



HANGER (NYSE: HNGR)

Environmental, Social and Governance (ESG) REPORT

April 02, 2020

Introduction

This document provides an overview of Hanger’s business from an environmental, social and governance perspective, otherwise known “ESG”. In particular, it focuses on our business and the areas we have identified as being most relevant to investors interested in information beyond that included in our financial disclosures regarding the values, strategies and actions we have in place today to manage business risk and ensure Hanger is a positive force over the long-term in the communities we serve. We have also provided details on the formal processes we have undertaken on a go-forward basis to enhance these disclosures through the adaption of a formal sustainability reporting framework. This document is one element of Hanger’s ESG disclosures, and should be read in conjunction with the governance and executive compensation information included in the Proxy Statement for our May 2020 annual meeting of stockholders. The proxy statement, as well as details about the makeup of our Board of Directors, Board Committees and Committee charters, are available at: <https://investor.hanger.com>.

Finally, we encourage you to also review the ESG Letter to Shareholders from our Chairman and President & CEO, also available on our investor relations web site.

I. Outcomes Agenda: Quantifying the Health Benefits of O&P

National health expenditures totaled approximately \$3.8 trillion in 2019 and O&P constitutes just over 1 percent of the total. Ours is a relatively small industry by the numbers. But we view our impact in exponentially larger terms. How do you quantify the ability to resume routines of daily living after a catastrophic limb loss event? The impact on physical and mental health status as well as the economic



ramifications of our work is fairly intuitive. We see it through high levels of client satisfaction as measured by our net promoter score (currently 84) and on the faces of the patients we see daily.

However, to be successful in health care in this upcoming decade, organizations must be focused on delivering a proposition of value-based care. Reimbursement has shifted from fee-for service models to capitated payments that reward outcomes over service volumes. The O&P industry must demonstrate the value of its services in order to successfully pursue its mission over time.

With Hanger's industry leadership position comes significant responsibilities to fill that space with information and credible research to answer important policy and clinical questions through scientific rigor. As a centerpiece of our business strategy, we invest millions of dollars annually in clinical research to measure and report the health outcomes impact of O&P Care. Our research agenda is supported by what we believe to be the largest registry of lower limb amputee encounter data within the O&P industry. This database provides us the ability to monitor and report patient progress, measure outcomes and monitor for adverse events.

Over the last several years we have published a series of multi-center peer reviewed publications, The Mobility Analysis of Amputees (MAAT) directed by Hanger's Department of Clinical and Scientific Affairs. Our aim is to clarify the concept of prosthetic mobility as it relates to such considerations as satisfaction, quality of life, co-morbid health conditions and prosthetic component choices. We have published six peer reviewed journal articles in the MAAT series. The most recent focusing on mobility, satisfaction and quality of life among prosthesis users with diabetes – this study shows high levels of mobility in patients as far as seven years post-amputation-an important finding given the high mortality rates seen post amputation in people with diabetes as soon as one-year post amputation.



Importantly: our research agenda is not specific to care at Hanger facilities, but rather encompasses the value proposition of O&P care itself on overall patient status, outcomes and cost of care. This effort elevates our entire industry within the medical community. Our research mission is aligned with U.S. Government and private payer initiatives to ensure the reporting and measurement of the value of care delivered rather than the volume of care provided. Internally, we all this Health Care’s “Triple Aim” of better care, better health and better value.

II. Collaboration

We are a service company with approximately 4,800 employees. Collaboration is one of our corporate values and we lead by example that health care delivery is a team sport.

Our human capital is the most important and scarce resource we have. Hanger defines values that create a common culture and anchor our sense of purpose. As such, we are keenly focused on key issues of employee education, workforce diversity, safety in the workplace and employee retention. Hanger is proud to enjoy clinician retention that averages approximately 95% based on our culture and support infrastructure that shifts key functions like revenue cycle management, information technology, and marketing centrally, allowing our field clinicians to focus as much of their time as possible on patient care responsibilities.

Given Hanger’s reputation and steadfast commitment to premier patient care, we are privileged to attract the best and brightest professionals to our ranks. Some examples of the programs we provide:

- Employee development and training opportunities, including *HangerLIVE*, our annual week-long continuing clinical education conference, which in 2020 brought over 1,400 industry professionals and patients together in Nashville Tennessee for the largest annual gathering of O&P professionals in the U.S.



- Every Hanger employee working at least 20 hours per week is awarded 8 hours of paid time off for volunteer work and community public service.
- Our corporate and field operations volunteer time, money and other resources in the local communities, many of these efforts targeted to amputee related advocacy groups. In 2018 (the most recent data available), Hanger provided charitable contributions valued at approximately \$1.4 million. One recipient of these funds is The Hanger Foundation, an independent 501c3 organization that helps people with physical challenges to live life as fully as possible. The Hanger Foundation provides grants to various non-profit organizations sharing Hanger's corporate mission to empower people with physical challenges to live life as fully as possible.
- Workplace diversity efforts with a focus to develop and advance women in the O&P profession. Historically, approximately two-thirds of O&P clinicians have been men. This is changing rapidly with new graduates being majority female. Hanger is leading in providing a leadership pathway for women in O&P. These include our year-long Women's Leadership Development Program and Women in Leadership Courses at *HangerLIVE*. We also sponsor industry-wide networking and skills development programs including a Hanger Women Monthly Speaker Series and a Mentoring Network.
- We expanded our diversity and inclusion strategy to enhance our efforts to attract and develop a diverse workforce, and foster an inclusive culture celebrating many dimensions of diversity.
- We are also proud that a significant percentage of our employees qualify as having a disability under the Americans with Disability Act.



III. Integrity Is Foundational to Our Mission

Our mantra is to always put the patient first in what we do. Hanger is committed to a strong corporate culture that promotes the highest standards of ethics and compliance for our business, including a Code of Business Conduct and Ethics that sets forth principles to guide employee, officer and director conduct.

We operate in a highly regulated industry, governed by federal and state regulations regarding patient privacy, reimbursement, conflicts of interest, and many other federal, state and local regulations. Hanger's primary business is the provision of orthotic and prosthetic care services; these services are essential health benefits as defined by the Patient Protection and Affordable Care Act. We maintain regular compliance with federal regulations. Hanger leads the O&P industry with an infrastructure to ensure compliance exceeds minimum required standards. Examples of processes and personnel to support this include:

- A Chief Compliance Officer, who reports directly to our CEO, as well as the Quality, Compliance, Technology and Outcomes Committee of our Board of Directors. We have a commitment to regulatory compliance by having a large and robust compliance department with an accountable model (reporting to both Hanger's CEO and Board of Directors).
- Maintenance of a whistleblower policy providing for confidential reporting of any suspected violations of policy.
- Appropriate level of resources including SLT level leadership, independent Privacy and internal audit teams, industry respected subject matter experts and an interdisciplinary Enterprise Compliance Committee.
- We provide, distribute, and lease products that are subject to regulation as medical devices by the FDA under the Federal Food, Drug and Cosmetic Act ("FDCA") and accompanying



regulations. In our Patient Care segment, with the exception of two products which have been cleared for marketing as prescription medical devices under section 510(k) of the FDCA, we believe that the products we provide, including O&P medical devices, accessories, and components, are not Class III devices and thus are exempt from the FDA's regulations for pre-market clearance. We make compliance with applicable FDA requirements a corporate priority.

- In order to ensure product safety and integrity, Hanger maintains a Quality Management Program that oversees multiple aspects of care delivery, provider credentialing, adverse events and peer review. We collect and maintain data on service and device related issues and complaints that are reviewed and remediated for Hanger Clinic.
- The Hanger Quality Committee reviews, evaluates, documents and remediates quality of care concerns and complaints; reviews relevant reports from Risk Management and monitors recommended actions. The Committee also recommends and monitors implementation of special studies/projects that evaluate and address specific quality complaints and negative trends.
- A robust corporate risk management function focused on workplace safety, crisis communications and management, ensuring OSHA compliance, contingency planning and employee safety related to catastrophic weather or other exogenous events that impact workplace or employee health and safety.

IV. Patient-Focus: The True North of Everything We Do

Hanger is an independent service provider – we are not beholden to any single manufacturer of componentry and this allows us to be free of conflict to select the most appropriate components for every device we fabricate.



We believe that our success will not be ultimately measured by the devices we fit, but rather by the outcomes of the patients we serve. Approximately 70% of our Patient Care segment revenue is recurring as in being derived from replacement devices. We have a vested interest in the long-term outcomes and success of our patients and all persons in the communities we serve. Our engagement and marketing efforts focus on building life-long bonds with our patients, partners in patient care with physicians and facilitating support among those in the amputee community. We have many programs that support this outreach mission, including:

- Volunteer peer visitors –Patients can visit with individuals who have experienced limb loss who encourage them, share stories and provide support at what can be the most traumatic time in a person’s life.
- In 2019, we hosted over 320 national and local Patient Education Clinic events throughout the country, hosting approximately 6,300 patients and provide orthotic and prosthetic users the opportunity to speak free of charge with a nationally recognized O&P specialist. These events are open to anyone who has a concern or challenge regarding their prosthesis, support or brace. Many of the people in attendance are not currently Hanger Clinic patients.
- We provide innovative outreach using technology such as virtual reality, mobility scorecards and benchmarking along with multi-channel social media campaigns.
- Specialized events for special populations, including bilateral above-knee amputees and upper limb prosthesis users including three day long “Bootcamps” and our unique “Empowerfest” events.
- We maintain a national multimedia interpretation service to allow non-English speaking patients to have improved access to care. Interpretative services were utilized for approximately twelve languages during this first phase of the program.



V. Innovating To Build a More Efficient Supply Chain

Hanger is unique in many ways as a health care services provider. Like a hospital, we manage highly complex cases with individuals burdened with multiple chronic illnesses, or provide critical rehabilitative care after a traumatic event. We also manage large numbers of patients not unlike an ambulatory care setting. In addition, we blend craftsmanship, art and science by using raw materials, parts and components to fabricate a highly customized prosthetic or orthotic devices. As a result Hanger manages a large supply chain consisting of multiple distribution centers and fabrication facilities that provide the materials to create devices or utilize a scan or mold to produce a device in a central fabrication facility. Our supply chain services both our own clinics and independent O&P clinics.

Supply chain is an area of differentiation for Hanger that has long-term opportunity to benefit our business and significantly decrease the amount of shipments and use of packing material. Currently, approximately 30% of Hanger's costs are related to cost of materials.

Embedded within that figure are significant costs related to costs of freight, number of packages shipped and costs of packing materials. Our current process for enterprise supply chain management is legacy and manual. We believe by 2022, Hanger will realize material efficiencies from this initiative through optimizing the physical warehouse space we utilize and a reduction freight, predominantly through shipment consolidations, which in turn has constructive downstream impact on packaging volume consumed and energy use expended to complete deliveries.

In late 2019, we announced a two-year-plus transformational program, investing an incremental \$30-\$35 million, mostly in 2020 and 2021, in technology as well as re-engineering our physical supply chain assets across our distribution centers nationally. The plan includes a cloud-based ERP system, combined with logistics, warehouse and freight-management reengineering. While these initiatives have a compelling



financial return profile, we also believe they will materially improve the efficiency of our sourcing, lower freight costs and decrease our carbon footprint.

Currently Hanger does not have centralized management of electric, gas or water utility use. Recycling services are also localized. As we implement advanced financial systems we will evaluate opportunities to measure Hanger's environmental footprint and determine opportunities to lower our overall energy use.

VI. Formal Framework for Future ESG Reporting

During 2019, we conducted initial research and analyzed the emerging call for enhanced ESG disclosure and how Hanger can best meet its obligations. Our objective is to provide transparent, accurate and relevant disclosure. Hanger is a small-cap company with no direct public peers and finite resources – this raises certain challenges as it pertains to benchmarking and evaluating peers.

We are proud to take the lead role in benchmarking for our industry selecting relevant ESG metrics, documenting progress and establishing management goals. We believe ensuring Board level oversight ensures that Hanger will strive for continuous improvement and focused on domains that are most relevant to strategic areas of risk, reward and opportunities for Hanger that align with our business, the markets we serve and our core values as a Corporation.

Hanger's Board of Directors, through its Corporate, Governance & Nominating Committee is overseeing management's efforts in this area. This Board level oversight reflects Hanger's Board of Directors commitment to ensuring investors have a comprehensive understanding of the relevant ESG factors within the Company's business that could factor into investment decision-making. The Board supports management's efforts to date and will receive periodic updates on Hanger's ESG disclosure process.

From a governance perspective, investors should review the Company's proxy for detailed information on Hanger's board size, independence, percentage of women and minorities and director compensation...



During 2020, Hanger will supplement the discussion in this document by publishing metrics for the environmental and social factors as prioritized and listed in Table 1.

VI. Hanger ESG Task Force

In the fourth quarter of 2019, Hanger formed an ESG Task Force comprised of twelve executives and senior managers across the leadership of the Company and representing critical operational areas including Human Resources, Clinical and Scientific Affairs, Compliance, Revenue Cycle Management, Treasury and Investor Relations as well as Supply Chain and Fabrication. The task force is chaired by Hanger's General Counsel and Corporate Secretary. Five of the 12 members of the Task Force serve on Hanger's Senior Leadership Team that reports directly to the President and CEO.

The ESG Task Force recommended and adapted the Sustainability Accounting Standards Board (SASB) frameworks for Health Care Delivery (SICS® HC-DY) as well as Health Care Distributors (SICS® HC-DI) Versions 2018-10 as the external industry specific sustainability standards to guide Hanger disclosures going forward.

Through a series of task force discussions and subject-matter input, the task force evaluated the business relevance and risk profile of the 38 accounting and activity metrics outlined across 16 topic areas within the health care services and distribution SASB standards. Of these metrics, 10 metrics were ultimately determined not relevant to Hanger's business, leaving 28 metrics across the 16 topic areas. An operational business owner was identified for each topic and metric within our task force.

The Task Force also identified seven Hanger-specific sustainability metrics that were viewed as highly relevant, measurable and reportable that were not part of SASB. These generally fell within the existing SASB Healthcare Services framework topics for Quality of Care & Patient Satisfaction and Access for Low-Income Patients Health Records.



As a final step in operationalizing a first phase ESG disclosure program, the Task Force evaluated, prioritized and ranked 11 metrics across 5 health care services topics for development and disclosure during 2020. A complete grid of these topics, metrics and SASB codes are available in Table 1 at the back of this letter. The Task Force will meet periodically to continue to ensure its reporting commitments and add or remove metrics based on our business and SASB recommendations. We intend to incorporate input from shareholders, suppliers and employees as our disclosures continue to evolve.

Table 1

Hanger ESG Disclosure Priorities 2020			
SASB Topic	SASB Standard	Code	Metric
Quality of Care & Patient Satisfaction	Hanger Centric	N/A	Net Promoter Score
	Hanger Centric	N/A	To be determined outcomes metric(s)
	Healthcare Delivery	HC-DY-250a.2	Number of Serious Reportable Events (SREs) as defined by the National Quality Forum (NQF)
Employee Recruitment, Development & Retention	Healthcare Delivery	HC-DY-330a.1	(1) Voluntary and (2) involuntary turnover rate for: (a) clinicians (b) non-clinician health care practitioners, and (c) all other employees
	Healthcare Delivery	HC-DY-330a.2	Description of talent recruitment and retention efforts for health care practitioners
	Hanger Centric	N/A	Women in O&P, Leadership team and board make-up
Access for Low-Income Patients Health Records	Hanger Centric	N/A	-Dollar amount we write off annually for financial hardship waivers -Number of patients we have provided full or partial assistance to -Dollar and Number of Medicaid patients served -Number of clinician hours volunteering internationally
Patient Privacy & Electronic Health Records	Healthcare Delivery	HC-DY-230a.2	Description of policies and practices to secure customers' protected health information (PHI) records and other personally identifiable information (PII)
	Healthcare Delivery	HC-DY-230a.1	Percentage of patient records that are Electronic Health Records (EHR) that meet "meaningful use" requirements
	Healthcare Delivery	HC-DY-230a.3	(1) Number of data breaches, (2) percentage involving (a) personally identifiable information (PII) only and (b) protected health information (PHI), (3) number of customers affected in each category, (a) PII only and (b) PHI2
Pricing & Billing Transparency	Healthcare Delivery	HC-DY-270a.1	Description of policies or initiatives to ensure that patients are adequately informed about price before undergoing a procedure

Note: Some metric descriptions have been edited from SASB standards to be applicable to Hanger's business.