

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of report (Date of earliest event reported): July 24, 2019

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
Of Incorporation)

0-26224
(Commission
File Number)

51-0317849
(IRS Employer
Identification No.)

311 Enterprise Drive
Plainsboro, NJ 08536
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (609) 275-0500

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425).
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12).
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240-14d-2(b)).
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240-13e-4(c)).

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of Each Exchange on Which Registered</u> |
|---|--------------------------|--|
| Common Stock, Par Value \$.01 Per Share | IART | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On July 24, 2019, Integra LifeSciences Holdings Corporation (the “Company”) issued a press release announcing financial results for the quarter ended June 30, 2019 (the “Press Release”). A copy of the Press Release is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference into this Item. In the financial statements portion of the Press Release, the Company has included a reconciliation of GAAP revenues to organic revenues for the quarters ended June 30, 2019 and 2018, GAAP net income to adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the quarters ended June 30, 2019 and 2018, GAAP net income to adjusted net income for the quarters ended June 30, 2019 and 2018, GAAP earnings per diluted share to adjusted earnings per diluted share for the quarters ended June 30, 2019 and 2018, and GAAP operating cash flow to free cash flow and adjusted free cash flow conversion used by management for the quarters ended June 30, 2019 and 2018, as well as GAAP net income to adjusted net income and GAAP earnings per diluted share to adjusted earnings per diluted share used by management for guidance for the year 2019. In addition, the Company included a supplemental disclosure of revenue by reporting segments in the financial statements portion of the Press Release.

The information contained in Item 2.02 of this Current Report on Form 8-K (including the Press Release and selected historical financial information) is being furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section. The information contained in Item 2.02 of this Current Report on Form 8-K (including the Press Release and selected historical financial information) shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in any such filing.

Discussion of Adjusted Financial Measures

In addition to our GAAP results, we provide organic revenues, adjusted 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, revenues from current-period acquisitions and product discontinuances. The various measures of adjusted EBITDA consist 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 charges; (v) intangible asset amortization expense; (vi) discontinued product lines charges; and (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 organic revenues and the various adjusted EBITDA, adjusted net income, adjusted earnings per diluted share, free cash flow and adjusted free cash flow conversion measures provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. Management uses non-GAAP financial measures in the form of organic revenues, adjusted EBITDA, adjusted net income, adjusted earnings per diluted share, free cash flow and adjusted free cash flow conversion when evaluating operating performance because we believe that the inclusion or exclusion of the items described below, for which the amounts and/or timing may vary significantly depending upon the Company's acquisition, integration, and restructuring activities, for which the amounts are non-cash in nature, or for which the amounts are not expected to recur at the same magnitude, provides a supplemental measure of our operating results that facilitates comparability of our financial condition and operating performance from period to period, against our business model objectives, and against other companies in our industry. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our core business and the valuation of our Company.

Organic revenues, adjusted EBITDA, adjusted net income, adjusted earnings per diluted share, free cash flow and adjusted free cash flow conversion are significant measures used by management for purposes of:

- supplementing the financial results and forecasts reported to the Company's board of directors;
- evaluating, managing and benchmarking the operating performance of the Company;
- establishing internal operating budgets;
- determining compensation under bonus or other incentive programs;
- enhancing comparability from period to period;
- comparing performance with internal forecasts and targeted business models; and
- evaluating and valuing potential acquisition candidates.

The measure of organic revenues that we report reflects the increase in total revenues for the quarter ended June 30, 2019 adjusted for the effects of currency exchange rates, revenues from acquisitions, and product discontinuations on current period revenues. We provide this measure because changes in foreign currency exchange rates can distort our revenue reduction favorably or unfavorably, depending

upon the strength of the U.S. dollar in relation to the various foreign currencies in which we generate revenues. We generate significant revenues outside the United States in multiple foreign currencies. We believe this measure provides useful information to determine the success of our international selling organizations in increasing sales of products in their local currencies without regard to fluctuations in currency exchanges rates, which we do not control. Additionally, significant acquisitions and discontinued product lines can distort our current period revenues when compared to prior periods.

The measure of adjusted net income reflects GAAP net income adjusted for one or more of the following items, as applicable:

- Structural optimization charges. These charges, which include employee severance and other costs associated with exit or disposal of facilities, costs related to transferring manufacturing and/or distribution activities to different locations, and rationalization or enhancement of our organization, existing manufacturing, distribution, administrative, functional and commercial infrastructure. Some of these cost-saving and efficiency-driven activities are identified as opportunities in connection with acquisitions that provide the Company with additional capacity or economies of scale. Although recurring in nature, given management's ongoing review of the efficiency of our organization and structure, including manufacturing, distribution and administrative facilities and operations, management excludes these items when evaluating the operating performance of the Company because the frequency and amount of such charges vary significantly based on the timing and magnitude of the Company's rationalization activities and are, in some cases, dependent upon opportunities identified in acquisitions, which also vary in frequency and magnitude.
- Acquisition- and integration-related charges. Acquisition- and integration-related charges include (i) up-front fees and milestone payments that are expensed as incurred in connection with acquiring licenses or rights to technology for which no product has been approved for sale by regulatory authorities and such approval is not reasonably assured at the time such up-front fees or milestone payments are made, (ii) inventory fair value purchase accounting adjustments, (iii) changes in the fair value of contingent consideration after the acquisition date, (iv) costs related to acquisition integration, including systems, operations, retention and severance and (v) legal, accounting and other outside consultants expenses directly related to acquisitions or divestitures. Inventory fair value purchase accounting adjustments consist of the increase to cost of goods sold that occur as a result of expensing the "step up" in the fair value of inventory that we purchased in connection with acquisitions as that inventory is sold during the financial period. Although recurring, given the ongoing character of our development and acquisition programs, these acquisition, divestiture and in-licensing related charges are not factored into the evaluation of our performance by management after completion of development programs or acquisitions because they are of a temporary nature, they are not related to our core operating performance and the frequency and amount of such charges vary significantly based on the timing and magnitude of our development, acquisition and divestiture transactions as well as the level of inventory on hand at the time of acquisition.
- Litigation charges. Management excludes this item when evaluating the Company's operating performance because costs incurred related to non-recurring litigation are not reflective of its ongoing operations.
- EU Medical Device Regulation charges. These charges represent costs specific to complying with the medical device reporting regulations and other requirements of the European Union's regulation for medical devices. Management excludes this item when evaluating the Company's operating performance because these costs incurred are not reflective of its ongoing operations
- Discontinued product lines charges. These charges represent charges taken in connection with product lines that the Company discontinues. Management excludes this item when evaluating the Company's operating performance because discontinued products do not provide useful information regarding the Company's prospects for future performance.
- Intangible asset amortization expense. Management excludes this item when evaluating the Company's operating performance because it is a non-cash expense.
- Income tax impact from adjustments. Estimated impact on income tax expense related to the following:
 - (i) Adjustments to income tax expense for the amount of additional tax expense that the Company estimates that it would record if it used non-GAAP results instead of GAAP results in the calculation of its tax provision, based on the statutory rate applicable to jurisdictions in which the above non-GAAP adjustments relate.
 - (ii) When we calculate the adjusted tax rate, we include a full year estimate for all discrete items. We then apply that full year rate to the year-to-date results and calculate the current quarter's rate to arrive at the year-to-date adjusted tax rate. We believe this removes significant variability in our results and creates a more operationally consistent result for our investors to use for comparability purposes.

Organic revenues, adjusted EBITDA, adjusted net income, adjusted earnings per diluted share, free cash flow and adjusted free cash flow conversion are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect all of the revenues, costs or benefits associated with the operations of the Company's business as determined in accordance with GAAP. As a result, you should not consider these measures in isolation or as a substitute for analysis of the Company's results as reported under GAAP. The Company expects to continue to acquire businesses and product lines and to incur expenses of a nature similar to many of the non-GAAP adjustments described above, and exclusion of these items from its adjusted financial measures should not be construed as an inference that all of these revenue adjustments or costs are unusual, infrequent or non-recurring. Some of the limitations in relying on the adjusted financial measures are:

- The Company periodically acquires other companies or businesses, and we expect to continue to incur acquisition-related expenses and charges in the future. These costs can directly impact the amount of the Company's available funds or could include costs for aborted deals which may be significant and reduce GAAP net income.
- All of the adjustments to GAAP net income have been tax affected at the Company's actual tax rates. Depending on the nature of the adjustments and the tax treatment of the underlying items, the effective tax rate related to adjusted net income could differ significantly from the effective tax rate related to GAAP net income.

In the financial tables portion of the Press Release, the Company has included a reconciliation of GAAP reported revenues to organic revenues for the quarters ended June 30, 2019 and 2018 and GAAP net income to adjusted EBITDA, GAAP net income to adjusted net income, GAAP earnings per diluted share to adjusted earnings per diluted share, and GAAP operating cash flow to free cash flow and adjusted free cash flow conversion used by management for the quarters ended June 30, 2019 and 2018. Also included are reconciliations for future periods.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

99.1 [Press Release with attachments, dated July 24, 2019, issued by Integra LifeSciences Holdings Corporation](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

By: /s/ Carrie Anderson
Carrie Anderson
Corporate Vice President and Chief Financial
Title: Officer

Date: July 24, 2019

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u> |
|---------------------------|--|
| 99.1 | Press Release with attachments, dated July 24, 2019, issued by Integra LifeSciences Holdings Corporation |

News Release

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Integra LifeSciences Reports Second Quarter 2019 Financial Results

Reported revenues increased 4.8% to \$383.6 million; organic revenues increased 6.6%

GAAP and adjusted earnings per diluted share were \$0.34 and \$0.73, respectively

The Company reaffirms revenue guidance and updates EPS guidance

Plainsboro, New Jersey, July 24, 2019 - [Integra LifeSciences Holdings Corporation](#) (NASDAQ: IART), a leading global medical technology company, today reported financial results for the second quarter ending June 30, 2019.

Second Quarter 2019 Highlights

- Reported revenues were \$383.6 million, an increase of 4.8% compared to the second quarter of 2018, and organic revenues increased 6.6% over the prior-year quarter;
 - Reported revenues in the Codman Specialty Surgical segment increased 4.1% compared to the second quarter of 2018;
 - Reported revenues in the Orthopedics and Tissue Technologies segment increased 6.1% compared to the second quarter of 2018;

- Foreign currency exchange rate changes negatively impacted reported revenues by \$4.0 million in the second quarter of 2019;
- GAAP gross margin was 62.6%, an increase of 20 basis points compared to the second quarter of 2018. Adjusted gross margin was 67.4%, unchanged from the prior-year quarter;
- Adjusted EBITDA margin was 25.5%, an increase of 200 basis points compared to the second quarter of 2018;
- GAAP earnings per diluted share were \$0.34, more than double the prior-year quarter;
- Adjusted earnings per diluted share were \$0.73, an increase of 21.7% over the second quarter of 2018;
- The Company reaffirms its revenue guidance for the full-year 2019, which includes total reported revenues of \$1.515 billion to \$1.525 billion and organic revenue growth of approximately 5%;
- The Company reaffirms its GAAP earnings per diluted share guidance range for the full-year 2019 of \$1.46 to \$1.53. The Company is raising guidance for adjusted earnings per diluted share to a new range of \$2.70 to \$2.75.

"Strong performance across our entire product portfolio, and in particular new product launches, drove our second quarter results," said Peter Arduini, Integra's president and chief executive officer. "As we near the end of the Codman integration, we are experiencing a more stable operating environment and realizing the strategic benefits of the combined organizations."

The company reported GAAP net income of \$29.7 million, or \$0.34 per diluted share, in the second quarter of 2019, compared to GAAP net income of \$11.4 million, or \$0.14 per diluted share, in the second quarter of 2018. The improvement was driven by higher revenues, lower integration costs, improved operating leverage and lower interest expense.

Adjusted net income for the second quarter of 2019 was \$63.4 million, an increase of 25.4% from the prior year. The increase in adjusted net income is a result of higher revenues, improved operating leverage and lower interest expense. Adjusted earnings per diluted share for the second quarter of 2019 was \$0.73, an increase of 21.7% over the prior year's quarter.

Adjusted EBITDA for the second quarter of 2019 was \$97.9 million, or 25.5% of revenue, a 200 basis point improvement compared to \$85.9 million, or 23.5% of revenue, in the second quarter of 2018. This increase was driven mostly by improved operating leverage.

2019 Full-Year Outlook

The Company reaffirms its revenue guidance for the full-year 2019, which includes total reported revenues of \$1.515 billion to \$1.525 billion and organic revenue growth of approximately 5%;

The Company reaffirms its GAAP earnings per diluted share guidance range for the full-year 2019 of \$1.46 to \$1.53. The Company is raising guidance for adjusted earnings per diluted share to a new range of \$2.70 to \$2.75 from its prior range of \$2.65 to \$2.72.

In the future, the company may record, or expects to record, certain additional revenues, gains, expenses, or charges as described in the Discussion of Adjusted Financial Measures below, which will be excluded from the calculation of adjusted EBITDA, adjusted earnings per share for historical periods and in adjusted earnings per share guidance.

Conference Call and Presentation Available Online

Integra has scheduled a conference call for 8:30 AM ET today, Wednesday, July 24, 2019, to discuss financial results for the second quarter and forward-looking financial guidance. The conference call will be hosted by Integra's senior management team and will be open to all listeners. Additional forward-looking information may be discussed in a question and answer session following the call.

Integra's management team will reference a presentation during the conference call. The presentation can be found on investor.integralife.com.

Access to the live call is available by dialing (888) 394-8218 and using the passcode 2606382. The call can also be accessed via a webcast link provided on investor.integralife.com. A replay of the call will be available through July 29, 2019 by dialing (888) 203-1112 and using the passcode 2606382. The webcast will also be archived on the website.

About Integra

Integra LifeSciences is a global leader in regenerative technologies, neurosurgical and extremity orthopedic solutions dedicated to limiting uncertainty for clinicians, so they can focus on providing the best patient care. Integra offers a comprehensive portfolio of high quality, leadership brands that include AmnioExcel®, Bactiseal®, Cadence®, Certas™, Codman®, CUSA®, DuraGen®, DuraSeal®, ICP Express®, Integra®, MediHoney®, MicroFrance®, PriMatrix®, Salto Talaris®, SurgiMend®, TCC-EZ®, Titan™ and VersaTru™. For the latest news and information about Integra and its brands, please visit www.integralife.com.

This news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties and reflect the Company's judgment as of the date of this release. 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 contained in this news release include, but are not limited to, statements concerning future financial performance, including projections for revenues, expected revenue growth (both reported and organic), GAAP and adjusted net income, GAAP and adjusted earnings per diluted share, non-GAAP adjustments such as acquisition and integration-related charges, litigation charges, impairment charges, intangible asset amortization, structural optimization charges, EU Medical Device Regulation-related charges and income tax expense (benefit) related to non-GAAP adjustments and other items. It is important to note that the Company's goals and expectations are not predictions of actual performance. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from predicted or expected results. Such risks and uncertainties include, but are not limited, to the following: the Company's ability to execute its operating plan effectively; the Company's ability to achieve sales growth in a timely fashion and execute on its channel expansion in its Orthopedics and Tissue Technologies segment; the Company'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 manufacture and ship sufficient quantities of its products to meet its customers' demands; the ability of third-party suppliers to supply us with raw materials and finished products; 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; physicians' willingness to adopt and third-party payors' willingness to provide or maintain reimbursement for the Company's recently launched, planned and existing products; initiatives launched by the Company's competitors; downward pricing pressures from customers; the Company's ability to secure regulatory approval for products in development; the Company's ability to remediate quality systems violations; fluctuations in hospitals' spending for capital equipment; the Company's ability to comply with and obtain approvals for products of human origin and comply with regulations regarding products containing materials derived from animal sources; difficulties in controlling expenses, including costs to procure and manufacture our products; the impact of changes in management or staff levels; the impact of goodwill and intangible asset impairment charges if future operating results of acquired businesses are significantly less than the results anticipated at the time of the acquisitions, the Company's ability to leverage its existing selling

organizations and administrative infrastructure; the Company's ability to increase product sales and gross margins, and control non-product costs; the Company's ability to achieve anticipated growth rates, margins and scale and execute its strategy generally; the amount and timing of acquisition and integration-related costs; the geographic distribution of where the Company generates its taxable income; the effect of legislation effecting healthcare reform in the United States and internationally; fluctuations in foreign currency exchange rates; the amount of our bank borrowings outstanding and other factors influencing liquidity; and the economic, competitive, governmental, technological, and other risk factors and uncertainties identified under the heading "Risk Factors" included in Item 1A of Integra's Annual Report on Form 10-K for the year ended December 31, 2018 and information contained in subsequent filings with the Securities and Exchange Commission.

These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise.

Discussion of Adjusted Financial Measures

In addition to our GAAP results, we provide certain non-GAAP measures, including 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, revenues from current-period acquisitions 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.

Reconciliations of GAAP revenues to adjusted revenues and GAAP Adjusted Net Income to adjusted EBITDA, and adjusted net income, and GAAP earnings per diluted share to adjusted earnings per diluted share all for the quarters ended June 30, 2019 and 2018, and the free cash flow and free cash flow conversion for the quarters ended June 30, 2019 and 2018, appear in the financial tables in this release.

The Company believes that the presentation of organic revenues and the other non-GAAP 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. For further information regarding why Integra believes that these non-GAAP financial measures provide useful information to investors, the specific manner in which management uses these measures, and some of the limitations associated with the use of these measures, please refer to the Company's Current Report on Form 8-K regarding this earnings press release filed today with the Securities and Exchange Commission. This Current Report on Form 8-K is available on the SEC's website at www.sec.gov or on our website at www.integralife.com.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)

| | Three Months Ended June 30, | |
|---|--------------------------------|------------|
| | 2019 | 2018 |
| Total revenues, net | \$ 383,645 | \$ 366,190 |
| Costs and expenses: | | |
| Cost of goods sold | 143,671 | 137,565 |
| Research and development | 17,633 | 19,108 |
| Selling, general and administrative | 165,378 | 176,597 |
| Intangible asset amortization | 11,004 | 5,286 |
| Total costs and expenses | 337,686 | 338,556 |
| Operating income | 45,959 | 27,634 |
| Interest income | 2,710 | 174 |
| Interest expense | (13,384) | (17,504) |
| Other income, net | 1,098 | 2,427 |
| Income before taxes | 36,383 | 12,731 |
| Income tax expense | 6,647 | 1,355 |
| Net income | \$ 29,736 | \$ 11,376 |
| Net income per share: | | |
| Diluted net income per share | \$ 0.34 | \$ 0.14 |
| Weighted average common shares outstanding for diluted net income per share | 86,257 | 83,513 |

The following table presents revenues disaggregated by the major sources for the three months ended June 30, 2019 and 2018 (amounts in thousands):

| | Three Months Ended June 30, | | Change |
|--|-----------------------------|-----------|--------|
| | 2019 | 2018 | |
| Neurosurgery | \$177,411 | \$170,589 | 4.0% |
| Precision Tools and Instruments | 71,847 | 68,915 | 4.3% |
| Total Codman Specialty Surgical | \$249,258 | \$239,504 | 4.1% |
| Wound Reconstruction and Care | 82,282 | 78,311 | 5.1% |
| Extremity Orthopedics | 21,762 | 22,017 | (1.2)% |
| Private Label | 30,343 | 26,358 | 15.1% |
| Total Orthopedics and Tissue Technologies ⁽¹⁾ | 134,387 | 126,686 | 6.1% |
| Total reported revenues | \$383,645 | \$366,190 | 4.8% |
| Impact of changes in currency exchange rates | 3,958 | — | |
| Less contribution of revenues from divested products | (1,364) | (2,390) | |
| Less contribution of revenues from discontinued products | (6,288) | (7,361) | |
| Total organic revenues ⁽²⁾ | \$379,951 | \$356,439 | 6.6% |

(1) Prior period amounts were reclassified between categories within Orthopedics and Tissue Technologies segment to conform to the current period presentation.

(2) Organic revenues have been adjusted to exclude foreign currency (current period) and to account for divested and discontinued products.

Items included in GAAP net income and location where each item is recorded are as follows:

(In thousands)

Three Months Ended June 30, 2019

| Item | Total Amount | COGS(a) | SG&A(b) | Amort.(c) | Tax(d) |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
| Structural optimization charges | 3,017 | 2,153 | 864 | — | — |
| Acquisition and integration-related charges ⁽¹⁾ | 12,821 | 2,857 | 9,964 | — | — |
| Litigation charges | 1,051 | — | 1,051 | — | — |
| EU Medical Device Regulation charges | 114 | — | 114 | — | — |
| Discontinued product lines charges | 2,321 | 2,321 | — | — | — |
| Intangible asset amortization expense | 22,339 | 11,334 | — | 11,005 | — |
| Estimated income tax impact from above adjustments and other items | (8,048) | — | — | — | (8,048) |
| Total adjustments | \$33,615 | \$18,665 | \$11,993 | \$11,005 | \$(8,048) |
| Depreciation expense | 10,319 | — | — | — | — |

- a) COGS - Cost of goods sold
- b) SG&A - Selling, general and administrative
- c) Amort. - Intangible asset amortization
- d) Tax - Income tax expense (benefit)

(1) Acquisition and integration-related charges are associated with the Codman Neurosurgery acquisition and include banking, legal, consulting, systems, and other expenses.

Three Months Ended June 30, 2018

(In thousands)

| Item | Total Amount | COGS (a) | SG&A (b) | Amort. (c) | OI&E (d) | Tax (e) |
|--|-----------------|-----------------|-----------------|----------------|--------------|------------------|
| Structural optimization charges | 6,947 | 2,022 | 4,134 | — | 791 | — |
| Acquisition and integration-related charges ⁽¹⁾ | 23,697 | 4,614 | 19,083 | — | — | — |
| Litigation charges | 1,502 | — | 1,502 | — | — | — |
| Intangible asset amortization expense | 16,729 | 11,443 | — | 5,286 | — | — |
| Estimated income tax impact from above adjustments and other items | (9,740) | — | — | — | — | (9,740) |
| Total adjustments | \$39,135 | \$18,079 | \$24,719 | \$5,286 | \$791 | \$(9,740) |

| | | | | | | |
|----------------------|--------|---|---|---|---|---|
| Depreciation expense | 10,177 | — | — | — | — | — |
|----------------------|--------|---|---|---|---|---|

- a) COGS - Cost of goods sold
- b) SG&A - Selling, general and administrative
- c) Amort. - Intangible asset amortization
- d) OI&E - Interest (income) expense, net and other (income) expense, net
- e) Tax - Income tax expense (benefit)

(1) Acquisition and integration-related charges are associated with the Derma Sciences and Codman Neurosurgery acquisitions and include banking, legal, consulting, systems, and other expenses.

RECONCILIATION OF NON-GAAP ADJUSTMENTS - GAAP NET INCOME TO ADJUSTED EBITDA
(UNAUDITED)

(In thousands)

| | Three Months Ended June 30, | |
|--|-----------------------------|-----------|
| | 2019 | 2018 |
| GAAP net income | \$ 29,736 | \$ 11,376 |
| Non-GAAP adjustments: | | |
| Depreciation and intangible asset amortization expense | 32,658 | 26,906 |
| Other income, net | \$ (1,098) | (2,427) |
| Interest expense, net | 10,674 | 16,539 |
| Income tax benefit | 6,647 | 1,355 |
| Discontinued product lines charges | 2,321 | — |
| Structural optimization charges | 3,017 | 6,947 |
| Litigation Charges | 1,051 | 1,502 |
| EU Medical Device Regulation charges | 114 | — |
| Acquisition and integration-related charges ⁽¹⁾ | 12,821 | 23,697 |
| | | |
| Total of non-GAAP adjustments | 68,205 | 74,519 |
| Adjusted EBITDA | \$ 97,941 | \$ 85,895 |

(1) Acquisition and integration-related charges are associated with the Derma Sciences and Codman Neurosurgery acquisitions and include banking, legal, consulting, systems, and other expenses.

RECONCILIATION OF NON-GAAP ADJUSTMENTS - GAAP NET INCOME TO MEASURES OF ADJUSTED NET INCOME AND ADJUSTED
EARNINGS PER SHARE
(UNAUDITED)

(In thousands, except per share amounts)

| | Three Months Ended June 30, | |
|---|-----------------------------|-----------|
| | 2019 | 2018 |
| GAAP net income | \$29,736 | \$11,376 |
| Non-GAAP adjustments: | | |
| Structural optimization charges | 3,017 | 6,947 |
| Acquisition and integration-related charges ⁽¹⁾ | 12,821 | 23,697 |
| EU Medical Device Regulation charges | 114 | — |
| Litigation Charges | 1,051 | 1,502 |
| Discontinued product lines charges | 2,321 | — |
| Intangible asset amortization expense | 22,339 | 16,729 |
| Estimated income tax impact from adjustments and other items | (8,048) | (9,740) |
| | 33,615 | 39,135 |
| Total of non-GAAP adjustments | 33,615 | 39,135 |
| Adjusted net income | \$ 63,351 | \$ 50,511 |
| Adjusted diluted net income per share | \$0.73 | \$0.60 |
| Weighted average common shares outstanding for diluted net income per share | 86,257 | 83,513 |

(1) Acquisition and integration-related charges are associated with the Derma Sciences and Codman Neurosurgery acquisitions and include banking, legal, consulting, systems, and other expenses.

CONDENSED BALANCE SHEET DATA
(UNAUDITED)

(In thousands)

| | June 30, 2019 | December 31, 2018 |
|------------------------------------|------------------|----------------------|
| Cash and cash equivalents | \$ 176,084 | \$ 138,838 |
| Accounts receivable, net | 296,507 | 265,737 |
| Inventories, net | 296,505 | 280,347 |
| Senior credit facility | 1,249,537 | 1,233,013 |
| Accounts receivable securitization | 102,400 | 121,200 |
| Stockholders' equity | \$ 1,420,951 | \$ 1,375,796 |

CONDENSED STATEMENT OF CASH FLOWS
(UNAUDITED)

(In thousands)

| | Six Months Ended June 30, | |
|--|---------------------------|-----------|
| | 2019 | 2018 |
| Net cash provided by operating activities | \$ 78,008 | \$ 77,744 |
| Net cash used in investing activities | (33,220) | (8,032) |
| Net cash used in financing activities | (7,799) | (56,978) |
| Effect of exchange rate changes on cash and cash equivalents | 257 | (3,898) |
| Net increase in cash and cash equivalents | \$ 37,246 | \$ 8,836 |

RECONCILIATION OF NON-GAAP ADJUSTMENTS - GAAP OPERATING CASH FLOW TO
MEASURES OF FREE CASH FLOW AND FREE CASH FLOW CONVERSION
(UNAUDITED)

(In thousands)

| | Three Months Ended June 30, | |
|---|-----------------------------|-----------|
| | 2019 | 2018 |
| Net cash provided by operating activities | \$ 48,530 | \$ 36,212 |
| Purchases of property and equipment | (17,664) | (19,999) |
| Free cash flow | 30,866 | 16,213 |
| Adjusted net income ⁽¹⁾ | \$ 63,351 | \$ 50,511 |
| Adjusted free cash flow conversion | 48.7% | 32.1% |

| | Twelve Months Ended June 30, | |
|---|------------------------------|------------|
| | 2019 | 2018 |
| Net cash provided by operating activities | \$ 199,953 | \$ 134,538 |
| Purchases of property and equipment | (76,105) | (56,880) |
| Adjusted free cash flow | 123,848 | 77,658 |
| Adjusted net income ⁽¹⁾ | \$ 226,552 | \$ 183,758 |
| Adjusted free cash flow conversion | 54.7% | 42.3% |

(1) Adjusted net income for quarters ended June 30, 2018 and 2019 are reconciled above. Adjusted net income for remaining quarters in the trailing twelve months calculation have been previously reconciled and are publicly available in the Quarterly Earnings Call Presentations on our website at investor.integralife.com under Events & Presentations.

The Company calculates adjusted free cash flow conversion by dividing its free cash flow by adjusted net income. The Company believes this measure is useful in evaluating the significance of the cash special charges in its adjusted earnings measures.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
RECONCILIATION OF NON-GAAP ADJUSTMENTS - GUIDANCE

| (In millions, except per share amounts) | Recorded Year to Date | Projected Year Ended | |
|---|--------------------------|----------------------|----------|
| | June 30, 2019 | December 31, 2019 | |
| | | Range | |
| GAAP net income | \$ 62.5 | 127.0 | 133.0 |
| Non-GAAP adjustments: | | | |
| Structural optimization charges | 7.8 | 17.0 | |
| Litigation charges | 2.3 | 2.3 | |
| Acquisition and integration charges | 32.3 | 45.0 | |
| Discontinued product lines charges | 3.7 | 3.7 | |
| Intangible asset amortization expense | 39.0 | 71.0 | |
| EU Medical Device Regulation-related charges | 1.2 | 10.0 | |
| Estimated income tax impact from adjustments and other items ⁽¹⁾ | (29.0) | (41.0) | |
| Total of non-GAAP adjustments | 57.3 | 108.0 | |
| Adjusted net income | \$ 119.8 | \$ 235.0 | \$ 240.0 |
| GAAP diluted net income per share | \$0.72 | \$1.46 | \$1.53 |
| Non-GAAP adjustments detailed above (per share) | \$0.67 | \$1.24 | |
| Adjusted diluted net income per share | \$1.39 | \$2.70 | \$2.75 |
| Weighted average common shares outstanding for diluted net income per share | 86.4 | 87.0 | 87.0 |

GUIDANCE - SPECIAL CHARGES

| Item | YTD Amount | FY Guidance | COGS | SG&A | R&D | Amort. | Tax |
|---|------------|-------------|------|------|-----|--------|--------|
| Structural optimization charges | 7.8 | 17.0 | 6.0 | 11.0 | — | — | — |
| Litigation charges | 2.3 | 2.3 | — | 2.3 | — | — | — |
| Acquisition-related charges | 32.3 | 45.0 | 8.0 | 36.0 | 1.0 | — | — |
| Discontinued product lines charges | 3.7 | 3.7 | 3.7 | — | — | — | — |
| Intangible asset amortization expense | 39.0 | 71.0 | 45.0 | — | — | 26.0 | — |
| EU Medical Device Regulation-related charges | 1.2 | 10.0 | — | 10.0 | — | — | — |
| Estimated income tax impact from adjustments and other items ⁽¹⁾ | (29.0) | (41.0) | — | — | — | — | (41.0) |
| Total | 57.3 | 108.0 | 62.7 | 59.3 | 1.0 | 26.0 | (41.0) |

(1) Includes a one-time tax benefit of \$10.8 million related to a federal tax holiday in Switzerland granted in March 31, 2019