

# Waters

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**Annual Reconciliation of GAAP to Adjusted Non-GAAP Financials  
as Disclosed in the Company's Annual Earnings Press Release**

The 2017 - 2015 adjusted amounts presented below contain financial measures, such as constant currency growth rate, adjusted operating income, adjusted net income, adjusted earnings per diluted share and free cash flow, among others, which are considered “non-GAAP” financial measures under applicable U.S. Securities and Exchange Commission rules and regulations. These non-GAAP financial measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with generally accepted accounting principles (GAAP). The Company's definition of these non-GAAP measures may differ from similarly titled measures used by others. The non-GAAP financial measures presented below adjust for specified items that can be highly variable or difficult to predict. The Company generally uses these non-GAAP financial measures to facilitate management's financial and operational decision-making, including evaluation of Waters Corporation's historical operating results, comparison to competitors' operating results and determination of management incentive compensation. These non-GAAP financial measures reflect an additional way of viewing aspects of the Company's operations that, when viewed with GAAP results and the reconciliations to corresponding GAAP financial measures, may provide a more complete understanding of factors and trends affecting Waters Corporation's business. Because non-GAAP financial measures exclude the effect of items that will increase or decrease the Company's reported results of operations, management strongly encourages investors to review the Company's consolidated financial statements and publicly filed reports in their entirety. Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the tables below.

The Company believes that referring to comparable constant currency sales growth rates is a useful way to evaluate the underlying performance of Waters Corporation's net sales. Constant currency sales growth rate, a non-GAAP financial measure, measures the change in net sales between current and prior year periods, ignoring the impact of foreign currency exchange rates during the current period.

Management has excluded the following items from the consolidated statement of operations:

- Purchased intangibles amortization, a non-cash expense, was excluded to be consistent with how management evaluates the performance of its core business against historical operating results and the operating results of competitors over periods of time.

- Restructuring costs, asset impairments, acquisition-related costs and certain other items were excluded as the Company believes that the cost to consolidate operations and reduce overhead; the non-cash expense to record asset impairments; the cost to complete acquisitions and certain other income or expense items are not normal and do not represent future ongoing business expenses of a specific function or geographic location of the Company.
- Litigation provisions were excluded as these costs are isolated, unpredictable and not expected to recur regularly.
- The non-cash expense associated with accelerating the vesting of certain stock awards and was excluded as the Company believes these expenses are not indicative of normal operating costs.
- Acquired in-process research and development was excluded as it relates to milestone payments associated with a licensing arrangement for mass spectrometry that the Company believes is unusual and not indicative of its normal business operations.
- The provision for income taxes for the twelve months ended December 31, 2017 includes a \$550 million estimate for the impact of the enactment of the Tax Cuts and Jobs Act (Tax Reform), which was signed into law on December 22, 2017. The \$550 million income tax provision reduced net income per share by \$6.82 for the twelve months ended December 31, 2017. The \$550 million income tax provision primarily consists of an estimated U.S. transition tax as well as estimated income tax provisions for state and withholding taxes and a charge associated with the remeasurement of the Company's deferred tax assets and liabilities from 35% to the new U.S. corporate income tax rate of 21%. The final impact of Tax Reform may differ from these estimates, due to, among other things, changes in interpretations and assumptions made by the Company, additional guidance that may be issued by the U.S. Department of the Treasury, and tax planning actions that the Company may undertake. The impact of tax reform legislation enacted in December 2017 was excluded in the Company's non-GAAP results as the Company believes this one-time tax charge is not indicative of the Company's normal or future income tax expense.
- Certain income tax items were excluded as these non-cash expenses and benefits represent updates in management's assessment of ongoing examinations or other tax items that are not indicative of the Company's normal or future income tax expense.

Waters Corporation and Subsidiaries  
Reconciliation of GAAP to Adjusted Non-GAAP  
Net Sales by Operating Segment, Products & Services, Geography and Markets  
Twelve Months Ended December 31, 2017, 2016 & 2015  
(In thousands)

	Twelve Months Ended			% Change		2017 vs. 2016		2016 vs. 2015	
				2017 vs. 2016	2016 vs. 2015	Currency Impact	Constant Currency Growth Rate	Currency Impact	Constant Currency Growth Rate
	December 31, 2017	December 31, 2016	December 31, 2015						
NET SALES - OPERATING SEGMENT									
Waters	\$ 2,047,563	\$ 1,928,063	\$ 1,806,868	6%	7%	\$ 11,901	6%	\$ (12,733)	7%
TA	261,515	239,360	235,464	9%	2%	2,605	8%	(880)	2%
<b>Total</b>	<b>\$ 2,309,078</b>	<b>\$ 2,167,423</b>	<b>\$ 2,042,332</b>	<b>7%</b>	<b>6%</b>	<b>\$ 14,506</b>	<b>6%</b>	<b>\$ (13,613)</b>	<b>7%</b>
NET SALES - PRODUCTS & SERVICES									
Instruments	\$ 1,180,192	\$ 1,114,883	\$ 1,067,315	6%	4%	\$ 11,458	5%	\$ (11,654)	6%
Service	756,729	707,127	657,076	7%	8%	1,229	7%	(4,848)	8%
Chemistry	372,157	345,413	317,941	8%	9%	1,819	7%	2,889	8%
Total Recurring	1,128,886	1,052,540	975,017	7%	8%	3,048	7%	(1,959)	8%
<b>Total</b>	<b>\$ 2,309,078</b>	<b>\$ 2,167,423</b>	<b>\$ 2,042,332</b>	<b>7%</b>	<b>6%</b>	<b>\$ 14,506</b>	<b>6%</b>	<b>\$ (13,613)</b>	<b>7%</b>
NET SALES - GEOGRAPHY									
Asia	\$ 862,617	\$ 782,984	\$ 695,963	10%	13%	\$ (28)	10%	\$ (4,287)	12%
Americas	809,989	807,182	790,483	0%	2%	901	0%	(9,352)	3%
Europe	636,472	577,257	555,886	10%	4%	13,633	8%	26	6%
<b>Total</b>	<b>\$ 2,309,078</b>	<b>\$ 2,167,423</b>	<b>\$ 2,042,332</b>	<b>7%</b>	<b>6%</b>	<b>\$ 14,506</b>	<b>6%</b>	<b>\$ (13,613)</b>	<b>7%</b>
NET SALES - MARKETS									
Pharmaceutical	\$ 1,294,668	\$ 1,206,316	\$ 1,106,229	7%	9%	\$ 9,725	7%	\$ (9,827)	10%
Industrial	721,088	690,119	653,213	4%	6%	(2,255)	5%	(1,281)	6%
Governmental & Academic	293,322	270,988	282,890	8%	(4%)	7,036	6%	(2,505)	(3%)
<b>Total</b>	<b>\$ 2,309,078</b>	<b>\$ 2,167,423</b>	<b>\$ 2,042,332</b>	<b>7%</b>	<b>6%</b>	<b>\$ 14,506</b>	<b>6%</b>	<b>\$ (13,613)</b>	<b>7%</b>

**Waters Corporation and Subsidiaries**  
**Reconciliation of GAAP to Adjusted Non-GAAP Financials**  
**Twelve Months Ended December 31, 2017, 2016 & 2015**  
(In thousands, except per share data)

	Selling & Administrative Expenses <sup>(a)</sup>	Research & Development Expenses <sup>(a)</sup>	Operating Income	Operating Income Percentage	Income from Operations before Income Taxes	Provision for Income Taxes	Net Income	Diluted Earnings per Share
<b>Twelve Months Ended December 31, 2017</b>								
<b>GAAP</b>	\$ 562,560	\$ 137,593	\$ 661,858	28.7%	\$ 641,097	\$ 620,786	\$ 20,311	\$ 0.25
Adjustments:								
Purchased intangibles amortization	(6,743)	-	6,743	0.3%	6,743	1,782	4,961	0.06
Restructuring costs, asset impairments, acquisition-related costs & certain other items	(15,993)	-	15,993	0.7%	15,993	5,516	10,477	0.13
Litigation provisions	(11,114)	-	11,114	0.5%	11,114	4,168	6,946	0.09
Stock award modification	(4,234)	-	4,234	0.2%	4,234	1,588	2,646	0.03
Acquired in-process research and development	-	(5,000)	5,000	0.2%	5,000	962	4,038	0.05
Tax reform	-	-	-	-	-	(550,000)	550,000	6.82
Certain income tax items	-	-	-	-	-	(4,296)	4,296	0.05
<b>Adjusted Non-GAAP</b>	<b>\$ 524,476</b>	<b>\$ 132,593</b>	<b>\$ 704,942</b>	<b>30.5%</b>	<b>\$ 684,181</b>	<b>\$ 80,506</b>	<b>\$ 603,675</b>	<b>\$ 7.49</b>
<b>Twelve Months Ended December 31, 2016</b>								
<b>GAAP</b>	\$ 526,444	\$ 125,187	\$ 624,339	28.8%	\$ 600,114	\$ 78,611	\$ 521,503	\$ 6.41
Adjustments:								
Purchased intangibles amortization	(9,889)	-	9,889	0.5%	9,889	2,864	7,025	0.09
Restructuring costs, asset impairments, acquisition-related costs & certain other items	(6,856)	-	6,856	0.3%	6,856	2,812	4,044	0.05
Litigation provisions	(3,524)	-	3,524	0.2%	3,524	1,321	2,203	0.03
Stock award modification	(7,085)	-	7,085	0.3%	7,085	2,657	4,428	0.05
Certain income tax items	-	-	-	-	-	135	(135)	-
<b>Adjusted Non-GAAP</b>	<b>\$ 499,090</b>	<b>\$ 125,187</b>	<b>\$ 651,693</b>	<b>30.1%</b>	<b>\$ 627,468</b>	<b>\$ 88,400</b>	<b>\$ 539,068</b>	<b>\$ 6.62</b>
<b>Twelve Months Ended December 31, 2015</b>								
<b>GAAP</b>	\$ 509,809	\$ 122,400	\$ 567,451	27.8%	\$ 541,919	\$ 72,866	\$ 469,053	\$ 5.65
Adjustments:								
Purchased intangibles amortization	(10,123)	-	10,123	0.5%	10,123	2,888	7,235	0.09
Restructuring costs, asset impairments, acquisition-related costs & certain other items	(7,455)	-	7,455	0.4%	7,455	2,377	5,078	0.06
Acquired in-process research and development	-	(3,855)	3,855	0.2%	3,855	786	3,069	0.04
Litigation provisions	(3,939)	-	3,939	0.2%	3,939	1,478	2,461	0.03
Certain income tax items	-	-	-	-	-	(2,326)	2,326	0.03
<b>Adjusted Non-GAAP</b>	<b>\$ 488,292</b>	<b>\$ 118,545</b>	<b>\$ 592,823</b>	<b>29.0%</b>	<b>\$ 567,291</b>	<b>\$ 78,069</b>	<b>\$ 489,222</b>	<b>\$ 5.89</b>

(a) Selling & administrative expenses include purchased intangibles amortization and litigation provisions. Research & development expenses include acquired in-process research and development.

**Waters Corporation and Subsidiaries**  
**Preliminary Condensed Consolidated Statements of Cash Flows**  
**Three and Twelve Months Ended December 31, 2017 and 2016**  
(In thousands and unaudited)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash flows from operating activities:				
Net (loss) income	\$ (353,172)	\$ 174,378	\$ 20,311	\$ 521,503
Adjustments to reconcile net income to net cash provided by operating activities:				
Stock-based compensation	9,368	8,394	39,436	40,998
Depreciation and amortization	27,753	24,085	106,002	96,449
Excess tax benefit related to stock-based compensation plans <sup>(a)</sup>	-	930	-	13,844
Change in tax reform assets and liabilities <sup>(b)</sup>	550,000	-	550,000	-
Change in operating assets and liabilities, net	<u>(41,765)</u>	<u>(33,884)</u>	<u>(18,109)</u>	<u>(29,874)</u>
Net cash provided by operating activities	192,184	173,903	697,640	642,920
Cash flows from investing activities:				
Additions to property, plant, equipment and software capitalization	(30,216)	(22,671)	(85,473)	(94,967)
Business acquisitions, net of cash acquired	-	45	-	(5,609)
Investment in unaffiliated company	-	-	(7,000)	-
Payments for intellectual property licenses	-	-	(5,000)	-
Net change in investments	(101,548)	(26,618)	(438,279)	(391,342)
Other cash flow from investing activities, net	-	-	-	4,000
Net cash used in investing activities	<u>(131,764)</u>	<u>(49,244)</u>	<u>(535,752)</u>	<u>(487,918)</u>
Cash flows from financing activities:				
Net change in debt	39,850	45,121	169,976	159,975
Payments of debt issuance costs	(2,984)	-	(2,984)	(1,705)
Proceeds from stock plans	24,968	3,617	97,789	62,189
Purchases of treasury shares	(86,802)	(83,835)	(332,544)	(325,759)
Other cash flow from financing activities, net	593	(876)	3,894	(10,401)
Net cash used in financing activities	<u>(24,375)</u>	<u>(35,973)</u>	<u>(63,869)</u>	<u>(115,701)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2,467</u>	<u>(13,264)</u>	<u>38,669</u>	<u>(21,335)</u>
Increase in cash and cash equivalents	38,512	75,422	136,688	17,966
Cash and cash equivalents at beginning of period	<u>603,807</u>	<u>430,209</u>	<u>505,631</u>	<u>487,665</u>
Cash and cash equivalents at end of period	<u>\$ 642,319</u>	<u>\$ 505,631</u>	<u>\$ 642,319</u>	<u>\$ 505,631</u>

**Reconciliation of GAAP Cash Flows from Operating Activities to Free Cash Flow <sup>(c)</sup>**

Net cash provided by operating activities - GAAP	\$ 192,184	\$ 173,903	\$ 697,640	\$ 642,920
Adjustments:				
Additions to property, plant, equipment and software capitalization	(30,216)	(22,671)	(85,473)	(94,967)
Majority facility renovations	-	(200)	-	7,299
Free Cash Flow - Adjusted Non GAAP	<u>\$ 161,968</u>	<u>\$ 151,032</u>	<u>\$ 612,167</u>	<u>\$ 555,252</u>

(a) In the first quarter of 2017, the Company adopted Accounting Standards Update No. 2016-09 (ASU 2016-09) "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Starting in the first quarter of 2017, the excess tax benefits or deficiencies related to stock-based compensation are reflected as an operating activity, with the prior periods presented adjusted accordingly.

(b) In the fourth quarter of 2017, the Company recorded a \$550 million income tax provision for an estimate of the impact of the enactment of the Tax Cuts and Jobs Act (Tax Reform), which was signed into law on December 22, 2017. The \$550 million income tax provision primarily consists of an estimated U.S. transition tax as well as estimated income tax provisions for state and withholding taxes and a charge associated with the remeasurement of the Company's deferred tax assets and liabilities from 35% to the new U.S. corporate income tax rate of 21%.

(c) The Company defines free cash flow as net cash flow from operations accounted for under GAAP less capital expenditures and software capitalizations plus or minus any unusual and non recurring items. Free cash flow is not a GAAP measurement and may not be comparable to free cash flow reported by other companies.