



PerkinElmer Announces Financial Results for the First Quarter of 2021

May 4, 2021

- **Revenue of \$1.308 billion; 100% reported growth; 92% organic growth**
- **GAAP EPS from continuing operations of \$3.37; Adjusted EPS of \$3.72**
- **Initiates Second Quarter and Raises Full-Year Revenue and Earnings Guidance**

WALTHAM, Mass.--(BUSINESS WIRE)--May 4, 2021-- [PerkinElmer, Inc.](#) (NYSE: PKI), a global leader committed to innovating for a healthier world, today reported financial results for the first quarter ended April 4, 2021.

The Company reported GAAP earnings per share from continuing operations of \$3.37, as compared to GAAP earnings per share from continuing operations of \$0.30 in the first quarter of 2020. GAAP revenue for the quarter was \$1.308 billion, as compared to \$652 million in the first quarter of 2020. GAAP operating income from continuing operations for the quarter was \$468 million, as compared to \$45 million for the same period a year ago. GAAP operating profit margin was 35.8% as a percentage of revenue, as compared to 6.8% in the first quarter of 2020.

Adjusted earnings per share from continuing operations for the quarter was \$3.72, as compared to \$0.67 in the first quarter of 2020. Adjusted revenue for the quarter was \$1.309 billion, as compared to \$653 million in the first quarter of 2020. Adjusted operating income from continuing operations for the quarter was \$542 million, as compared to \$100 million for the same period a year ago. Adjusted operating profit margin was 41.4% as a percentage of adjusted revenue, as compared to 15.3% in the first quarter of 2020.

Adjustments for the Company's non-GAAP financial measures have been noted in the attached reconciliations.

"The first quarter performance reinforces that PerkinElmer is emerging from COVID as a stronger organization top-to-bottom," said Prahlad Singh, president and chief executive officer of PerkinElmer. "Our additional investments in innovation, commercial excellence, and people in 2020 are taking hold and give us increased confidence that we are well positioned to deliver faster growth in both the short and long-term."

Financial Overview by Reporting Segment for the First Quarter

Discovery & Analytical Solutions

- First quarter 2021 revenue was \$455 million, as compared to \$398 million for the first quarter of 2020. Reported revenue increased 14% and organic revenue increased 6% as compared to the first quarter of 2020.
- First quarter 2021 operating income from continuing operations was \$43 million, as compared to \$29 million for the comparable prior period.
- First quarter 2021 adjusted operating income was \$76 million, as compared to \$54 million for the first quarter of 2020.

Diagnostics

- First quarter 2021 revenue was \$853 million, as compared to \$254 million for the first quarter of 2020. Reported revenue increased 236% and organic revenue increased 227% as compared to the first quarter of 2020.
- First quarter 2021 operating income from continuing operations was \$441 million, as compared to \$30 million for the comparable prior period.
- First quarter 2021 adjusted operating income was \$483 million, as compared to \$59 million for the first quarter of 2020.

Initiates Second Quarter and Raises Full Year 2021 Guidance

For the second quarter of 2021, the Company forecasts GAAP revenue of approximately \$1.11 billion, GAAP earnings per share from continuing operations of \$1.90 and, on a non-GAAP basis, which is expected to include the adjustments noted in the attached reconciliation, adjusted earnings per share of \$2.35.

For the full year of 2021, the Company now forecasts GAAP revenue of \$4.37 billion, GAAP earnings per share from continuing operations of \$7.77 and, on a non-GAAP basis, which is expected to include the adjustments noted in the attached reconciliation, adjusted earnings per share of \$9.40.

Conference Call Information

The Company will discuss its first quarter 2021 results and its outlook for business trends in a conference call on May 4, 2021 at 5:00 p.m. Eastern Time. To access the call, please dial (720) 405-2250 prior to the scheduled conference call time and provide the access code 7294952.

A live audio webcast of the call will be available on the [Investors](#) section of the Company's website, www.perkinelmer.com. Please go to the site at least 15 minutes prior to the call in order to register, download, and install any necessary software. An archived version of the webcast will be posted on the Company's website for a two-week period beginning approximately two hours after the call.

Use of Non-GAAP Financial Measures

In addition to financial measures prepared in accordance with generally accepted accounting principles (GAAP), this earnings announcement also contains non-GAAP financial measures. The reasons that we use these measures, a reconciliation of these measures to the most directly comparable GAAP measures, and other information relating to these measures are included below following our GAAP financial statements.

Factors Affecting Future Performance

This press release contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements relating to estimates and projections of future earnings per share, cash flow and revenue growth and other financial results, developments relating to our customers and end-markets, and plans concerning business development opportunities, acquisitions and divestitures. Words such as "believes," "intends," "anticipates," "plans," "expects," "projects," "forecasts," "will" and similar expressions, and references to guidance, are intended to identify forward-looking statements. Such statements are based on management's current assumptions and expectations and no assurances can be given that our assumptions or expectations will prove to be correct. A number of important risk factors could cause actual results to differ materially from the results described, implied or projected in any forward-looking statements. These factors include, without limitation: (1) markets into which we sell our products declining or not growing as anticipated; (2) the effect of the COVID-19 pandemic on our sales and operations; (3) fluctuations in the global economic and political environments; (4) our failure to introduce new products in a timely manner; (5) our ability to execute acquisitions and license technologies, or to successfully integrate acquired businesses and licensed technologies into our existing business or to make them profitable, or successfully divest businesses; (6) our ability to compete effectively; (7) fluctuation in our quarterly operating results and our ability to adjust our operations to address unexpected changes; (8) significant disruption in third-party package delivery and import/export services or significant increases in prices for those services; (9) disruptions in the supply of raw materials and supplies; (10) our ability to retain key personnel; (11) significant disruption in our information technology systems, or cybercrime; (12) our ability to realize the full value of our intangible assets; (13) our failure to adequately protect our intellectual property; (14) the loss of any of our licenses or licensed rights; (15) the manufacture and sale of products exposing us to product liability claims; (16) our failure to maintain compliance with applicable government regulations; (17) regulatory changes; (18) our failure to comply with healthcare industry regulations; (19) economic, political and other risks associated with foreign operations; (20) the United Kingdom's withdrawal from the European Union; (21) our ability to obtain future financing; (22) restrictions in our credit agreements; (23) discontinuation or replacement of LIBOR; (24) significant fluctuations in our stock price; (25) reduction or elimination of dividends on our common stock; and (26) other factors which we describe under the caption "Risk Factors" in our most recent annual report on Form 10-K and in our other filings with the Securities and Exchange Commission. We disclaim any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this press release.

About PerkinElmer

PerkinElmer, Inc. is a global leader focused on innovating for a healthier world. The Company reported revenue of approximately \$3.8 billion in 2020, has about 14,000 employees serving customers in more than 190 countries, and is a component of the S&P 500 Index. Additional information is available through 1-877-PKI-NYSE, or at www.perkinelmer.com.

PerkinElmer, Inc. and Subsidiaries CONDENSED CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)	Three Months Ended	
	April 4, 2021	April 5, 2020
Revenue	\$ 1,307,689	\$ 652,396
Cost of revenue	522,543	344,373
Selling, general and administrative expenses	251,410	208,569
Research and development expenses	60,216	48,914
Restructuring and other, net	5,744	5,858
Operating income from continuing operations	467,776	44,682
Interest income	(411)	(265)
Interest expense	14,126	13,665
Change in fair value of financial securities	(19,298)	-
Other income, net	(7,123)	(3,407)
Income from continuing operations, before income taxes	480,482	34,689
Provision for income taxes	101,139	974
Income from continuing operations	379,343	33,715

Loss on disposition of discontinued operations, before income taxes	-	-
Provision for income taxes on discontinued operations and dispositions	<u>38</u>	<u>50</u>
Loss from discontinued operations and dispositions	<u>(38)</u>	<u>(50)</u>
Net income	<u>\$ 379,305</u>	<u>\$ 33,665</u>
Diluted earnings per share:		
Income from continuing operations	\$ 3.37	\$ 0.30
Loss from discontinued operations and dispositions	<u>(0.00)</u>	<u>(0.00)</u>
Net income	<u>\$ 3.37</u>	<u>\$ 0.30</u>
Weighted average diluted shares of common stock outstanding	112,495	111,643

ABOVE PREPARED IN ACCORDANCE WITH GAAP

Additional Supplemental Information (1):

(per share, continuing operations)

GAAP EPS from continuing operations	\$ 3.37	\$ 0.30
Amortization of intangible assets	0.48	0.42
Purchase accounting adjustments	0.04	(0.10)
Acquisition and divestiture-related costs	0.04	0.11
Change in fair value of financial securities	(0.17)	-
Significant litigation matters and settlements	-	0.00
Restructuring and other, net	0.05	0.05
Tax on above items	<u>(0.09)</u>	<u>(0.12)</u>
Adjusted EPS	<u>\$ 3.72</u>	<u>\$ 0.67</u>

(1) amounts may not sum due to rounding

PerkinElmer, Inc. and Subsidiaries
REVENUE AND OPERATING INCOME (LOSS)

(In thousands, except percentages)		Three Months Ended	
		April 4, 2021	April 5, 2020
DAS	Reported revenue	\$ 454,609	\$ 398,395
	Purchase accounting adjustments	<u>1,027</u>	<u>-</u>
	Adjusted Revenue	<u>455,636</u>	<u>398,395</u>
	Reported operating income from continued operations	42,947	28,513
	OP%	9.4%	7.2%
	Amortization of intangible assets	20,420	20,710
	Purchase accounting adjustments	2,176	(11,470)
	Acquisition and divestiture-related costs	5,908	12,319
	Significant litigation matters and settlements	-	398
	Restructuring and other, net	<u>4,129</u>	<u>3,909</u>
	Adjusted operating income	<u>75,580</u>	<u>54,379</u>
	Adjusted OP%	16.6%	13.6%

Diagnostics	Reported revenue	853,080	254,001
	Purchase accounting adjustments	199	196
	Adjusted Revenue	<u>853,279</u>	<u>254,197</u>
	Reported operating income from continued operations	441,467	29,591
	<i>OP%</i>	51.7%	11.6%
	Amortization of intangible assets	33,737	26,540
	Purchase accounting adjustments	2,271	429
	Acquisition and divestiture-related costs	3,759	42
	Significant litigation matters and settlements	-	45
	Restructuring and other, net	1,615	1,949
	Adjusted operating income	<u>482,849</u>	<u>58,596</u>
	<i>Adjusted OP%</i>	56.6%	23.1%
Corporate	Reported operating loss	(16,638)	(13,422)
Continuing Operations	Reported revenue	\$ 1,307,689	\$ 652,396
	Purchase accounting adjustments	1,226	196
	Adjusted Revenue	<u>1,308,915</u>	<u>652,592</u>
	Reported operating income from continued operations	467,776	44,682
	<i>OP%</i>	35.8%	6.8%
	Amortization of intangible assets	54,157	47,250
	Purchase accounting adjustments	4,447	(11,041)
	Acquisition and divestiture-related costs	9,667	12,361
	Significant litigation matters and settlements	-	443
	Restructuring and other, net	5,744	5,858
	Adjusted operating income	<u>\$ 541,791</u>	<u>\$ 99,553</u>
	<i>Adjusted OP%</i>	41.4%	15.3%

REPORTED REVENUE AND REPORTED OPERATING INCOME (LOSS) PREPARED IN ACCORDANCE WITH GAAP

PerkinElmer, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)	<u>April 4, 2021</u> <u>January 3, 2021</u>	
Current assets:		
Cash and cash equivalents	\$ 988,234	\$ 402,036
Accounts receivable, net	978,598	1,155,109
Inventories, net	529,908	514,567
Other current assets	177,831	167,208
Total current assets	<u>2,674,571</u>	<u>2,238,920</u>
Property, plant and equipment, net	371,102	368,304
Operating lease right-of-use assets	213,306	207,236
Intangible assets, net	1,473,256	1,365,693
Goodwill	3,683,790	3,447,114
Other assets, net	346,700	333,048
Total assets	<u>\$ 8,762,725</u>	<u>\$ 7,960,315</u>
Current liabilities:		
Current portion of long-term debt	\$ 358,435	\$ 380,948
Accounts payable	339,326	327,325
Accrued expenses and other current liabilities	822,749	943,916
Total current liabilities	<u>1,520,510</u>	<u>1,652,189</u>

Long-term debt	2,219,670	1,609,701
Long-term liabilities	827,636	774,531
Operating lease liabilities	192,604	188,402
Total liabilities	<u>4,760,420</u>	<u>4,224,823</u>
Total stockholders' equity	4,002,305	3,735,492
Total liabilities and stockholders' equity	<u>\$ 8,762,725</u>	<u>\$ 7,960,315</u>

PREPARED IN ACCORDANCE WITH GAAP

PerkinElmer, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	April 4,	April 5,
	2021	2020
	(In thousands)	
Operating activities:		
Net income	\$ 379,305	\$ 33,665
Loss from discontinued operations and dispositions, net of income taxes	38	50
Income from continuing operations	<u>379,343</u>	<u>33,715</u>
Adjustments to reconcile income from continuing operations		
to net cash provided by continuing operations:		
Stock-based compensation	5,157	3,050
Restructuring and other, net	5,744	5,858
Depreciation and amortization	70,186	60,758
Change in fair value of contingent consideration	240	(12,325)
Amortization of deferred debt financing costs and accretion of discounts	896	707
Change in fair value of financial securities	(19,298)	-
Amortization of acquired inventory revaluation	2,981	1,088
<i>Changes in assets and liabilities which provided (used) cash, excluding effects from companies acquired:</i>		
Accounts receivable, net	165,190	80,600
Inventories	(15,008)	(54,758)
Accounts payable	(5,048)	3,164
Accrued expenses and other	(116,883)	(61,807)
Net cash provided by operating activities of continuing operations	<u>473,500</u>	<u>60,050</u>
Investing activities:		
Capital expenditures	(14,311)	(20,488)
Purchases of investments	(4,000)	(1,638)
Proceeds from surrender of life insurance policies	-	52
Proceeds from disposition of businesses and assets	-	60
Payment of acquisitions, net of cash, cash equivalents and restricted cash acquired	(443,543)	-
Net cash used in investing activities of continuing operations	<u>(461,854)</u>	<u>(22,014)</u>
Financing Activities:		
Payments on borrowings	(743,545)	(141,000)
Proceeds from borrowings	584,000	125,000
Proceeds from sale of senior unsecured notes	799,856	-
Payments of debt financing costs	(7,882)	-
Settlement of cash flow hedges	6,005	8,708
Net payments on other credit facilities	(9,799)	(4,283)
Proceeds from issuance of common stock under stock plans	4,987	1,106
Purchases of common stock	(42,779)	(6,342)
Dividends paid	(7,852)	(7,781)
Net cash provided by (used in) financing activities of continuing operations	<u>582,991</u>	<u>(24,592)</u>

Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(6,849)	(10,169)
Net increase in cash, cash equivalents, and restricted cash	587,788	3,275
Cash, cash equivalents, and restricted cash at beginning of period	402,613	191,894
Cash, cash equivalents, and restricted cash at end of period	\$ 990,401	\$ 195,169

Supplemental disclosure of cash flow information:

Reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total shown in the consolidated statements of cash flows:

Cash and cash equivalents	\$ 988,234	\$ 195,146
Restricted cash included in other current assets	2,167	23
Total cash, cash equivalents and restricted cash	\$ 990,401	\$ 195,169

PREPARED IN ACCORDANCE WITH GAAP

PerkinElmer, Inc. and Subsidiaries
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES ⁽¹⁾

(In millions, except per share data and percentages)

	PKI			
	Three Months Ended			
	April 4, 2021		April 5, 2020	
Adjusted revenue:				
Revenue	\$ 1,307.7		\$ 652.4	
Purchase accounting adjustments	1.2		0.2	
Adjusted revenue	<u>\$ 1,308.9</u>		<u>\$ 652.6</u>	
Adjusted gross margin:				
Gross margin	\$ 785.1	60.0%	\$ 308.0	47.2%
Amortization of intangible assets	20.3	1.6%	16.1	2.5%
Purchase accounting adjustments	4.2	0.3%	1.3	0.2%
Adjusted gross margin	<u>\$ 809.7</u>	<u>61.9%</u>	<u>\$ 325.4</u>	<u>49.9%</u>
Adjusted SG&A:				
SG&A	\$ 251.4	19.2%	\$ 208.6	32.0%
Amortization of intangible assets	(33.9)	-2.6%	(31.2)	-4.8%
Purchase accounting adjustments	(0.2)	0.0%	12.3	1.9%
Acquisition and divestiture-related expenses	(9.7)	-0.7%	(12.4)	-1.9%
Significant litigation matters and settlements	-	0.0%	(0.4)	-0.1%
Adjusted SG&A	<u>\$ 207.7</u>	<u>15.9%</u>	<u>\$ 176.9</u>	<u>27.1%</u>
R&D	\$ 60.2	4.6%	\$ 48.9	7.5%
Adjusted operating income:				
Operating income	\$ 467.8	35.8%	\$ 44.7	6.8%
Amortization of intangible assets	54.2	4.1%	47.3	7.2%
Purchase accounting adjustments	4.4	0.3%	(11.0)	-1.7%
Acquisition and divestiture-related expenses	9.7	0.7%	12.4	1.9%
Significant litigation matters and settlements	-	0.0%	0.4	0.1%
Restructuring and other, net	5.7	0.4%	5.9	0.9%
Adjusted operating income	<u>\$ 541.8</u>	<u>41.4%</u>	<u>\$ 99.6</u>	<u>15.3%</u>
	PKI			
	Three Months Ended			
	April 4, 2021		April 5, 2020	
Adjusted EPS:				
GAAP EPS	\$ 3.37		\$ 0.30	

Discontinued operations, net of income taxes	(0.00)	(0.00)
GAAP EPS from continuing operations	3.37	0.30
Amortization of intangible assets	0.48	0.42
Purchase accounting adjustments	0.04	(0.10)
Acquisition and divestiture-related expenses	0.04	0.11
Change in fair value of financial securities	(0.17)	-
Significant litigation matters and settlements	-	0.00
Restructuring and other, net	0.05	0.05
Tax on above items	(0.09)	(0.12)
Adjusted EPS	\$ 3.72	\$ 0.67

PKI

	Three Months Ended <u>July 4, 2021</u> <i>Projected</i>	Twelve Months Ended <u>January 2, 2022</u> <i>Projected</i>
Adjusted EPS:		
GAAP EPS from continuing operations	\$ 1.90	\$ 7.77
Amortization of intangible assets	0.50	1.97
Purchase accounting adjustments	0.03	0.08
Acquisition and divestiture-related expenses	0.00	0.04
Change in fair value of financial securities	-	(0.17)
Restructuring and other, net	0.06	0.20
Tax on above items	(0.14)	(0.49)
Adjusted EPS	\$ 2.35	\$ 9.40

DAS

	Three Months Ended <u>April 4, 2021</u>	April 5, 2020
Adjusted revenue:		
Revenue	\$ 454.6	\$ 398.4
Purchase accounting adjustments	1.0	-
Adjusted revenue	\$ 455.6	\$ 398.4

Adjusted operating income:

Operating income	\$ 42.9	9.4%	\$ 28.5	7.2%
Amortization of intangible assets	20.4	4.5%	20.7	5.2%
Purchase accounting adjustments	2.2	0.5%	(11.5)	-2.9%
Acquisition and divestiture-related expenses	5.9	1.3%	12.3	3.1%
Significant litigation matters and settlements	-	0.0%	0.4	0.1%
Restructuring and other, net	4.1	0.9%	3.9	1.0%
Adjusted operating income	\$ 75.6	16.6%	\$ 54.4	13.6%

Diagnostics

	Three Months Ended <u>April 4, 2021</u>	April 5, 2020
Adjusted revenue:		
Revenue	\$ 853.1	\$ 254.0
Purchase accounting adjustments	0.2	0.2
Adjusted revenue	\$ 853.3	\$ 254.2

Adjusted operating income:

Operating income	\$ 441.5	51.7%	\$ 29.6	11.6%
Amortization of intangible assets	33.7	4.0%	26.5	10.4%
Purchase accounting adjustments	2.3	0.3%	0.4	0.2%
Acquisition and divestiture-related expenses	3.8	0.4%	0.0	0.0%
Significant litigation matters and settlements	-	0.0%	0.0	0.0%
Restructuring and other, net	1.6	0.2%	1.9	0.8%
Adjusted operating income	\$ 482.8	56.6%	\$ 58.6	23.1%

(1) amounts may not sum due to rounding

PerkinElmer, Inc. and Subsidiaries
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES (1)

	PKI
	Three Months Ended
	April 4, 2021
Organic revenue growth:	
Reported revenue growth	100%
Less: effect of foreign exchange rates	3%
Less: effect of acquisitions including purchase accounting adjustments and impact of divested businesses	5%
Organic revenue growth	<u>92%</u>
	DAS
	Three Months Ended
	April 4, 2021
Organic revenue growth:	
Reported revenue growth	14%
Less: effect of foreign exchange rates	3%
Less: effect of acquisitions including purchase accounting adjustments and impact of divested businesses	5%
Organic revenue growth	<u>6%</u>
	Diagnostics
	Three Months Ended
	April 4, 2021
Organic revenue growth:	
Reported revenue growth	236%
Less: effect of foreign exchange rates	4%
Less: effect of acquisitions including purchase accounting adjustments and impact of divested businesses	5%
Organic revenue growth	<u>227%</u>

(1) amounts may not sum due to rounding

Explanation of Non-GAAP Financial Measures

We report our financial results in accordance with GAAP. However, management believes that, in order to more fully understand our short-term and long-term financial and operational trends, investors may wish to consider the impact of certain non-cash, non-recurring or other items, which result from facts and circumstances that vary in frequency and impact on continuing operations. Accordingly, we present non-GAAP financial measures as a supplement to the financial measures we present in accordance with GAAP. These non-GAAP financial measures provide management with additional means to understand and evaluate the operating results and trends in our ongoing business by adjusting for certain non-cash expenses and other items that management believes might otherwise make comparisons of our ongoing business with prior periods more difficult, obscure trends in ongoing operations, or reduce management's ability to make useful forecasts. Management believes these non-GAAP financial measures provide additional means of evaluating period-over-period operating performance. In addition, management understands that some investors and financial analysts find this information helpful in analyzing our financial and operational performance and comparing this performance to our peers and competitors.

We use the term "adjusted revenue" to refer to GAAP revenue, including purchase accounting adjustments for revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules. We use the related term "adjusted revenue growth" to refer to the measure of comparing current period adjusted revenue with the corresponding period of the prior year.

We use the term "organic revenue" to refer to GAAP revenue, excluding the effect of foreign currency changes and revenue from recent acquisitions and divestitures and including purchase accounting adjustments for revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules. We use the related term "organic revenue growth" to refer to the measure of comparing current period organic revenue with the corresponding period of the prior year.

We use the term "adjusted gross margin" to refer to GAAP gross margin, excluding amortization of intangible assets and inventory fair value adjustments related to business acquisitions, asset impairments, and including purchase accounting adjustments for revenue from contracts acquired in acquisitions that will not be fully recognized due to business combination accounting rules. We use the related term "adjusted gross margin

percentage” to refer to adjusted gross margin as a percentage of adjusted revenue.

We use the term “adjusted SG&A expense” to refer to GAAP SG&A expense, excluding amortization of intangible assets, purchase accounting adjustments, acquisition and divestiture-related expenses, acceleration of executive compensation, significant litigation matters and settlements, asset impairments, and significant environmental charges. We use the related term “adjusted SG&A percentage” to refer to adjusted SG&A expense as a percentage of adjusted revenue.

We use the term “adjusted R&D expense” to refer to GAAP R&D expense, excluding amortization of intangible assets and purchase accounting adjustments. We use the related term “adjusted R&D percentage” to refer to adjusted R&D expense as a percentage of adjusted revenue.

We use the term “adjusted net interest and other expense” to refer to GAAP net interest and other expense, excluding adjustments for mark-to-market accounting on post-retirement benefits, changes in the value of financial securities and debt extinguishment costs.

We use the term “adjusted operating income,” to refer to GAAP operating income, including revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules, and excluding amortization of intangible assets, other purchase accounting adjustments, acquisition and divestiture-related expenses, acceleration of executive compensation, significant litigation matters and settlements, significant environmental charges, asset impairments, and restructuring and other charges. We use the related terms “adjusted operating profit percentage,” “adjusted operating profit margin,” or “adjusted operating margin” to refer to adjusted operating income as a percentage of adjusted revenue.

We use the term “adjusted earnings per share,” or “adjusted EPS,” to refer to GAAP earnings per share, including revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules, and excluding discontinued operations, amortization of intangible assets, debt extinguishment costs, other purchase accounting adjustments, acquisition and divestiture-related expenses, acceleration of executive compensation, significant litigation matters and settlements, significant environmental charges, changes in the value of financial securities, disposition of businesses and assets, net, asset impairments and restructuring and other charges. We also exclude adjustments for mark-to-market accounting on post-retirement benefits, therefore only our projected costs have been used to calculate this non-GAAP measure. We also adjust for any tax impact related to the above items and exclude the impact of significant tax events.

Management includes or excludes the effect of each of the items identified below in the applicable non-GAAP financial measure referenced above for the reasons set forth below with respect to that item:

- Amortization of intangible assets— purchased intangible assets are amortized over their estimated useful lives and generally cannot be changed or influenced by management after the acquisition. Accordingly, this item is not considered by management in making operating decisions. Management does not believe such charges accurately reflect the performance of our ongoing operations for the period in which such charges are incurred.
- Debt extinguishment costs—we incur costs and income related to the extinguishment of debt; including make-whole payments to debt holders, accelerated amortization of debt fees and discounts, and expense or income from hedges to lock in make whole payments. We exclude the impact of these items from our non-GAAP measures because we believe they do not reflect the performance of our ongoing operations.
- Revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules— accounting rules require us to account for the fair value of revenue from contracts assumed in connection with our acquisitions. As a result, our GAAP results reflect the fair value of those revenues, which is not the same as the revenue that otherwise would have been recorded by the acquired entity. We include such revenue in our non-GAAP measures because we believe the fair value of such revenue does not accurately reflect the performance of our ongoing operations for the period in which such revenue is recorded.
- Other purchase accounting adjustments—accounting rules require us to adjust various balance sheet accounts, including inventory and deferred rent balances to fair value at the time of the acquisition. As a result, the expenses for these items in our GAAP results are not the same as what would have been recorded by the acquired entity. Accounting rules also require us to estimate the fair value of contingent consideration at the time of the acquisition, and any subsequent changes to the estimate or payment of the contingent consideration and purchase accounting adjustments are charged to expense or income. We exclude the impact of any changes to contingent consideration from our non-GAAP measures because we believe these expenses or benefits do not accurately reflect the performance of our ongoing operations for the period in which such expenses or benefits are recorded.
- Acquisition and divestiture-related expenses—we incur legal, due diligence, stay bonuses, incentive awards, interest expense, foreign exchange gains and losses, integration expenses and other costs related to acquisitions and divestitures. We exclude these expenses from our non-GAAP measures because we believe they do not reflect the performance of our ongoing operations.
- Asset impairments—we incur expense related to asset impairments. Management does not believe such charges accurately reflect the performance of our ongoing operations for the periods in which such charges were incurred.
- Acceleration of executive compensation—the announced retirement of a senior executive resulted in an acceleration of compensation expense. We exclude these expenses from our non-GAAP measures because we believe they do not reflect the performance of our ongoing operations.
- Restructuring and other charges—restructuring and other charges consist of employee severance, other exit costs as well as the cost of terminating certain lease agreements or contracts as well as costs associated with relocating facilities. Management does not believe such costs accurately reflect the performance of our ongoing operations for the period in

which such costs are reported.

- *Adjustments for mark-to-market accounting on post-retirement benefits*—we exclude adjustments for mark-to-market accounting on post-retirement benefits, and therefore only our projected costs are used to calculate our non-GAAP measures. We exclude these adjustments because they do not represent what we believe our investors consider to be costs of producing our products, investments in technology and production, and costs to support our internal operating structure.
- *Significant litigation matters and settlements*—we incur expenses related to significant litigation matters, including the costs to settle or resolve various claims and legal proceedings. Management does not believe such charges accurately reflect the performance of our ongoing operations for the periods in which such charges were incurred.
- *Significant environmental charges*—we incur expenses related to significant environmental charges. Management does not believe such charges accurately reflect the performance of our ongoing operations for the periods in which such charges were incurred.
- *Disposition of businesses and assets, net*—we exclude the impact of gains or losses from the disposition of businesses and assets from our adjusted earnings per share. Management does not believe such gains or losses accurately reflect the performance of our ongoing operations for the period in which such gains or losses are reported.
- *Impact of foreign currency changes on the current period*— we exclude the impact of foreign currency from these measures by using the prior period's foreign currency exchange rates for the current period because foreign currency exchange rates are subject to volatility and can obscure underlying trends.
- *Impact of significant tax events* – we exclude the impact of significant tax events, such as the Tax Cuts and Jobs Act of 2017. Management does not believe the impact of significant tax events accurately reflects the performance of our ongoing operations for the periods in which the impact of such events was recorded.
- *Changes in value of financial securities*—we exclude the impact of changes in the value of financial securities. Management does not believe such gains or losses accurately reflect the performance of our ongoing operations for the period in which such gains or losses are reported.

The tax effect for discontinued operations is calculated based on the authoritative guidance in the Financial Accounting Standards Board's Accounting Standards Codification 740, Income Taxes. The tax effect for amortization of intangible assets, inventory fair value adjustments related to business acquisitions, changes to the fair values assigned to contingent consideration, debt extinguishment costs, other costs related to business acquisitions and divestitures, acceleration of executive compensation, significant litigation matters and settlements, significant environmental charges, changes in the fair value of financial securities, adjustments for mark-to-market accounting on post-retirement benefits, disposition of businesses and assets, net, restructuring and other charges, and the revenue from contracts acquired with various acquisitions is calculated based on operational results and applicable jurisdictional law, which contemplates tax rates currently in effect to determine our tax provision. The tax effect for the impact from foreign currency exchange rates on the current period is calculated based on the average rate currently in effect to determine our tax provision.

The non-GAAP financial measures described above are not meant to be considered superior to, or a substitute for, our financial statements prepared in accordance with GAAP. There are material limitations associated with non-GAAP financial measures because they exclude charges that have an effect on our reported results and, therefore, should not be relied upon as the sole financial measures by which to evaluate our financial results. Management compensates and believes that investors should compensate for these limitations by viewing the non-GAAP financial measures in conjunction with the GAAP financial measures. In addition, the non-GAAP financial measures included in this earnings announcement may be different from, and therefore may not be comparable to, similar measures used by other companies.

Each of the non-GAAP financial measures listed above is also used by our management to evaluate our operating performance, communicate our financial results to our Board of Directors, benchmark our results against our historical performance and the performance of our peers, evaluate investment opportunities including acquisitions and discontinued operations, and determine the bonus payments for senior management and employees.

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