Will Parrish, Vice President | Strategy, Corporate Development, and Investor Relations

Thank you, Operator, and good morning, everyone. I'd like to welcome you to Accendra Health's Second Quarter Earnings Call. Our comments on the call will be focused on the financial results of the second quarter of 2026, all of which are included in today's press release. The press release, along with the second quarter 2026 supplemental slides which we will refer to throughout the call, are posted in the Investor Relations section of our website.

Please note that during this call, we will make forward-looking statements that reflect the current views of Accendra Health about our business, financial performance, and future events. The matters addressed in these statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected or implied here today. Our expectations, beliefs, and projections are expressed in good faith, and we believe there is a reasonable basis for them. However, there can be no assurance that our expectations, beliefs, and projections will result or be achieved. Please refer to our SEC filings for a full description of these risks and uncertainties, including the Risk Factors section of our annual report on Form 10-K and quarterly reports on Form 10-Q.

Any forward-looking statements that we make on this call, in our earnings press release, or in our supplemental slides are as of today, and we undertake no obligation to update these statements as a result of new information or future events, except to the extent required by applicable law.

In our discussion today, we will refer to non-GAAP financial measures and believe they might help investors to better understand our performance or business trends. Information about these measures and reconciliations to the most comparable GAAP financial measures are included in our press release.

Today, I am joined by Ed Pesicka, Accendra Health’s President and Chief Executive Officer, Jon Leon, the Company’s Chief Financial Officer, and Perry Bernocchi, the Company’s Chief Operating Officer. I will now turn the call over to Ed. Ed?

<u>Edward A. Pesicka, President & Chief Executive Officer</u>

Thank you, Will. Good morning, everyone, and thank you for joining us on the call today.

Before I dive into our second quarter results and outlook for the balance of the year, I'd like to take a moment to address the announcement included in today's press release that I have informed the Board of Directors of my intention to retire by the end of 2026.

The decision to retire is never easy, however, after considerations with my family and careful thought, I decided that now is the right time. It has been an honor and privilege to serve as President and CEO for nearly eight years. During that time, we initially stabilized the company when I joined, enabling us to successfully guide the company through the unprecedented challenges of the COVID-19 pandemic, then navigate the Company through the post-pandemic environment, completed the sale of the P&HS segment, and most recently executed our balance sheet optimization and debt realignment. Together, these milestones have transformed the company into a focused, pure-play home based healthcare business with a strong strategic foundation.

With these important milestones largely behind us, I believe the company is well positioned for its next chapter. The timing is right to begin a thoughtful leadership transition that allows the next CEO to build on the foundation we've established, capitalize on the opportunities ahead, and create long-term value for our patients, customers, employees, and shareholders. The board has a longstanding succession planning process, and I am confident that we will have a successful CEO transition. In closing, I would like to personally thank the board of directors, the Company Leadership

Team, and our six thousand teammates for all the dedication, hard work, and support over the last eight years.

Now, let me turn to the business update.

Looking at our second quarter performance, our results did not meet the expectations we set for ourselves. At the same time, the quarter reflected continued progress in several areas that are critical to our long-term transformation. We successfully advanced our separation from Owens & Minor, remained on schedule with the transition away from a Large Commercial Payor earlier this year, and continued to strengthen the operational foundation of the business as Accendra Health.

That said, our results also demonstrate that we have additional work to do to optimize our cost structure and improve execution. As I'll discuss in a moment, we have already implemented a number of these initiatives—and have additional actions planned—that are designed to streamline our operations, improve efficiency, and reduce costs. We also experienced several discrete headwinds during the quarter that we believe are temporary in nature and affect our near-term financial performance and cash flow. I'll provide more detail on those shortly.

Importantly, the quarter also included several accomplishments that reinforce our confidence in the future. We made meaningful progress on a number of strategic initiatives that we believe have the potential to drive attractive growth beginning in late 2026 and continuing into 2027.

Turning now to the key drivers of our second quarter performance, there were three primary factors that contributed to the variance from our forecast:

1. Revenue growth below our expectations.
2. The timing of planned cost reductions.
3. Slower-than-expected recovery of our collection rate.

Starting with revenue, while we were pleased to see revenue growth improve sequentially from the first quarter to the second quarter, excluding the impact of the Large Commercial Payor exit, overall growth remained below both our expectations and the level this business is capable of delivering.

To accelerate growth, we have made targeted changes within our commercial and operational organizations to improve customer responsiveness, strengthen execution, and reinvigorate our sales force. We are already seeing positive momentum, and several important initiatives are either underway or expected to begin contributing over the coming quarters.

Starting with the renewal of our largest soft goods contract with our largest commercial payor, which we discussed during the last earnings call, but was formally executed during the second quarter. This provides greater stability across an important portion of our commercial payor portfolio for years to come.

Building on that success, we also signed a new sole source agreement with a regional health system that is expected to launch in early 2027. In addition, we executed a broader enterprise-wide fee-for-service agreement with another payor that we believe will drive additional patient volume, improve capacity utilization, and create meaningful value for both organizations.

Moving now to cost reductions, following our separation from Owens & Minor on December 31st and the transition away from the Large Commercial Payor during the first quarter, we identified and eliminated more than $125 million of annualized costs. Soon after completing this take-out, we identified the need to allow the business to settle and stabilize from these changes before introducing additional costs reductions which could have created disruption while we were (1) settling in as a new pure play home-based healthcare business, (2) completing the exit of a large commercial payor and (3) executing our balance sheet optimization. In addition, while our Transition

Services Agreements with Owens & Minor continue to wind down on schedule, those temporary interdependencies have limited our ability to fully optimize our organizational structure during the first half of the year.

Although the timing has been somewhat later than originally anticipated, our commitment to improving our cost structure has not changed. Approximately one month into the third quarter, we have already executed the next phase of targeted cost reductions and will continue evaluating additional opportunities in the coming months.

Another example of our ongoing effort to reduce our cost-to-serve is the pursuit of new arrangements with leading logistics providers for inventory management and fulfillment across select product categories. We expect the arrangements to go live later this year and believe they will both lower our operating costs and reduce inventory thereby improving cash flow. Looking further ahead, continued investments in technology, automation, and process improvement should enable us to operate even more efficiently while supporting future growth.

Continuing with the theme of operational efficiencies and cost reductions, we continued to advance the national rollout of our Sleep Center of Excellence during the second quarter. While there is still work to complete, we remain optimistic about this program's ability to contribute to both growth and profitability beginning in late 2026 and continuing into 2027.

Finally, moving on to slow payment of collections from payers - We continue to see reimbursement collection rates below the historical norm of the business' typical performance. This has negatively impacted our revenue and adjusted EBITDA in the range of nearly $20M in the first half of the year. The underlying cause is related to several factors, including growing pains associated with recent technology investments and slower payor payments. Jon will discuss this further in his prepared remarks specifically related to some discrete inefficiencies with specific commercial payor processes that affected collections and increased AR; Importantly, we have already implemented mitigation plans with those payors and are seeing encouraging progress, and we expect this issue to recover towards the end of the year and into next year but we acknowledge that this is taking longer than we initially anticipated.

Looking ahead, as I mentioned earlier, we are excited about the commercial and operational changes, the logistics arrangements, as well as several strategic agreements that we believe can increase throughput with key commercial payors and further strengthen our competitive position.

It is also important to recognize the significant work completed this year to strengthen our financial foundation. In June, we successfully completed our Balance Sheet Optimization, significantly reducing debt.

In closing, while we are not satisfied with our second quarter financial performance, we are encouraged by the progress we continue to make in transforming the business. The operational actions underway, the commercial opportunities we have secured, and the investments we are making today give us confidence in our ability to improve execution, accelerate growth, and expand profitability over time.

As I look forward the remainder of this year and into 2027, I believe Accendra Health is well positioned, and I remain excited about the opportunities ahead for the company.

Let me now turn the call over to Jon.   -- Jon

<u>Jon Leon -</u>

Thanks Ed and good morning.

There is much to cover this morning and I'll begin by reviewing the results for the second quarter, then I'll cover a few final details of the successful balance sheet optimization transaction that concluded in June, our outlook for the remainder of the year and I'll wrap up with a couple of actions to be taken that will further strengthen our financial profile.

As is now the norm, unless stated otherwise, my remarks today will focus on the Continuing Operations. The Continuing Operations financial statements represent the total Accendra Health.

And please also note that any discussion about the financial results and outlook for the Company will cover only non-GAAP financial measures. You can find GAAP to non-GAAP financial reconciliations in the press release filed a short time ago and residing on our website at accendrahealth.com.

In the second quarter of 2026 we faced headwinds in top-line growth that was below our expectations and a collection rate waterfall model impact on income that is improving at a slower rate than we had expected. However, during the second quarter and since the end of the quarter, much of the activity that we believe will positively impact our results late in the year is in flight and should benefit the top-line, margin, adjusted EBITDA and cash flow.

As I walk through the quarterly results, I will speak to them excluding the impact of the large commercial payor that rolled off in Q1 so that everyone has a true like-to-like comparison. Our reported results of course include the impact of this payor in the prior year's second quarter and its absence in the second quarter and first six months of 2026.

With that backdrop, working through detail for the quarter beginning on slide 7, you can see that revenue in the second quarter, excluding the aforementioned impact of the commercial payor, grew at 2%. The improvement in the growth rate from recent quarters was driven by the large and very important sleep category.

On a like-for-like basis, we saw good, mid-single-digit growth in sleep of about 5-and-a-half percent – including a marked improvement in sleep equipment and continued strong growth in sleep supplies.

Diabetes grew 4%, which was a 500-basis point improvement in the year-over-year growth rate compared to Q1, but like recent quarters, in Q2 we saw very strong year-over-year growth in insulin pumps, partially offset by weakness in CGM. Also, similar to recent quarters the respiratory and wound categories are yet to recover and were down year-over-year. On the positive side, ostomy and urology, which have been growing nicely for some time, once again posted high-single digit year-over-year growth rates. These revenue trends are expected to continue through the third quarter, before the impact of our improvement efforts begins to take hold. We are laser focused on improving the under-performing categories, especially the higher-margin sleep and respiratory categories and are encouraged by the improving sleep growth rates and believe there is still plenty of upside.

Looking at slide 8, second quarter adjusted EBITDA was just over $60 million – and there was a small margin rate improvement versus the first quarter. Adjusted EBITDA less patient service equipment, or PSE cap-ex was $16.3 million and down slightly from the first quarter, as PSE cap-ex was higher due largely to an improving outlook for sleep starts in the coming months. However, the lower than expected growth rate and expenses as a percentage of revenue which continue to run above historic rates – some of which is category mix related - were a drag on adjusted EBITDA and are a key focal point for the second half of the year and 2027.

The impact of our collection rate waterfall once again hampered revenue and earnings. The overall adverse impact in Q2 of the change on collections was approximately $10 million and was $20 million for the six months ended June 30. It is important for everyone to understand that the income statement impact of the collections waterfall is derived from a rolling lookback analysis and not always reflective of current cash collection activity. And, as a reminder, the collections waterfall is a revenue cycle tool which creates adjustments to gross revenue which fall straight through to the bottom line. And during the second quarter and carrying into the third quarter the collection rate income statement impact and cash receipts have been affected by recent inefficiencies, beyond normal audit activity, among certain key commercial insurers.

Additionally, higher Cost of Net Revenue, and delays in cost reduction efforts have limited EBITDA expansion in the first and second quarters. As Ed mentioned, actions are planned and underway to address both Cost of Net Revenue and SG&A.

From a working capital perspective, we saw the change in accounts receivable worsen in the second quarter and was largely driven by the spate of inefficient audit issues with certain insurers that I just mentioned. While payor audit issues are not uncommon for us and the industry, what we are temporarily dealing with is well outside the norm. Efforts are constructively trending toward resolution in the third quarter and we believe realized cash flow will improve upon conclusion.

Looking back at slide 6 of the quarterly supplemental slides which details free cash for the second quarter and six months ended June 30th, it is worth noting that the cash interest paid in the second quarter includes $12 million for the payment of interest that had been accrued for the exchanged 2029 and 2030 unsecured notes which had to be cash settled with the exchange of those notes. Also, looking ahead, we will not experience the cash impact of higher interest rates from the balance sheet optimization transaction until December when we make the first interest payments on the new 1st Lien and 2nd Lien notes.

Turning to the balance sheet -- with the successful completion of our balance sheet optimization transaction, total debt of $1.72 billion was down by almost $400 million since the end of March and net debt was more than $55 million lower over that period. And recall that we have doubled the weighted average life of our debt structure to nearly 5.5 years and have no maturities until 2029 and the recurring revenue nature of the business, backstopped by committed revolving credit facilities will continue to ensure plenty of liquidity. As a reminder of this successful reset of our capital structure, please see pages 9 and 10 of our supplemental slides.

Free cash flow, fully levered, as defined on slide 6, is now expected to be breakeven to slightly positive for the full year 2026 due to the change in expected annual adjusted EBITDA and the higher cash interest I just described. While cash flow will not be what we expected in 2026, our confidence in the cash generation strength of the business and a consistent ability to generate around $100 million annually of free cash flow in a less muddied year, remains unchanged.

Additionally, at the end of July we closed on the sale of a small non-core asset and expect another small, non-core asset sale to close late in Q3 or early Q4 that will provide incremental cash flow.

As we think about the remainder of 2026, we have to recognize the second quarter underperformance as well as the - now later - timing of the benefits from revenue growth, productivity gain projects and cost savings actions. Sitting here over one month into the third quarter, we are seeing some positive signs, particularly around expense reduction and the collections waterfall income statement impact, but it’s not enough in the remaining five months to catch-up with previous guidance. As a result and as shown on slide 11, we have revised the 2026 full year outlook for Revenue to be between $2.45 billion and $2.55 billion and full-year Adjusted EBITDA to be between $300 million and $320 million. Unsurprisingly, we expect the fourth quarter to be much stronger than the third quarter, which will provide a kick-start to 2027.

In the coming weeks we expect to be launching actions that will better position the company’s balance sheet and protect key assets.

First, we expect to activate a small At-The-Market equity program. We are still finalizing the details of this program, but we expect to have the ATM effective in the near term. We intend to use the proceeds from these sales to reduce outstanding indebtedness, which will allow for a deliberate, continual deleveraging of the balance sheet through the occasional issuance of equity into the market at prevailing prices.

Also, the business has significant tax attributes that are often forgotten about. The quantum of net operating loss carryforwards alone - going into 2027 will exceed $200 million. That has meaningful value especially at the currently depressed market capitalization. As many companies in similar positions do, we want to help ensure protection of that value. There are counterintuitive and confusing rules around deemed ownership changes caused by trading activity that could jeopardize, often inadvertently, those tax attributes. So, in order to help avoid a very costly foot fault by one or more shareholders, we will be putting a Net Operating Loss, or NOL, Rights Plan in place. Not only will this help protect shareholders from an inadvertent and adverse impact on the valuable NOLs, these type of plans do not need to limit planned or desired shareholder activity since certain shareholder activity can be exempted from the NOL Rights Plan and the plan is limited in duration, and can be easily and quickly canceled if and when desired.

Following the successful balance sheet optimization transaction, the NOL Rights Plan and anticipated ATM program are additional steps to improve and preserve the financial strength of the company.

Finally, with the earlier announcement around Ed’s intention to retire in the coming months, this could be Ed’s last earnings conference call. In the event it is, I want to make sure to take the opportunity, on behalf of all 6,000 Accendra teammates, to thank Ed for his guidance and leadership over the last several years. The company looks very different than when Ed arrived and walked into a bit of a storm and it’s been a very active 8 years and Ed has been the perfect person to guide us through. Personally, I want to thank Ed for his mentoring, partnership and always reminding me - through his example - that no matter how hectic things are, to never take yourself too seriously and to stop and laugh.
Thanks, Ed.

With that, I’ll now turn the call back to the operator for Q&A.

Operator?