



**balchem<sup>®</sup>**

Investor Presentation

Q2 2022

# Safe Harbor Statement

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- During the course of this presentation, management may make forward-looking statements regarding financial performance and future events.
- We will attempt to identify these statements by use of words such as expect, believe, anticipate, intend, and other words that denote future events. You should understand that, even though our forward-looking statements are based on assumptions we believe are reasonable when made, they are still subject to uncertainties that could cause actual results to differ materially from those in the forward-looking statements.
- We caution you to consider the important risk and other factors as set forth in the forward-looking statements section and in Item 1A risk factors in our Annual Reports on Form 10-K as filed with the U.S. Securities and Exchange Commission that could cause actual results to differ from those in the forward-looking statements as contained in this presentation.
- Forward-looking statements made herein are summaries of previous public disclosures, do not represent revised guidance, and we do not undertake to revise or update them from the date or dates of previous disclosure.
- In the case of any presentation delivered during the company's prescribed black-out periods, there will be no discussion or questions addressed regarding the current quarter's expected performance.

# Balchem Corporation

*Balchem develops, manufactures, and markets specialty ingredients that help make the world a healthier place*

## Highlights

- NASDAQ: BCPC
- Founded in 1967
- Headquarters: New Hampton, NY
- Approximately 1,300 Employees
- 22 Manufacturing Sites:
  - 17 in North America
  - 4 in Europe
  - 1 in Asia
- 6 Technology Centers
- 2021 Revenues of \$799M
- 2021 Adj. EBITDA of \$189M or 24% of sales
- 2021 Cash Flow From Operations of \$161M



A Global Health And Nutrition Focused Company With A 50+ Year History

# Leadership



## **Ted Harris, Chairman and CEO**

- Joined Balchem in May 2015
- Prior to Balchem was a Senior VP of Ashland Inc. where he held a series of senior leadership roles over 10+ years
- Independent director and member of the Board of Directors of Pentair plc.
- MBA from Harvard University and bachelor's degree from Lehigh University in chemical engineering

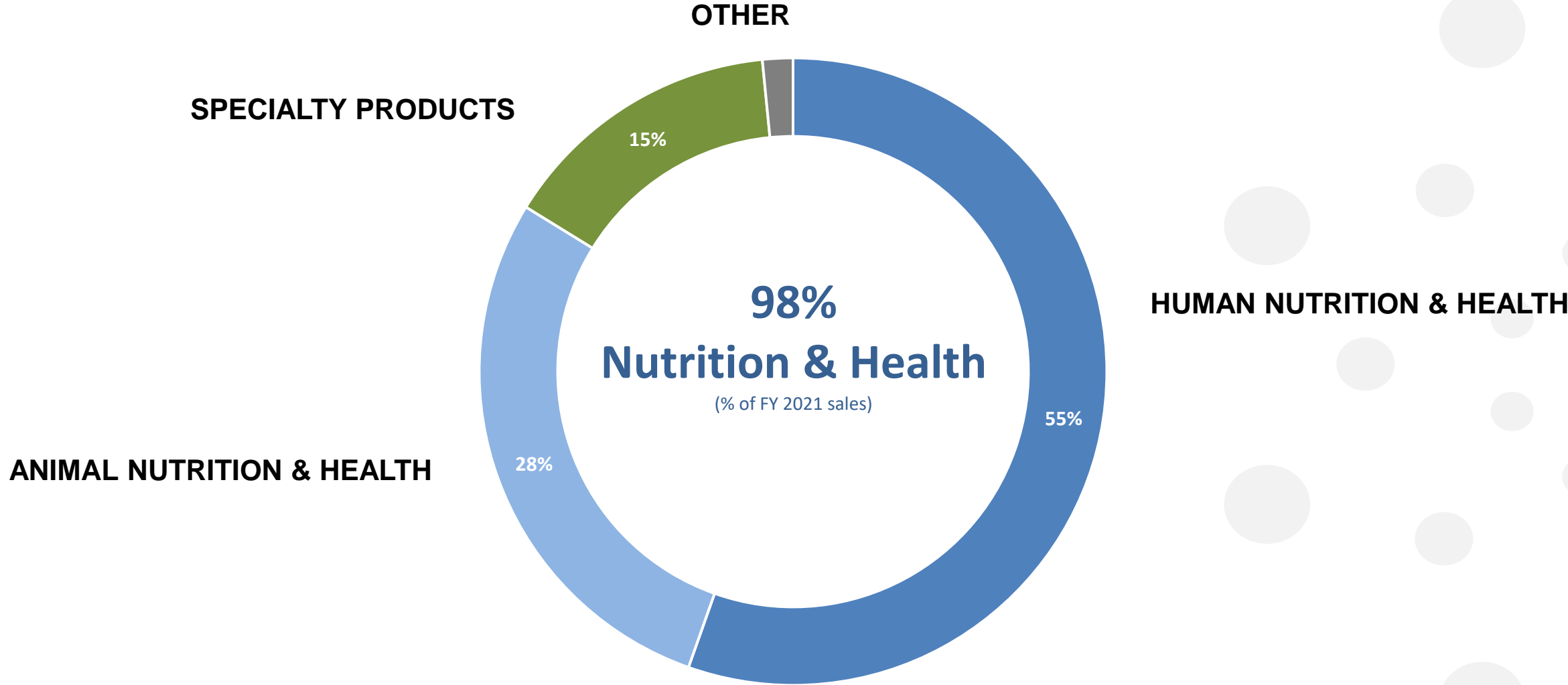
## **Martin Bengtsson, CFO**

- Joined Balchem in February 2019
- Prior to Balchem had a 15-year career at Honeywell and most recently was CFO for the \$11B Performance Materials & Technologies segment
- Bachelor's degree from Northwestern University in economics and began career as Senior Auditor for Deloitte



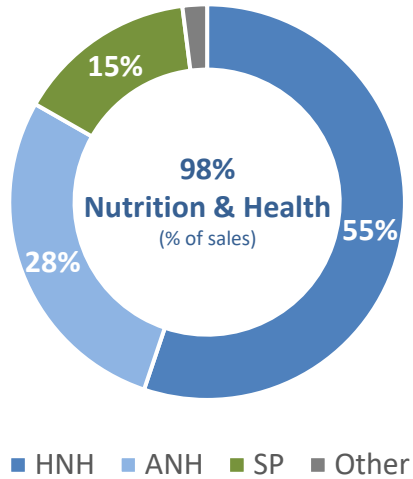
Executive Leadership

# Balchem at a Glance



98% Of Revenues Focused On Nutrition & Health

# Segment Overview



Segment	Markets Served	Solutions
Human Nutrition & Health	<ul style="list-style-type: none"> <li>• Nutritional Supplements</li> <li>• Food and Beverage</li> <li>• Infant &amp; Toddler Formula</li> <li>• Organic Cereal</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Microencapsulation</b></li> <li>• <b>Choline</b>, &amp; Vitamin K2</li> <li>• <b>Chelated Minerals</b></li> <li>• Powder, Flavor, &amp; Cereal Systems</li> </ul>
Animal Nutrition & Health	<ul style="list-style-type: none"> <li>• Dairy</li> <li>• Poultry and Swine</li> <li>• Companion Animal</li> <li>• Aquaculture</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Microencapsulation</b></li> <li>• <b>Choline</b></li> <li>• <b>Chelated Minerals</b></li> <li>• Amino Acids and Other Nutrients</li> </ul>
Specialty Products	<ul style="list-style-type: none"> <li>• Medical Device Sterilization</li> <li>• Nut and Spice Fumigation</li> <li>• Plant Nutrition</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Chelated Minerals</b></li> <li>• Ethylene Oxide and Propylene Oxide re-packaging</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Oil and Gas Fracking</li> <li>• Other Industrial Markets</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Choline</b></li> <li>• Choline Derivatives</li> </ul>

Leveraging Solutions Across Segments

# Vision and Mission

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## Our Vision

To make the world a healthier place.

.....

## Our Mission

To build a global nutrition and health company  
delivering trusted, innovative and science-  
based solutions to our customers.

.....

Committed To Building A Global Nutrition And Health Company

# Strategic Focus

- **Strengthening Positions in Attractive, Growing Markets**
  - Building scale, adding adjacent capabilities, expanding market and geographic reach, broadening our portfolio of solutions, investing in new science, enabling market awareness
- **Driving Organic Growth**
  - Creating new demand through innovation, market penetration, new product launches, geographic expansion, and expanding addressable markets
- **Augmenting Organic Growth through Strategic Acquisitions**
- **Maintaining a Healthy Margin Profile, Strong Cash Flow, and Solid Balance Sheet to Execute**

Staying Focused



# Balchem Growth Platforms

## Human Nutrition & Health

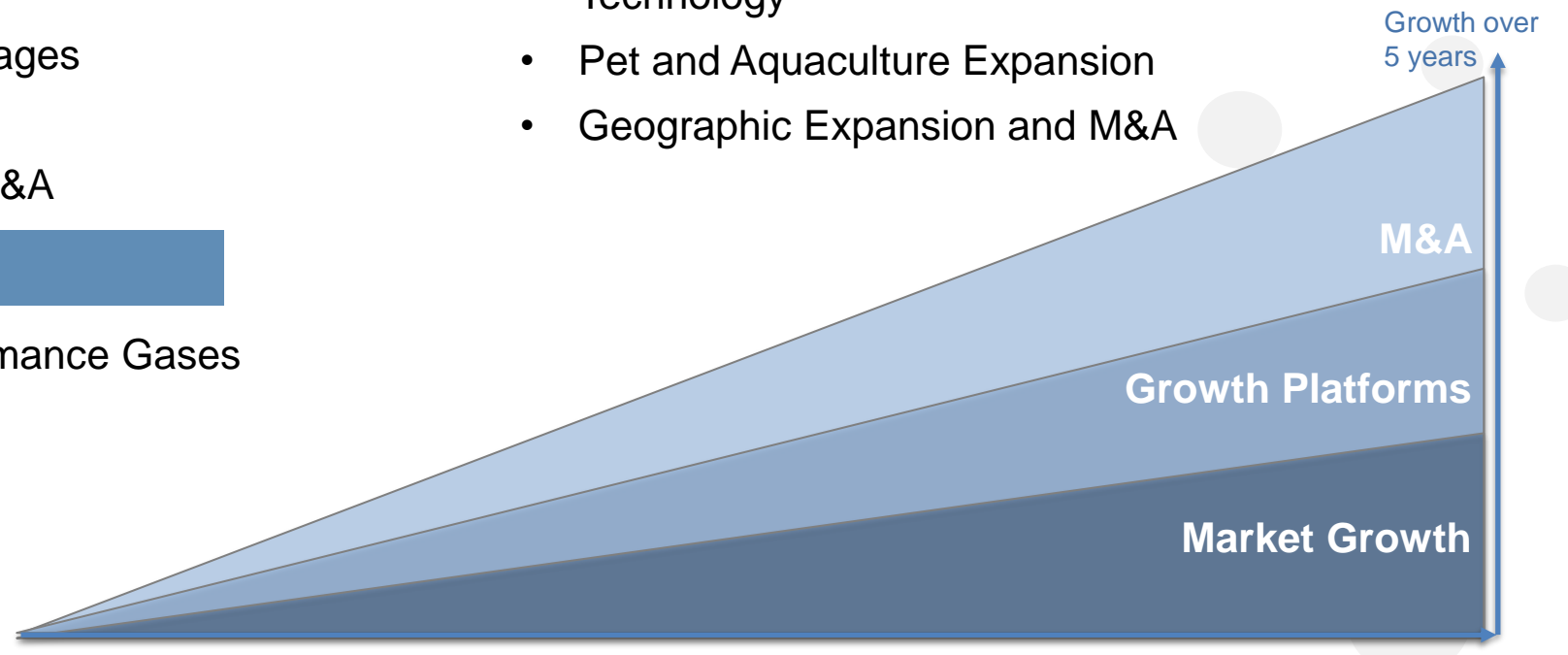
- Leveraging Synergies Across Segment
- Realize Vitamin K2 market potential
- FDA RDI for Choline and Expanded Choline Awareness / Science
- Mineral Nutrition
- Systems for Nutritional Beverages
- Curemark® Delivery System
- Geographic Expansion and M&A

## Specialty Products

- Leveraging our Global Performance Gases Platform
- Plant Micronutrients
  - New Applications
  - New Products
  - Geographic Expansion

## Animal Nutrition & Health

- ReaShure® Penetration
- NRC Recommendation on Choline
- Rumen Protected Nutrients for Dairy
- Next Generation By-pass and Release Technology
- Pet and Aquaculture Expansion
- Geographic Expansion and M&A



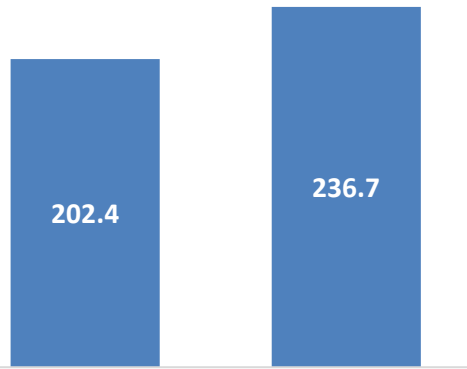
Multiple Platforms To Drive Growth

# Q2 2022 Financial Summary

## Sales

(\$M)

↑ 17.0%



2021

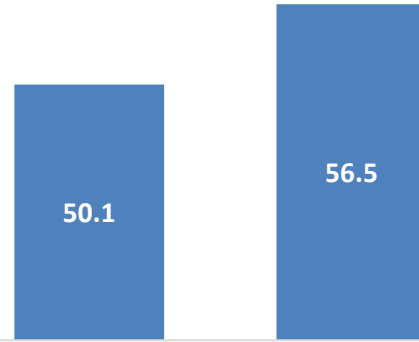
2022

- Growth in all three segments
- Higher average selling prices

## Adj. EBITDA

(\$M)

↑ 12.6%



2021

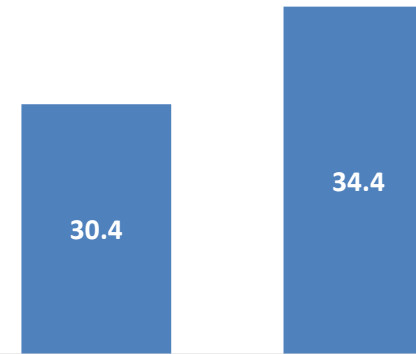
2022

- Driven by sales growth
- Pricing actions help offset inflationary increases to input costs

## Adj. Net Earnings

(\$M)

↑ 13.3%



2021

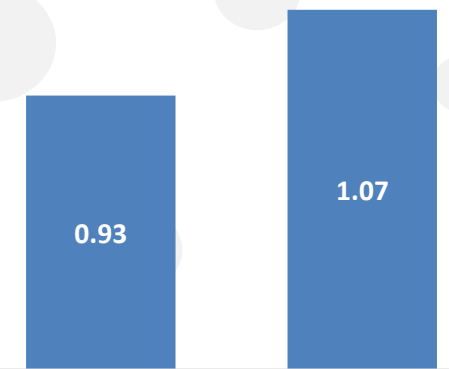
2022

- Driven by sales growth
- Tax rate not a significant impact compared to prior year

## Adj. EPS

(\$/share)

↑ 14.5%



2021

2022

- Growth in earnings
- Small decrease in diluted outstanding shares (-1.0%)

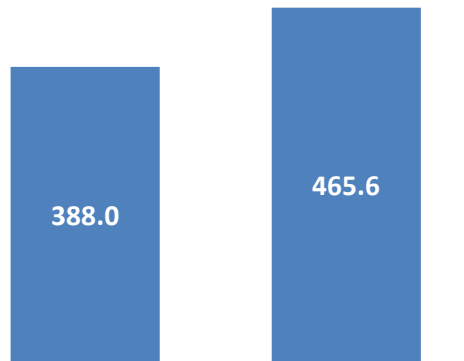
Strong Quarter In Challenging Environment

# June YTD Financial Summary

## Sales

(\$M)

↑ 20.0%



2Q21 YTD

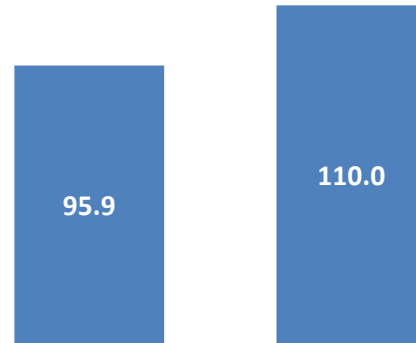
2Q22 YTD

- Double-digit growth in all three segments
- Higher average selling prices, and increased volumes

## Adj. EBITDA

(\$M)

↑ 14.8%



2Q21 YTD

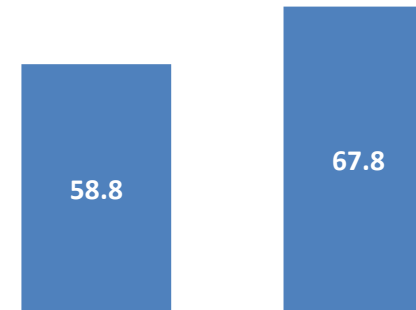
2Q22 YTD

- Driven by sales growth
- Pricing actions help offset inflationary increases to input costs

## Adj. Net Earnings

(\$M)

↑ 15.2%



2Q21 YTD

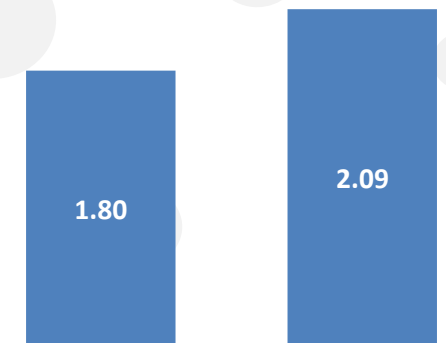
2Q22 YTD

- Driven by sales growth
- Tax rate not a significant impact compared to prior year

## Adj. EPS

(\$/share)

↑ 16.1%



2Q21 YTD

2Q22 YTD

- Growth in earnings
- Small decrease in diluted outstanding shares (-0.8%)

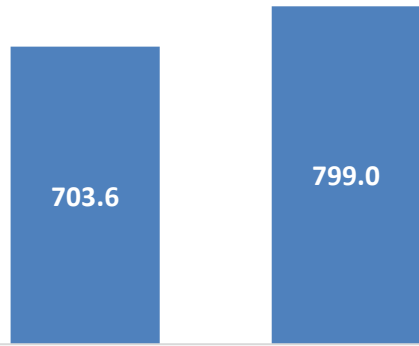
Solid Performance 2022 YTD

# FY 2021 Financial Summary

## Sales

(\$M)

↑ 13.6%



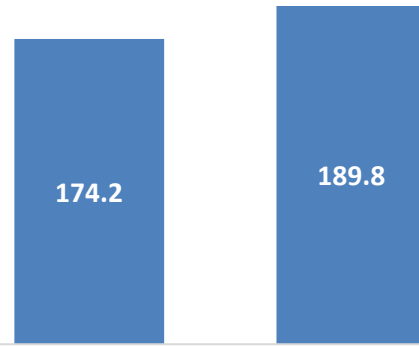
2020

2021

## Adj. EBITDA

(\$M)

↑ 8.9%



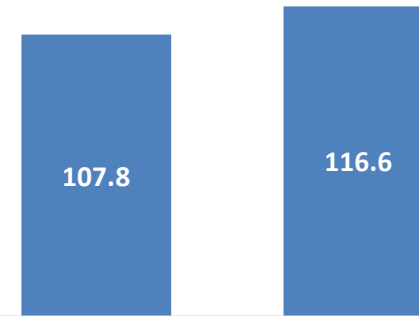
2020

2021

## Adj. Net Earnings

(\$M)

↑ 8.2%



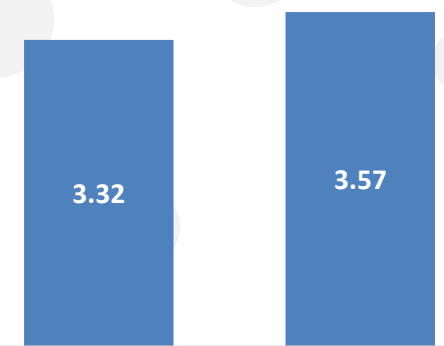
2020

2021

## Adj. EPS

(\$/share)

↑ 7.6%



2020

2021

- Strong growth in all three segments
  - HNH +10.6%
  - ANH +18.0%
  - SP +13.0%

- Driven by sales growth
- Input cost inflation partially offset by pricing

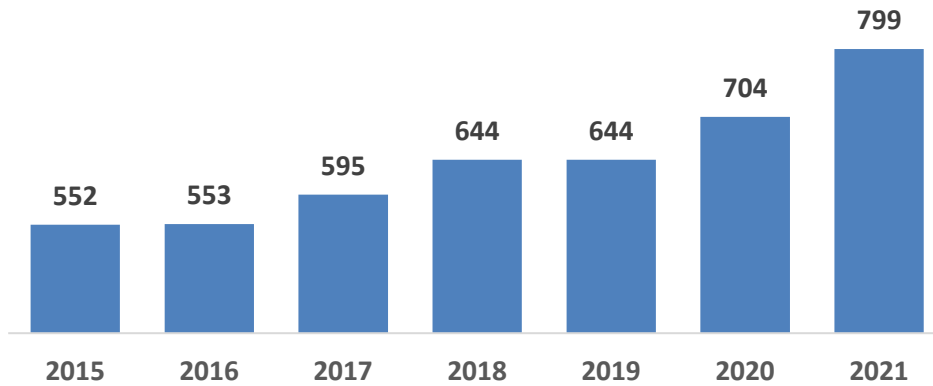
- Driven by sales growth
- Higher tax rate in 2021 compared to 2020

- Growth in earnings
- Small increase in diluted outstanding shares (+0.5%)

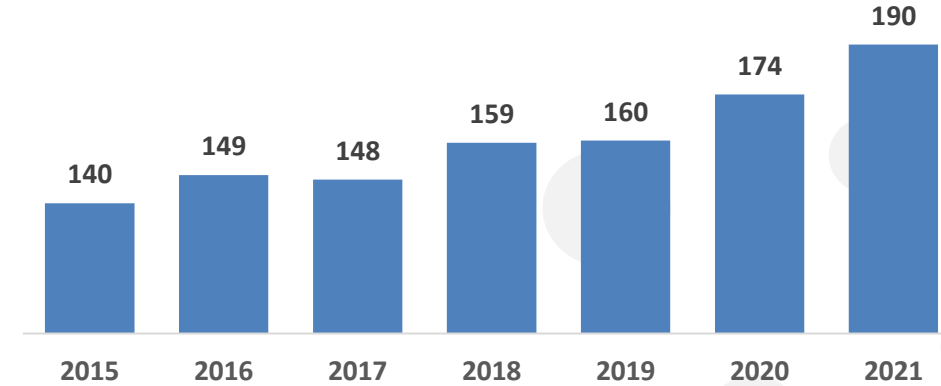
Another Strong Growth Year in 2021

# Historical Financials

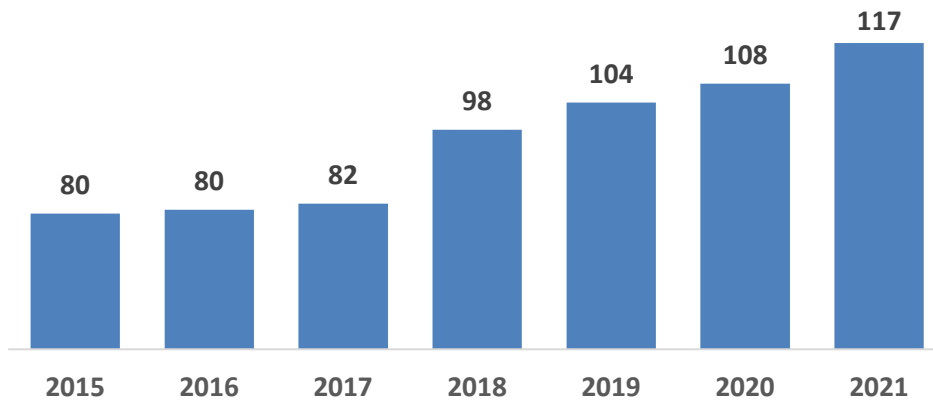
## SALES (\$M)



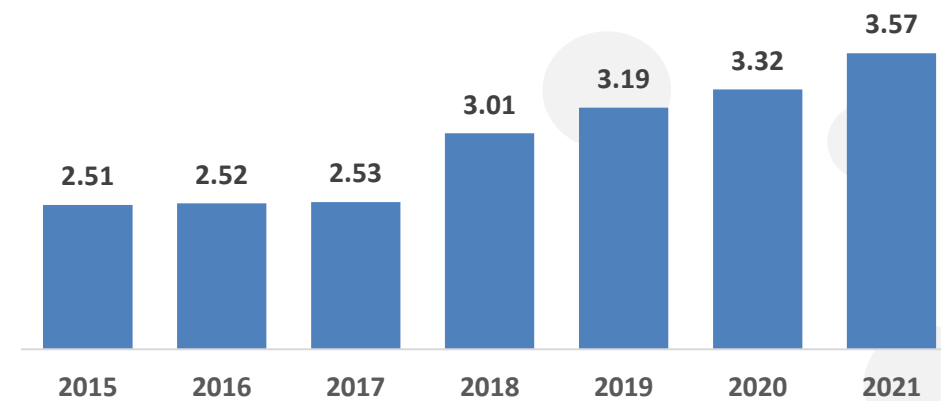
## ADJ. EBITDA (\$M)



## ADJ. NET EARNINGS (\$M)



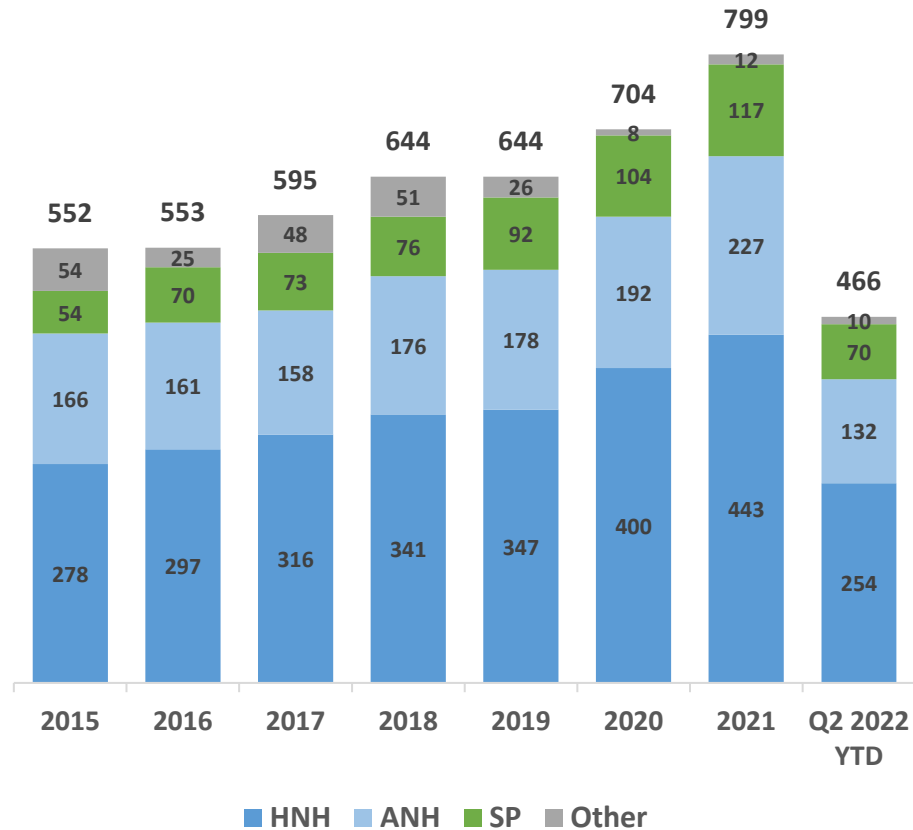
## ADJ. EPS (\$/share)



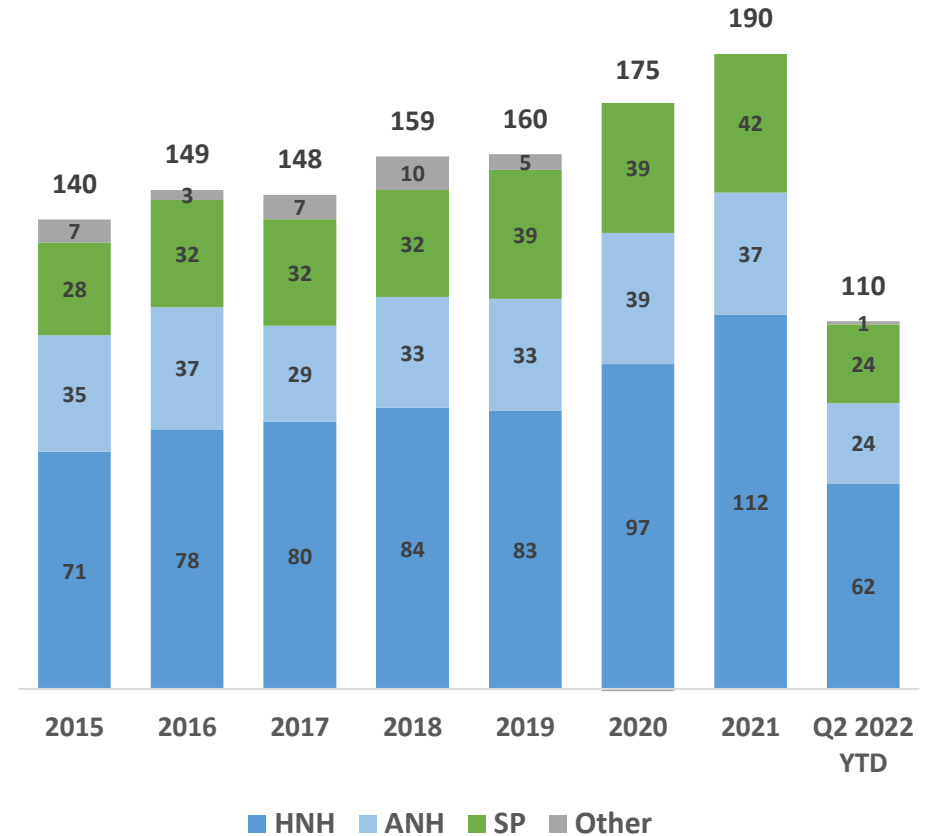
Consistent Performance Due To Resilient Business Model

# Segment Financials

## SALES (\$M)



## ADJ. EBITDA (\$M)



Resilient Business Model

# Capital Allocation Strategy and M&A

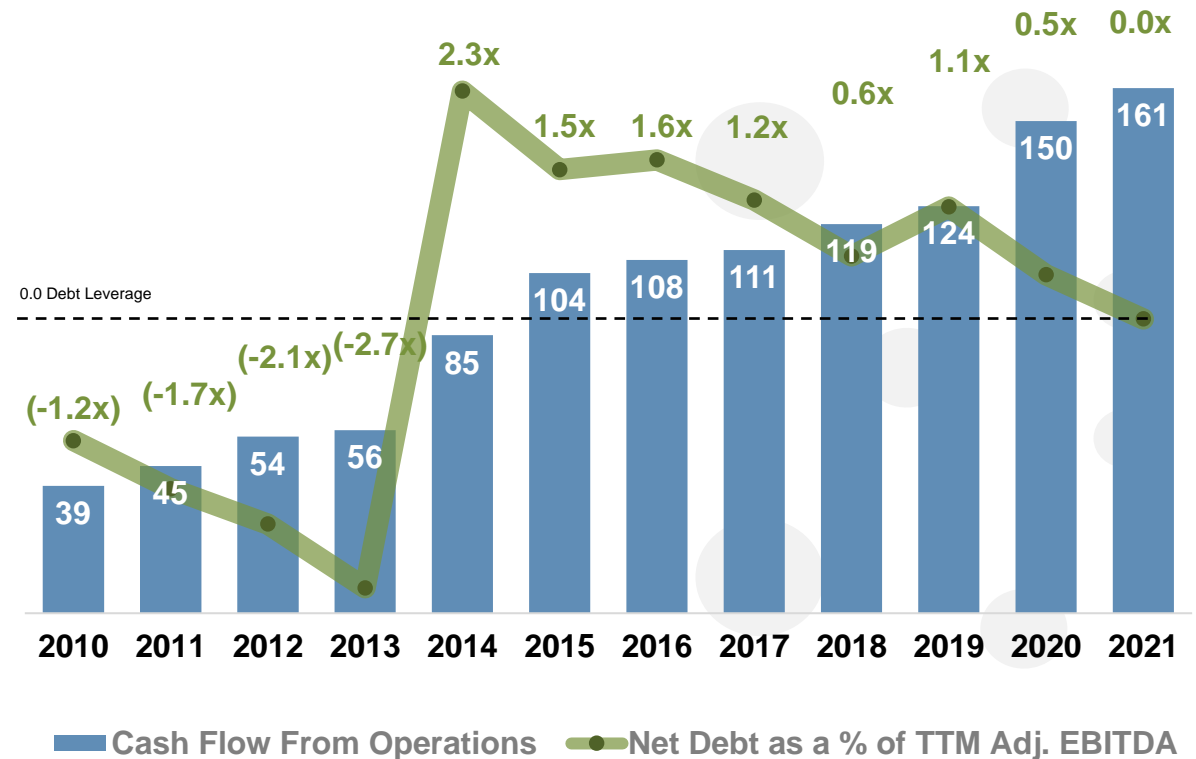
## Capital Allocation Strategy

- Prioritize organic growth investments
- Augment organic growth with targeted M&A
- Pay down debt
- Continue to pay and grow dividend
- Stock buy-backs for anti-dilution

## M&A

- Six acquisitions since 2016
- Focus on core Nutrition & Health
- Adding geographic reach, adjacent products/technologies, and market consolidation

## Annual Cash Flow (\$M) and Debt Leverage Ratio



Maintain Disciplined Capital Allocation Strategy

# Recent Acquisitions

	<b><u>Rationale</u></b>	<b><u>Key Offering</u></b>
<b>Kappa Bioscience AS</b> June 2022	Adjacent product offering in high growth market	Specialty Vitamin K2
<b>Zumbro River Brand</b> December 2019	Market consolidation and expanded product offering	High protein extrusion and agglomeration
<b>Chemogas</b> May 2019	Adds leadership position in Europe to already existing U.S. leadership	Ethylene Oxide re-packaging and distribution
<b>Bioscreen</b> August 2018	Microencapsulation manufacturing in Europe	Microencapsulation and Fermentation
<b>IFP</b> June 2017	Market consolidation and processing technology and capability	Microencapsulation and Agglomeration
<b>Chol-Mix</b> March 2017	Geographic reach into Eastern Europe	Dry Choline Chloride
<b>Albion</b> February 2016	Adjacent product offering in high growth market	Chelated Magnesium, Iron, Calcium, Zinc, and others

Augmenting Organic Growth With Targeted Acquisitions Close To Core



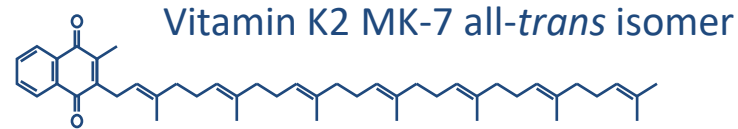
# Kappa Bioscience Acquisition - Strategic Rationale

- Well-aligned with:
  - Balchem’s higher purpose of “making the world a healthier place” and Balchem’s mission of “building a global nutrition and health company delivering trusted, innovative and science-based solutions to our customers” and
  - Our Human Nutrition and Health (HNN) segment’s strategy of expanding its portfolio of patented, premium, branded, and scientifically substantiated ingredients
- Attractive market opportunity:
  - K2 is an attractive specialty vitamin in important target health benefit areas (longevity and performance)
  - Large market opportunity expected to reach \$250-300M by 2025 with a predicted 15-20% CAGR
- Highly Attractive Financial Profile
  - Adds ~\$50M of high-margin (30%+ EBITDA margin), high-growth (~15-20% CAGR) sales to HNN
- Opportunity for Synergies
  - Provides opportunity to increase sales of vitamin K2 in North America and Balchem legacy products in Europe
  - Potential for attractive commercial synergies through increased share of customer wallet and joint technology / pipeline innovation

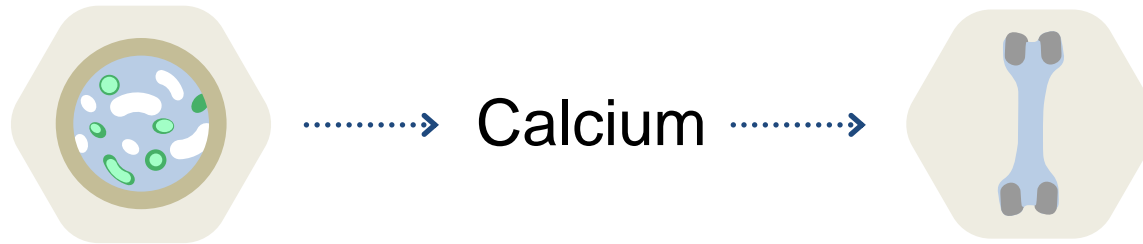
Kappa Is a Strong Strategic Fit for HNN

# What is Vitamin K2?

- Vitamin K2 is an essential fat-soluble vitamin. Like all vitamins, it needs to be obtained from the diet to enable your body to function as it should

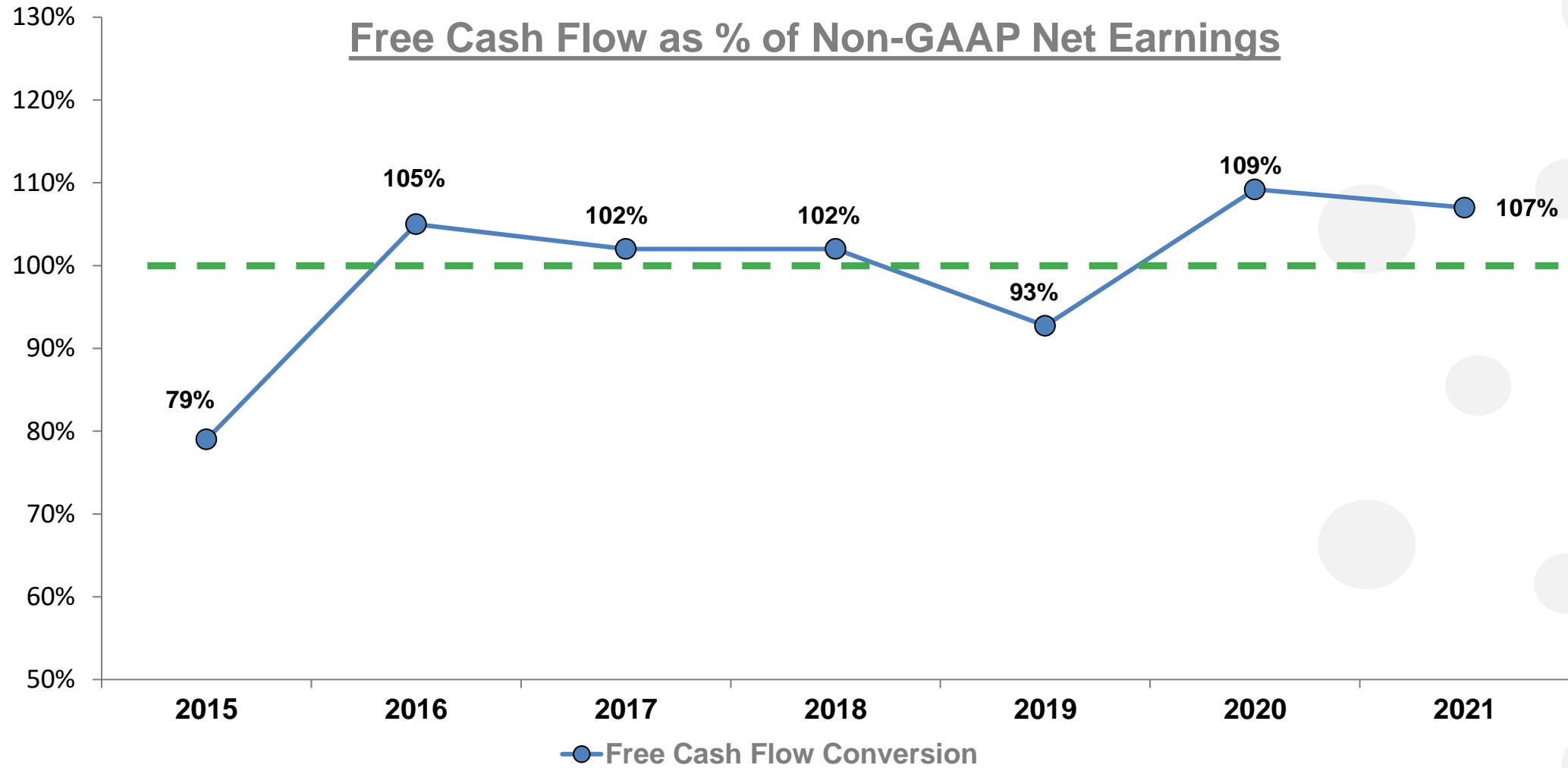


- Western diets do not provide enough vitamin K2 so additional K2 must be supplemented from K2 fortified foods and beverages, multi-vitamins that include K2, and/or K2 dietary supplements
- Vitamin K2 directs calcium to the right places. K2 helps bind calcium into bones for strong bone development and directs free calcium away from the arteries to maintain healthy circulations



Vitamin K2 help put calcium in balance

# Free Cash Flow Conversion



Solid Free Cash Flow Conversion, Turning Profits Into Cash

# Dividends

- Annual double-digit dividend growth for the last decade
- Consistency in execution



Consistent Dividend Policy

# Our Sustainability Framework

## Our Sustainability Framework



## 1.4 Billion People Reached in 2021

The total number of people impacted is calculated by measuring the annual consumption of protein and the daily recommended doses of minerals, essential nutrients, and vitamins.

Every day, Balchem is delivering trusted solutions that enhance health and well-being through science.

The two objectives of our sustainability strategy directly support our vision of making the world a healthier place:

- providing innovative solutions for the health and nutritional needs of the world
- and operating with excellence as strong stewards of our employees, customers, shareholders, and communities

One of our proud accomplishments is Balchem's impact on 1.4 billion people each year.

Making The World A Healthier Place

# Our 2030 ESG Goals

## EMISSIONS REDUCTION

Balchem commits to reduce our GHG emissions by

25% 

### OPPORTUNITY EXAMPLES



Process improvements in spray drying by increasing feed solids



Reduce drying with product design (e.g., ReaShure<sup>®</sup>-XC)



Major consumer efficiency improvements (e.g., modernized boilers)



Use of renewable energy sources (e.g., Grimbergen solar project)

## WATER CONSERVATION

Balchem commits to reduce our global water use by

25% 

### OPPORTUNITY EXAMPLES



Eliminate “once through” cooling water systems in Marano and Verona sites
























Reduce water use in clean in place (CIP) systems with improved utilization and change to dry clean options



Condensate recovery systems

Committed To 2030 Goals

# Measuring Our Progress

 <b>People</b>	 <b>Planet</b>	 <b>Profit</b>
 <p><b>1.4 billion</b> – number of people reached per year</p>	 <p><b>11.4 billion</b> – number of animals reached per year</p>	 <p><b>27.9%</b> – revenue from products developed in the past five years</p>
 <p><b>0.99</b> – total recordable injury rate (TRIR)</p>	 <p><b>3.71 GJ/ton</b> – energy intensity (GJ of energy per ton of product produced)  <b>77,281 (CO<sub>2</sub>e metric tons)</b> – scope 1 and scope 2 greenhouse gas (GHG) emissions</p>	 <p><b>\$799M</b> – total revenue</p>
 <p><b>34%</b> – hourly employee turnover  <b>13%</b> – salary employee turnover</p>	 <p><b>12.29 CBM</b> – water intensity (cubic meters of water withdrawal per metric ton of product produced)  <b>4.2M CBM</b> of total water withdrawal  <b>0.07%</b> – water withdrawal from regions with high or extremely high baseline water stress</p>	 <p><b>\$189.8M</b> – adjusted EBITDA</p>
 <p><b>76% males, 24% females</b> – employee diversity</p>	 <p><b>99%</b> – hazardous waste reused or recycled  <b>75%</b> – hazardous material suppliers audited in the last 3 years</p>	 <p><b>\$96.1M</b> – GAAP net earnings  <b>\$2.94</b> – GAAP earnings per share</p>
 <p><b>80%</b> – R&amp;D focused on health and nutrition</p>	 <p><b>100%</b> – of palm oil sourced certified through Roundtable on Sustainable Palm Oil (RSPO)  <b>35%</b> – raw materials from renewable resources</p>	 <p><b>130%</b> – free cash flow conversion</p>
 <p><b>100%</b> – manufacturing sites with local community engagement efforts</p>	 <p><b>0</b> – product recalls</p>	 <p><b>29.8%</b> – 5-year total shareholder return (TSR) vs Russell 2000 Index</p>

People, Planet, Profit

# Dedicated to a Sustainable Future For All



We support and partner with organizations that share the same mission of making the world a healthier place. With this partnership, we helped reach 200,000 women and children at risk of nutrient deficiencies in 74 countries across the world.



We support the Ten Principles of the United Nations Global Compact.



We harness the collective efforts of our employees to give back to the local communities. Our Balchem Helping Hands initiative includes Balchem's philanthropic partnerships, a matching donation program, and an employee volunteering program.



Our Women's Impact Network develops and empowers all to thrive professionally and personally.

Driving Engagement



# What Makes Balchem Unique?

## Proven Track Record Of Growth

- ✓ Proven ability to grow in all economic conditions
- ✓ Steady and thoughtful capital allocation
- ✓ Continued innovation

## Technologies

- ✓ Delivery Systems
  - Microencapsulation
  - Systems (Powders, Flavors)
- ✓ Chelation
- ✓ Choline

## Protected Positions

- ✓ Consolidated position in Choline
- ✓ Premium branded products and patent portfolio
- ✓ EPA Registrations for EO and PO

## Future Upside

- ✓ Organic growth platforms and earnings power
  - Market Penetration
  - New Product Development
  - Geographic expansion
- ✓ Strategic M&A
- ✓ Curemark®

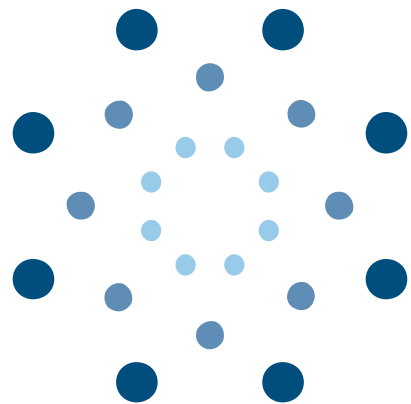
Well Positioned For The Future

# Summary / Wrap Up

- Leading Positions in Attractive Markets
- Creating New Demand Through Innovation
- Delivering Healthy Margins
- Generating Cash Flow from Operations Available for Reinvestment
- Proven Track Record



Reasons To Invest



**balchem**<sup>®</sup>

Solve Today. Shape Tomorrow.

# Non-GAAP Financial Information

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## **Non-GAAP Financial Information**

In addition to disclosing financial results in accordance with United States (U.S.) generally accepted accounting principles (GAAP), this earnings release contains non-GAAP financial measures that we believe are helpful in understanding and comparing our past financial performance and our future results. The non-GAAP financial measures in this press release include adjusted gross margin, adjusted earnings from operations, adjusted net earnings and the related adjusted per diluted share amounts, EBITDA, adjusted EBITDA, adjusted income tax expense, and free cash flow. The non-GAAP financial measures disclosed by the company exclude certain business combination accounting adjustments and certain other items related to acquisitions, certain unallocated equity compensation, and certain one-time or unusual transactions. Detailed non-GAAP adjustments are described in the reconciliation tables below and also explained in the related footnotes. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results should be carefully evaluated.

# Non-GAAP Financial Information - Continued

**Table 1**

**Reconciliation of Non-GAAP Measures to GAAP**

*(Dollars in thousands, except per share data)*

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Reconciliation of adjusted gross margin</b>				
GAAP gross margin	\$ 71,876	\$ 59,447	\$ 143,382	\$ 118,174
Expense related to a flash flood event <sup>(1)</sup>	—	3,765	—	3,765
Amortization of intangible assets and finance lease <sup>(2)</sup>	307	339	636	828
Adjusted gross margin	<u>\$ 72,183</u>	<u>\$ 63,551</u>	<u>\$ 144,018</u>	<u>\$ 122,767</u>
<b>Reconciliation of adjusted earnings from operations</b>				
GAAP earnings from operations	\$ 39,920	\$ 30,593	\$ 78,256	\$ 61,168
Expense related to a flash flood event <sup>(1)</sup>	—	3,765	—	3,765
Amortization of intangible assets and finance lease <sup>(2)</sup>	5,904	6,282	11,865	12,818
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(3)</sup>	872	466	1,176	700
Adjusted earnings from operations	<u>\$ 46,696</u>	<u>\$ 41,106</u>	<u>\$ 91,297</u>	<u>\$ 78,451</u>
<b>Reconciliation of adjusted net earnings</b>				
GAAP net earnings	\$ 29,782	\$ 22,731	\$ 58,712	\$ 46,142
Expense related to a flash flood event <sup>(1)</sup>	—	3,765	—	3,765
Amortization of intangible assets and finance lease <sup>(2)</sup>	5,974	6,352	12,006	12,959
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(3)</sup>	872	466	1,176	700
Net realized gain on foreign currency forward contracts <sup>(4)</sup>	(512)	—	(512)	—
Income tax adjustment <sup>(5)</sup>	(1,669)	(2,917)	(3,578)	(4,722)
Adjusted net earnings	<u>\$ 34,447</u>	<u>\$ 30,397</u>	<u>\$ 67,804</u>	<u>\$ 58,844</u>
Adjusted net earnings per common share - diluted	<u>\$ 1.07</u>	<u>\$ 0.93</u>	<u>\$ 2.09</u>	<u>\$ 1.80</u>

# Non-GAAP Financial Information - Continued

**Table 2**  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income - as reported	\$ 29,782	\$ 22,731	\$ 58,712	\$ 46,142
Add back:				
Provision for income taxes	9,476	7,288	18,176	13,860
Other expense	662	574	1,368	1,166
Depreciation and amortization	11,863	12,029	23,720	24,322
EBITDA	51,783	42,622	101,976	85,490
Add back certain items:				
Non-cash compensation expense related to equity awards	3,812	3,292	6,889	5,914
Expense related to a flash flood event <sup>(1)</sup>	—	3,765	—	3,765
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(3)</sup>	872	466	1,176	700
Adjusted EBITDA	\$ 56,467	\$ 50,145	\$ 110,041	\$ 95,869

# Non-GAAP Financial Information - Continued

**Table 3**  
(unaudited)

	Three Months Ended June 30,			
	2022	Effective Tax Rate	2021	Effective Tax Rate
GAAP Income Tax Expense	\$ 9,476	24.1 %	\$ 7,288	24.3 %
Impact of ASU 2016-09 <sup>(6)</sup>	120		291	
Adjusted Income Tax Expense	<u>\$ 9,596</u>	<u>24.4 %</u>	<u>\$ 7,579</u>	<u>25.3 %</u>

	Six Months Ended June 30,			
	2022	Effective Tax Rate	2021	Effective Tax Rate
GAAP Income Tax Expense	\$ 18,176	23.6 %	\$ 13,860	23.1 %
Impact of ASU 2016-09 <sup>(6)</sup>	500		540	
Adjusted Income Tax Expense	<u>\$ 18,676</u>	<u>24.3 %</u>	<u>\$ 14,400</u>	<u>24.0 %</u>

**Table 4**  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net cash provided by operating activities	\$ 48,240	\$ 35,782	\$ 55,261	\$ 76,389
Capital expenditures and capitalized ERP implementation costs	(10,406)	(7,372)	(20,180)	(13,547)
Free cash flow	<u>\$ 37,834</u>	<u>\$ 28,410</u>	<u>\$ 35,081</u>	<u>\$ 62,842</u>

# Non-GAAP Financial Information - Continued

<sup>(1)</sup> Expense related to a flash flood event: Expenses related to a flash flood event at our Verona, Missouri manufacturing site are expensed in our GAAP financial statements. We believe that excluding these costs from our non-GAAP financial measures is useful to investors because such expense is inconsistent in amount and frequency causing comparison of current and historical financial results to be difficult.

<sup>(2)</sup> Amortization of intangible assets and finance lease: Amortization of intangible assets and finance lease consists of amortization of customer relationships, trademarks and trade names, developed technology, regulatory registration costs, patents and trade secrets, capitalized loan issuance costs, other intangibles acquired primarily in connection with business combinations, an intangible asset in connection with a company-wide ERP system implementation, and one finance lease. We record expense relating to the amortization of these intangibles and finance lease in our GAAP financial statements. Amortization expenses for our intangible assets and finance lease are inconsistent in amount and are significantly impacted by the timing and valuation of an acquisition. Consequently, our non-GAAP adjustments exclude these expenses to facilitate an evaluation of our current operating performance and comparisons to our past operating performance.

<sup>(3)</sup> Transaction and integration costs, ERP implementation costs and unallocated legal fees: Transaction and integration costs related to acquisitions and divestitures are expensed in our GAAP financial statements. ERP implementation costs related to a company-wide ERP system implementation are expensed in our GAAP financial statements. Unallocated legal fees for transaction-related non-compete agreement disputes are expensed in our GAAP financial statements. Management excludes these items for the purposes of calculating Adjusted EBITDA and other non-GAAP financial measures. We believe that excluding these items from our non-GAAP financial measures is useful to investors because these are items associated with each transaction and are inconsistent in amount and frequency causing comparison of current and historical financial results to be difficult.

<sup>(4)</sup> Net realized gain on foreign currency exchange forward contracts: Net realized gain on foreign currency exchange forward contracts related to four short-term foreign currency exchange forward contracts with JP Morgan Chase, N.A. in connection with the Kappa acquisition. These contracts did not qualify for hedge accounting and the net gain was recorded as other income in our GAAP financial statements. We believe that excluding these gains and losses from our non-GAAP financial measures is useful to investors because such income or expense are inconsistent in amount and frequency causing comparison of current and historical financial results to be difficult.

<sup>(5)</sup> Income tax adjustment: For purposes of calculating adjusted net earnings and adjusted diluted earnings per share, we adjust the provision for (benefit from) income taxes to tax effect the taxable and deductible non-GAAP adjustments described above as they have a significant impact on our income tax (benefit) provision. Additionally, the income tax adjustment is adjusted for the impact of adopting ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" and uses our non-GAAP effective rate applied to both our GAAP earnings before income tax expense and non-GAAP adjustments described above. See Table 3 for the calculation of our non-GAAP effective tax rate.

<sup>(6)</sup> Impact of ASU 2016-09: The primary impact of ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), was the recognition during the three and six months ended June 30, 2022 and 2021, of excess tax benefits as a reduction to the provision for income taxes and the classification of these excess tax benefits in operating activities in the consolidated statement of cash flows instead of financing activities.