



April 24, 2014

## PerkinElmer Announces Financial Results for the First Quarter of 2014

- **Reported and Organic revenue growth of 5%**
- **GAAP earnings per share from continuing operations of \$0.30; Adjusted earnings per share of \$0.46, an increase of 28%**
- **Operating cash flow from continuing operations of \$68 million**
- **Updates FY2014 guidance**

WALTHAM, Mass.--(BUSINESS WIRE)-- [PerkinElmer, Inc.](#) (NYSE: PKI), a global leader focused on improving the health and safety of people and the environment, today reported financial results for the first quarter ended March 30, 2014.

The Company reported GAAP earnings per share from continuing operations of \$0.30, compared to \$0.28 in the first quarter of 2013. Revenue in the first quarter of 2014 was \$531.9 million, as compared to \$505.4 million in the first quarter of 2013. GAAP operating income from continuing operations for the first quarter of 2014 was \$50.7 million, compared to \$35.9 million in the first quarter of 2013.

Adjusted earnings per share was \$0.46, compared to \$0.36 in the first quarter of 2013. Adjusted revenue for the quarter grew 5% to \$533.4 million, compared to \$507.3 million in the first quarter of 2013. Adjusted operating income for the first quarter of 2014 was \$78.4 million, compared to \$63.7 million for the same period a year ago. Adjusted operating profit margin was 14.7% as a percentage of adjusted revenue, compared to 12.6% for the same period a year ago. Adjustments for the Company's non-GAAP financial measures have been noted in the attached reconciliations.

"It was a solid start to the year and I am very pleased with our performance in the quarter" said Robert Friel, chairman and chief executive officer of PerkinElmer. "I am encouraged by our opportunities to accelerate revenue growth this year as we innovate across our core capabilities to better serve our customers."

### First Quarter 2014 Cash Flow

For the first quarter of 2014, operating cash flow from continuing operations was \$67.9 million as compared to \$11.1 million in the comparable period of 2013. The first quarter 2014 results were positively impacted by lower pension funding and reduced royalty payments.

### Financial Overview by Reporting Segment for the First Quarter of 2014

#### Human Health

- Revenue of \$299.5 million, as compared to \$281.3 million for the first quarter of 2013.
- Adjusted revenue of \$300.9 million for the first quarter of 2014. Adjusted and organic revenues increased 6%.
- Operating income of \$43.1 million, as compared to operating income of \$25.0 million for the same period a year ago.
- Adjusted operating income of \$63.0 million for the first quarter of 2014. Adjusted operating profit margin was 21.0% as a percentage of adjusted revenue, as compared to 17.8% in the first quarter of 2013.

#### Environmental Health

- Revenue of \$232.4 million, as compared to \$224.0 million for the first quarter of 2013. Revenue and organic revenue increased 4%.
- Operating income of \$21.5 million, as compared to operating income of \$20.7 million for the same period a year ago.
- Adjusted operating income of \$26.0 million for the first quarter of 2014. Adjusted operating profit margin was 11.2% as a percentage of revenue, as compared to 10.4% in the first quarter of 2013.

## Financial Guidance - Updated Full Year 2014

For the full year 2014, the Company now forecasts GAAP earnings per share from continuing operations in the range of \$1.91 to \$1.95. On a non-GAAP basis, which is expected to include the adjustments noted in the attached reconciliation, the Company is raising its forecast for adjusted earnings per share from the range of \$2.40 to \$2.45 to the range of \$2.42 to \$2.46.

### Conference Call Information

The Company will discuss its first quarter results and its outlook for business trends in a conference call on April 24, 2014 at 5:00 p.m. Eastern Time (ET). To access the call, please dial (857) 244-7305 prior to the scheduled conference call time and provide the access code 53089484. A playback of this conference call will be available beginning 9:00 p.m. ET, Thursday, April 24, 2014. The playback phone number is (617) 801-6888 and the code number is 71456394.

A live audio webcast of the call will be available on the [Investor](#) section of the Company's Web site, [www.perkinelmer.com](http://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 Web site 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 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) fluctuations in the global economic and political environments; (3) our failure to introduce new products in a timely manner; (4) 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; (5) our failure to adequately protect our intellectual property; (6) the loss of any of our licenses or licensed rights; (7) our ability to compete effectively; (8) fluctuation in our quarterly operating results and our ability to adjust our operations to address unexpected changes; (9) significant disruption in third-party package delivery and import/export services or significant increases in prices for those services; (10) disruptions in the supply of raw materials and supplies; (11) the manufacture and sale of products exposing us to product liability claims; (12) our failure to maintain compliance with applicable government regulations; (13) regulatory changes; (14) our failure to comply with healthcare industry regulations; (15) economic, political and other risks associated with foreign operations; (16) our ability to retain key personnel; (17) significant disruption in our information technology systems; (18) our ability to obtain future financing; (19) restrictions in our credit agreements; (20) our ability to realize the full value of our intangible assets; (21) significant fluctuations in our stock price; (22) reduction or elimination of dividends on our common stock; and (23) 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 improving the health and safety of people and the environment. The Company reported revenue of approximately \$2.2 billion in 2013, has about 7,600 employees serving customers in more than 150 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](http://www.perkinelmer.com).

(In thousands, except per share data)	<b>Three Months Ended</b>	
	<b>March 30, 2014</b>	<b>March 31, 2013</b>
<b>Revenue</b>	\$ 531,904	\$ 505,378
Cost of revenue	296,384	280,493
Selling, general and administrative expenses	153,204	151,497
Research and development expenses	29,449	34,177
Restructuring and contract termination charges, net	2,135	3,310
<b>Operating income from continuing operations</b>	<b>50,732</b>	<b>35,901</b>
Interest income	(94)	(105)
Interest expense	9,219	11,693
Other expense, net	2,164	452
Income from continuing operations before income taxes	39,443	23,861
Provision for (benefit from) income taxes	5,124	(8,428)
<b>Income from continuing operations</b>	<b>34,319</b>	<b>32,289</b>
Loss on disposition of discontinued operations, before income taxes	(72)	(92)
Provision for (benefit from) income taxes on discontinued operations and dispositions	23	(19)
<b>Loss from discontinued operations and dispositions</b>	<b>(95)</b>	<b>(73)</b>
<b>Net income</b>	<b>\$ 34,224</b>	<b>\$ 32,216</b>
 <b><i>Diluted earnings per share:</i></b>		
Income from continuing operations	\$ 0.30	\$ 0.28
Loss from discontinued operations and dispositions	(0.00)	(0.00)
Net income	\$ 0.30	\$ 0.28
 <i>Weighted average diluted shares of common stock outstanding</i>	 113,777	 114,716

ABOVE PREPARED IN ACCORDANCE WITH GAAP

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**Additional Supplemental Information <sup>(1)</sup>:**

(per share, continuing operations)

GAAP EPS from continuing operations	\$ 0.30	\$ 0.28
Amortization of intangible assets, net of income taxes	0.12	0.13
Purchase accounting adjustments, net of income taxes	0.01	0.01
Significant litigation matter, net of income taxes	0.02	-
Significant tax credits	-	(0.08)
Restructuring and contract termination charges, net of income taxes	0.01	0.02

Adjusted EPS

\$ 0.46      \$ 0.36*(1) amounts may not add due to rounding*

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

		<b>Three Months Ended</b>		
		<b>March 30, 2014</b>	<b>March 31, 2013</b>	
<b>(In thousands, except percentages)</b>				
<b>Human Health</b>	Reported revenue	\$ 299,483	\$ 281,329	
	Purchase accounting adjustments	1,452	1,932	
	Adjusted Revenue	<u>300,935</u>	<u>283,261</u>	
	Reported operating income from continued operations	43,060	25,020	
	OP%	14.4%	8.9%	
	Amortization of intangible assets	17,929	20,026	
	Purchase accounting adjustments	1,538	1,980	
	Acquisition-related costs	29	22	
	Restructuring and contract termination charges, net	490	3,238	
	Adjusted operating income	<u>63,046</u>	<u>50,286</u>	
	Adjusted OP%	21.0%	17.8%	
	<b>Environmental Health</b>	Reported revenue	232,421	224,049
		Reported operating income from continued operations	21,499	20,728
OP%		9.3%	9.3%	
Amortization of intangible assets		2,766	2,462	
Acquisition-related costs		82	49	
Restructuring and contract termination charges, net		1,645	72	
Adjusted operating income		<u>25,992</u>	<u>23,311</u>	
Adjusted OP%		11.2%	10.4%	
<b>Corporate</b>		Reported operating loss	(13,827)	(9,847)
		Significant litigation matter	3,227	-
	Mark to market on postretirement benefits	(54)	(47)	
	Adjusted operating loss	<u>(10,654)</u>	<u>(9,894)</u>	
	<b>Continuing Operations</b>	Reported revenue	\$ 531,904	\$ 505,378
Purchase accounting adjustments		1,452	1,932	
Adjusted Revenue		<u>533,356</u>	<u>507,310</u>	
Reported operating income from continued operations		50,732	35,901	
OP%		9.5%	7.1%	
Amortization of intangible assets		20,695	22,488	
Purchase accounting adjustments		1,538	1,980	
Acquisition-related costs		111	71	
Significant litigation matter		3,227	-	

Mark to market on postretirement benefits	(54)	(47)
Restructuring and contract termination charges, net	2,135	3,310
Adjusted operating income	<u>\$ 78,384</u>	<u>\$ 63,703</u>
Adjusted OP%	14.7%	12.6%

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

**PerkinElmer, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>(In thousands)</b>	<b>Three Months Ended</b>	
	<b>March 30, 2014</b>	<b>March 31, 2013</b>
<b>Operating activities:</b>		
Net income	\$ 34,224	\$ 32,216
Less: loss from discontinued operations and dispositions, net of income taxes	95	73
Income from continuing operations	<u>34,319</u>	<u>32,289</u>
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:		
Stock-based compensation	4,516	4,416
Restructuring and contract termination charges, net	2,135	3,310
Amortization of deferred debt issuance costs, interest rate hedges and accretion of discounts	304	813
Depreciation and amortization	29,443	30,571
Amortization of acquired inventory revaluation	-	129
<i>Changes in operating assets and liabilities which provided (used) cash, excluding effects from companies purchased and divested:</i>		
Accounts receivable, net	27,023	40,227
Inventories, net	(17,689)	(16,187)
Accounts payable	904	4,941
Accrued expenses and other	(13,036)	(89,391)
<b>Net cash provided by operating activities of continuing operations</b>	<u><b>67,919</b></u>	<u><b>11,118</b></u>
Net cash used in operating activities of discontinued operations	<u>(208)</u>	<u>(187)</u>
<b>Net cash provided by operating activities</b>	<u><b>67,711</b></u>	<u><b>10,931</b></u>
<b>Investing activities:</b>		
Capital expenditures	(6,020)	(11,829)
Activity related to acquisitions and investments, net of cash and cash equivalents acquired	-	1,400
<b>Net cash used in investing activities of continuing operations</b>	<u><b>(6,020)</b></u>	<u><b>(10,429)</b></u>
Net cash provided by investing activities of discontinued operations	<u>-</u>	<u>123</u>
<b>Net cash used in investing activities</b>	<u><b>(6,020)</b></u>	<u><b>(10,306)</b></u>
<b>Financing Activities:</b>		
Payments on revolving credit facility	(95,000)	(135,000)
Proceeds from revolving credit facility	90,000	213,000
Payments of debt issuance costs	(1,724)	-
Settlement of cash flow hedges	-	840
Net (payments on) proceeds from other credit facilities	(252)	8,022
Proceeds from issuance of common stock under stock plans	7,231	5,462
Purchases of common stock	(3,916)	(126,858)
Dividends paid	(7,887)	(8,060)
<b>Net cash used in financing activities</b>	<u><b>(11,548)</b></u>	<u><b>(42,594)</b></u>
Effect of exchange rate changes on cash and cash equivalents	<u>728</u>	<u>(3,604)</u>

<b>Net increase (decrease) in cash and cash equivalents</b>	<b>50,871</b>	<b>(45,573)</b>
Cash and cash equivalents at beginning of period	173,242	171,444
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 224,113</u></b>	<b><u>\$ 125,871</u></b>

PREPARED IN ACCORDANCE WITH GAAP

**PerkinElmer, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**

<b>(In thousands)</b>	<b><u>March 30, 2014</u></b>	<b><u>December 29, 2013</u></b>
Current assets:		
Cash and cash equivalents	\$ 224,113	\$ 173,242
Accounts receivable, net	442,976	470,028
Inventories, net	279,031	261,036
Other current assets	151,462	140,532
Total current assets	<u>1,097,582</u>	<u>1,044,838</u>
Property, plant and equipment, net:		
At cost	507,465	504,184
Accumulated depreciation	(324,797)	(318,811)
Property, plant and equipment, net	182,668	185,373
Marketable securities and investments	1,300	1,319
Intangible assets, net	437,882	460,430
Goodwill	2,142,475	2,143,120
Other assets, net	109,171	111,632
Total assets	<u>\$ 3,971,078</u>	<u>\$ 3,946,712</u>
Current liabilities:		
Short-term debt	\$ 2,626	\$ 2,624
Accounts payable	168,039	167,196
Short-term accrued restructuring	19,410	26,374
Accrued expenses and other current liabilities	412,962	404,064
Current liabilities of discontinued operations	2,425	2,538
Total current liabilities	<u>605,462</u>	<u>602,796</u>
Long-term debt	926,897	932,104
Long-term accrued restructuring	8,642	9,161
Long-term liabilities	400,641	408,164
Total liabilities	<u>1,941,642</u>	<u>1,952,225</u>
Total stockholders' equity	2,029,436	1,994,487
Total liabilities and stockholders' equity	<u>\$ 3,971,078</u>	<u>\$ 3,946,712</u>

PREPARED IN ACCORDANCE WITH GAAP

**PerkinElmer, Inc. and Subsidiaries**  
**RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES**

**(In millions, except per share data and percentages)**

**PKI**  
**Three Months Ended**

**March 30, 2014****March 31, 2013****Adjusted revenue:**

Revenue	\$	531.9		\$	505.4
Purchase accounting adjustments		1.5			1.9
Adjusted revenue	\$	533.4		\$	507.3

**Adjusted gross margin:**

Gross margin	\$	235.5	44.3%	\$	224.9	44.5%
Amortization of intangible assets		12.7	2.4%		12.9	2.5%
Purchase accounting adjustments		1.5	0.3%		2.1	0.4%
Mark to market on postretirement benefits		(0.1)	0.0%		(0.0)	0.0%
Adjusted gross margin	\$	249.6	46.8%	\$	239.8	47.3%

**Adjusted SG&A:**

SG&A	\$	153.2	28.8%	\$	151.5	30.0%
Amortization of intangible assets		(7.8)	-1.5%		(9.6)	-1.9%
Purchase accounting adjustments		(0.1)	0.0%		0.1	0.0%
Acquisition-related costs		(0.1)	0.0%		(0.1)	0.0%
Significant litigation matter		(3.2)	-0.6%		-	0.0%
Adjusted SG&A	\$	142.0	26.6%	\$	141.9	28.0%

**Adjusted R&D:**

R&D	\$	29.4	5.5%	\$	34.2	6.8%
Amortization of intangible assets		(0.2)	0.0%		(0.1)	0.0%
Adjusted R&D	\$	29.3	5.5%	\$	34.1	6.7%

**Adjusted operating income:**

Operating income	\$	50.7	9.5%	\$	35.9	7.1%
Amortization of intangible assets		20.7	3.9%		22.5	4.4%
Purchase accounting adjustments		1.5	0.3%		2.0	0.4%
Acquisition-related costs		0.1	0.0%		0.1	0.0%
Significant litigation matter		3.2	0.6%		-	0.0%
Mark to market on postretirement benefits		(0.1)	0.0%		(0.0)	0.0%
Restructuring and contract termination charges, net		2.1	0.4%		3.3	0.7%
Adjusted operating income	\$	78.4	14.7%	\$	63.7	12.6%

**PKI****Three Months Ended****March 30, 2014****March 31, 2013****Adjusted EPS:**

GAAP EPS	\$	0.30		\$	0.28
Discontinued operations, net of income taxes		(0.00)			(0.00)
GAAP EPS from continuing operations		0.30			0.28
Amortization of intangible assets, net of income taxes		0.12			0.13
Purchase accounting adjustments, net of income taxes		0.01			0.01
Acquisition-related costs, net of income taxes		0.00			0.00
Significant litigation matter, net of income taxes		0.02			-
Mark to market on postretirement benefits, net of income taxes		(0.00)			(0.00)
Significant tax credits		-			(0.08)
Restructuring and contract termination charges, net of income taxes		0.01			0.02
Adjusted EPS	\$	0.46		\$	0.36

**PKI****Twelve Months Ended**

**December 28, 2014**  
**Projected**

**Adjusted EPS:**

GAAP EPS from continuing operations	\$	1.91 - \$1.95
Amortization of intangible assets, net of income taxes		0.47
Purchase accounting adjustments, net of income taxes		0.01
Acquisition-related costs, net of income taxes		0.00
Significant litigation matter, net of income taxes		0.02
Mark to market on postretirement benefits, net of income taxes		(0.00)
Restructuring and contract termination charges, net of income taxes		0.01
Adjusted EPS	\$	2.42 - \$2.46

**Human Health**

**Three Months Ended**

**March 30, 2014** **March 31, 2013**

**Adjusted revenue:**

Revenue	\$	299.5	\$	281.3
Purchase accounting adjustments		1.5		1.9
Adjusted revenue	\$	300.9	\$	283.3

**Adjusted operating income:**

Operating income	\$	43.1	14.4%	\$	25.0	8.9%
Amortization of intangible assets		17.9	6.0%		20.0	7.1%
Purchase accounting adjustments		1.5	0.5%		2.0	0.7%
Acquisition-related costs		0.0	0.0%		0.0	0.0%
Restructuring and contract termination charges, net		0.5	0.2%		3.2	1.2%
Adjusted operating income	\$	63.0	21.0%	\$	50.3	17.8%

**Environmental Health**

**Three Months Ended**

**March 30, 2014** **March 31, 2013**

**Revenue:**

Revenue	\$	232.4	\$	224.0
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**Adjusted operating income:**

Operating income	\$	21.5	9.3%	\$	20.7	9.3%
Amortization of intangible assets		2.8	1.2%		2.5	1.1%
Acquisition-related costs		0.1	0.0%		0.0	0.0%
Restructuring and contract termination charges, net		1.6	0.7%		0.1	0.0%
Adjusted operating income	\$	26.0	11.2%	\$	23.3	10.4%

**PerkinElmer, Inc. and Subsidiaries**  
**RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES**

**PKI**

**Three Months Ended**  
**March 30, 2014**

**Organic revenue growth:**

Reported revenue growth	5%
Less: effect of foreign exchange rates	0%
Less: effect of acquisitions including purchase accounting adjustments	0%
Organic revenue growth	5%



**Human Health**  
**Three Months Ended**  
**March 30, 2014**

**Organic revenue growth:**

Reported revenue growth	6%
Less: effect of foreign exchange rates	0%
Less: effect of acquisitions including purchase accounting adjustments	0%
Organic revenue growth	6%

**Environmental Health**  
**Three Months Ended**  
**March 30, 2014**

**Organic revenue growth:**

Reported revenue growth	4%
Less: effect of foreign exchange rates	-1%
Less: effect of acquisitions including purchase accounting adjustments	0%
Organic revenue growth	4%

**Adjusted Revenue and Adjusted Revenue Growth**

We use the term "adjusted revenue" to refer to GAAP revenue, including estimated revenue from contracts acquired in various acquisitions that will not be fully recognized due to business combination 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 believe that these non-GAAP measures, when taken together with our GAAP financial measures, allow us and our investors to better measure the performance of our investments in technology, to evaluate long-term performance trends and to assess our ability to invest in our business. Adjusted revenue growth also provides for easier comparisons of our performance with prior and future periods and relative comparisons to our peers. Our GAAP revenue for the periods subsequent to our acquisitions does not reflect the full amount of revenue on such contracts that would have otherwise been recorded by the acquired businesses. The non-GAAP adjustment is intended to reflect the full amount of such revenue. We believe our investors will use this adjustment as a measure of the ongoing performance of the acquired businesses because customers have historically entered into such contracts for renewed and/or developmental support, although there can be no assurance that customers will do so in the future.

**Organic Revenue and Organic Revenue Growth**

We use the term "organic revenue" to refer to GAAP revenue, excluding the effect of foreign currency translation and acquisitions, and including estimated revenue from contracts acquired in various acquisitions that will not be fully recognized due to business combination 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 believe that these non-GAAP measures, when taken together with our GAAP financial measures, allow us and our investors to better measure the performance of our investments in technology, to evaluate long-term performance trends and to assess our ability to invest in our business. Organic revenue growth also provides for easier comparisons of our performance with prior and future periods and relative comparisons to our peers. We exclude the effect of foreign currency translation from these measures because foreign currency translation is subject to volatility and can obscure underlying trends. We exclude the effect of acquisitions because acquisition activity can vary dramatically between reporting periods and between us and our peers, which we believe makes comparisons of long-term performance trends difficult for management and investors, and could result in overstating or understating to our investors the performance of our operations. We include estimated revenue from contracts acquired with various acquisitions that will not be fully recognized due to business combination rules. Our GAAP revenue for the periods subsequent to our acquisitions does not reflect the full amount of revenue on such contracts that would have otherwise been recorded by the acquired businesses. The non-GAAP adjustment is intended to reflect the full amount of such revenue. We believe our investors will use this adjustment as a measure of the ongoing performance of the acquired businesses because customers have historically entered into such contracts for renewed and/or developmental support, although there can be no assurance that customers will do so in the future.

**Adjusted Gross Margin and Adjusted Gross Margin Percentage**

We use the term "adjusted gross margin" to refer to GAAP gross margin, excluding amortization of intangible assets, inventory fair value adjustments related to business acquisitions, other costs related to business acquisitions, and including estimated

revenue from contracts acquired in various acquisitions that will not be fully recognized due to business combination accounting rules. We also exclude adjustments for mark-to-market accounting on postretirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measure. We use the related term "adjusted gross margin percentage" to refer to adjusted gross margin as a percentage of adjusted revenue. We believe that these non-GAAP measures, when taken together with our GAAP financial measures, allow us and our investors to better measure the performance of our investments in technology, to evaluate the long-term profitability trends and to assess our ability to invest in our business. We exclude amortization of intangible assets and adjustments for mark-to-market accounting on postretirement benefits from these measures because these charges do not represent what we believe our investors consider to be costs of producing our products and could distort the additional value generated over the cost of producing those products. In addition, inventory fair value adjustments related to business acquisitions and other costs related to business acquisitions are excluded because they only occur due to an acquisition and the potential subsequent repositioning of the business that could distort the performance measures of costs used in producing our products. We include estimated revenue from contracts acquired with various acquisitions that will not be fully recognized due to business combination rules. Our GAAP revenue for the periods subsequent to our acquisitions does not reflect the full amount of revenue on such contracts that would have otherwise been recorded by the acquired businesses. The non-GAAP adjustment is intended to reflect the full amount of such revenue. We believe our investors will use this adjustment as a measure of the ongoing performance of the acquired businesses because customers have historically entered into such contracts for renewed and/or developmental support, although there can be no assurance that customers will do so in the future.

### **Adjusted Selling, General and Administrative ("SG&A") Expense and Adjusted SG&A Percentage**

We use the term "adjusted SG&A expense" to refer to GAAP SG&A expense, excluding amortization of intangible assets, changes to the fair values assigned to contingent consideration, other costs related to business acquisitions, and a significant litigation matter. We use the related term "adjusted SG&A percentage" to refer to adjusted SG&A expense as a percentage of adjusted revenue. We believe that these non-GAAP measures, when taken together with our GAAP financial measures, allow us and our investors to better measure the cost of the internal operating structure, our ability to leverage that structure and the level of investment required to grow our business. We exclude amortization of intangible assets and a significant litigation matter from these measures because these charges do not represent what we believe our investors consider to be costs that support our internal operating structure and could distort the efficiencies of that structure. We exclude changes to the fair values assigned to contingent consideration and other costs related to business acquisitions because they only occur due to an acquisition and the potential subsequent repositioning of the business that could distort the performance measures of costs to support our internal operating structure.

### **Adjusted Research and Development ("R&D") Expense and Adjusted R&D Percentage**

We use the term "adjusted R&D expense" to refer to GAAP R&D expense, excluding amortization of intangible assets. We use the related term "adjusted R&D percentage" to refer to adjusted R&D expense as a percentage of adjusted revenue. We believe that these non-GAAP measures, when taken together with our GAAP financial measures, allow us and our investors to better understand and evaluate our internal technology investments. We exclude amortization of intangible assets from these measures because these charges do not represent what we believe our investors consider to be internal investments in R&D activities and could distort our R&D investment level.

### **Adjusted Operating Income, Adjusted Operating Profit Percentage, Adjusted Operating Profit Margin and Adjusted Operating Margin**

We use the term "adjusted operating income," to refer to GAAP operating income, excluding amortization of intangible assets, inventory fair value adjustments related to business acquisitions, changes to the fair values assigned to contingent consideration, other costs related to business acquisitions, a significant litigation matter, and restructuring and contract termination charges, and including estimated revenue from contracts acquired in various acquisitions that will not be fully recognized due to business combination accounting rules. We also exclude adjustments for mark-to-market accounting on postretirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measure. Adjusted operating income is calculated by subtracting adjusted R&D expense and adjusted SG&A expense from adjusted gross margin. 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 believe that these non-GAAP measures, when taken together with our GAAP financial measures, allow us and our investors to analyze the costs of the different components of producing and selling our products, to better measure the performance of our internal investments in technology and to evaluate the long-term profitability trends of our core operations. Adjusted operating income also provides for easier comparisons of our performance and profitability with prior and future periods and relative comparisons to our peers. We believe our investors do not consider the items that we exclude from adjusted operating income to be costs of producing our products, investments in technology and production or costs to support our internal operating structure, and so we present this non-GAAP measure to avoid overstating or understating to our investors the performance of our operations. We exclude restructuring and contract termination charges because they tend to occur due to an acquisition, divestiture, repositioning of the business or other unusual event that could distort the performance measures of our internal investments and costs to support our internal operating structure. We include estimated revenue from contracts acquired with various acquisitions that

will not be fully recognized due to business combination rules. Our GAAP revenue for the periods subsequent to our acquisitions does not reflect the full amount of revenue on such contracts that would have otherwise been recorded by the acquired businesses. The non-GAAP adjustment is intended to reflect the full amount of such revenue. We believe our investors will use this adjustment as a measure of the ongoing performance of the acquired businesses because customers have historically entered into such contracts for renewed and/or developmental support, although there can be no assurance that customers will do so in the future.

### **Adjusted Earnings Per Share**

We use the term "adjusted earnings per share," or "adjusted EPS," to refer to GAAP earnings per share, excluding discontinued operations, amortization of intangible assets, inventory fair value adjustments related to business acquisitions, changes to the fair values assigned to contingent consideration, other costs related to business acquisitions, a significant litigation matter, restructuring and contract termination charges, and significant tax credits, and including estimated revenue from contracts acquired in various acquisitions that will not be fully recognized due to business combination accounting rules. We also exclude adjustments for mark-to-market accounting on postretirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measure. Adjusted earnings per share is calculated by subtracting the items above included in adjusted gross margin, adjusted R&D expense, adjusted SG&A expense, restructuring and contract termination charges, the provision for taxes related to these items, and significant tax credits from GAAP earnings per share. We believe that this non-GAAP measure, when taken together with our GAAP financial measures, allows us and our investors to analyze the costs of producing and selling our products and the performance of our internal investments in technology and our internal operating structure, to evaluate the long-term profitability trends of our core operations and to calculate the underlying value of the core business on a dilutive share basis, which is a key measure of the value of the Company used by our management and we believe used by investors as well. Adjusted earnings per share also facilitates the overall analysis of the value of the Company and the core measure of the success of our operating business model as compared to prior and future periods and relative comparisons to our peers. We exclude discontinued operations, amortization of intangible assets, inventory fair value adjustments related to business acquisitions, changes to the fair values assigned to contingent consideration, other costs related to business acquisitions, adjustments for mark-to-market accounting on postretirement benefits, a significant litigation matter, restructuring and contract termination charges, and significant tax credits, as these items 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, which could result in overstating or understating to our investors the performance of our operations. We include estimated revenue from contracts acquired with various acquisitions that will not be fully recognized due to business combination rules. Our GAAP revenue for the periods subsequent to our acquisitions does not reflect the full amount of revenue on such contracts that would have otherwise been recorded by the acquired businesses. The non-GAAP adjustment is intended to reflect the full amount of such revenue. We believe our investors will use this adjustment as a measure of the ongoing performance of the acquired businesses because customers have historically entered into such contracts for renewed and/or developmental support, although there can be no assurance that customers will do so in the future.

The first quarter tax effect on adjusted EPS for (i) discontinued operations was an expense of \$0.00 in 2014 and a benefit of \$0.00 in 2013, (ii) amortization of intangible assets was an expense of \$0.06 in 2014 and an expense of \$0.07 in 2013, (iii) a significant litigation matter was an expense of \$0.01 in 2014, (iv) restructuring and contract termination charges was an expense of \$0.01 in both 2014 and 2013, (v) significant tax credits was a benefit of \$0.08 in 2013, (vi) the estimated revenue from contracts acquired with various acquisitions that will not be fully recognized due to business combination accounting rules was an expense of \$0.00 in 2014 and an expense of \$0.01 in 2013. The first quarter tax effect on adjusted EPS for each of the remaining items (inventory fair value adjustments related to business acquisitions, changes to the fair values assigned to contingent consideration, other costs related to business acquisitions, and adjustments for mark-to-market accounting on postretirement benefits) was \$0.00 in both 2014 and 2013.

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, other costs related to business acquisitions, a significant litigation matter, adjustments for mark-to-market accounting on postretirement benefits, restructuring and contract termination charges, significant tax credits, and the estimated 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.

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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 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 are 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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