

# Second Quarter 2018 Results

## *Financial Community Supplement*

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# Forward-looking Information

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This presentation contains certain “forward-looking statements” relating to the Company. All statements, other than statements of historical fact included herein, are “forward-looking statements.” These forward-looking statements are often identified by the use of forward-looking terminology such as “preliminary,” “intends,” “expects,” “plans,” “anticipates,” “believes,” “views” or similar expressions and involve known and unknown risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks, and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. These uncertainties include, but are not limited to, the risk that additional information may arise during the course of the Company’s ongoing financial statement preparation and closing processes that would require the Company to make additional adjustments or revisions to its estimates or financial statements and other financial data, to identify additional material weaknesses, or to take any other necessary action relating to the Company’s accounting practices; the time required to complete the Company’s financial statements and other financial data and accounting review; the time required to prepare its periodic reports for filings with the Securities and Exchange Commission; the impact of the Tax Cuts and Jobs Act on the Company’s financial statements; any regulatory review of, or litigation relating to, the Company’s accounting practices, financial statements and other financial data, periodic reports or other corporate actions; changes in the demand for the Company’s O&P products and services; uncertainties relating to the results of operations or recently acquired O&P patient care clinics; the Company’s ability to enter into and derive benefits from managed-care contracts; the Company’s ability to successfully attract and retain qualified O&P clinicians; federal laws governing the health care industry; uncertainties inherent in investigations and legal proceedings; governmental policies affecting O&P operations; and other risks and uncertainties generally affecting the health care industry. For additional information and risk factors that could affect the Company, see its Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission. The information contained in this presentation is made only as of the date hereof, even if subsequently made available by the Company on its website or otherwise.

## 2Q & YTD 2018 Net Revenue and Adjusted EBITDA<sup>[a]</sup>

Second Quarter net revenue growth driven by both the Patient Care and Products & Services segments. Decrease in second quarter Adjusted EBITDA was due primarily to higher General and Administrative expenses associated with growth initiatives, higher salary and benefit expense as well as other expense timing considerations. Adjusted earnings per diluted share growth was primarily the result of lower interest expense. YTD Net Revenue and Adjusted EBITDA generally comparable with prior year period.

	Second Quarter		YTD June	
	2018	2017	2018	2017
Net Revenue (mm)	\$267.0	\$263.4	\$501.0	\$497.1
Adjusted EBITDA (mm) <sup>[a]</sup>	\$33.6	\$36.8	\$49.9	\$51.1
Adjusted EPS <sup>[a]</sup>	\$0.28	\$0.21	\$0.16	\$0.04

Note: [a] Amounts reflect non-GAAP measures. Please refer to "Reconciliations for Non-GAAP Amounts" on slides 7, 8 and 9 of this presentation.

# Second Quarter 2018 Summary

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- **Net revenue** increased 1.4% over Q2 2017, reflecting 0.9% growth in the Patient Care segment and 3.5% in the Products & Services segment.
- **Adjusted EBITDA<sup>[a]</sup>** declined by \$3.2 mm, due largely to a \$2.6 mm increase in corporate and other expense, relating primarily to investments in growth and other corporate initiatives, as well as a change in the timing of annual salary increases.
- **Adjusted Net Income** increased to \$10.5 mm from \$7.6 mm and Adjusted diluted EPS increased to \$0.28 from \$0.21 due primarily to a reduction in interest expense of \$6.8 mm related to the Company's March 2018 refinancing.
- **Operating Cash Flow** of \$25.4 million during the quarter as compared with \$5.3 million in the second quarter of 2017, resulting in an increase in total liquidity to \$142.9 million.
- **Favorable Settlements** contributed \$2.2 mm to GAAP income from operations and related to two items:
  - Receipt of \$1.7 mm in net settlement proceeds pertaining to the 2010 "Deepwater Horizon" disaster.
  - A \$0.5 mm benefit related to the settlement of unclaimed property claims with the State of Delaware for the years 2001 through 2017 for less than the historically accrued amount.
  - Both gains are excluded for purposes of calculating Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings Per Share in the second quarter and for the six months ended June 30, 2018.

*Note: [a] Amounts reflect non-GAAP measures. Please refer to "Reconciliations for Non-GAAP Amounts" on slides 7, 8 and 9 of this presentation.*

# Second Quarter 2018 Segment Analysis

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- **Patient Care** segment net revenue growth of 0.9% and operating results consistent with prior year:
  - Same clinic revenue per day growth of 1.7% driven by increased prosthetic services.
  - The adoption of the new revenue accounting standard, ASC 606, effective in 2018 had the effect of reducing Patient Care revenue by \$1.3 million for the second quarter due to the reclassification of patient non-payments to be a reduction in revenue as opposed to their traditional classification as being bad debt expense.
  - Earnings flow-through from segment revenue growth was offset primarily by higher salary, employee benefits and material costs. Comparable salary expense was negatively affected by a change in the timing of annual salary increases.
- **Products & Services** segment revenue increased 3.5% due to strong O&P distribution quarter:
  - O&P distribution revenue grew by \$2.7 million over Q2 2017, more than offsetting decreased revenue from therapeutic solutions.
  - Income from operations and Adjusted EBITDA consistent with Q2 2017 as revenue growth was offset by higher personnel costs.
- **Corporate and other** expenses increased by \$2.6 mm on an Adjusted EBITDA basis to \$17.4 million during the quarter.
  - Increased corporate expense related primarily to \$1.7 mm for consulting services and professional fees related to growth and other corporate initiatives.

*Note: [a] Amounts reflect non-GAAP measures. Please refer to "Reconciliations for Non-GAAP Amounts" on slides 7, 8 and 9 of this presentation.*

# 2018 View (Subject to Material Change)

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- **Reiterating 2018 outlook** as published on May 14, 2018
  - Full Year 2018 Revenue and Adjusted EBITDA<sup>[a]</sup> currently anticipated to be generally consistent with 2017.
  - Comparative differences in Adjusted EBITDA and income from operations are primarily related to expense and other timing considerations.
  
- **Additional considerations**
  - Hanger anticipates re-listing its common stock on the New York Stock Exchange in mid-September.

*Note: [a] Amounts reflect non-GAAP measures. Please refer to “Reconciliations for Non-GAAP Amounts” on slides 7, 8 and 9 of this presentation.*

# Reconciliations for Non-GAAP Amounts: Adjusted EPS

Earnings Per Share (or "EPS") is defined as net income divided by our diluted common shares during the applicable period. Adjusted EPS is defined as EPS adjusted for impairments of intangible assets, third-party professional fees in excess of normal amounts incurred in connection with our financial statement remediation, debt extinguishment costs, severance expenses associated with significant reductions in force and expenses incurred in connection with our acquisitions and certain other charges.

We utilize Adjusted EPS to assess our operating and financial performance. We believe that this measure enhances a user's understanding of normal operating results excluding certain charges.

Adjusted EPS is not a measure of financial performance computed in accordance with GAAP and should not be considered in isolation nor as a substitute for operating income, net income, cash flows from operations, or other statement of operations or cash flow data prepared in conformity with GAAP, or as a measure of profitability or liquidity. In addition, the calculation of Adjusted EPS is susceptible to varying interpretations and calculations, and the amounts presented may not be comparable to similarly titled measures of other companies. Adjusted EPS may not be indicative of historical operating results, and we do not intend these measures to be predictive of future results of operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) - as reported (GAAP)	\$ 12,928	\$ 1,637	\$ (9,690)	\$ (16,097)
Adjustments:				
Impairment of intangible assets	-	-	-	-
Amortization expense	1,814	2,426	3,767	4,877
Third-party professional fees	2,940	7,567	6,640	19,104
Loss on extinguishment of debt	-	-	16,998	-
Acquisition-related expenses	-	-	-	-
Disaster recovery / unclaimed property settlement	(3,729)	-	(3,729)	-
Severance expenses associated with reduction in force	-	20	-	64
Specified adjustments prior to tax effect	\$ 1,025	\$ 10,013	\$ 23,676	\$ 24,045
Tax effect of specified adjustments (a)	(3,419)	(4,084)	(8,136)	(6,397)
Specified adjustments after taxes	(2,394)	5,929	15,540	17,648
Adjusted net income (Non-GAAP)	\$ 10,534	\$ 7,566	\$ 5,850	\$ 1,551
Diluted or basic earnings (loss) per share - as reported (GAAP)	\$ 0.35	\$ 0.04	\$ (0.26)	\$ (0.44)
Effect of above listed specified adjustments	(0.07)	0.17	0.42	0.48
Adjusted diluted earnings per share (Non-GAAP)	\$ 0.28	\$ 0.21	\$ 0.16	\$ 0.04
Shares used to compute diluted earnings per common share	37,404,360	36,543,740	37,314,889	36,517,535

(a) "Tax effect of specified adjustments" reflects the difference between the Company's effective provision for taxes and the application of a combined federal and state statutory tax rate of 24% and 38% respectively for the 2018 and 2017 periods to the Company's earnings from continuing operations before taxes, after the incorporation of the identified above adjustments.

# Reconciliations for Non-GAAP Amounts: EBITDA and Adjusted EBITDA

EBITDA is defined as operating income before depreciation and amortization. Adjusted EBITDA is defined as operating income before certain charges, impairments of intangible assets, third-party professional fees in excess of normal amounts incurred in connection with our financial statement remediation, debt extinguishment costs, expenses associated with equity-based compensation, severance expenses associated with significant reductions in force and expenses incurred in connection with our acquisitions.

We use EBITDA and Adjusted EBITDA as measures to assess the relative level of our indebtedness and our compliance with certain debt covenants which are based on these measures. Additionally, we utilize these measures to assess our operating and financial performance. We believe that these measures enhance a user's understanding of normal operating income excluding certain charges, depreciation and amortization.

Neither EBITDA or Adjusted EBITDA are measures of financial performance computed in accordance with GAAP and should not be considered in isolation nor as a substitute for operating income, net income, cash flows from operations, or other statement of operations or cash flow data prepared in conformity with GAAP, or as a measure of profitability or liquidity. In addition, the calculation of EBITDA and Adjusted EBITDA is susceptible to varying interpretations and calculations, and the amounts presented may not be comparable to similarly titled measures of other companies. EBITDA and Adjusted EBITDA may not be indicative of historical operating results, and we do not intend these measures to be predictive of future results of operations.

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<u>Patient Care</u>				
Income from operations - as reported (GAAP)	\$ 35,020	\$ 35,154	\$ 52,113	\$ 49,698
Depreciation and amortization	4,998	5,370	9,896	10,799
EBITDA (Non-GAAP)	<u>40,018</u>	<u>40,524</u>	<u>62,009</u>	<u>60,497</u>
Further adjustments to calculate Adjusted EBITDA:				
Impairment of intangible assets	-	-	-	-
Third-party professional fees	-	(10)	-	(10)
Equity-based compensation	1,220	962	2,240	1,732
Severance expenses associated with reduction in force	-	15	-	88
Specified further adjustments - EBITDA to Adjusted EBITDA	<u>1,220</u>	<u>967</u>	<u>2,240</u>	<u>1,810</u>
Adjusted EBITDA (Non-GAAP)	<u>41,238</u>	<u>41,491</u>	<u>64,249</u>	<u>62,307</u>
<u>Products &amp; Services</u>				
Income from operations - as reported (GAAP)	7,453	7,175	13,332	13,243
Depreciation and amortization	2,503	2,592	5,005	5,262
EBITDA (Non-GAAP)	<u>9,956</u>	<u>9,767</u>	<u>18,337</u>	<u>18,505</u>
Further adjustments to calculate Adjusted EBITDA:				
Impairment of intangible assets	-	-	-	-
Third-party professional fees	-	-	-	-
Equity-based compensation	(166)	303	104	587
Severance expenses associated with reduction in force	-	5	-	(24)
Specified further adjustments - EBITDA to Adjusted EBITDA	<u>(166)</u>	<u>308</u>	<u>104</u>	<u>563</u>
Adjusted EBITDA (Non-GAAP)	<u>9,790</u>	<u>10,075</u>	<u>18,441</u>	<u>19,068</u>



# Reconciliations for Non-GAAP Amounts: EBITDA and Adjusted EBITDA (continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<u>Corporate &amp; Other</u>				
Loss from operations - as reported (GAAP)	\$ (22,144)	\$ (25,865)	\$ (44,493)	\$ (56,018)
Depreciation and amortization	1,771	1,863	3,701	3,901
EBITDA (Non-GAAP)	(20,373)	(24,002)	(40,792)	(52,117)
Further adjustments to calculate Adjusted EBITDA:				
Impairment of intangible assets	-	-	-	-
Third-party professional fees	2,940	7,577	6,640	19,114
Equity-based compensation	2,268	1,651	3,562	2,761
Disaster recovery / unclaimed property settlement	(2,221)	-	(2,221)	-
Severance expenses associated with reduction in force	-	-	-	-
Specified further adjustments - EBITDA to Adjusted EBITDA	2,987	9,228	7,981	21,875
Adjusted EBITDA (Non-GAAP)	(17,386)	(14,774)	(32,811)	(30,242)
Adjusted EBITDA (Non-GAAP)	\$ 33,642	\$ 36,792	\$ 49,879	\$ 51,133