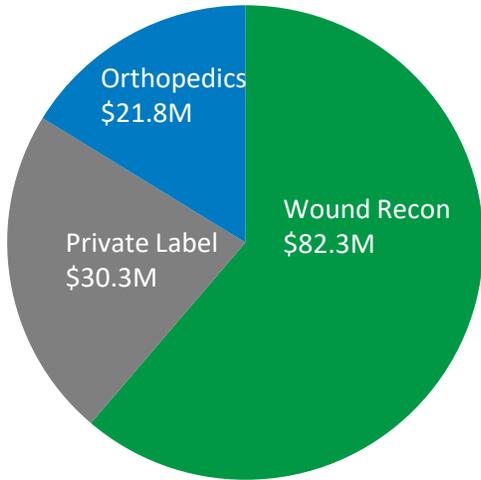
Revenues	Q2 2019	Q2 2018	Growth	Q2 YTD 2019	Q2 YTD 2018	Growth	April 2019 Guidance	July 2019 Guidance
Reported	\$249.2M	\$239.5M	4.1%	\$483.8M	\$475.6M	1.7%	1.5% - 2.0%	Slightly > 2%
Organic**	\$244.9M	\$230.5M	6.2%	\$479.3M	\$459.2M	4.4%	3.5% - 4.0%	Slightly > 4%

**Strong First Half Performance; Raising Full-Year CSS Guidance**

\*\*Amount excludes \$7.5M in Q2 2019 and \$9.0M in Q2 2018 related to divested and discontinued products

# Orthopedics & Tissue Technologies

## Second Quarter 2019 Revenues \$134.4M; 6.1% YoY Growth



\$ in millions as reported

## Q2 2019 Performance Drivers\*

- **Wound Reconstruction**
  - Outpatient Wound Care and Plastic & Reconstructive Surgery grew double digits
  - Inpatient Wound Care increased mid-single digits
- **Private Label**
  - Increased double digits based on timing
- **Orthopedics**
  - Achieved growth targets for 1H19
  - Ankle and shoulder continue in line with plan
  - Continued uptake of our new product launches (Panta II, XT Revision ankle, small post baseplate)
- **International increased double digits**
  - Strong growth in Regenerative portfolio in Europe and Canada

\*All commentary represents organic performance

Revenues	Q2 2019	Q2 2018	Growth	Q2 YTD 2019	Q2 YTD 2018	Growth	April 2019 Guidance	July 2019 Guidance
Reported	\$134.4M	\$126.7M	6.1%	\$259.5M	\$247.7M	4.8%	5% - 7%	No Change
Organic**	\$135.0M	\$125.9M	7.2%	\$261.1M	\$246.9M	5.8%	6% - 8%	No Change

## Second Quarter Performance in Line with Expectations

\*\*Amount excludes \$0.2M in Q2 2019 and \$0.8M in Q2 2018 related to divested and discontinued products

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

% of Revenues	Q2 2019	Q2 2018	Change	Q2 YTD 2019	Q2 YTD 2018	Change	April 2019 Guidance	July 2019 Guidance
Total Revenues	\$383.6	\$366.2	4.8%	\$743.3	\$723.3	2.8%	\$1.515B - \$1.525B	No Change
Gross Margin	62.6%	62.4%	+20BPS	63.3%	61.0%	+230BPS	~63%	No Change
Adj. Gross Margin <sup>(1)</sup>	67.4%	67.4%	0BPS	67.9%	67.0%	+90BPS	~67.5%	No Change
Net Income	\$29.7	\$11.4	160.5%	\$62.5	\$22.4	179.0%	\$127M - \$133M	No Change
Adj. Net Income <sup>(1)</sup>	\$63.4	\$50.5	25.4%	\$119.8	\$96.7	23.9%	\$231M - \$237M	<b>\$235M - \$240M</b>
Adj. EBITDA Margin <sup>(1)</sup>	25.5%	23.5%	+200BPS	24.9%	23.4%	+150BPS	~24.0% - 24.5%	~24.5%
Shares Out (M)	86.3	83.5	3.4%	86.4	81.7	5.8%	87	No Change
Earnings per Share	\$0.34	\$0.14	142.9%	\$0.72	\$0.27	166.7%	\$1.46 - \$1.53	No Change
Adj. Earnings per Share <sup>(1)</sup>	\$0.73	\$0.60	21.7%	\$1.39	\$1.18	17.8%	\$2.65 - \$2.72	<b>\$2.70 - \$2.75</b>

## Full-Year Guidance on Track

Expect Q3 Revenue of \$373M - \$378M, Organic Growth of ~4%,  
and Adjusted EPS Growth of ~10% Year-over-Year

Note: Numbers may not add due to rounding

# Cash Flow and Other Measures

(In millions)	Q2 2019	Q2 2018	Change	April 2019 Guidance	July 2019 Guidance
Operating Cash Flow	\$48.5	\$36.2	34.0%	\$220M - \$230M	No Change
CapEx	\$17.7	\$20.0	(11.5%)	~\$60M	No Change
Free Cash Flow <sup>(1)</sup>	\$30.9	\$16.2	90.7%	\$160M - \$170M	No Change
TTM FCF Conversion <sup>(1)</sup>	54.7%	42.3%	+12.4Pts	> 70%	No Change
Depreciation	\$10.3	\$10.2	1.0%	~\$45M	No Change
Amortization	\$22.3	\$16.7	33.5%	\$65M	<b>\$72M</b>

## Cash Flow On Track to Full-Year Guidance

# 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**



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# Appendix

## Non-GAAP Reconciliations



# Second Quarter and YTD 2019 & 2018 Organic Growth Reconciliation

(In millions)	Q2 2019	Q2 2018	Q2 YTD 2019	Q2 YTD 2018
<b>Codman Specialty Surgical</b>	\$249.2	\$239.5	\$483.8	\$475.6
<b>Orthopedics and Tissue Technologies</b>	\$134.4	\$126.7	\$259.5	\$247.7
<b>Total Reported Revenues</b>	<b>\$383.6</b>	<b>\$366.2</b>	<b>\$743.3</b>	<b>\$723.3</b>
Revenues from divested products <sup>(1)</sup>	(1.4)	(2.4)	(2.8)	(4.9)
Revenues from discontinued products <sup>(1)</sup>	(6.3)	(7.4)	(9.3)	(12.3)
Revenues ex divested/ discontinued products	<b>\$375.9</b>	<b>\$356.4</b>	<b>\$731.3</b>	<b>\$706.1</b>
Impact of changes in currency exchange	4.0	-	9.2	-
<b>Total Organic Revenues</b>	<b>\$379.9</b>	<b>\$356.4</b>	<b>\$740.5</b>	<b>\$706.1</b>
<i>Organic Revenue Growth</i>	<i>6.6%</i>		<i>4.9%</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

# Second Quarter and YTD 2019 & 2018 Organic Growth Reconciliation

(In millions)	Q2 2019	Q2 2018	Q2 YTD 2019	Q2 YTD 2018
Neurosurgery	\$177.4	\$170.6	\$343.8	\$337.5
Precision Tools and Instruments	\$71.8	\$68.9	\$140.0	\$138.1
<b>Total Codman Specialty Surgical</b>	<b>\$249.2</b>	<b>\$239.5</b>	<b>\$483.8</b>	<b>\$475.6</b>
Wound Reconstruction and Care	\$82.3	\$78.3	\$157.2	\$150.6
Extremity Orthopedics	\$21.8	\$22.0	\$44.5	\$44.6
Private Label	\$30.3	\$26.4	\$57.8	\$52.4
<b>Total Orthopedics and Tissue Technologies</b>	<b>\$134.4</b>	<b>\$126.7</b>	<b>\$259.5</b>	<b>\$247.7</b>
<b>Total Reported Revenues</b>	<b>\$383.6</b>	<b>\$366.2</b>	<b>\$743.3</b>	<b>\$723.3</b>
Revenues from divested products <sup>(1)</sup>	(1.4)	(2.4)	(2.8)	(4.9)
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<i>Organic Revenue Growth</i>	<i>6.6%</i>		<i>4.9%</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

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

(In millions)	Q2 2019	Q2 2018	Q2 YTD 2019	Q2 YTD 2018
<b>GAAP Net Income</b>	<b>\$29.7</b>	<b>\$11.4</b>	<b>\$62.5</b>	<b>\$22.4</b>
Depreciation and intangible asset amortization expense	32.7	26.9	59.7	54.0
Other (income) expense, net	(1.1)	(2.4)	(4.3)	(4.7)
Interest expense, net	10.7	16.5	21.4	35.2
Income tax benefit	6.6	1.4	(1.3)	(0.5)
Acquisition and integration charges	12.8	23.7	32.3	52.6
Structural optimization charges	3.0	6.9	7.8	8.6
Discontinued product lines charges	2.3	-	3.7	-
Litigation charges	1.1	1.5	2.3	1.5
EU Medical Device Regulation	0.1	-	1.2	-
Total of non-GAAP adjustments:	68.2	74.5	122.9	146.7
<b>Adjusted EBITDA</b>	<b>\$97.9</b>	<b>\$85.9</b>	<b>\$185.4</b>	<b>\$169.1</b>
Total Revenues	\$383.6	\$366.2	\$743.3	\$723.3
<b>Adjusted EBITDA Margin</b>	<b>25.5%</b>	<b>23.5%</b>	<b>24.9%</b>	<b>23.4%</b>

Note: Numbers may not add due to rounding

# Second Quarter and YTD 2019 and 2018 Adjusted EPS Reconciliation

(In millions)	Q2 2019	Q2 2018	Q2 YTD 2019	Q2 YTD 2018
<b>GAAP Net Income</b>	<b>\$29.7</b>	<b>\$11.4</b>	<b>\$62.5</b>	<b>\$22.4</b>
Acquisition and integration charges	12.8	23.7	32.3	52.6
Structural optimization charges	3.0	6.9	7.8	8.6
Discontinued product line charges	2.3	-	3.7	-
Litigation charges	1.1	1.5	2.3	1.5
EU Medical Device Regulation	0.1	-	1.2	-
Intangible asset amortization expense	22.3	16.7	39.0	33.7
Estimated income tax impact from adjustments and other items <sup>(1)</sup>	(8.0)	(9.7)	(29.0)	(22.0)
Total of non-GAAP adjustments:	33.6	39.1	57.3	74.3
<b>Adjusted Net Income</b>	<b>\$63.4</b>	<b>\$50.5</b>	<b>\$119.8</b>	<b>\$96.7</b>
<b>Adjusted Diluted Net Income per Share</b>	<b>\$0.73</b>	<b>\$0.60</b>	<b>\$1.39</b>	<b>\$1.18</b>
Weighted average common shares outstanding for diluted net income from continuing operations per share	86.3	83.5	86.4	81.7

(1) 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

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

(In millions)	Q2 2019	Q2 2018	TTM Q2 2019	TTM Q2 2018
Net Cash from Operating Activities	\$48.5	\$36.2	\$200.0	\$134.5
Purchases of Property and Equipment	(17.7)	(20.0)	(76.1)	(56.9)
<b>Free Cash Flow</b>	<b>\$30.9</b>	<b>\$16.2</b>	<b>\$123.8</b>	<b>\$77.7</b>
Adjusted Net Income	\$63.4	\$50.5	\$226.6	\$183.8
<b>Adjusted Free Cash Flow Conversion</b>	<b>48.7%</b>	<b>32.1%</b>	<b>54.7%</b>	<b>42.3%</b>

Note: Numbers may not add due to rounding

# Second Quarter and YTD 2019 & 2018 Gross Margin Reconciliation

(In millions)	Q2 2019	Q2 2018	Q2 YTD 2019	Q2 YTD 2018
<b>Reported Gross Profit</b>	<b>\$240.0</b>	<b>\$228.6</b>	<b>\$470.8</b>	<b>\$441.5</b>
Structural optimization charges	2.2	2.0	3.2	3.0
Acquisition and integration charges	2.9	4.6	4.2	16.9
Discontinued product line charges	2.3	-	3.7	-
Intangible asset amortization expense	11.3	11.4	22.7	23.0
<b>Adjusted Gross Profit</b>	<b>\$258.6</b>	<b>\$246.7</b>	<b>\$504.6</b>	<b>\$484.4</b>
Total Revenues	\$383.6	\$366.2	\$743.3	\$723.3
<b>Adjusted Gross Margin</b>	<b>67.4%</b>	<b>67.4%</b>	<b>67.9%</b>	<b>67.0%</b>

Note: Numbers may not add due to rounding

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

(In millions)	Q2 2019	Q2 2018	Q2 YTD 2019	Q2 YTD 2018
<b>Reported SG&amp;A</b>	<b>\$165.4</b>	<b>\$176.6</b>	<b>\$340.2</b>	<b>\$340.2</b>
Structural optimization charges	0.9	4.1	4.6	4.7
Acquisition and integration charges	10.0	19.1	26.4	35.7
Litigation charges	1.1	1.5	2.3	1.5
EU Medical Device Regulation	0.1	-	1.2	-
<b>Adjusted SG&amp;A</b>	<b>\$153.4</b>	<b>\$151.9</b>	<b>\$305.8</b>	<b>\$298.2</b>
Total Revenues	\$383.6	\$366.2	\$743.3	\$723.3
<b>Adjusted SG&amp;A (% of Revenues)</b>	<b>40.0%</b>	<b>41.5%</b>	<b>41.1%</b>	<b>41.2%</b>

Note: Numbers may not add due to rounding



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**Q&A**