

Waters

THE SCIENCE OF WHAT'S POSSIBLE.®

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

The 2018 – 2016 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 and settlement gains 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 included a \$550 million estimate for the impact of the enactment of the Tax Cuts and Jobs Act. 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 provision for income taxes for the twelve months ended December 31, 2018 included a \$1 million expense related to U.S. tax reform. The provisions include: (1) an adjustment to our 2017 year end accrual for the toll charge resulting from federal proposed regulations and other state guidance and (2) the tax that results from the change in foreign currency exchange rates on the earnings taxed on December 31, 2017 under the Tax Cuts and Jobs Act as compared with the foreign currency exchange rates on the date of distribution of assets into the U.S. The Company believes this expense 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.

- In May 2018, the Company's board of directors approved the termination of its frozen U.S. defined benefit pension plans. In December 2018, the Company settled a pension plan obligation by making lump-sum cash payments and purchasing annuity contracts for participants to permanently extinguish the pension plan's obligations. As a result, the Company recorded a \$46 million charge, which consisted of a \$6 million cash contribution to the plan and a \$40 million non-cash charge related to the reversal of unrecognized actuarial losses recorded in accumulated other comprehensive income in the stockholders' equity. The pension expense associated with terminating a frozen defined benefit pension plan was excluded as the Company believes these expenses are not indicative of normal operating costs.

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, 2018, 2017 & 2016
(In thousands)

	Twelve Months Ended			% Change		2018 vs. 2017		2017 vs. 2016	
				2018 vs. 2017	2017 vs. 2016	Currency Impact	Constant Currency Growth Rate	Currency Impact	Constant Currency Growth Rate
	December 31, 2018	December 31, 2017	December 31, 2016						
NET SALES - OPERATING SEGMENT									
Waters	\$ 2,139,345	\$ 2,047,563	\$ 1,928,063	4%	6%	\$ 23,680	3%	\$ 11,901	6%
TA	280,584	261,515	239,360	7%	9%	1,831	7%	2,605	8%
Total	\$ 2,419,929	\$ 2,309,078	\$ 2,167,423	5%	7%	\$ 25,511	4%	\$ 14,506	6%
NET SALES - PRODUCTS & SERVICES									
Instruments	\$ 1,204,706	\$ 1,180,192	\$ 1,114,883	2%	6%	\$ 10,887	1%	\$ 11,458	5%
Service	814,936	756,729	707,127	8%	7%	9,631	6%	1,229	7%
Chemistry	400,287	372,157	345,413	8%	8%	4,993	6%	1,819	7%
Total Recurring	1,215,223	1,128,886	1,052,540	8%	7%	14,624	6%	3,048	7%
Total	\$ 2,419,929	\$ 2,309,078	\$ 2,167,423	5%	7%	\$ 25,511	4%	\$ 14,506	6%
NET SALES - GEOGRAPHY									
Asia	\$ 922,291	\$ 862,617	\$ 782,984	7%	10%	\$ 5,775	6%	\$ (28)	10%
Americas	835,177	809,989	807,182	3%	0%	(49)	3%	901	0%
Europe	662,461	636,472	577,257	4%	10%	19,785	1%	13,633	8%
Total	\$ 2,419,929	\$ 2,309,078	\$ 2,167,423	5%	7%	\$ 25,511	4%	\$ 14,506	6%
NET SALES - MARKETS									
Pharmaceutical	\$ 1,365,731	\$ 1,294,668	\$ 1,206,316	5%	7%	\$ 15,340	4%	\$ 9,725	7%
Industrial	737,144	721,088	690,119	2%	4%	8,028	1%	(2,255)	5%
Governmental & Academic	317,054	293,322	270,988	8%	8%	2,143	7%	7,036	6%
Total	\$ 2,419,929	\$ 2,309,078	\$ 2,167,423	5%	7%	\$ 25,511	4%	\$ 14,506	6%

Waters Corporation and Subsidiaries
Reconciliation of GAAP to Adjusted Non-GAAP Financials
Twelve Months Ended December 31, 2018, 2017 & 2016
(In thousands, except per share data)

	Selling & Administrative Expenses ^(a)	Research & Development Expenses ^(a)	Operating Income	Operating Income Percentage	Other (Expense) Income ^(b)	Income from Operations before Income Taxes	Provision for Income Taxes	Net Income (Loss)	Diluted Earnings (Loss) per Share
Twelve Months Ended December 31, 2018									
GAAP	\$ 544,188	\$ 143,403	\$ 739,774	30.6%	\$ (47,794)	\$ 682,146	\$ 88,352	\$ 593,794	\$ 7.65
Adjustments:									
Purchased intangibles amortization	(7,712)	-	7,712	0.3%	-	7,712	1,609	6,103	0.08
Restructuring costs and certain other items	(2,244)	-	2,244	0.1%	-	2,244	550	1,694	0.02
Pension termination	-	-	-	-	49,138	49,138	16,659	32,479	0.42
Litigation settlement	426	-	(426)	-	-	(426)	(102)	(324)	-
Stock award modification	(1,014)	-	1,014	-	-	1,014	243	771	0.01
Tax reform	-	-	-	-	-	-	(5,157)	5,157	0.07
Certain income tax items	-	-	-	-	-	-	(4,111)	4,111	0.05
Adjusted Non-GAAP	\$ 533,644	\$ 143,403	\$ 750,318	31.0%	\$ 1,344	\$ 741,828	\$ 98,043	\$ 643,785	\$ 8.29
Twelve Months Ended December 31, 2017									
GAAP	\$ 562,220	\$ 137,593	\$ 662,198	28.7%	\$ (340)	\$ 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 and 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
Adjusted Non-GAAP	\$ 524,136	\$ 132,593	\$ 705,282	30.5%	\$ (340)	\$ 684,181	\$ 80,506	\$ 603,675	\$ 7.49
Twelve Months Ended December 31, 2016									
GAAP	\$ 525,744	\$ 125,187	\$ 625,039	28.8%	\$ (700)	\$ 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)	-
Adjusted Non-GAAP	\$ 498,390	\$ 125,187	\$ 652,393	30.1%	\$ (700)	\$ 627,468	\$ 88,400	\$ 539,068	\$ 6.62

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

(b) The Company adopted new accounting guidance which requires that an employer disaggregate the service cost component from other components of net benefit cost. As a result of the adoption of this standard, the components of net periodic benefit cost other than the service cost component are included in other income in the consolidated statements of operations and all previous periods have been adjusted accordingly.

Waters Corporation and Subsidiaries
Preliminary Condensed Consolidated Statements of Cash Flows
Twelve Months Ended December 31, 2018, 2017 & 2016
(In thousands and unaudited)

	<u>December 31, 2018</u>	<u>Twelve Months Ended December 31, 2017</u>	<u>December 31, 2016</u>
Cash flows from operating activities:			
Net income (loss)	\$ 593,794	\$ 20,311	\$ 521,503
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation	37,541	39,436	40,998
Depreciation and amortization	108,408	106,002	96,449
Excess tax benefit related to stock-based compensation plans ^(a)	-	-	13,844
Effect of the 2017 Tax Act ^(b)	-	530,383	-
Change in operating assets and liabilities, net	(135,297)	1,508	(29,874)
Net cash provided by operating activities	<u>604,446</u>	<u>697,640</u>	<u>642,920</u>
Cash flows from investing activities:			
Additions to property, plant, equipment and software capitalization	(96,079)	(85,473)	(94,967)
Asset acquisitions, net of cash acquired	(31,486)	-	-
Business acquisitions, net of cash acquired	-	-	(5,609)
Investment in unaffiliated company	(7,615)	(7,000)	-
Payments for intellectual property licenses	-	(5,000)	-
Net change in investments	1,818,482	(438,279)	(391,342)
Other cash flow from investing activities, net	-	-	4,000
Net cash provided by (used in) investing activities	<u>1,683,302</u>	<u>(535,752)</u>	<u>(487,918)</u>
Cash flows from financing activities:			
Net change in debt	(850,161)	169,976	159,975
Payments of debt issuance costs	-	(2,984)	(1,705)
Proceeds from stock plans	52,429	97,789	62,189
Purchases of treasury shares	(1,315,106)	(332,544)	(325,759)
Other cash flow from financing activities, net	(6,684)	3,894	(10,401)
Net cash used in financing activities	<u>(2,119,522)</u>	<u>(63,869)</u>	<u>(115,701)</u>
Effect of exchange rate changes on cash and cash equivalents	(14,265)	38,669	(21,335)
Increase in cash and cash equivalents	153,961	136,688	17,966
Cash and cash equivalents at beginning of period	642,319	505,631	487,665
Cash and cash equivalents at end of period	<u>\$ 796,280</u>	<u>\$ 642,319</u>	<u>\$ 505,631</u>

Reconciliation of GAAP Cash Flows from Operating Activities to Free Cash Flow ^(c)

Net cash provided by operating activities - GAAP	\$ 604,446	\$ 697,640	\$ 642,920
Adjustments:			
Additions to property, plant, equipment and software capitalization	(96,079)	(85,473)	(94,967)
Tax reform payments	53,716	-	-
Litigation settlement payment	15,400	-	-
Major facility renovations	10,505	-	7,299
One-time pension contributions	11,552	-	-
Free Cash Flow - Adjusted Non-GAAP	<u>\$ 599,540</u>	<u>\$ 612,167</u>	<u>\$ 555,252</u>

(a) In 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 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 (2017 Tax Act), 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.