

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 2019 – 2017 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 U.S. generally accepted accounting principles (GAAP). The Company's definitions 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, mergers and acquisition costs and certain other items were excluded as the Company believes that the cost to consolidate operations, reduce overhead, acquire companies 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.
- The pension settlement and curtailment expenses associated with certain define benefit pension plans were excluded as the Company believes these expenses are not indicative of normal operating costs.
- 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 expenses associated with terminating a frozen defined benefit pension plan were excluded as the Company believes these expenses are not indicative of normal operating costs.
- 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, 2019 included a \$3 million benefit related to the finalization of tax regulations under tax reform during the first quarter of 2019. The provision for income taxes for the twelve months ended December 31, 2018 included a \$1 million expense related to the tax on the change in foreign currency exchange rates on the earnings taxed in December 31, 2017 under the Tax Cuts and Jobs Act. The difference is due to the change from the foreign currency exchange rates required by the U.S. Department of the Treasury on December 31, 2017 to the foreign currency exchange rates on either the date of distribution of assets into the U.S. or the

foreign currency exchange rates as of the applicable fiscal year end. 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 Company believes these expenses are 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, 2019, 2018 & 2017
(In thousands)

	Twelve Months Ended			Percent Change		2019 vs. 2018		2018 vs. 2017	
	December 31, 2019	December 31, 2018	December 31, 2017	2019 vs. 2018	2018 vs. 2017	Currency Impact	Constant Currency Growth Rate	Currency Impact	Constant Currency Growth Rate
NET SALES - OPERATING SEGMENT									
Waters	\$ 2,137,483	\$ 2,139,345	\$ 2,047,563	-	4%	\$ (34,801)	2%	\$ 23,680	3%
TA	269,113	280,584	261,515	(4%)	7%	(2,532)	(3%)	1,831	7%
Total	\$ 2,406,596	\$ 2,419,929	\$ 2,309,078	(1%)	5%	\$ (37,333)	1%	\$ 25,511	4%
NET SALES - PRODUCTS & SERVICES									
Instruments	\$ 1,155,171	\$ 1,204,706	\$ 1,180,192	(4%)	2%	\$ (15,459)	(3%)	\$ 10,887	1%
Service	839,407	814,936	756,729	3%	8%	(14,527)	5%	9,631	6%
Chemistry	412,018	400,287	372,157	3%	8%	(7,347)	5%	4,993	6%
Total Recurring	1,251,425	1,215,223	1,128,886	3%	8%	(21,874)	5%	14,624	6%
Total	\$ 2,406,596	\$ 2,419,929	\$ 2,309,078	(1%)	5%	\$ (37,333)	1%	\$ 25,511	4%
NET SALES - GEOGRAPHY									
Asia	\$ 939,112	\$ 922,291	\$ 862,617	2%	7%	\$ (10,107)	3%	\$ 5,775	6%
Americas	830,241	835,177	809,989	(1%)	3%	(930)	-	(49)	3%
Europe	637,243	662,461	636,472	(4%)	4%	(26,296)	-	19,785	1%
Total	\$ 2,406,596	\$ 2,419,929	\$ 2,309,078	(1%)	5%	\$ (37,333)	1%	\$ 25,511	4%
NET SALES - MARKETS									
Pharmaceutical	\$ 1,365,275	\$ 1,365,731	\$ 1,294,668	-	5%	\$ (27,681)	2%	\$ 15,340	4%
Industrial	719,377	737,144	721,088	(2%)	2%	(5,448)	(2%)	8,028	1%
Academic & Governmental	321,944	317,054	293,322	2%	8%	(4,204)	3%	2,143	7%
Total	\$ 2,406,596	\$ 2,419,929	\$ 2,309,078	(1%)	5%	\$ (37,333)	1%	\$ 25,511	4%

Waters Corporation and Subsidiaries
Reconciliation of GAAP to Adjusted Non-GAAP Financials
Twelve Months Ended December 31, 2019, 2018 & 2017
(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, 2019									
GAAP	\$ 544,484	\$ 142,955	\$ 708,457	29.4%	\$ (3,586)	\$ 678,239	\$ 86,041	\$ 592,198	\$ 8.69
Adjustments:									
Purchased intangibles amortization	(9,693)	-	9,693	0.4%	-	9,693	2,032	7,661	0.11
Restructuring costs and certain other items	(16,192)	-	16,192	0.7%	-	16,192	4,106	12,086	0.18
Pension expenses	-	-	-	-	1,602	1,602	385	1,217	0.02
Tax reform	-	-	-	-	-	-	3,229	(3,229)	(0.05)
Certain income tax items	-	-	-	-	-	-	(2,622)	2,622	0.04
Adjusted Non-GAAP	\$ 518,599	\$ 142,955	\$ 734,342	30.5%	\$ (1,984)	\$ 705,726	\$ 93,171	\$ 612,555	\$ 8.99
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

(a) Selling & administrative expenses include purchased intangibles amortization and litigation provisions and settlements. 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, 2019, 2018 & 2017
(In thousands and unaudited)

	<u>December 31, 2019</u>	<u>Twelve Months Ended December 31, 2018</u>	<u>December 31, 2017</u>
Cash flows from operating activities:			
Net income	\$ 592,198	\$ 593,794	\$ 20,311
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation	38,577	37,541	39,436
Depreciation and amortization	105,296	108,408	106,002
Effect of the 2017 Tax Act ^(a)	-	-	530,383
Change in operating assets and liabilities, net	<u>(92,984)</u>	<u>(135,297)</u>	<u>1,508</u>
Net cash provided by operating activities	643,087	604,446	697,640
Cash flows from investing activities:			
Additions to property, plant, equipment and software capitalization	(163,823)	(96,079)	(85,473)
Asset acquisitions, net of cash acquired	-	(31,486)	-
Investment in unaffiliated company	(8,843)	(7,615)	(7,000)
Payments for intellectual property licenses	-	-	(5,000)
Net change in investments	<u>941,468</u>	<u>1,818,482</u>	<u>(438,279)</u>
Net cash provided by (used in) investing activities	768,802	1,683,302	(535,752)
Cash flows from financing activities:			
Net change in debt	532,256	(850,161)	169,976
Payments of debt issuance costs	-	-	(2,984)
Proceeds from stock plans	53,715	52,429	97,789
Purchases of treasury shares	(2,469,258)	(1,315,106)	(332,544)
Other cash flow from financing activities, net	<u>10,609</u>	<u>(6,684)</u>	<u>3,894</u>
Net cash used in financing activities	(1,872,678)	(2,119,522)	(63,869)
Effect of exchange rate changes on cash and cash equivalents	<u>224</u>	<u>(14,265)</u>	<u>38,669</u>
(Decrease) increase in cash and cash equivalents	(460,565)	153,961	136,688
Cash and cash equivalents at beginning of period	<u>796,280</u>	<u>642,319</u>	<u>505,631</u>
Cash and cash equivalents at end of period	<u>\$ 335,715</u>	<u>\$ 796,280</u>	<u>\$ 642,319</u>

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

Net cash provided by operating activities - GAAP	\$ 643,087	\$ 604,446	\$ 697,640
Adjustments:			
Additions to property, plant, equipment and software capitalization	(163,823)	(96,079)	(85,473)
Tax reform payments	29,109	53,716	-
Litigation settlement payment	-	15,400	-
Major facility renovations	67,624	10,505	-
One-time pension contributions	-	11,552	-
Free Cash Flow - Adjusted Non-GAAP	<u>\$ 575,997</u>	<u>\$ 599,540</u>	<u>\$ 612,167</u>

(a) 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%.

(b) 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.