



# Hanger Investor Presentation

BofA Securities  
2021 Virtual Health Care Conference  
Wednesday, May 12 2021



# Cautionary Note

## Forward Looking Statements

This presentation contains statements that are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include information concerning our liquidity and our possible or assumed future results of operations, including descriptions of our business strategies. These statements often include words such as “believe,” “expect,” “project,” “potential,” “anticipate,” “intend,” “plan,” “estimate,” “seek,” “will,” “may,” “would,” “should,” “could,” “forecasts” or similar words. These statements are based on certain assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. We believe these assumptions are reasonable, but you should understand that these statements are not guarantees of performance or results, and our actual results could differ materially from those expressed in the forward-looking statements due to a variety of important factors, both positive and negative, that may be revised or supplemented in subsequent releases or reports. These statements involve risks, estimates, assumptions, and uncertainties that could cause actual results to differ materially from those expressed in these statements and elsewhere in this presentation. These uncertainties include, but are not limited to, the financial and business impacts of COVID-19 on our operations and the operations of our customers, suppliers, governmental and private payers and others in the healthcare industry and beyond; federal laws governing the health care industry; governmental policies affecting O&P operations, including with respect to reimbursement; failure to successfully implement a new enterprise resource planning system or other disruptions to information technology systems; the inability to successfully execute our acquisition strategy, including integration of recently acquired O&P clinics into our existing business; changes in the demand for our O&P products and services, including additional competition in the O&P services market; disruptions to our supply chain; our ability to enter into and derive benefits from managed-care contracts; our ability to successfully attract and retain qualified O&P clinicians; 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, 2020 and Quarterly Report on Form 10-Q for the three months ended March 31, 2021, each 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.

**Note Regarding the Presentation of non-GAAP Financial Measures:** This presentation includes certain “non-GAAP financial measures” as defined in Regulation G under the federal Securities Exchange Act of 1934. Non-GAAP measures include Adjusted EBITDA, Adjusted EBITDA Margin, adjusted earnings per share, leverage ratios, free cash flow. As required under Regulation G, Reconciliations of GAAP and non-GAAP financial results are included in schedules at the Appendix. These schedules reconcile the non-GAAP financial measures included in this presentation to the most direct comparable financial measure under generally-accepted accounting principles in the United States. The non-GAAP measures contained herein are used by the Company’s management to analyze the Company’s business results and are provided for informational and analytical context.



# Hanger

## At Glance

### WHO WE ARE

- Industry leader in orthotics & prosthetics services
- \$4.3 billion<sup>1</sup> addressable O&P domestic U.S. market
- Pioneered prosthetic devices in 1861
- Focus on custom devices

### BY THE NUMBERS

- Net Revenue<sup>2</sup> \$1.098 billion
- Two segments<sup>2</sup>:
  - Patient Care (82.5%)
  - Products & Services (17.5%)
- Adjusted EBITDA<sup>2,3</sup> \$124.2 million
- 4,900 FTEs (3.31.21)
- 825 clinic & satellite locations in 46 states and D.C. (3.31.21)

<sup>1</sup>Source: Hanger Inc. estimates.

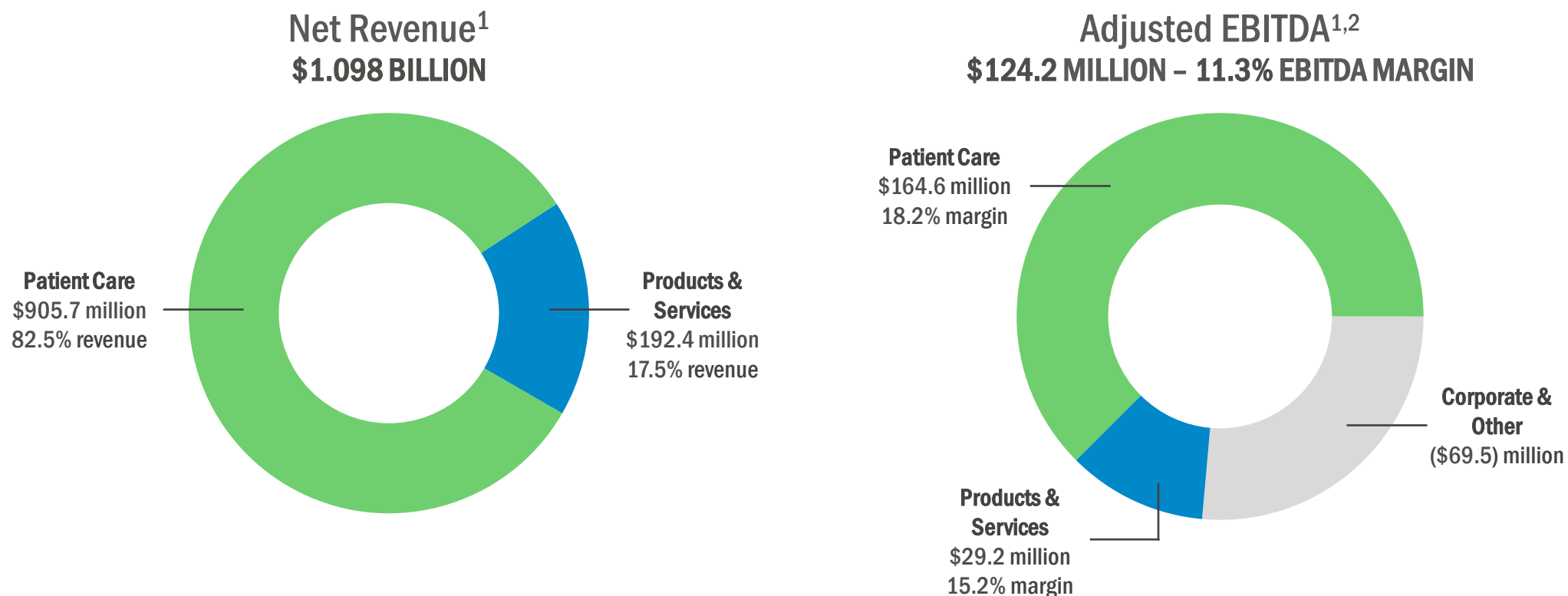
<sup>2</sup>Calendar Year 2019. Hanger 2020 Net Revenue was \$1.001 billion and Adjusted EBITDA of \$105.1 million, reflecting the impact of COVID-19. The Company believes 2019 financial performance reflects an appropriate base to compare the Company's prospects on a forward-looking basis.

<sup>3</sup>Adjusted EBITDA is a non GAAP-measure. Please see the Appendix for a reconciliation of GAAP to non-GAAP metrics.



# Business Mix

## Primary Focus on the Provision of Specialty Health Care



<sup>1</sup>Calendar Year 2019. Hanger 2020 Net Revenue was \$1.001 billion and Adjusted EBITDA of \$105.1 million, reflecting the impact of COVID-19. The Company believes 2019 financial performance reflects an appropriate base to compare the Company's prospects on a forward-looking basis.

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# Investment Thesis

## Industry Leader Building Sustainable Competitive Advantage

# 1

### MARKET LEADER

**The leading provider** of orthotic and prosthetic services in the United States

Provides approximately **21% of all O&P services** in the United States

# 2

### SIZEABLE MARKET

**\$4.3 billion market** for prescription prostheses, orthoses and prefabricated or off-the-shelf orthoses

**Broad demand drivers** across injuries and multiple, high prevalence disease etiologies

# 3

### DIFFERENTIATORS

**Competitive differentiation through investments** in clinical outcomes, centralized revenue cycle management, patient engagement and supply chain to drive growth

# 4

### GROWTH LEVERS

**Multi-tier strategy** to grow organically, steadily expand margins and pursue M&A to drive incremental growth opportunities

Premier scalable provider in a large market for specialized healthcare services



# Prosthetics

Approximately 52% of Patient Care Revenue

- Prosthetic devices replace a missing limb or portion of a limb
- Provided to patients with amputated or congenitally absent limbs to replace the function and appearance of a limb
- Prosthetics are customized to meet the unique location and characteristics of the patient and their residual limb
- Prostheses have a replacement cycle averaging 3-5 years



# Orthotics

Approximately 48% of Patient Care Revenue

- Orthotic devices modify the structural and functional characteristics of the neuromuscular and skeletal system
- Prescribed for injuries, musculoskeletal, neurological or orthopedic disorders
- Hanger Clinic emphasizes fabrication of customized devices

# O&P Market: \$4.3 billion

## Diverse Disease State Mix Drives Demand



### Injuries

Approximately 76,000 major amputations per year, 5-10% of which are due to injury. +\$1 billion spent on prosthetics secondary to injury

### Endocrine & Circulatory

Endocrine and circulatory disorders drive the majority of major amputations. Mix of prosthetics and orthotics

### Musculoskeletal Disease

Arthritis, spinal and foot disease requiring braces, boots and supports. Orthotics-only market

### Other

Congenital, cancer and acute infections. May require prosthetics (i.e. congenital limb difference) or orthotics (i.e. cranial orthosis for plagiocephaly)

### Nervous System

795,000 strokes per year – 75% occur in people +65, cerebral palsy, multiple sclerosis. Ankle-foot orthosis, braces

Addressable market currently growing at 1.5-2.0% annually

Sources: Hanger Estimates

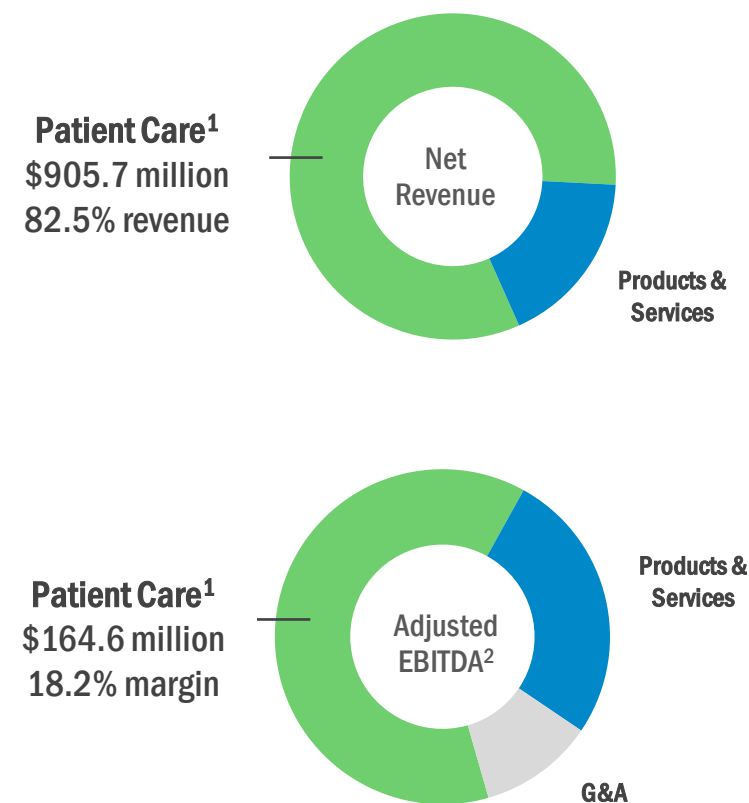
Note: "Major amputation or limb loss refers to a lower extremity, above or below the knee and upper limb, or combination thereof"



# Patient Care Segment

## Building Sustainable Advantages in a Fragmented Industry

- National network and market leadership
- Unique ability to measure and improve patient outcomes
- Driving patient engagement, connectivity and satisfaction
- Optimizing reimbursement through centralized revenue cycle management
- Enhancing productivity and efficiency through an enterprise supply chain

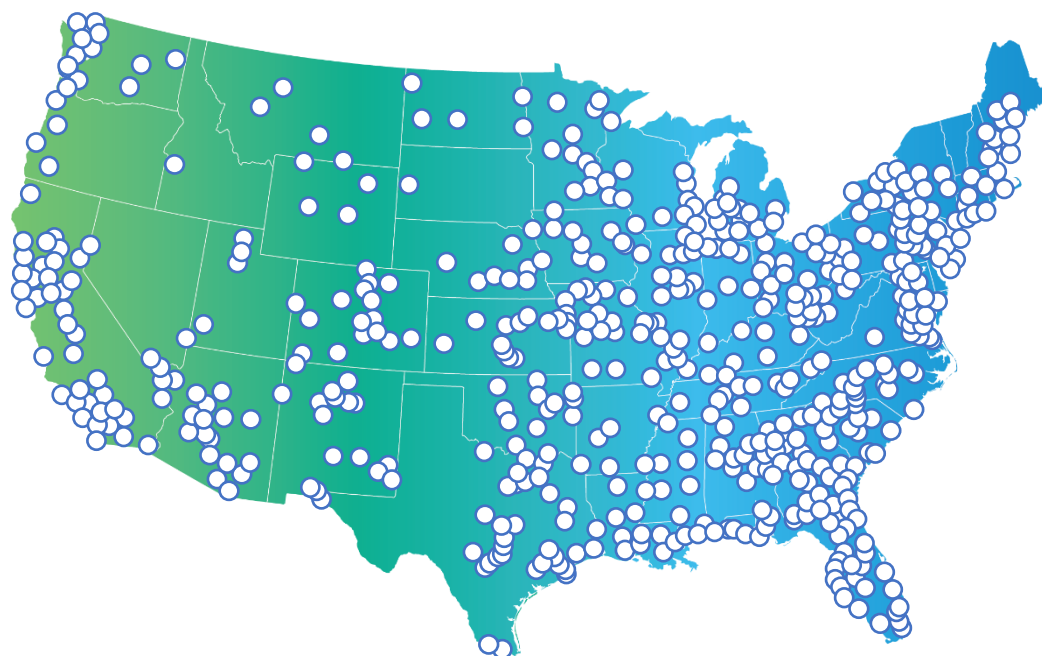


<sup>1</sup>Calendar Year 2019. Hanger 2020 net segment revenue was \$831.6 million and Adjusted EBITDA of \$146.0 million, reflecting the impact of COVID-19. The Company believes 2019 financial performance reflects an appropriate base to evaluate compare the Company's prospects on a forward-looking basis.

<sup>2</sup>Adjusted EBITDA is a non GAAP measure. Please see the Appendix for a reconciliation of GAAP to non-GAAP metrics.

# Scale as a Competitive Advantage

## National Network Brings Hanger Closer to the Community



○ Hanger Patient Care Clinics



**1,600 CLINICIANS**

Hanger employs over 20% of the board certified O&P clinicians in the U.S.

Competitors are spread out in small local practitioner settings



**800+ PATIENT CARE LOCATIONS**

Hanger is the only O&P provider operating a nationwide network of patient care clinics in 46 states and D.C.



**2 MILLION ANNUAL PATIENT ENCOUNTERS**

Hanger has the highest volume of O&P patients as compared with any provider

Enables Hanger to develop and deliver best practices in O&P care



**NATIONWIDE NETWORK**

Hanger's broad provider footprint allows for a healthy diversity of payor and referral sources

Geographic diversity insulates Hanger from local or market specific challenges



# Products and Services

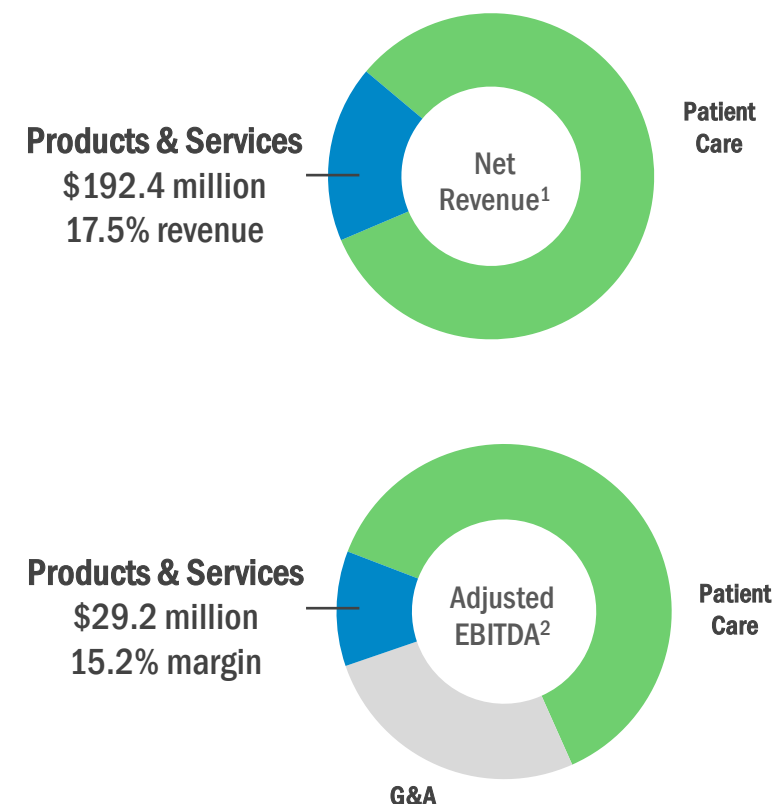
## National Scale Supports Profitable Growth

Distribution of O&P components & related devices through SPS (75% of segment net revenue)

- Comprehensive catalog for independent O&P providers
- One-stop O&P industry destination with access to over 475,000<sup>3</sup> SKUs across more than 300 manufactures
- Leading dedicated O&P distributor in the industry
- Driving long term growth by adding manufacturers, selections and service excellence to improve health outcomes

Therapeutic solutions features innovative rehabilitation technology through ACP (25% of segment net revenue)

- Rehabilitation technologies and clinical programs to skilled nursing facilities (SNFs) sold predominantly on subscription model basis
- End market faces census and reimbursement challenges and complexity exacerbated by COVID-19
- Investments in portfolio, connectivity and administrative efficiency of work flow made to reposition value proposition



<sup>1</sup>Calendar Year 2019. Hanger 2020 net segment revenue was \$169.5 million and Adjusted EBITDA of \$29.3 million, reflecting the impact of COVID-19. The Company believes 2019 financial performance reflects an appropriate base to evaluate compare the Company's prospects on a forward-looking basis.

<sup>2</sup>Adjusted EBITDA is a non GAAP measure. Please see the Appendix for a reconciliation of GAAP to non-GAAP metrics. <sup>3</sup>SKU count as of 3.31.21

# Growth Model

## Two-Fold Approach



### DRIVE ORGANIC REVENUE GROWTH

Exceed industry growth rate of 1.5 - 2.0%

- Increase referral volumes through differentiation
- Focus on high-value custom O&P
- Capitalize on base of strong prosthetic growth
- Implement new delivery strategies for lower margin orthotic categories
- Stabilize therapeutic solutions business



### SELECT, IN-MARKET ACQUISITIONS

Disciplined approach to O&P acquisitions

- Focus on synergistic geographies and specialties
- Seek good cultural fit
- Ensure valuations are accretive
- Fully integrate into centralized infrastructure

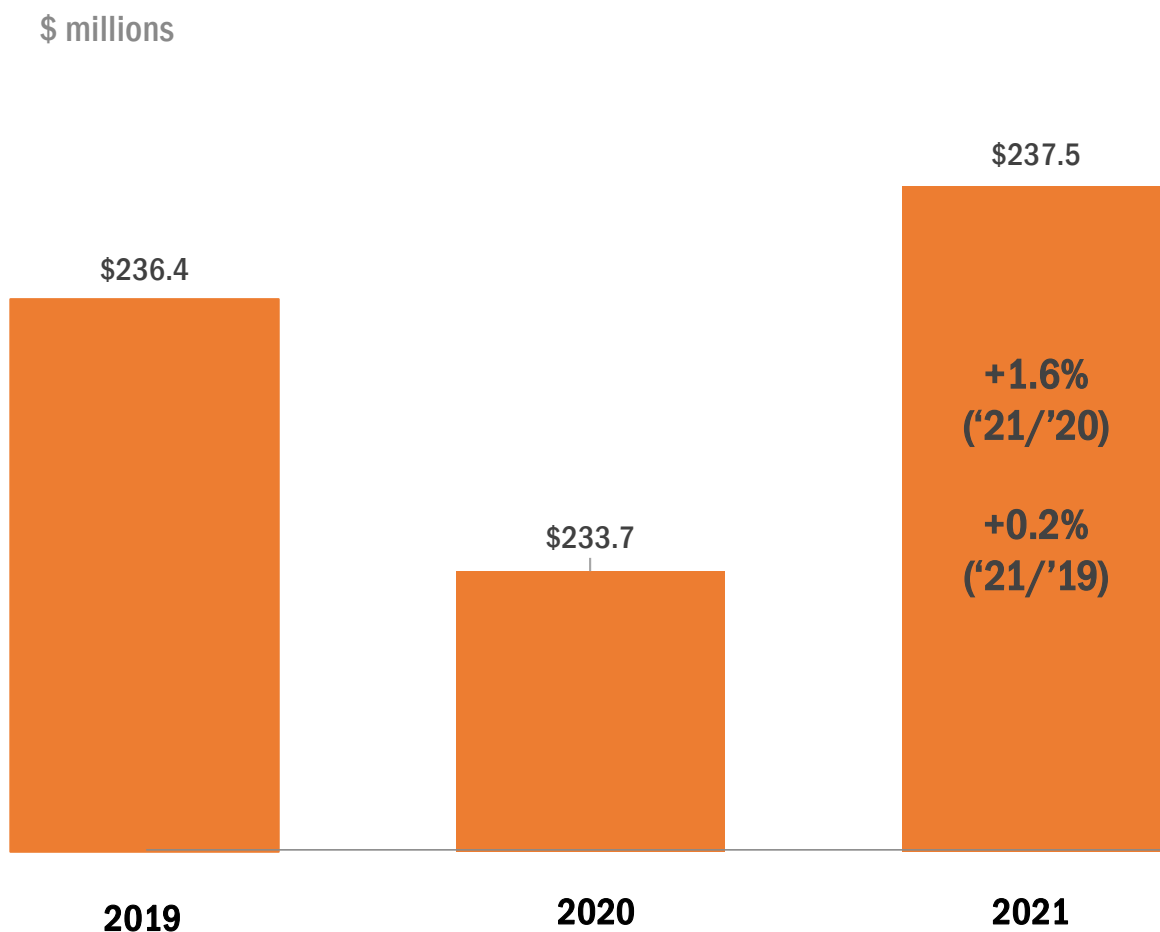
**Fixed infrastructure provides operating leverage with volume growth**



# Financial Results

## First Quarter Revenue Performance

EMPOWERING HUMAN POTENTIAL

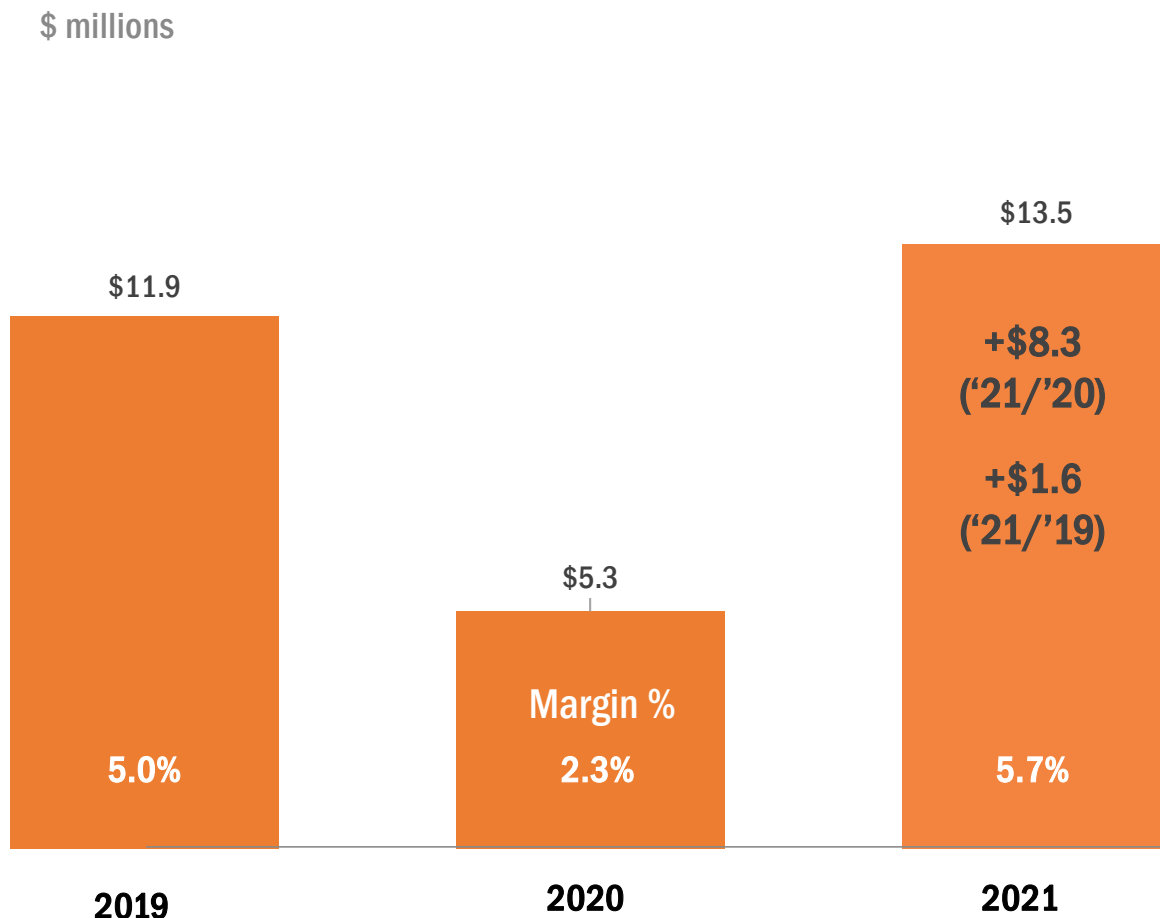


### SOLID Q1 RESULTS DESPITE COVID-19 AND FEBRUARY STORMS

- **Patient Care Segment:** Net revenue of \$195.7 million reflected growth of \$5.5 million or 2.9 percent, year-over-year.
  - Same clinic revenue growth of 1.4%.
- **Disallowed Revenue and Patient Non-Payment Rates:** Rate declined to 2.9 percent of adjusted gross revenue, compared to 4.9 percent a year ago.
  - Historically low disallowance rates likely temporary
    - adding \$4 million to first quarter net revenue.
- **Products and Services Segment:** First quarter 2021 revenue of \$41.8 million, which reflected a \$1.8 million decline from first quarter of 2020.
  - Distribution declined approximately \$1.0 million due to two fewer business days

# Financial Results

## First Quarter Adjusted EBITDA<sup>1</sup> Performance



### ADJUSTED EBITDA GROWTH BENEFITED FROM LOWER DISALLOWANCES AND COST MANAGEMENT

- **Q1 2021:** Adjusted EBITDA \$13.5 million, compared to \$5.3 million in prior year.

#### Segment Performance:

- **Patient Care** – Adjusted EBITDA grew to \$24.9 million, an increase of \$7.6 million over prior year period. \$4 million in quarter benefit from disallowances and \$2 million from lower Hanger LIVE annual conference costs for virtual format.
- **Product and Services** – earnings grew by \$1.8 million to \$6.9 million during the quarter. Lower bad debt expense added to segment earnings.

<sup>1</sup>Adjusted EBITDA is a non-GAAP measures. Please see the Appendix for a reconciliation of GAAP to non-GAAP metrics.



# Cash Flow, Liquidity & Capital

## CASH FLOW

- Operating cash flow of \$155.6 million during 2020 reflecting a \$96.7 million increase over 2019
- 2020<sup>1</sup> Net Cash Flow (Adjusted EBITDA<sup>2</sup> - CapEx) of \$77 million
- Seasonal reduction in the first quarter associated with annual incentive compensation expense of \$42.9 million

## LIQUIDITY & CAPITAL EXPENDITURES

- \$165.1 million in liquidity<sup>3</sup>, comprised of:
  - ❑ \$70.3 million in cash and cash equivalents
  - ❑ \$94.8 million of borrowing capacity
- First quarter 2021 liquidity compares favorably to first quarter 2020 liquidity of \$131.8 million
- Company continued to achieve strong cash collections as its days sales outstanding decreased by five days to 45 days as of March 31, 2021

## INDEBTEDNESS

- Total debt<sup>3</sup> of \$512.4 million:
  - ❑ Term Loan B \$489.8 million;
  - ❑ Seller Notes \$14.9 million;
  - ❑ Deferred Payment Obligations \$4.0 million;
  - ❑ Finance Leases & other \$3.7 million;
- 59% of term loan hedged
- First quarter 2021 leverage of 3.9x (TTM Adjusted EBITDA) and 3.3x based on 2021 financial outlook

<sup>1</sup> Referenced amounts reflect Year ended 12.31.20.

<sup>2</sup> Adjusted EBITDA is a non GAAP-measure. Please see the Appendix for a reconciliation of GAAP to non-GAAP metrics.

<sup>3</sup> As of 3.31.21.

# 2021 Outlook

## Annual Outlook Affirmed May 5, 2021

- Net Revenues in a range between \$1.145 billion and \$1.175 billion
- Adjusted EBITDA<sup>1</sup> in a range between \$130 million and \$135 million
- Hanger's financial outlook for 2021 includes approximately \$27 million in net revenue from the annualized effect of acquisitions completed in 2020 or closed prior to March 31<sup>st</sup>, 2021

Note: Outlook as of May 5, 2021. This presentation is not a reiteration or affirmation of prior guidance.

<sup>1</sup>Adjusted EBITDA is a non GAAP-measure. Adjusted EBITDA is provided on a non-GAAP basis only because a reconciliation to the most comparable GAAP financial measure, net income, is not available without unreasonable effort due to the unpredictable nature of reconciling items that render such a reconciliation not meaningful for investors.

Please see the Appendix for a reconciliation of GAAP to non-GAAP metrics.

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# Appendix Non-GAAP Reconciliations

# Net Income to Adjusted EBITDA 2020-2018

	For the Years Ended December 31,		
	2020	2019	2018
Net income (loss) - as reported (GAAP)	\$ 38,192	\$ 27,525	\$ (858)
Adjustments to calculate EBITDA:			
Depreciation and amortization	34,847	35,925	36,455
Interest expense, net	32,445	34,258	37,566
Loss on extinguishment of debt	—	—	16,998
Non-service defined benefit plan expense	632	691	703
Provision for income taxes	638	2,954	5,238
Adjustments - Net income to EBITDA	68,562	73,828	96,960
EBITDA (Non-GAAP)	106,754	101,353	96,102
Further adjustments to calculate Adjusted EBITDA:			
Impairment of intangible assets	—	—	183
Third-party professional fees	1,639	8,548	12,461
Equity-based compensation	17,969	13,414	13,065
Acquisition-related expenses	488	939	510
Hanger supply chain implementation costs	1,001	—	—
Severance expenses	3,224	(11)	957
Proceeds from grants under the CARES Act	(24,026)	—	—
Gain on sale of property	(1,925)	—	—
Disaster recovery / unclaimed property settlement	—	—	(2,221)
Further adjustments - EBITDA to Adjusted EBITDA	(1,630)	22,890	24,955
Adjusted EBITDA (Non-GAAP)	\$ 105,124	\$ 124,243	\$ 121,057

# Net Income to Adjusted EBITDA March 31 2021 v. March 31 2020

	For the Three Months Ended		For the Twelve Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Net (loss) income- as reported (GAAP)	(3,330)	(15,748)	\$ 50,610	\$ 18,728
Adjustments to calculate EBITDA:				
Depreciation and amortization	7,998	8,831	34,014	35,983
Interest expense, net	7,340	8,269	31,515	33,989
Non-service defined benefit plan expense	167	158	642	676
(Benefit) provision for income taxes	(2,156)	(1,852)	334	4,841
Adjustments - Net (loss) income to EBITDA	13,349	15,406	66,505	75,489
EBITDA (Non-GAAP)	10,019	(342)	117,115	94,217
Further adjustments to calculate Adjusted EBITDA:				
Third-party professional fees	—	1,638	1	8,537
Equity-based compensation	3,179	3,501	17,647	13,650
Acquisition-related expenses	160	333	315	1,102
Hanger Supply Chain implementation costs	132	135	998	135
Severance expenses	54	—	3,278	(1)
Proceeds from grants under the CARES Act	—	—	(24,026)	—
Gain on sale of property	—	—	(1,925)	—
Further adjustments - EBITDA to Adjusted EBITDA	3,525	5,607	(3,712)	23,423
Adjusted EBITDA (Non-GAAP)	\$ 13,544	\$ 5,265	\$ 113,403	\$ 117,640



# Net Income to Segment Adjusted EBITDA

	For the Three Months Ended		For the Years Ended	
	March 31,		December 31,	
	2021	2020	2020	2019
<u>Patient Care</u>				
Net income from operations - as reported (GAAP)	\$ 19,050	\$ 11,537	\$ 147,197	\$ 141,576
Depreciation & amortization	4,815	4,476	18,892	18,541
EBITDA (Non-GAAP)	23,865	16,013	166,089	160,117
Further adjustments to calculate Adjusted EBITDA:				
Equity-based compensation	897	1,178	4,055	4,446
Hanger supply chain implementation costs	132	135	767	—
Severance expenses	54	—	1,082	(11)
Proceeds from grants under the CARES Act	—	—	(24,026)	—
Gain on sale of property	—	—	(1,925)	—
Further adjustments - EBITDA to Adjusted EBITDA	1,083	1,313	(20,047)	4,435
Adjusted EBITDA (Non-GAAP)	24,948	17,326	146,042	164,552
<u>Products &amp; Services</u>				
Net income from operations - as reported (GAAP)	\$ 4,676	\$ 2,080	\$ 17,725	\$ 17,965
Depreciation & amortization	1,935	2,752	10,173	10,650
EBITDA (Non-GAAP)	6,611	4,832	27,898	28,615
Further adjustments to calculate Adjusted EBITDA:				
Equity-based compensation	259	205	936	608
Hanger supply chain implementastion costs	—	—	234	—
Severance expenses	—	—	255	—
Further adjustments - EBITDA to Adjusted EBITDA	259	205	1,425	608
Adjusted EBITDA (Non-GAAP)	6,870	5,037	29,323	29,223
<u>Corporate &amp; Other</u>				
Net loss from operations - as reported (GAAP)	\$ (21,705)	\$ (22,790)	\$ (93,015)	\$ (94,113)
Depreciation & amortization	1,248	1,603	5,782	6,734
EBITDA (Non-GAAP)	(20,457)	(21,187)	(87,233)	(87,379)
Further adjustments to calculate Adjusted EBITDA:				
Third-party professional fees	—	1,638	1,639	8,548
Equity-based compensation	2,023	2,118	12,978	8,360
Acquisition-related expenses	160	333	488	939
Severance expenses	—	—	1,887	—
Further adjustments - EBITDA to Adjusted EBITDA	2,183	4,089	16,992	17,847
Adjusted EBITDA (Non-GAAP)	(18,274)	(17,098)	(70,241)	(69,532)
Total Adjusted EBITDA (Non-GAAP)	\$ 13,544	\$ 5,265	\$ 105,124	\$ 124,243

# Adjusted EBITDA Margin By Segment : First Quarter 2021 v. 2020 and Year End 2020 v. 2019

For the Three Months Ended					
March 31,					
	2021		2020		2019
Net Revenue (a)					
Patient Care	\$ 195,682	\$	190,183	\$	190,601
Products & Services	41,788		43,556		45,818
Net revenue	<u>\$ 237,470</u>	<u>\$</u>	<u>233,739</u>	<u>\$</u>	<u>236,419</u>
EBITDA (b)					
Patient Care	\$ 23,865	\$	16,013	\$	20,309
Products & Services	6,611		4,832		6,641
Corporate & Other	(20,457)		(21,187)		(20,156)
EBITDA (Non-GAAP)	<u>\$ 10,019</u>	<u>\$</u>	<u>(342)</u>	<u>\$</u>	<u>6,794</u>
Adjusted EBITDA (b)					
Patient Care	\$ 24,948	\$	17,326	\$	21,392
Products & Services	6,870		5,037		6,885
Corporate & Other	(18,274)		(17,098)		(16,409)
Adjusted EBITDA (Non-GAAP)	<u>\$ 13,544</u>	<u>\$</u>	<u>5,265</u>	<u>\$</u>	<u>11,868</u>
Adjusted EBITDA Margin (Non-GAAP)					
Patient Care	12.7 %		9.1 %		11.2 %
Products & Services	16.4 %		11.6 %		15.0 %
Net revenue	5.7 %		2.3 %		5.0 %

(a) Excludes intersegment revenue

(b) EBITDA and Adjusted EBITDA are "Non-GAAP" measures.