

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 2020 – 2018 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 adjusted 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). Waters Corporation’s (the “Company”) 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 the Company’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 the Company’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 the Company’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.
- Asset impairment, a non-cash expense, is a one-time charge related to the write-off of certain intangible assets and a contingent consideration liability that were both associated with a previous acquisition. The asset impairment was excluded as the Company does not believe these expenses are indicative of normal operating costs.
- 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 defined benefit pension plans were excluded as the Company believes these expenses are not indicative of normal operating costs.

- Litigation provisions and settlement gains were excluded as these items are isolated, unpredictable and not expected to recur regularly.
- The provision for income taxes for the twelve months ended December 31, 2019 and 2018 included a \$3 million benefit and a \$1 million expense, respectively, 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 and the subsequent finalization of the tax regulations during 2018 and the first quarter of 2019. 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 December 31, 2019 and 2018.
- 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.
- 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.
- 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.

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.

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, 2020, 2019 & 2018
(In thousands)

	Twelve Months Ended			Percent Change		2020 vs. 2019		2019 vs. 2018	
				2020 vs. 2019	2019 vs. 2018	Currency Impact	Constant Currency Growth Rate	Currency Impact	Constant Currency Growth Rate
	December 31, 2020	December 31, 2019	December 31, 2018						
NET SALES - OPERATING SEGMENT									
Waters	\$ 2,117,124	\$ 2,137,483	\$ 2,139,345	(1%)	-	\$ 12,248	(2%)	\$ (34,801)	2%
TA	248,241	269,113	280,584	(8%)	(4%)	1,543	(8%)	(2,532)	(3%)
Total	\$ 2,365,365	\$ 2,406,596	\$ 2,419,929	(2%)	(1%)	\$ 13,791	(2%)	\$ (37,333)	1%
NET SALES - PRODUCTS & SERVICES									
Instruments	\$ 1,065,253	\$ 1,155,171	\$ 1,204,706	(8%)	(4%)	\$ 8,295	(9%)	\$ (15,459)	(3%)
Service	868,032	839,407	814,936	3%	3%	2,618	3%	(14,527)	5%
Chemistry	432,080	412,018	400,287	5%	3%	2,878	4%	(7,347)	5%
Total Recurring	1,300,112	1,251,425	1,215,223	4%	3%	5,496	3%	(21,874)	5%
Total	\$ 2,365,365	\$ 2,406,596	\$ 2,419,929	(2%)	(1%)	\$ 13,791	(2%)	\$ (37,333)	1%
NET SALES - GEOGRAPHY									
Asia	\$ 899,177	\$ 939,112	\$ 922,291	(4%)	2%	\$ (5,743)	(4%)	\$ (10,107)	3%
Americas	797,842	830,241	835,177	(4%)	(1%)	80	(4%)	(930)	-
Europe	668,346	637,243	662,461	5%	(4%)	19,454	2%	(26,296)	-
Total	\$ 2,365,365	\$ 2,406,596	\$ 2,419,929	(2%)	(1%)	\$ 13,791	(2%)	\$ (37,333)	1%
NET SALES - MARKETS									
Pharmaceutical	\$ 1,386,966	\$ 1,365,275	\$ 1,365,731	2%	-	\$ 5,871	1%	\$ (27,681)	2%
Industrial	707,772	719,377	737,144	(2%)	(2%)	7,959	(3%)	(5,448)	(2%)
Academic & Governmental	270,627	321,944	317,054	(16%)	2%	(39)	(16%)	(4,204)	3%
Total	\$ 2,365,365	\$ 2,406,596	\$ 2,419,929	(2%)	(1%)	\$ 13,791	(2%)	\$ (37,333)	1%
NET SALES - EXCLUDING CHINA									
Total Net Sales	\$ 2,365,365	\$ 2,406,596	\$ 2,419,929	(2%)	(1%)	\$ 13,791	(2%)	\$ (37,333)	1%
China Net Sales	404,352	439,557	443,321	(8%)	(1%)	747	(8%)	(1,731)	-
Total Net Sales Excluding China	\$ 1,961,013	\$ 1,967,039	\$ 1,976,608	-	-	\$ 13,044	(1%)	\$ (35,602)	1%

Waters Corporation and Subsidiaries
Reconciliation of GAAP to Adjusted Non-GAAP Financials
Twelve Months Ended December 31, 2020, 2019 & 2018
(In thousands, except per share data)

	Selling & Administrative Expenses ^(a)	Research & Development Expenses	Operating Income	Operating Income Percentage	Other (Expense) Income ^(b)	Income from Operations before Income Taxes	Provision for Income Taxes	Net Income	Diluted Earnings per Share
Twelve Months Ended December 31, 2020									
GAAP	\$ 572,410	\$ 140,777	\$ 645,489	27.3%	\$ (1,775)	\$ 610,914	\$ 89,343	\$ 521,571	\$ 8.36
Adjustments:									
Purchased intangibles amortization	(10,587)	-	10,587	0.4%	-	10,587	2,102	8,485	0.14
Asset Impairment	(6,945)	-	6,945	0.3%	-	6,945	1,180	5,765	0.09
Restructuring costs and certain other items	(35,196)	-	35,196	1.5%	(2,084)	33,112	7,512	25,600	0.41
Pension expenses	-	-	-	-	235	235	71	164	-
Litigation settlement	(1,180)	-	1,180	-	-	1,180	283	897	0.01
Certain income tax items	-	-	-	-	-	-	(2,619)	2,619	0.04
Adjusted Non-GAAP	\$ 518,502	\$ 140,777	\$ 699,397	29.6%	\$ (3,624)	\$ 662,973	\$ 97,872	\$ 565,101	\$ 9.05
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

(a) Selling & administrative expenses include purchased intangibles amortization, litigation provisions and settlements, and asset impairments.

(b) The Company adopted new accounting guidance as of January 1, 2018, 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.

Waters Corporation and Subsidiaries
Preliminary Condensed Consolidated Statements of Cash Flows
Twelve Months Ended December 31, 2020, 2019 & 2018
(In thousands and unaudited)

	<u>December 31, 2020</u>	<u>Twelve Months Ended December 31, 2019</u>	<u>December 31, 2018</u>
Cash flows from operating activities:			
Net income	\$ 521,571	\$ 592,198	\$ 593,794
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation	36,865	38,577	37,541
Depreciation and amortization	135,351	105,296	108,408
Change in operating assets and liabilities, net	96,720	(92,984)	(135,297)
Net cash provided by operating activities	<u>790,507</u>	<u>643,087</u>	<u>604,446</u>
Cash flows from investing activities:			
Additions to property, plant, equipment and software capitalization	(172,384)	(163,823)	(96,079)
Business acquisitions, net of cash acquired	(80,545)	-	(31,486)
Investment in unaffiliated company	(6,143)	(8,843)	(7,615)
Net change in investments	(5,022)	941,468	1,818,482
Net cash (used in) provided by investing activities	<u>(264,094)</u>	<u>768,802</u>	<u>1,683,302</u>
Cash flows from financing activities:			
Net change in debt	(325,366)	532,256	(850,161)
Proceeds from stock plans	66,033	53,715	52,429
Purchases of treasury shares	(196,409)	(2,469,258)	(1,315,106)
Other cash flow from financing activities, net	15,240	10,609	(6,684)
Net cash used in financing activities	<u>(440,502)</u>	<u>(1,872,678)</u>	<u>(2,119,522)</u>
Effect of exchange rate changes on cash and cash equivalents	15,069	224	(14,265)
Increase (decrease) in cash and cash equivalents	100,980	(460,565)	153,961
Cash and cash equivalents at beginning of period	335,715	796,280	642,319
Cash and cash equivalents at end of period	<u>\$ 436,695</u>	<u>\$ 335,715</u>	<u>\$ 796,280</u>

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

Net cash provided by operating activities - GAAP	\$ 790,507	\$ 643,087	\$ 604,446
Adjustments:			
Additions to property, plant, equipment and software capitalization	(172,384)	(163,823)	(96,079)
Tax reform payments	38,454	29,109	53,716
Litigation settlement payment	-	-	15,400
Major facility renovations	69,806	67,624	10,505
One-time pension contributions	-	-	11,552
Free Cash Flow - Adjusted Non-GAAP	<u>\$ 726,383</u>	<u>\$ 575,997</u>	<u>\$ 599,540</u>

(a) 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.