# balchem

**Balchem Corporation** 

Baird 2022 Global Industrial Conference

November 8, 2022

### **Safe Harbor Statement**

- 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 forwardlooking 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 forwardlooking 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: Montvale, NJ
- Approximately 1,300 Employees
- 23 Manufacturing Sites:
  - 18 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

VASD EM CORP. UNE 13, 2015 BCPC Nasdaq Lister asdan

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

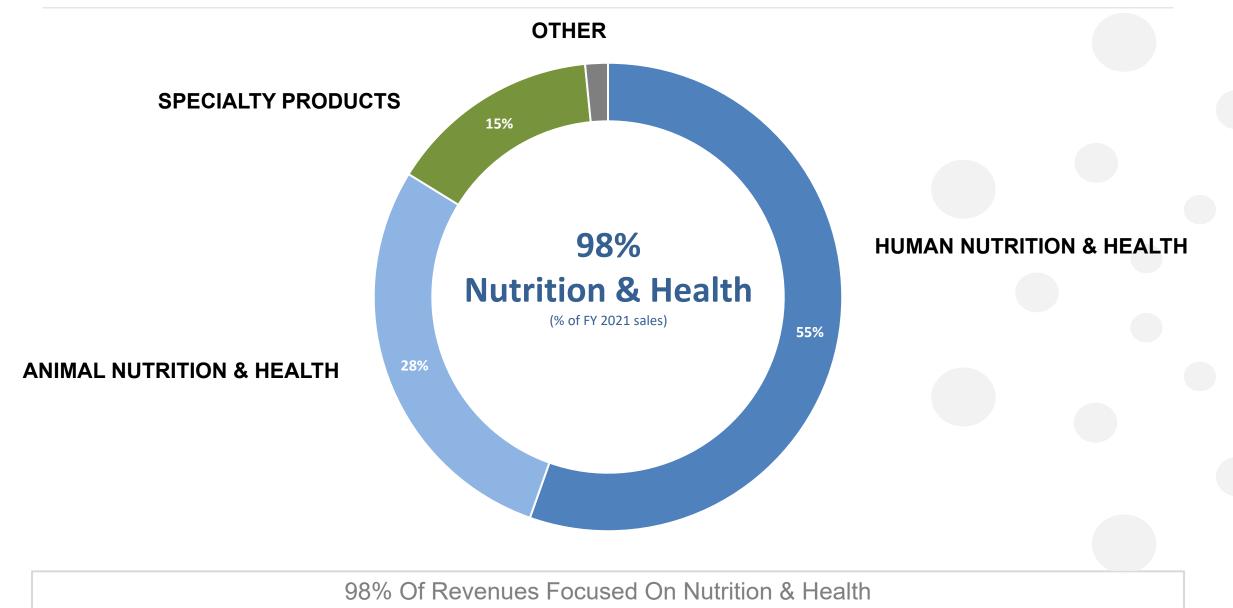


Executive Leadership

4



### **Balchem at a Glance**





### **Segment Overview**

	Segment	Markets Served	Solutions
15% 98% Nutrition & Health (% of sales) 55%	Human Nutrition & Health	<ul> <li>Nutritional Supplements</li> <li>Food and Beverage</li> <li>Infant &amp; Toddler Formula</li> <li>Organic Cereal</li> </ul>	<ul> <li>Microencapsulation</li> <li>Choline, &amp; Vitamin K2</li> <li>Chelated Minerals</li> <li>Powder, Flavor, &amp; Cereal Systems</li> </ul>
HNH ANH SP Other	Animal Nutrition & Health	<ul> <li>Dairy</li> <li>Poultry and Swine</li> <li>Companion Animal</li> <li>Aquaculture</li> </ul>	<ul> <li>Microencapsulation</li> <li>Choline</li> <li>Chelated Minerals</li> <li>Amino Acids and Other Nutrients</li> </ul>
	Specialty Products	<ul> <li>Medical Device Sterilization</li> <li>Nut and Spice Fumigation</li> <li>Plant Nutrition</li> </ul>	<ul> <li>Chelated Minerals</li> <li>Performance Gases re-packaging</li> </ul>
	Other	<ul> <li>Oil and Gas Fracking</li> <li>Other Industrial Markets</li> </ul>	<ul> <li>Choline</li> <li>Choline Derivatives</li> </ul>

Leveraging Solutions Across Segments



## **Our Vision**

To make the world a healthier place.

## **Our Mission**

To build a global nutrition and health company delivering trusted, innovative and sciencebased 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, and 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 (now with MSM as well)
- Systems for Nutritional Beverages
- Curemark<sup>®</sup> 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<sup>®</sup> 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

#### Growth over 5 years

M&A

#### Growth Platforms

**Market Growth** 

#### Multiple Platforms To Drive Growth



## Market Outlook – Pre, During, Post Pandemic, and Longer Term

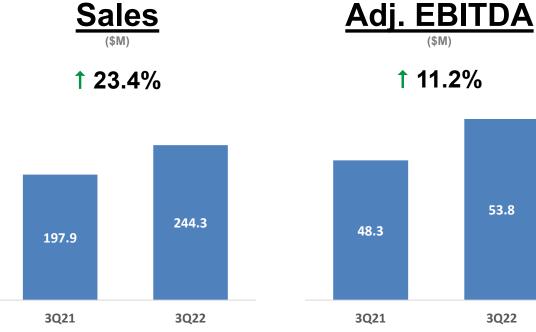
Market dynamics for key markets served by Balchem:

	External Metrics	Pre Pandemic	During Pandemic	Post Pandemic	Longer Term	Comments
Food and Beverage	<ul><li>GDP</li><li>Food and Bev. Growth</li></ul>		-		<b>~</b>	Positive and negative demand drivers largely offsetting and foodservice recovering
Supplements	<ul> <li>Vitamin/mineral growth</li> </ul>		1			<ul> <li>"Immunity boosting" benefits seen during pandemic starting to wane but longer-term trends favorable</li> </ul>
Dairy	<ul><li>Dairy consumption</li><li>Dairy prices</li></ul>		-	-		<ul> <li>Volatile milk prices create uncertainty, but overall remain at relatively healthy levels</li> </ul>
Protein	<ul><li>Protein consumption</li><li>Broiler sales</li></ul>		<b>~</b>	-	<b>~</b>	<ul> <li>Global geo-political and trade disruptions impacting regional demand in the short term</li> </ul>
Agriculture / Plant Nutrition	<ul><li>Net Farm Income</li><li>Crop prices</li></ul>	-	-	-	-	<ul> <li>Positive and negative demand drivers largely offsetting</li> </ul>
Medical Device	<ul><li>GDP</li><li>Medical Device Sales</li></ul>	<b>~</b>			<b>~</b>	<ul> <li>"Pent-up" demand from postponement of elective surgeries gradually recovering</li> </ul>
Energy	<ul><li>GDP</li><li>Rig count</li></ul>	-	<b>1</b>	-	-	• With rising demand for oil post-pandemic there is some modest increase in demand

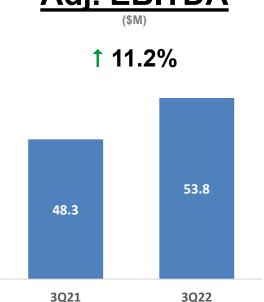
Significant volatility persists, but longer-term market dynamics will largely recover to pre-pandemic outlook



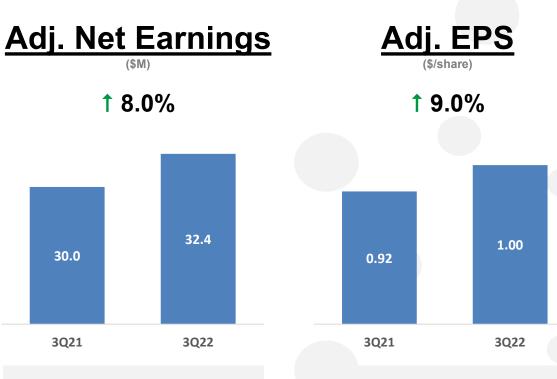
### **Q3 2022 Financial Summary**



- Growth in all three ٠ segments
- Higher average selling prices
- Acquisition benefit



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

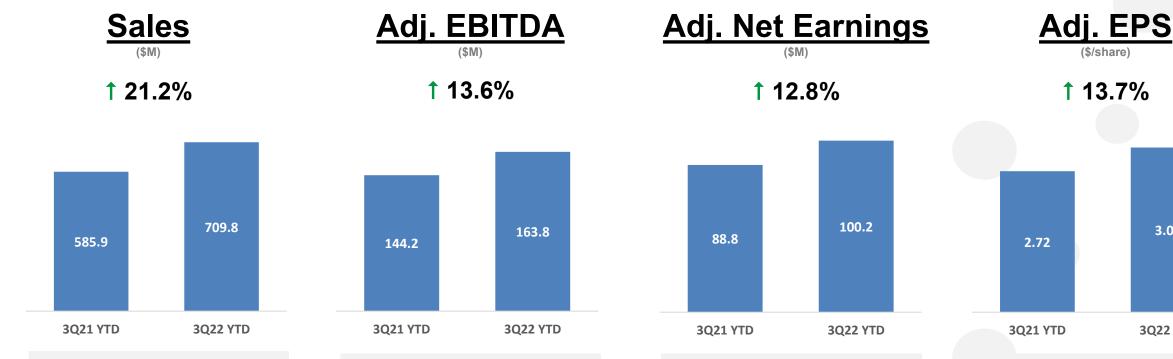


- Driven by sales growth
- Higher interest expenses partially offset by lower tax rate in Q3'22 vs prior year
- Growth in earnings
- Small decrease in diluted outstanding shares (-0.8%)

#### Strong Quarter In Challenging Environment



### **September YTD Financial Summary**



- Double-digit growth in all three segments
- Higher average selling prices

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

- Driven by sales growth
- Higher interest expenses partially offset by lower tax rate YTD vs prior year

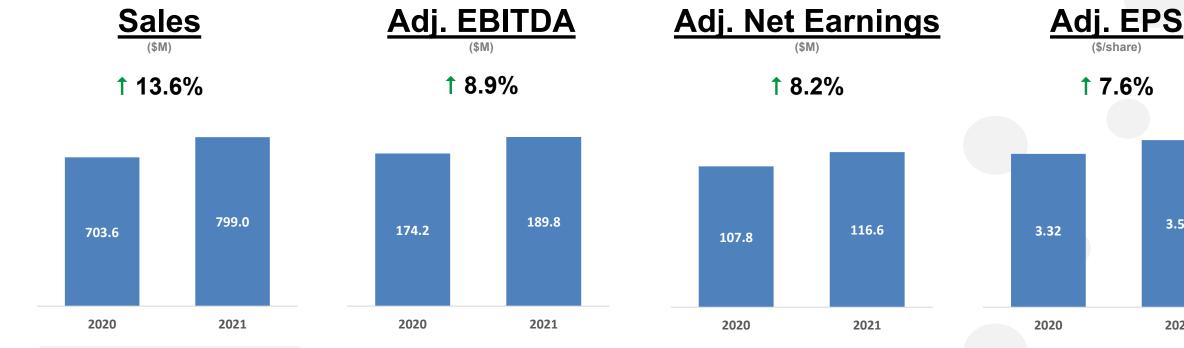


- Growth in earnings
- Small decrease in diluted outstanding shares (-0.8%)



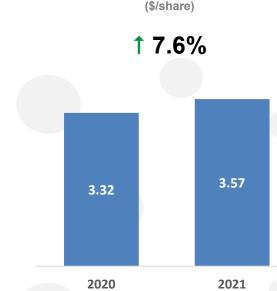


### **FY 2021 Financial Summary**



- Strong growth in all three ٠ 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

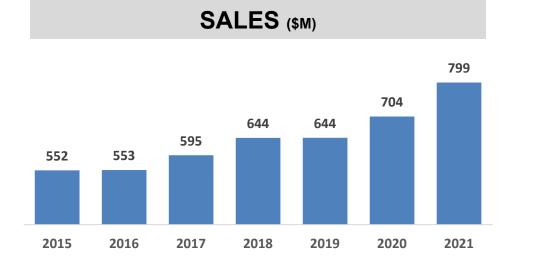


- Growth in earnings
- Small increase in diluted outstanding shares (+0.5%)

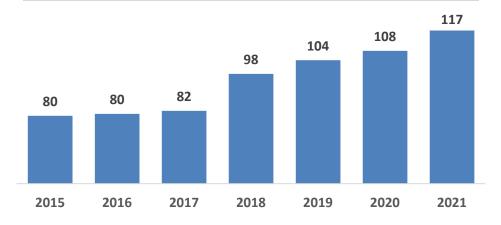
#### Another Strong Growth Year in 2021



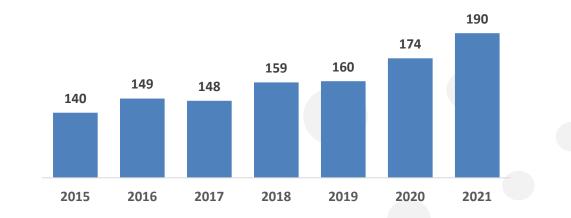
### **Historical Financials**



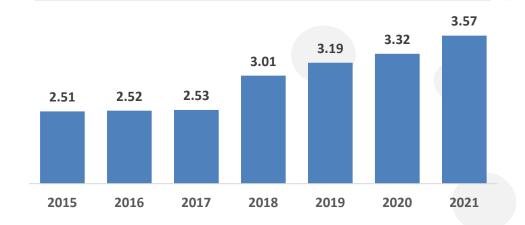
ADJ. NET EARNINGS (\$M)



ADJ. EBITDA (\$M)



ADJ. EPS (\$/share)



Consistent Performance Due To Resilient Business Model

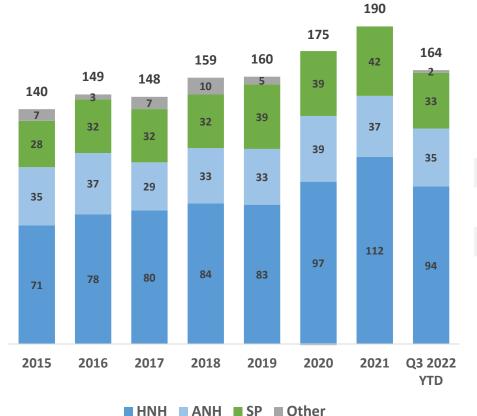


### **Segment Financials**



■ HNH ■ ANH ■ SP ■ Other

ADJ. EBITDA (\$M)



**Resilient Business Model** 



15

## **Capital Allocation Strategy and M&A**

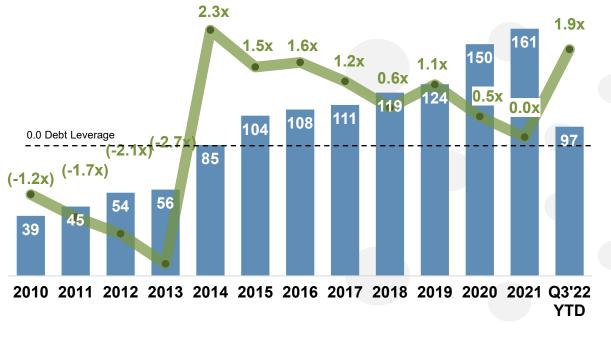
#### **Capital Allocation Strategy**

- 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

#### A&M

- Eight 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**

	Rationale	Key Offering
Bergstrom Nutrition August 2022	Adjacent product offering to existing Minerals portfolio	Specialty Sulfur for dietary supplements
Kappa Bioscience AS June 2022	Adjacent product offering in high growth market	Specialty Vitamin K2
Zumbro River Brand 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	Performance Gases re-packaging
Bioscreen August 2018	Microencapsulation manufacturing in Europe	Microencapsulation and Fermentation
IFP June 2017	Market consolidation and processing technology and capability	Microencapsulation and Agglomeration
Chol-Mix March 2017	Geographic reach into Eastern Europe	Dry Choline Chloride
Albion 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

- 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.
  - 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.
  - Kappa's K2VITAL® offers a patented, 99.7% all-trans vitamin K2 MK-7, identical to the K2 molecule found in nature and fully bioactive.
- 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 (HNH) 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.
- 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 HNH



### **Bergstrom Nutrition Acquisition - Strategic Rationale**

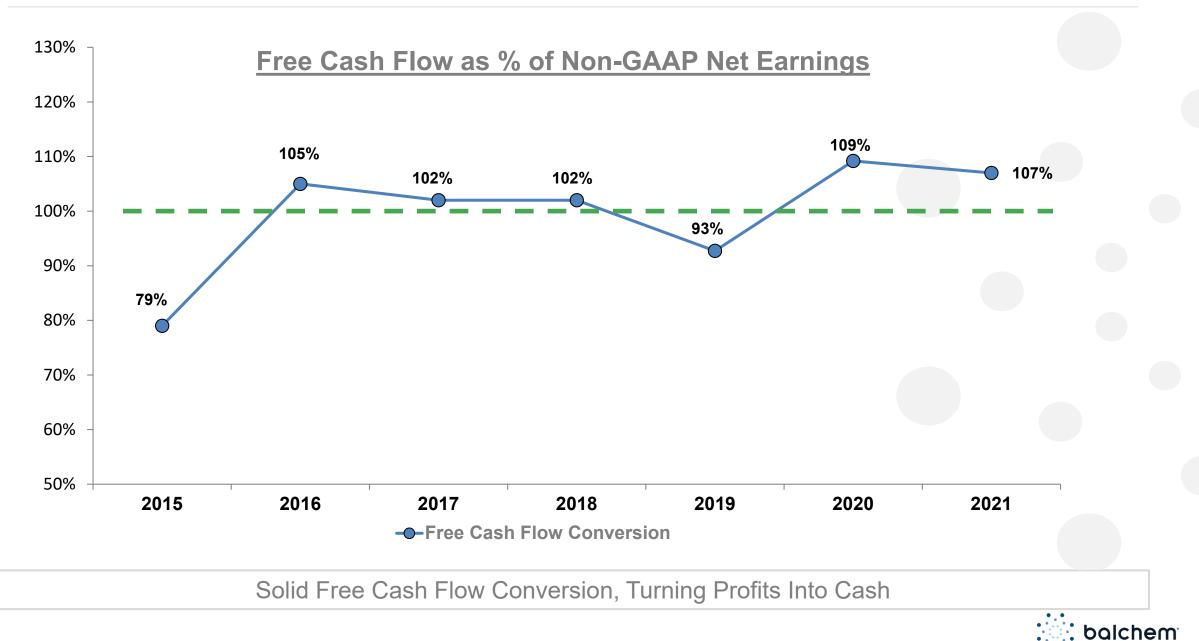
#### • What is MSM?

- MSM (methylsulfonylmethane) is made up of 34% sulfur. Sulfur is an important nutrient for the maintenance of healthy joints, tendons, ligaments and other connective tissue.
- Bergstrom Nutrition's OptiMSM<sup>®</sup> is an ultra-pure, high-quality MSM supplement backed by numerous pre-clinical and clinical studies for safety and efficacy.
- 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 strategy of expanding our portfolio of patented, premium, branded, and scientifically substantiated ingredients.
- Attractive market opportunity:
  - Bergstrom's specialty sulfur complex (MSM) branded as OptiMSM<sup>®</sup> is the highest purity and the only FDA GRAS (Generally Recognized As Safe) designated MSM in the market.
  - MSM is a widely-used nutritional ingredient with strong scientific evidence supporting its benefits for joint health, sports nutrition, skin and beauty, healthy aging, and pet health.
- Opportunity for Synergies
  - Opportunity to accelerate Bergstrom Nutrition sales by leveraging Balchem's larger capabilities and commercial reach.
  - Existing Balchem infrastructure in place to support Bergstrom growth in a cost-effective manner.

Bergstrom Nutrition Is a Great Fit for Balchem

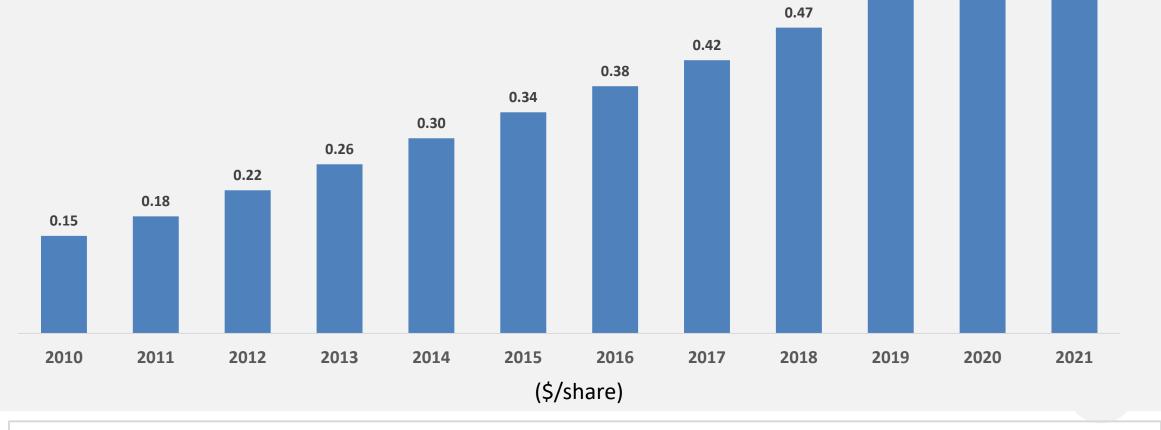


### **Free Cash Flow Conversion**



### **Dividends**

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



**Consistent Dividend Policy** 



0.64

0.58

0.52

### **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



#### **OPPORTUNITY EXAMPLES**



Process improvements in spray drying by increasing feed solids



Reduce drying with product design (e.g., ReaShure®-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



#### **OPPORTUNITY EXAMPLES**

 $\widetilde{\qquad}$ 

Eliminate "once through" cooling water systems in Marano and Verona sites



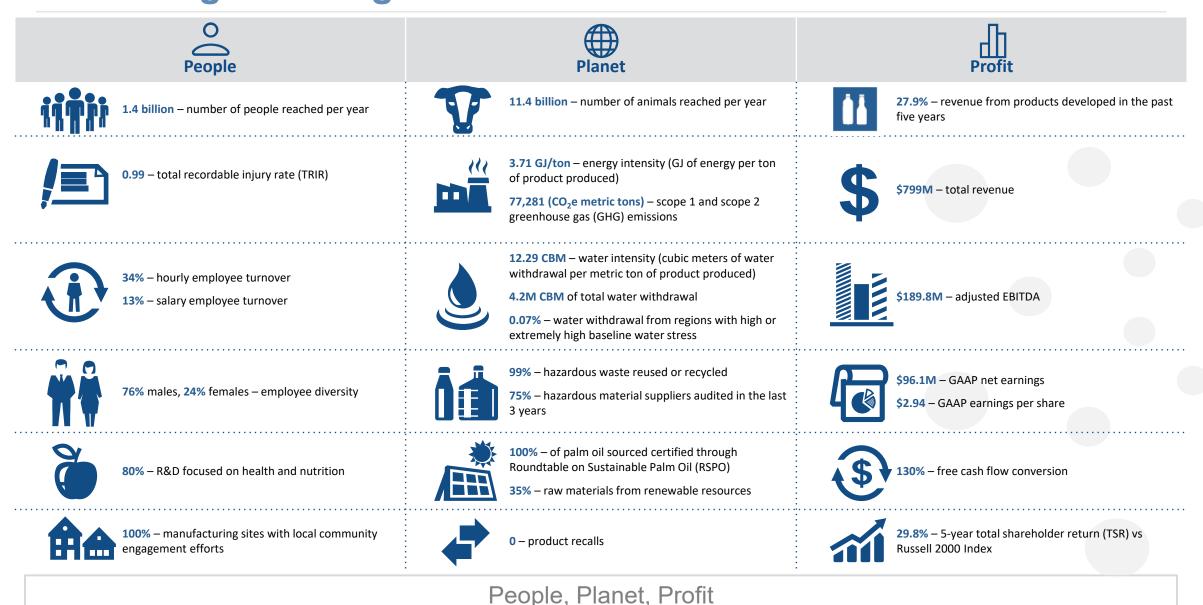
Reduce water use in clean in place (CIP) systems with improved utilization and change to dry clean options

Condensate recovery systems

#### Committed To 2030 Goals



### **Measuring Our Progress**



### **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 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.



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



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



#### **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







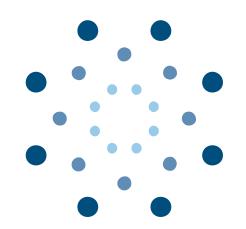
## **Summary / Wrap Up**

- 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.

Confidential 28

### **Non-GAAP Financial Information**

#### **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 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.



Table 1

Reconciliation of N (Dollars in thous		xcept per si							
		Three Mo Septen			Nine Months Ended September 30,				
		2022		2021		2022		2021	
Reconciliation of adjusted gross margin									
GAAP gross margin	\$	68,430	\$	60,934	\$	211,812	\$	179,108	
Expense related to a flash flood event (1)		_		543		_		4,308	
Inventory valuation adjustment (2)		1,584		_		1,584		_	
Amortization of intangible assets and finance lease (3)		677		336		1,313		1,164	
Adjusted gross margin	\$	70,691	\$	61,813	\$	214,709	\$	184,580	
Reconciliation of adjusted earnings from operations									
GAAP earnings from operations	\$	33,625	\$	32,513	\$	111,881	\$	93,681	
Expense related to a flash flood event (1)		_		543		_		4,308	
Inventory valuation adjustment (2)		1,584		_		1,584		_	
Amortization of intangible assets and finance lease (3)		7,975		6,207		19,840		19,025	
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(4)</sup>		1,640		305		2,816		1,005	
Adjusted earnings from operations	\$	44,824	\$	39,568	\$	136,121	\$	118,019	
Reconciliation of adjusted net earnings									
GAAP net earnings	\$	25,249	\$	25,013	\$	83,961	\$	71,155	
Expense related to a flash flood event (1)		_		543		_		4,308	
Inventory valuation adjustment (2)		1,584		_		1,584			
Amortization of intangible assets and finance lease (3)		8,097		6,278		20,103		19,237	
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(4)</sup>		1,640		305		2,816		1,005	
Unrealized foreign currency gain on contingent consideration liability and net realized gain on foreign currency forward contracts <sup>(5)</sup>		(2,015)		_		(2,527)		_	
Income tax adjustment (6)		(2,168)		(2,164)		(5,746)		(6,886)	
Adjusted net earnings	\$	32,387		29,975	_	100,191	\$	88,819	
Adjusted net earnings per common share - diluted	S	1.00	\$	0.92	\$	3.09	\$	2.72	
and a start and a per continue share anated	-	1.00	-	0.74	-	5.57		2.12	



#### Table 2

(unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,				
		2022		2021		2022		2021	
Net income - as reported	\$	25,249	\$	25,013	\$	83,961	\$	71,155	
Add back:									
Provision for income taxes		5,836		7,072		24,012		20,932	
Other expense		2,540		428		3,908		1,594	
Depreciation and amortization		13,976		12,088		37,696		36,410	
EBITDA		47,601		44,601		149,577		130,091	
Add back certain items:									
Non-cash compensation expense related to equity awards		2,949		2,895		9,838		8,809	
Expense related to a flash flood event (1)		_		543		_		4,308	
Inventory valuation adjustment (2)		1,584		_		1,584		_	
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(4)</sup>		1,640		305		2,816		1,005	
Adjusted EBITDA	\$	53,774	\$	48,344	\$	163,815	\$	144,213	



#### Table 3

(unaudited)

		Three Months Ended September 30,								
		2022	Effective Tax Rate		2021	Effective Tax Rate				
GAAP Income Tax Expense	\$	5,836	18.8 %	\$	7,072	22.0 %				
Impact of ASU 2016-09 (7)		214			491					
Adjusted Income Tax Expense	\$	6,050	19.5 %	\$	7,563	23.6 %				

		Nine Months Ended September 30,								
		2022	Effective Tax Rate		2021	Effective Tax Rate				
GAAP Income Tax Expense	\$	24,012	22.2 %	\$	20,932	22.7 %				
Impact of ASU 2016-09 (7)		714			1,031					
Adjusted Income Tax Expense	\$	24,726	22.9 %	\$	21,963	23.9 %				

#### Table 4

(unaudited)

		Three Months Ended September 30,			Nine Months Endeo September 30,			
	2022 2021			2022			2021	
Net cash provided by operating activities	\$	41,620	\$	39,634	\$	96,881	\$	116,023
Capital expenditures and capitalized ERP implementation costs		(14,841)		(8,559)		(35,021)		(22,106)
Free cash flow	\$	26,779	\$	31,075	\$	61,860	\$	93,917



<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.

(2) <u>Inventory valuation adjustment</u>: Business combination accounting principles require us to measure acquired inventory at fair value. The fair value of inventory reflects the acquired company's cost of manufacturing plus a portion of the expected profit margin. The non-GAAP adjustment to our cost of sales excludes the expected profit margin component that is recorded under business combination accounting principles. We believe the adjustment is useful to investors as an additional means to reflect cost of sales and gross margin trends of our business.

(3) <u>Amortization of intangible assets and finance lease</u>: 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>(4)</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>(5)</sup> Unrealized foreign currency gain on contingent consideration liability and net realized gain on foreign currency forward contracts: The unrealized foreign currency gain relates to the contingent consideration liability recorded in connection with Kappa acquisition and was recorded as other income in our GAAP financial statements. The net realized gain on foreign currency exchange forward contracts relates 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>(6)</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>&</sup>lt;sup>(7)</sup> <u>Impact of ASU 2016-09</u>: 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 nine months ended September 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.