

4Q17/FY17 Regulation G Financial Reconciliations

February 13, 2018

Charles River Laboratories

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

RECONCILIATION OF GAAP TO NON-GAAP

SELECTED BUSINESS SEGMENT INFORMATION (UNAUDITED)⁽¹⁾

(in thousands, except percentages)

	Three Months Ended		Twelve Months Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Research Models and Services				
Revenue	\$ 120,432	\$ 124,712	\$ 493,615	\$ 494,037
Operating income	12,696	33,310	114,712	136,365
Operating income as a % of revenue	10.5 %	26.7 %	23.2 %	27.6 %
Add back:				
Amortization related to acquisitions	438	577	1,676	2,353
Severance	429	139	429	757
Government billing adjustment and related expenses	—	—	150	634
Site consolidation costs, impairments and other items	17,716	—	17,716	207
Total non-GAAP adjustments to operating income	\$ 18,583	\$ 716	\$ 19,971	\$ 3,951
Operating income, excluding non-GAAP adjustments	\$ 31,279	\$ 34,026	\$ 134,683	\$ 140,316
Non-GAAP operating income as a % of revenue	26.0 %	27.3 %	27.3 %	28.4 %
Depreciation and amortization	\$ 4,318	\$ 5,240	\$ 19,627	\$ 20,853
Capital expenditures	\$ 7,110	\$ 5,676	\$ 20,879	\$ 11,642
Discovery and Safety Assessment				
Revenue	\$ 253,226	\$ 241,734	\$ 980,022	\$ 836,593
Operating income	47,097	43,643	184,063	138,157
Operating income as a % of revenue	18.6 %	18.1 %	18.8 %	16.5 %
Add back:				
Amortization related to acquisitions	7,775	8,675	29,882	27,743
Severance	—	197	356	7,684
Acquisition related adjustments ⁽²⁾	630	872	2,933	5,189
Site consolidation costs, impairments and other items	94	4,062	929	11,341
Total non-GAAP adjustments to operating income	\$ 8,499	\$ 13,806	\$ 34,100	\$ 51,957
Operating income, excluding non-GAAP adjustments	\$ 55,596	\$ 57,449	\$ 218,163	\$ 190,114
Non-GAAP operating income as a % of revenue	22.0 %	23.8 %	22.3 %	22.7 %
Depreciation and amortization	\$ 20,688	\$ 20,588	\$ 79,355	\$ 71,816
Capital expenditures	\$ 11,064	\$ 13,633	\$ 36,616	\$ 27,493
Manufacturing Support				
Revenue	\$ 104,819	\$ 100,343	\$ 383,964	\$ 350,802
Operating income	36,338	31,096	123,903	104,543
Operating income as a % of revenue	34.7 %	31.0 %	32.3 %	29.8 %
Add back:				
Amortization related to acquisitions	2,244	3,283	9,812	12,650
Severance ⁽³⁾	873	—	2,493	31
Acquisition related adjustments ⁽²⁾	—	(55)	26	1,090
Site consolidation costs, impairments and other items	—	—	—	301
Total non-GAAP adjustments to operating income	\$ 3,117	\$ 3,228	\$ 12,331	\$ 14,072
Operating income, excluding non-GAAP adjustments	\$ 39,455	\$ 34,324	\$ 136,234	\$ 118,615
Non-GAAP operating income as a % of revenue	37.6 %	34.2 %	35.5 %	33.8 %
Depreciation and amortization	\$ 5,572	\$ 6,884	\$ 22,893	\$ 25,566
Capital expenditures	\$ 8,077	\$ 4,000	\$ 15,188	\$ 12,247

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

RECONCILIATION OF GAAP TO NON-GAAP

SELECTED BUSINESS SEGMENT INFORMATION (UNAUDITED)⁽¹⁾

(in thousands, except percentages)

	Three Months Ended		Twelve Months Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
CONTINUED FROM PREVIOUS SLIDE				
Unallocated Corporate Overhead	\$ (33,399)	\$ (38,958)	\$ (135,180)	\$ (141,646)
Add back:				
Acquisition related adjustments ⁽²⁾	1,189	2,552	3,728	15,608
Total non-GAAP adjustments to operating expense	\$ 1,189	\$ 2,552	\$ 3,728	\$ 15,608
Unallocated corporate overhead, excluding non-GAAP adjustments	\$ (32,210)	\$ (36,406)	\$ (131,452)	\$ (126,038)
Total				
Revenue	\$ 478,477	\$ 466,789	\$ 1,857,601	\$ 1,681,432
Operating income	\$ 62,732	\$ 69,091	\$ 287,498	\$ 237,419
Operating income as a % of revenue	13.1 %	14.8 %	15.5 %	14.1 %
Add back:				
Amortization related to acquisitions	10,457	12,535	41,370	42,746
Severance	1,302	336	3,278	8,472
Acquisition related adjustments ⁽²⁾	1,819	3,369	6,687	21,887
Government billing adjustment and related expenses	—	—	150	634
Site consolidation costs, impairments and other items	17,810	4,062	18,645	11,849
Total non-GAAP adjustments to operating income	\$ 31,388	\$ 20,302	\$ 70,130	\$ 85,588
Operating income, excluding non-GAAP adjustments	\$ 94,120	\$ 89,393	\$ 357,628	\$ 323,007
Non-GAAP operating income as a % of revenue	19.7 %	19.2 %	19.3 %	19.2 %
Depreciation and amortization	\$ 33,484	\$ 35,542	\$ 131,159	\$ 126,658
Capital expenditures	\$ 28,503	\$ 25,679	\$ 82,431	\$ 55,288

- (1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.
- (2) These adjustments are related to the evaluation and integration of acquisitions, which primarily include transaction, third-party integration, and certain compensation costs, and fair value adjustments associated with contingent consideration.
- (3) The adjustment for FY 2017 includes transition costs associated with the February 2017 divestiture of the CDMO business.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
RECONCILIATION OF GAAP EARNINGS TO NON-GAAP EARNINGS (UNAUDITED)⁽¹⁾
(in thousands, except per share data)

	Three Months Ended		Twelve Months Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Net income (loss) attributable to common shareholders	\$ (29,849)	\$ 44,680	\$ 123,355	\$ 154,765
Less: Income (loss) from discontinued operations, net of income taxes	(25)	(48)	(137)	280
Net income (loss) from continuing operations attributable to common shareholders	(29,826)	44,728	123,492	154,485
Add back:				
Non-GAAP adjustments to operating income (Refer to Schedule 3)	31,388	20,302	70,130	85,588
Gain on divestiture of CDMO business	—	—	(10,577)	—
Write-off of deferred financing costs and fees related to debt financing	—	—	—	987
Acquisition related adjustments ⁽²⁾	—	—	—	815
Reversal of an indemnification asset associated with acquisition and corresponding interest ⁽³⁾	—	—	—	54
Gain on bargain purchase ⁽⁴⁾	(277)	15	(277)	15
Debt forgiveness associated with a prior acquisition ⁽⁵⁾	(1,863)	—	(1,863)	—
Tax effect of non-GAAP adjustments:				
Tax effect from U.S. Tax Reform ⁽⁶⁾	78,537	—	78,537	—
Tax effect from divestiture of CDMO business	(300)	—	17,705	—
Tax effect of the remaining non-GAAP adjustments	(9,482)	(6,719)	(21,184)	(23,025)
Net income from continuing operations attributable to common shareholders, excluding non-GAAP adjustments	<u>\$ 68,177</u>	<u>\$ 58,326</u>	<u>\$ 255,963</u>	<u>\$ 218,919</u>
Weighted average shares outstanding - Basic	47,337	47,194	47,481	47,014
Effect of dilutive securities:				
Stock options, restricted stock units, performance share units and restricted stock	1,290	1,071	1,083	944
Weighted average shares outstanding - Diluted	<u>48,627</u>	<u>48,265</u>	<u>48,564</u>	<u>47,958</u>
Earnings (loss) per share from continuing operations attributable to common shareholders				
Basic	\$ (0.63)	\$ 0.95	\$ 2.60	\$ 3.28
Diluted	\$ (0.63)	\$ 0.93	\$ 2.54	\$ 3.22
Basic, excluding non-GAAP adjustments	\$ 1.44	\$ 1.24	\$ 5.39	\$ 4.66
Diluted, excluding non-GAAP adjustments	\$ 1.40	\$ 1.21	\$ 5.27	\$ 4.56

- (1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.
- (2) The amount represents a \$1.5 million charge recorded in connection with the modification of the option to purchase the remaining 13% equity interest in Vital River, partially offset by a \$0.7 million gain on remeasurement of previously held equity interest in an entity acquired in a step acquisition.
- (3) These amounts represent the reversal of an uncertain tax position and an offsetting indemnification asset primarily related to the acquisition of BioFocus.
- (4) The amounts in the current year relate to an immaterial acquisition that represents the excess of the estimated fair value of the net assets acquired over the purchase price.
- (5) The amount represents the forgiveness of a liability related to the acquisition of Vital River.
- (6) The amounts for 4Q17 and FY 2017 include a \$78.5 million estimate for the impact of the enactment of U.S. Tax Reform legislation. The estimated impact of U.S. Tax Reform consists of the one-time transition tax on unrepatriated earnings (also known as the toll tax), withholding and state taxes related to the Company's withdrawal of its indefinite reinvestment assertion regarding unremitted earnings, and the revaluation of U.S. federal net deferred tax liabilities. The final impact of U.S. Tax Reform may differ from these estimates, due to, among other things, changes in interpretations, analysis, and assumptions made by the Company, additional guidance that may be issued by regulatory agencies, and any updated or changes to estimates the Company utilized to calculate the transition impact.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

RECONCILIATION OF GAAP REVENUE GROWTH

TO NON-GAAP REVENUE GROWTH, ORGANIC (UNAUDITED) ⁽¹⁾

For the three months ended December 30, 2017	Total CRL	RMS Segment	DSA Segment	MS Segment
Revenue growth, reported	2.5 %	(3.4)%	4.8 %	4.5 %
(Increase) Decrease due to foreign exchange	(2.4)%	(2.1)%	(2.1)%	(3.5)%
Contribution from acquisitions ⁽²⁾	(0.7)%	—%	(1.4)%	—%
Impact of CDMO divestiture ⁽³⁾	1.1 %	—%	—%	5.5 %
Effect of 53 rd week in fiscal year 2016	5.1 %	4.1 %	5.5 %	5.3 %
Non-GAAP revenue growth, organic ⁽⁴⁾	5.6 %	(1.4)%	6.8 %	11.8 %

For the twelve months ended December 30, 2017	Total CRL	RMS Segment	DSA Segment	MS Segment
Revenue growth, reported	10.5 %	(0.1)%	17.1 %	9.5 %
(Increase) Decrease due to foreign exchange	—%	0.2 %	0.2 %	(0.7)%
Contribution from acquisitions ⁽²⁾	(6.0)%	—%	(11.5)%	(1.5)%
Impact of CDMO divestiture ⁽³⁾	0.8 %	—%	—%	3.8 %
Effect of 53 rd week in fiscal year 2016	1.4 %	1.1 %	1.7 %	1.8 %
Non-GAAP revenue growth, organic ⁽⁴⁾	6.7 %	1.2 %	7.5 %	12.9 %

- (1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.
- (2) The contribution from acquisitions reflects only completed acquisitions.
- (3) The CDMO business, which was acquired as part of WIL Research on April 4, 2016, was divested on February 10, 2017. This adjustment represents the revenue from the CDMO business for all applicable periods in 2017 and 2016.
- (4) Organic revenue growth is defined as reported revenue growth adjusted for acquisitions, the divestiture of the CDMO business, the effect of the 53rd week in fiscal year 2016, and foreign exchange.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
RECONCILIATION OF GAAP TO NON-GAAP REVENUE AND EARNINGS PER SHARE (EPS)
Guidance for the Twelve Months Ended December 29, 2018E

2018 GUIDANCE EXCLUDING MPI (from continuing operations)	
Revenue growth, reported	7.2% - 8.2%
Less: Contribution from acquisitions (1)	(0.5% - 1.0%)
Less: Favorable impact from foreign exchange	(~1.0%)
Revenue growth, organic (2)	5.7% - 6.7%
GAAP EPS estimate (3)	\$4.71 - \$4.86
Amortization of intangible assets	~\$0.58
Charges related to global efficiency initiatives (4)	~\$0.08
Acquisition-related adjustments (5)	~\$0.05
Non-GAAP EPS estimate	\$5.42 - \$5.57

Footnotes to Guidance Table excluding MPI:

- (1) The contribution from acquisitions reflects only the completed acquisitions of Brains On-Line and KWS BioTest.
- (2) Organic revenue growth is defined as reported revenue growth adjusted for acquisitions, the divestiture of the CDMO business, and foreign currency translation. Divestiture of the CDMO business is not expected to have a material impact on the revenue growth rate in 2018.
- (3) GAAP EPS guidance and related adjustments do not include any acquisition-related costs and charges associated with the planned acquisition of MPI because the transaction has not been completed and estimates for these costs have not been finalized.
- (4) These charges relate primarily to the Company's planned efficiency initiatives including the closure of the Maryland research model production site. These charges primarily include accelerated lease obligations and severance. Other projects in support of the global productivity and efficiency initiatives are expected, but these charges reflect only the decisions that have already been finalized.
- (5) These adjustments are related to the evaluation and integration of acquisitions completed prior to February 2018, and do not include any costs related to the planned acquisition of MPI. These adjustments primarily include transaction, advisory, and certain third-party integration costs, as well as certain costs associated with acquisition-related efficiency initiatives.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
RECONCILIATION OF FREE CASH FLOW (NON-GAAP) (1)
(dollars in thousands)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>		<u>Fiscal Year Ended</u>
	<u>December 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016 (3)</u>	<u>December 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016 (3)</u>	<u>December 29,</u> <u>2018E</u> <u>excluding MPI</u>
Net cash provided by operating activities	\$ 124,236	\$ 118,647	\$ 318,074	\$ 316,899	\$350,000-\$360,000
Addback: Tax impact of CDMO divestiture (2)	--	--	6,500	--	--
Less: Capital expenditures	<u>(28,503)</u>	<u>(25,679)</u>	<u>(82,431)</u>	<u>(55,288)</u>	<u>(~100,000)</u>
Free cash flow	<u>\$ 95,733</u>	<u>\$ 92,968</u>	<u>\$ 242,143</u>	<u>\$ 261,611</u>	<u>\$250,000-\$260,000</u>

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) Free cash flow has been adjusted to exclude the cash tax impact related to the divestiture of the CDMO business, which is recorded in Cash Flows relating to Operating Activities, because divestitures are outside of our normal operations, the corresponding cash proceeds from the divestiture are reflected in Cash Flows relating to Investing Activities, and the impact of the CDMO divestiture is large, which can adversely affect the comparability of our results on a period-to-period basis.

(3) Prior-year cash flow amounts have been recast to reflect the retrospective adoption of new accounting standards in 1Q17 (ASU 2016-09, ASU 2016-15, ASU 2016-18).

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
RECONCILIATION OF GAAP TAX RATE TO NON-GAAP TAX RATE (UNAUDITED)⁽¹⁾

(in thousands)

	Three Months Ended		Twelve Months Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Income from continuing operations before income taxes & noncontrolling interest	\$ 69,053	\$ 63,725	\$ 296,955	\$ 222,921
Add back:				
Amortization related to acquisitions	10,457	12,535	41,370	42,746
Severance	1,302	336	3,278	8,472
Acquisition related adjustments (2)	1,819	3,369	6,687	21,887
Government billing adjustment and related expenses	-	-	150	634
Site consolidation costs, impairments and other items	17,810	4,062	18,645	11,849
Gain on CDMO divestiture	-	-	(10,577)	-
Write-off of deferred financing costs and fees related to debt financing	-	-	-	987
Acquisition related adjustments (3)	-	-	-	815
Reversal of an indemnification asset associated with acquisition and corresponding interest (4)	-	-	-	54
Gain on Bargain Purchase (5)	(277)	15	(277)	15
Debt forgiveness associated with a prior acquisition (6)	(1,863)	-	(1,863)	-
	<u>\$ 98,301</u>	<u>\$ 84,042</u>	<u>\$ 354,368</u>	<u>\$ 310,380</u>
Income before income taxes & noncontrolling interest, excluding specified charges (Non-GAAP)				
Provision for income taxes (GAAP)	\$ 98,097	\$ 18,450	\$ 171,369	\$ 66,835
Tax effect from U.S. Tax Reform (7)	\$ (78,537)	\$ —	\$ (78,537)	\$ —
Tax effect from CDMO divestiture	\$ 300	\$ —	\$ (17,705)	\$ —
Tax effect of the remaining non-GAAP adjustments	\$ 9,482	\$ 6,719	\$ 21,184	\$ 23,025
Provision for income taxes (Non-GAAP)	\$ 29,342	\$ 25,169	\$ 96,311	\$ 89,860
Total rate (GAAP)	142.1%	29.0%	57.7%	30.0%
Total rate, excluding specified charges (Non-GAAP)	29.8%	29.9%	27.2%	29.0%

- (1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.
- (2) These adjustments are related to the evaluation and integration of acquisitions, which primarily include transaction, third-party integration, and certain compensation costs, and fair value adjustments associated with contingent consideration.
- (3) The amount represents a \$1.5 million charge recorded in connection with the modification of the option to purchase the remaining 13% equity interest in Vital River, partially offset by a \$0.7 million gain on remeasurement of previously held equity interest in an entity acquired in a step acquisition.
- (4) These amounts represent the reversal of an uncertain tax position and an offsetting indemnification asset primarily related to the acquisition of BioFocus.
- (5) The amounts in the current year relate to an immaterial acquisition that represents the excess of the estimated fair value of the net assets acquired over the purchase price.
- (6) The amount represents the forgiveness of a liability related to the acquisition of Vital River.
- (7) The amounts for 4Q17 and FY 2017 include a \$78.5 million estimate for the impact of the enactment of U.S. Tax Reform legislation. The estimated impact of U.S. Tax Reform consists of the one-time transition tax on unrepatriated earnings (also known as the toll tax), withholding and state taxes related to the Company's withdrawal of its indefinite reinvestment assertion regarding unremitted earnings, and the revaluation of U.S. federal net deferred tax liabilities. The final impact of U.S. Tax Reform may differ from these estimates, due to, among other things, changes in interpretations, analysis, and assumptions made by the Company, additional guidance that may be issued by regulatory agencies, and any updated or changes to estimates the Company utilized to calculate the transition impact.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
RECONCILIATION OF GAAP TO NON-GAAP NET INTEREST EXPENSE
(dollars in thousands)

	<u>Twelve Months Ended</u> December 31, 2016
GAAP Interest Expense, net	\$ 26,395
Exclude:	
Reversal of an indemnification asset associated with an acquisition and corresponding interest	(987)
Non-GAAP Interest Expense, net	<u><u>\$ 25,408</u></u>

Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

CRL
LISTED
NYSE