



May 4, 2017

PerkinElmer Announces Financial Results for the First Quarter of 2017

- ▮ **GAAP revenue of \$514 million, an increase of 3%; Organic revenue increased 4%**
- ▮ **GAAP earnings per share from continuing operations of \$0.33; Adjusted earnings per share of \$0.55**
- ▮ **Raises full year revenue and earnings per share guidance**

WALTHAM, Mass.--(BUSINESS WIRE)-- [PerkinElmer, Inc.](http://PerkinElmer.Inc) (NYSE: PKI), a global leader committed to innovating for a healthier world, today reported financial results for the first quarter ended April 2, 2017.

The Company reported GAAP earnings per share from continuing operations of \$0.33, as compared to \$0.38 in the first quarter of 2016. GAAP revenue in the first quarter of 2017 was \$514.1 million, as compared to \$498.0 million in the first quarter of 2016. GAAP operating income from continuing operations for the first quarter of 2017 was \$51.6 million, as compared to \$60.6 million in the first quarter of 2016.

Adjusted earnings per share was \$0.55, as compared to \$0.50 in the first quarter of 2016. Adjusted revenue for the quarter was \$514.3 million, as compared to \$498.2 million in the first quarter of 2016. Adjusted operating income for the first quarter of 2017 was \$84.1 million, as compared to \$81.2 million for the same period a year ago. Adjusted operating profit margin was 16.3% as a percentage of adjusted revenue, flat as compared to the same period a year ago. Adjustments for the Company's non-GAAP financial measures have been noted in the attached reconciliations.

"We are encouraged by our first quarter performance as we continue to see the benefits from our investments in new product innovations and better operational execution," said Robert Friel, chairman and chief executive officer of PerkinElmer. "We believe these efforts coupled with our leading positions in attractive market segments will allow us to deliver on our commitments in 2017 and beyond."

Cash Flow

For the first quarter of 2017, GAAP operating cash flow from continuing operations was \$41.2 million, as compared to \$26.3 million in the comparable period of 2016.

Financial Overview by Reporting Segment for the First Quarter of 2017

Discovery & Analytical Solutions

- ▮ Revenue was \$361.8 million, as compared to \$356.4 million for the first quarter of 2016. Reported revenue increased 1%. Organic revenue increased 2%.
- ▮ Operating income from continuing operations was \$30.6 million, as compared to operating income of \$39.5 million for the comparable prior period.
- ▮ Adjusted operating income was \$51.1 million, as compared to \$53.9 million in the first quarter of 2016. Adjusted operating profit margin was 14.1% as a percentage of revenue, as compared to 15.1% in the comparable prior period.

Diagnostics

- ▮ Revenue was \$152.4 million, as compared to \$141.6 million for the first quarter of 2016. Reported revenue increased 8%. Organic revenue increased 8%.
- ▮ Operating income from continuing operations was \$33.4 million, as compared to \$33.8 million for the comparable prior period.
- ▮ Adjusted operating income was \$45.4 million, as compared to \$39.9 million in the first quarter of 2016. First quarter 2017 adjusted operating profit margin was 29.8% as a percentage of adjusted revenue, as compared to 28.2% in the

comparable prior period.

Raises Financial Guidance - Full Year 2017

For the full year 2017, the Company now forecasts GAAP earnings per share from continuing operations in the range of \$2.16 to \$2.26 and on a non-GAAP basis, which is expected to include the adjustments noted in the attached reconciliation, adjusted earnings per share of \$2.80 to \$2.90.

Conference Call Information

The Company will discuss its first quarter results and its outlook for business trends in a conference call on May 4, 2017 at 5:00 p.m. Eastern Time. To access the call, please dial (541) 797-2422 prior to the scheduled conference call time and provide the access code 92626868.

A live audio webcast of the call will be available on the [Investor](#) section of the Company's Web site, 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) the approval of the Brexit Referendum in the United Kingdom; (21) our ability to realize the full value of our intangible assets; (22) significant fluctuations in our stock price; (23) reduction or elimination of dividends on our common stock; and (24) 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 innovating for a healthier world. The Company reported revenue of approximately \$2.1 billion in 2016, has about 9,000 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.

CONDENSED CONSOLIDATED INCOME STATEMENTS ⁽¹⁾

| (In thousands, except per share data) | Three Months Ended | |
|--|---------------------------|----------------------|
| | April 2, 2017 | April 3, 2016 |
| Revenue | \$ 514,115 | \$ 498,016 |
| Cost of revenue | 274,504 | 262,930 |
| Selling, general and administrative expenses | 145,093 | 144,538 |
| Research and development expenses | 33,288 | 29,971 |
| Restructuring and contract termination charges, net | 9,651 | - |
| Operating income from continuing operations | 51,579 | 60,577 |
| Interest income | (220) | (110) |
| Interest expense | 10,864 | 9,841 |
| Other expense, net | 952 | 1,355 |
| Income from continuing operations, before income taxes | 39,983 | 49,491 |
| Provision for income taxes | 3,921 | 7,747 |
| Income from continuing operations | 36,062 | 41,744 |
| Income from discontinued operations, before income taxes | 3,759 | 8,190 |
| Loss on disposition of discontinued operations, before income taxes | - | (3) |
| Provision for income taxes on discontinued operations and dispositions | 1,218 | 2,465 |
| Income from discontinued operations and dispositions | 2,541 | 5,722 |
| Net income | \$ 38,603 | \$ 47,466 |
| <i>Diluted earnings per share:</i> | | |
| Income from continuing operations | \$ 0.33 | \$ 0.38 |
| Income from discontinued operations and dispositions | 0.02 | 0.05 |
| Net income | \$ 0.35 | \$ 0.43 |
| <i>Weighted average diluted shares of common stock outstanding</i> | 110,204 | 111,195 |

ABOVE PREPARED IN ACCORDANCE WITH GAAP

Additional Supplemental Information ⁽¹⁾:
(per share, continuing operations)

| | | |
|--|---------|---------|
| GAAP EPS from continuing operations | \$ 0.33 | \$ 0.38 |
| Amortization of intangible assets | 0.15 | 0.17 |
| Purchase accounting adjustments | 0.03 | 0.01 |
| Acquisition and divestiture-related expenses | 0.03 | 0.00 |

| | | |
|--|----------------|----------------|
| Mark to market on postretirement benefits | - | (0.00) |
| Restructuring and contract termination charges | 0.09 | - |
| Tax on above items | (0.08) | (0.06) |
| Adjusted EPS | \$ 0.55 | \$ 0.50 |

(1) amounts may not sum due to rounding

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

| (In thousands, except percentages) | | Three Months Ended | |
|------------------------------------|---|---------------------------|----------------------|
| | | April 2, 2017 | April 3, 2016 |
| DAS | Reported revenue | \$ 361,760 | \$ 356,447 |
| | Reported operating income from continued operations | 30,579 | 39,469 |
| | <i>OP%</i> | 8.5% | 11.1% |
| | Amortization of intangible assets | 12,250 | 14,070 |
| | Purchase accounting adjustments | 16 | 146 |
| | Acquisition and divestiture-related expenses | 238 | 218 |
| | Restructuring and contract termination charges, net | 7,987 | - |
| | Adjusted operating income | <u>51,070</u> | <u>53,903</u> |
| | <i>Adjusted OP%</i> | 14.1% | 15.1% |
| Diagnostics | Reported revenue | 152,355 | 141,569 |
| | Purchase accounting adjustments | 185 | 175 |
| | Adjusted revenue | <u>152,540</u> | <u>141,744</u> |
| | Reported operating income from continued operations | 33,410 | 33,774 |
| | <i>OP%</i> | 21.9% | 23.9% |
| | Amortization of intangible assets | 4,796 | 4,502 |
| | Purchase accounting adjustments | 3,187 | 1,513 |
| | Acquisition and divestiture-related expenses | 2,358 | 148 |
| | Restructuring and contract termination charges, net | 1,664 | - |
| | Adjusted operating income | <u>45,415</u> | <u>39,937</u> |
| | <i>Adjusted OP%</i> | 29.8% | 28.2% |
| Corporate | Reported operating loss | (12,410) | (12,666) |
| | Mark to market on postretirement benefits | - | (3) |
| | Adjusted operating loss | <u>(12,410)</u> | <u>(12,669)</u> |
| Continuing Operations | Reported revenue | \$ 514,115 | \$ 498,016 |
| | Purchase accounting adjustments | 185 | 175 |
| | Adjusted revenue | <u>514,300</u> | <u>498,191</u> |
| | Reported operating income from continued operations | 51,579 | 60,577 |
| | <i>OP%</i> | 10.0% | 12.2% |
| | Amortization of intangible assets | 17,046 | 18,572 |
| | Purchase accounting adjustments | 3,203 | 1,659 |
| | Acquisition and divestiture-related expenses | 2,596 | 366 |
| | Mark to market on postretirement benefits | - | (3) |
| | Restructuring and contract termination charges, net | 9,651 | - |

| | | |
|---------------------------|------------------|------------------|
| Adjusted operating income | <u>\$ 84,075</u> | <u>\$ 81,171</u> |
| <i>Adjusted OP%</i> | 16.3% | 16.3% |

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

PerkinElmer, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In thousands) | <u>April 2, 2017</u> | <u>January 1, 2017</u> |
|---|-----------------------------|-------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 288,329 | \$ 359,265 |
| Accounts receivable, net | 411,084 | 425,588 |
| Inventories | 264,633 | 246,847 |
| Other current assets | 96,796 | 99,246 |
| Current assets of discontinued operations | 55,737 | 58,985 |
| Total current assets | <u>1,116,579</u> | <u>1,189,931</u> |
| Property, plant and equipment: | | |
| At cost | 449,306 | 427,903 |
| Accumulated depreciation | <u>(295,369)</u> | <u>(282,409)</u> |
| Property, plant and equipment, net | 153,937 | 145,494 |
| Intangible assets, net | 455,128 | 420,224 |
| Goodwill | 2,332,533 | 2,247,966 |
| Other assets, net | 215,996 | 204,679 |
| Long-term assets of discontinued operations | 66,328 | 68,389 |
| Total assets | <u>\$ 4,340,501</u> | <u>\$ 4,276,683</u> |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 2,187 | \$ 1,172 |
| Accounts payable | 158,118 | 168,033 |
| Short-term accrued restructuring and contract termination charges | 11,530 | 7,479 |
| Accrued expenses and other current liabilities | 397,814 | 399,700 |
| Current liabilities of discontinued operations | 30,959 | 26,971 |
| Total current liabilities | <u>600,608</u> | <u>603,355</u> |
| Long-term debt | 1,052,677 | 1,045,254 |
| Long-term liabilities | 462,965 | 459,544 |
| Long-term liabilities of discontinued operations | 15,264 | 14,960 |
| Total liabilities | <u>2,131,514</u> | <u>2,123,113</u> |
| Total stockholders' equity | <u>2,208,987</u> | <u>2,153,570</u> |
| Total liabilities and stockholders' equity | <u>\$ 4,340,501</u> | <u>\$ 4,276,683</u> |

PREPARED IN ACCORDANCE WITH GAAP

PerkinElmer, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended | |
|---|---------------------------|--------------------------|
| | April 2, 2017 | April 3, 2016 |
| | (In thousands) | |
| Operating activities: | | |
| Net income | \$ 38,603 | \$ 47,466 |
| Income from discontinued operations and dispositions, net of income taxes | <u>(2,541)</u> | <u>(5,722)</u> |
| Income from continuing operations | <u>36,062</u> | <u>41,744</u> |
| Adjustments to reconcile income from continuing operations to net cash provided by continuing operations: | | |
| Stock-based compensation | 4,926 | 3,846 |
| Restructuring and contract termination charges, net | 9,651 | - |
| Depreciation and amortization | 24,747 | 25,395 |
| Change in fair value of contingent consideration | 811 | 1,322 |
| Amortization of deferred debt financing costs and accretion of discounts | 585 | 356 |
| Amortization of acquired inventory revaluation | 2,176 | 131 |
| <i>Changes in assets and liabilities which provided (used) cash, excluding effects from companies acquired:</i> | | |
| Accounts receivable, net | 25,093 | 16,747 |
| Inventories | (6,837) | (16,959) |
| Accounts payable | (13,883) | 1,613 |
| Accrued expenses and other | <u>(42,129)</u> | <u>(47,908)</u> |
| Net cash provided by operating activities of continuing operations | <u>41,202</u> | <u>26,287</u> |
| Net cash provided by operating activities of discontinued operations | <u>12,534</u> | <u>5,753</u> |
| Net cash provided by operating activities | <u>53,736</u> | <u>32,040</u> |
| Investing activities: | | |
| Capital expenditures | (5,981) | (7,659) |
| Changes in restricted cash balances | 15,153 | - |
| Proceeds from disposition of businesses | - | 1,000 |
| Activity related to acquisitions, net of cash and cash equivalents acquired | <u>(123,578)</u> | <u>(10,484)</u> |
| Net cash used in investing activities of continuing operations | <u>(114,406)</u> | <u>(17,143)</u> |
| Net cash used in investing activities of discontinued operations | <u>(280)</u> | <u>(149)</u> |
| Net cash used in investing activities | <u>(114,686)</u> | <u>(17,292)</u> |
| Financing Activities: | | |
| Payments on borrowings | (145,950) | (75,000) |
| Proceeds from borrowings | 146,952 | 183,000 |
| Settlement of cash flow hedges | (1,569) | 2,630 |
| Net proceeds (payments) on other credit facilities | (287) | (275) |
| Payments for acquisition-related contingent consideration | (8,940) | (93) |
| Proceeds from issuance of common stock under stock plans | 4,627 | 1,238 |
| Purchases of common stock | (3,127) | (151,159) |
| Dividends paid | <u>(7,673)</u> | <u>(7,843)</u> |
| Net cash used in financing activities of continuing operations | <u>(15,967)</u> | <u>(47,502)</u> |
| Net cash used in financing activities of discontinued operations | <u>(214)</u> | <u>(193)</u> |
| Net cash used in financing activities | <u>(16,181)</u> | <u>(47,695)</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>6,195</u> | <u>5,746</u> |
| Net decrease in cash and cash equivalents | <u>(70,936)</u> | <u>(27,201)</u> |
| Cash and cash equivalents at beginning of period | <u>359,265</u> | <u>237,932</u> |
| Cash and cash equivalents at end of period | <u>\$ 288,329</u> | <u>\$ 210,731</u> |

PerkinElmer, Inc. and Subsidiaries
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES ⁽¹⁾

(In millions, except per share data and percentages)

| | PKI | | | |
|---|----------------------|--------------|----------------------|--------------|
| | Three Months Ended | | | |
| | <u>April 2, 2017</u> | | <u>April 3, 2016</u> | |
| Adjusted revenue: | | | | |
| Revenue | \$ 514.1 | | \$ 498.0 | |
| Purchase accounting adjustments | 0.2 | | 0.2 | |
| Adjusted revenue | <u>\$ 514.3</u> | | <u>\$ 498.2</u> | |
| Adjusted gross margin: | | | | |
| Gross margin | \$ 239.6 | 46.6% | \$ 235.1 | 47.2% |
| Amortization of intangible assets | 7.0 | 1.4% | 8.2 | 1.6% |
| Purchase accounting adjustments | 2.4 | 0.5% | 0.3 | 0.1% |
| Mark to market on postretirement benefits | - | 0.0% | (0.0) | 0.0% |
| Adjusted gross margin | <u>\$ 249.0</u> | <u>48.4%</u> | <u>\$ 243.6</u> | <u>48.9%</u> |
| Adjusted SG&A: | | | | |
| SG&A | \$ 145.1 | 28.2% | \$ 144.5 | 29.0% |
| Amortization of intangible assets | (10.0) | -2.0% | (10.2) | -2.0% |
| Purchase accounting adjustments | (0.8) | -0.2% | (1.3) | -0.3% |
| Acquisition and divestiture-related expenses | (2.6) | -0.5% | (0.4) | -0.1% |
| Adjusted SG&A | <u>\$ 131.6</u> | <u>25.6%</u> | <u>\$ 132.7</u> | <u>26.6%</u> |
| Adjusted R&D: | | | | |
| R&D | \$ 33.3 | 6.5% | \$ 30.0 | 6.0% |
| Amortization of intangible assets | (0.0) | 0.0% | (0.2) | 0.0% |
| Adjusted R&D | <u>\$ 33.3</u> | <u>6.5%</u> | <u>\$ 29.8</u> | <u>6.0%</u> |
| Adjusted operating income: | | | | |
| Operating income | \$ 51.6 | 10.0% | \$ 60.6 | 12.2% |
| Amortization of intangible assets | 17.0 | 3.3% | 18.6 | 3.7% |
| Purchase accounting adjustments | 3.2 | 0.6% | 1.7 | 0.3% |
| Acquisition and divestiture-related expenses | 2.6 | 0.5% | 0.4 | 0.1% |
| Mark to market on postretirement benefits | - | 0.0% | (0.0) | 0.0% |
| Restructuring and contract termination charges, net | 9.7 | 1.9% | - | 0.0% |
| Adjusted operating income | <u>\$ 84.1</u> | <u>16.3%</u> | <u>\$ 81.2</u> | <u>16.3%</u> |

| | PKI | |
|--|----------------------|----------------------|
| | Three Months Ended | |
| | <u>April 2, 2017</u> | <u>April 3, 2016</u> |
| Adjusted EPS: | | |
| GAAP EPS | \$ 0.35 | \$ 0.43 |
| Discontinued operations, net of income taxes | 0.02 | 0.05 |
| GAAP EPS from continuing operations | <u>0.33</u> | <u>0.38</u> |
| Amortization of intangible assets | 0.15 | 0.17 |
| Purchase accounting adjustments | 0.03 | 0.01 |

| | | |
|--|----------------|----------------|
| Acquisition and divestiture-related expenses | 0.03 | 0.00 |
| Mark to market on postretirement benefits | - | (0.00) |
| Restructuring and contract termination charges | 0.09 | - |
| Tax on above items | (0.08) | (0.06) |
| Adjusted EPS | <u>\$ 0.55</u> | <u>\$ 0.50</u> |

PKI

**Twelve Months Ended
December 31, 2017**

Projected

| | | |
|--|--|-------------------------|
| Adjusted EPS: | | |
| GAAP EPS from continuing operations | | \$ 2.16 - \$2.26 |
| Amortization of intangible assets | | 0.62 |
| Purchase accounting adjustments | | 0.08 |
| Acquisition and divestiture-related expenses | | 0.10 |
| Restructuring and contract termination charges | | 0.09 |
| Tax on above items | | (0.25) |
| Adjusted EPS | | <u>\$ 2.80 - \$2.90</u> |

DAS

Three Months Ended

April 2, 2017 **April 3, 2016**

Revenue:

| | | |
|---------|----------|----------|
| Revenue | \$ 361.8 | \$ 356.4 |
|---------|----------|----------|

Adjusted operating income:

| | | | | |
|---|----------------|--------------|----------------|--------------|
| Operating income | \$ 30.6 | 8.5% | \$ 39.5 | 11.1% |
| Amortization of intangible assets | 12.3 | 3.4% | 14.1 | 3.9% |
| Purchase accounting adjustments | 0.0 | 0.0% | 0.1 | 0.0% |
| Acquisition and divestiture-related expenses | 0.2 | 0.1% | 0.2 | 0.1% |
| Restructuring and contract termination charges, net | 8.0 | 2.2% | - | 0.0% |
| Adjusted operating income | <u>\$ 51.1</u> | <u>14.1%</u> | <u>\$ 53.9</u> | <u>15.1%</u> |

Diagnostics

Three Months Ended

April 2, 2017 **April 3, 2016**

Adjusted revenue:

| | | |
|---------------------------------|-----------------|-----------------|
| Revenue | \$ 152.4 | \$ 141.6 |
| Purchase accounting adjustments | 0.2 | 0.2 |
| Adjusted revenue | <u>\$ 152.5</u> | <u>\$ 141.7</u> |

Adjusted operating income:

| | | | | |
|---|----------------|--------------|----------------|--------------|
| Operating income | \$ 33.4 | 21.9% | \$ 33.8 | 23.9% |
| Amortization of intangible assets | 4.8 | 3.1% | 4.5 | 3.2% |
| Purchase accounting adjustments | 3.2 | 2.1% | 1.5 | 1.1% |
| Acquisition and divestiture-related expenses | 2.4 | 1.5% | 0.1 | 0.1% |
| Restructuring and contract termination charges, net | 1.7 | 1.1% | - | 0.0% |
| Adjusted operating income | <u>\$ 45.4</u> | <u>29.8%</u> | <u>\$ 39.9</u> | <u>28.2%</u> |

(1) amounts may not sum due to rounding

PerkinElmer, Inc. and Subsidiaries
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES ⁽¹⁾

| | PKI |
|--|-----------------------------|
| | Three Months Ended |
| | <u>April 2, 2017</u> |
| Organic revenue growth: | |
| Reported revenue growth | 3% |
| Less: effect of foreign exchange rates | -1% |
| Less: effect of acquisitions including purchase accounting adjustments and impact of divested businesses | 0% |
| Organic revenue growth | <u>4%</u> |
| | |
| | DAS |
| | Three Months Ended |
| | <u>April 2, 2017</u> |
| Organic revenue growth: | |
| Reported revenue growth | 1% |
| Less: effect of foreign exchange rates | -1% |
| Less: effect of acquisitions including purchase accounting adjustments and impact of divested businesses | 0% |
| Organic revenue growth | <u>2%</u> |
| | |
| | Diagnostics |
| | Three Months Ended |
| | <u>April 2, 2017</u> |
| Organic revenue growth: | |
| Reported revenue growth | 8% |
| Less: effect of foreign exchange rates | -1% |
| Less: effect of acquisitions including purchase accounting adjustments and impact of divested businesses | 0% |
| Organic revenue growth | <u>8%</u> |

(1) amounts may not sum due to rounding

Explanation of Non-GAAP Financial Measures

We report our financial results in accordance with U. S. generally accepted accounting principles ("GAAP"). However, management believes that, in order to more fully understand our short-term and long-term financial and operational trends, investors may wish to consider the impact of certain non-cash, non-recurring or other items, which result from facts and circumstances that vary in frequency and impact on continuing operations. Accordingly, we present non-GAAP financial measures as a supplement to the financial measures we present in accordance with GAAP. These non-GAAP financial measures provide management with additional means to understand and evaluate the operating results and trends in our ongoing business by adjusting for certain non-cash expenses and other items that management believes might otherwise make comparisons of our ongoing business with prior periods more difficult, obscure trends in ongoing operations, or reduce management's ability to make useful forecasts. Management believes these non-GAAP financial measures provide additional means of evaluating period-over-period operating performance. In addition, management understands that some investors and financial analysts find this information helpful in analyzing our financial and operational performance and comparing this performance to our peers and competitors.

We use the term "adjusted revenue" to refer to GAAP revenue, including purchase accounting adjustments for revenue from contracts acquired in acquisitions that will not be fully recognized due to 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 use the term "organic revenue" to refer to GAAP revenue, excluding the effect of foreign currency changes and acquisitions, and including purchase accounting adjustments for revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules. We also exclude the impact of sales from divested businesses by deducting the effects of divested business revenue from the current and prior periods. 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 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, and including purchase accounting adjustments for revenue from contracts acquired in acquisitions that will not be fully recognized due to business combination accounting rules. We also exclude adjustments for mark-to-market accounting on post-retirement 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 use the term "adjusted SG&A expense" to refer to GAAP SG&A expense, excluding amortization of intangible assets, purchase accounting adjustments, acquisition and divestiture-related expenses, significant litigation matters and significant environmental charges. We also exclude adjustments for mark-to-market accounting on post-retirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measure. We use the related term "adjusted SG&A percentage" to refer to adjusted SG&A expense as a percentage of adjusted revenue.

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 use the term "adjusted operating income," to refer to GAAP operating income, including revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules, and excluding amortization of intangible assets, other purchase accounting adjustments, acquisition and divestiture-related expenses, significant litigation matters, significant environmental charges, and restructuring and contract termination charges. We also exclude adjustments for mark-to-market accounting on post-retirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measure. 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 use the term "adjusted earnings per share," or "adjusted EPS," to refer to GAAP earnings per share, including revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules, and excluding discontinued operations, amortization of intangible assets, other purchase accounting adjustments, acquisition and divestiture-related expenses, significant litigation matters, significant environmental charges, gain on disposition of businesses and assets, net, and restructuring and contract termination charges. We also exclude adjustments for mark-to-market accounting on post-retirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measure. We also adjust for any tax impact related to the above items.

Management includes or excludes the effect of each of the items identified below in the applicable non-GAAP financial measure referenced above for the reasons set forth below with respect to that item:

- 1 Amortization of intangible assets— purchased intangible assets are amortized over their estimated useful lives and generally cannot be changed or influenced by management after the acquisition. Accordingly, this item is not considered by management in making operating decisions. Management does not believe such charges accurately reflect the performance of our ongoing operations for the period in which such charges are incurred.
- 1 Revenue from contracts acquired in acquisitions that will not be fully recognized due to accounting rules—accounting rules require us to account for the fair value of revenue from contracts assumed in connection with our acquisitions. As a result, our GAAP results reflect the fair value of those revenues, which is not the same as the revenue that otherwise would have been recorded by the acquired entity. We include such revenue in our non-GAAP measures because we believe the fair value of such revenue does not accurately reflect the performance of our ongoing operations for the period in which such revenue is recorded.
- 1 Other purchase accounting adjustments—accounting rules require us to adjust various balance sheet accounts, including inventory and deferred rent balances to fair value at the time of the acquisition. As a result, the expenses for these items in our GAAP results are not the same as what would have been recorded by the acquired entity. Accounting rules also require us to estimate the fair value of contingent consideration at the time of the acquisition, and any subsequent changes to the estimate or payment of the contingent consideration and purchase accounting adjustments are charged to expense or income. We exclude the impact of any changes to contingent consideration

from our non-GAAP measures because we believe these expenses or benefits do not accurately reflect the performance of our ongoing operations for the period in which such expenses or benefits are recorded.

- 1 Acquisition and divestiture-related expenses—we incur legal, due diligence, stay bonuses, interest expense, foreign exchange gains and losses and other costs related to acquisitions and divestitures. We exclude these expenses from our non-GAAP measures because we believe they do not reflect the performance of our ongoing operations.
- 1 Restructuring and contract termination charges—restructuring and contract termination expenses consist of employee severance and other exit costs as well as the cost of terminating certain lease agreements or contracts. Management does not believe such costs accurately reflect the performance of our ongoing operations for the period in which such costs are reported.
- 1 Adjustments for mark-to-market accounting on post-retirement benefits—we exclude adjustments for mark-to-market accounting on post-retirement benefits, therefore only our projected costs have been used to calculate our non-GAAP measures. We exclude these adjustments because they 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.
- 1 Significant litigation matters—we incurred expenses related to significant litigation matters. Management does not believe such charges accurately reflect the performance of our ongoing operations for the periods in which such charges were incurred.
- 1 Significant environmental charges—we incurred expenses related to significant environmental charges. Management does not believe such charges accurately reflect the performance of our ongoing operations for the periods in which such charges were incurred.
- 1 Disposition of businesses and assets, net—we exclude the impact of gains or losses from the disposition of businesses and assets from our adjusted earnings per share. Management does not believe such gains or losses accurately reflect the performance of our ongoing operations for the period in which such gains or losses are reported.
- 1 Impact of foreign currency changes on the current period—we exclude the impact of foreign currency from these measures by using the prior period's foreign currency exchange rates for the current period because foreign currency exchange rates are subject to volatility and can obscure underlying trends.

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 and divestitures, significant litigation matters, significant environmental charges, adjustments for mark-to-market accounting on post-retirement benefits, disposition of businesses and assets, net, restructuring and contract termination charges, and the 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. The tax effect for the impact from foreign currency exchange rates on the current period is calculated based on the average rate currently in effect to determine our tax provision.

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 by which 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 is 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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