



First Advantage Reports Third Quarter 2023 Results

November 9, 2023

Third Quarter 2023 Highlights¹

- Generated Revenues of \$200.4 million
- Delivered Net Income of \$10.8 million; Adjusted Net Income was \$40.0 million
- Produced Adjusted EBITDA of \$64.8 million
- Realized GAAP Diluted Net Income Per Share of \$0.07; Adjusted Diluted Earnings Per Share was \$0.28
- Achieved Cash Flows from Operations of \$34.4 million
- On August 31, 2023, paid a one-time special dividend of \$1.50 per share, which represented a greater than 10% return of capital to shareholders
- On September 1, 2023, acquired Infinite ID, a U.S.-based digital identity solutions company for \$41 million, funded with cash from the balance sheet
- Board of Directors approved a one-year extension of the existing share repurchase program, extending it through December 2024

2023 Full-Year Guidance

- The Company reiterates its full-year 2023 guidance ranges, expecting results at the low end of these ranges. This reflects the current hiring environment and expectations that existing macroeconomic conditions and similar labor market trends will continue through the end of fiscal year 2023.

ATLANTA, Nov. 09, 2023 (GLOBE NEWSWIRE) -- First Advantage Corporation (NASDAQ: FA), a leading global provider of employment background screening and verification solutions, today announced financial results for the third quarter ended September 30, 2023.

Key Financials

(Amounts in millions, except per share data and percentages)

	Three Months Ended September 30,		
	2023	2022	Change
Revenues	\$ 200.4	\$ 206.0	(2.7)%
Income from operations	\$ 23.2	\$ 25.7	(9.5)%
Net income	\$ 10.8	\$ 17.2	(37.4)%
Net income margin	5.4%	8.4%	NA
Diluted net income per share	\$ 0.07	\$ 0.11	(36.4)%
Adjusted EBITDA ¹	\$ 64.8	\$ 64.2	0.9%
Adjusted EBITDA Margin ¹	32.3%	31.2%	NA
Adjusted Net Income ¹	\$ 40.0	\$ 40.0	0.1%
Adjusted Diluted Earnings Per Share ¹	\$ 0.28	\$ 0.26	7.7%

¹ Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, and Adjusted Diluted Earnings Per Share are non-GAAP measures. Please see the schedules accompanying this earnings release for a reconciliation of these measures to their most directly comparable respective GAAP measures.

Note: "NA" indicates not applicable information.

"We continue to deliver results in-line with the expectations we previously communicated, even as we navigate these uncertain times. Third quarter Revenues and Adjusted EBITDA improved sequentially, with the Americas segment showing particular resilience. Our disciplined cost management along with flexible business model enabled us to maintain industry-leading Adjusted EBITDA Margins of 32.3% and generate strong operating cash flow of \$34.4 million this quarter. We are pleased with our continued ability to invest in market-leading solutions that meet the needs of our customers, enabled by our healthy and well-capitalized balance sheet," said Scott Staples, Chief Executive Officer.

"During the third quarter, we continued to build on our solid foundation and further strengthen our digital strategy with the acquisition of Infinite ID. This acquisition expands our portfolio of innovative products and differentiated solutions while strengthening our core business. Infinite ID's technology complements our other identity verification and identity fraud solutions, enabling us to continuously roll-out state-of-the-art digital solutions to our customers. Digital identity has been a core part of our strategy, and we will continue to innovate in this space," added Mr. Staples.

Balance Sheet and Liquidity

As of September 30, 2023, First Advantage had cash and cash equivalents of \$164.9 million, short-term investments of \$2.2 million, and total debt of \$564.7 million, resulting in net debt of \$397.6 million and a net leverage ratio of 1.7x. The Company also has full availability of \$100 million under its revolving credit facility as of September 30, 2023. There are no principal debt payments due until 2027.

Cash Flow and Capital Allocation

During the third quarter of 2023, the Company generated \$34.4 million of cash flow from operations and spent \$7.5 million on purchases of property and equipment, including capitalized software development costs.

On August 31, 2023, the Company paid a one-time special dividend of \$1.50 per share, totaling \$217.7 million. This one-time special dividend represented a greater than 10% return of capital to shareholders.

On September 1, 2023, the Company acquired Infinite ID, a U.S.-based digital identity solutions company. The \$41 million transaction was funded with cash from the balance sheet.

During the third quarter, the Company repurchased 244,782 shares of its common stock for an aggregate outlay of approximately \$3.6 million under its \$200 million share repurchase program. As of November 6, 2023, the Company has repurchased approximately 9.0 million shares for an aggregate outlay of approximately \$118.4 million since the authorization of the share repurchase program. As of September 30, 2023, the Company had 145,217,657 shares of common stock outstanding.

Additionally, in September, the Company's Board of Directors approved a one-year extension of its existing \$200 million share repurchase authorization through December 31, 2024.

"We are committed to a balanced capital allocation approach and creating value for our shareholders. We continue to generate strong cash flow from operations, which provides funding for long-term growth, while returning capital to shareholders. During the quarter, we executed several strategic capital allocation initiatives including the acquisition of Infinite ID, paying our one-time special dividend, and continuing to repurchase shares, all while maintaining a healthy balance sheet. Additionally, the extension of our existing share repurchase authorization reflects our confidence in the trajectory of our business as we continue to execute against our strategic priorities," commented David Gamsey, EVP and Chief Financial Officer.

Full Year 2023 Guidance

The Company reiterates its full-year 2023 guidance ranges, expecting results at the low end of these ranges. This reflects the current hiring environment and expectations that existing macroeconomic conditions and similar labor market trends will continue through the end of fiscal year 2023.

Guidance ranges have not been adjusted upward or downward for the impact of the one-time special dividend or the contribution from Infinite ID, acquired in September 2023.

The following table summarizes our reaffirmed full-year 2023 guidance:

	As of November 9, 2023
Revenues	\$770 million – \$810 million
Adjusted EBITDA ²	\$240 million – \$255 million
Adjusted Net Income ²	\$145 million – \$155 million
Adjusted Diluted Earnings Per Share ²	\$1.00 – \$1.07

² A reconciliation of the foregoing guidance for the non-GAAP metrics of Adjusted EBITDA and Adjusted Net Income to GAAP net income and Adjusted Diluted Earnings Per Share to GAAP diluted net income per share cannot be provided without unreasonable effort because of the inherent difficulty of accurately forecasting the occurrence and financial impact of the various adjusting items necessary for such reconciliation that have not yet occurred, are out of our control, or cannot be reasonably predicted. For the same reasons, the Company is unable to assess the probable significance of the unavailable information, which could have a material impact on its future GAAP financial results.

Actual results may differ materially from First Advantage's full-year 2023 guidance as a result of, among other things, the factors described under "Forward-Looking Statements" below.

Conference Call and Webcast Information

First Advantage will host a conference call to review its results today, November 9, 2023, at 8:30 a.m. ET.

To participate in the conference call, please dial 800-267-6316 (domestic) or 203-518-9783 (international) approximately ten minutes before the 8:30 a.m. ET start. Please mention to the operator that you are dialing in for the First Advantage third quarter 2023 earnings call or provide the conference code FA3Q23. The call will also be webcast live on the Company's investor relations website at <https://investors.fadv.com> under the "News & Events" and then "Events & Presentations" section, where related presentation materials will be posted prior to the conference call.

Following the conference call, a replay of the webcast will be available on the Company's investor relations website, <https://investors.fadv.com>. Alternatively, the live webcast and subsequent replay will be available at <https://event.on24.com/wcc/r/4326081/C6E9971F47D1DCACB2860D6B2664D5FD>.

Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, our operations and financial performance. Forward-looking statements include all statements that are not historical facts. These forward-looking statements relate to matters such as our industry, business

strategy, goals, and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources, and other financial and operating information. In some cases, you can identify these forward-looking statements by the use of words such as “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “future,” “will,” “seek,” “foreseeable,” “target,” “guidance,” the negative version of these words, or similar terms and phrases.

These forward-looking statements are subject to various risks, uncertainties, assumptions, or changes in circumstances that are difficult to predict or quantify. Such risks and uncertainties include, but are not limited to, the following:

- negative changes in external events beyond our control, including our customers’ onboarding volumes, economic drivers which are sensitive to macroeconomic cycles, such as interest rate volatility and inflation, geopolitical unrest, uncertainty in financial markets (including as a result of recent events affecting financial institutions), and the COVID-19 pandemic;
- our operations in a highly regulated industry and the fact that we are subject to numerous and evolving laws and regulations, including with respect to personal data, data security, and artificial intelligence;
- inability to identify and successfully implement our growth strategies on a timely basis or at all;
- potential harm to our business, brand, and reputation as a result of security breaches, cyber-attacks, or the mishandling of personal data;
- our reliance on third-party data providers;
- due to the sensitive and privacy-driven nature of our products and solutions, we could face liability and legal or regulatory proceedings, which could be costly and time-consuming to defend and may not be fully covered by insurance;
- our international business exposes us to a number of risks;
- the timing, manner and volume of repurchases of common stock pursuant to our share repurchase program;
- the continued integration of our platforms and solutions with human resource providers such as applicant tracking systems and human capital management systems as well as our relationships with such human resource providers;
- our ability to obtain, maintain, protect and enforce our intellectual property and other proprietary information;
- disruptions, outages, or other errors with our technology and network infrastructure, including our data centers, servers, and third-party cloud and internet providers and our migration to the cloud;
- our indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations; and
- control by our Sponsor, “Silver Lake” (Silver Lake Group, L.L.C., together with its affiliates, successors, and assignees), and its interests may conflict with ours or those of our stockholders.

For additional information on these and other factors that could cause First Advantage’s actual results to differ materially from expected results, please see our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (the “SEC”), as such factors may be updated from time to time in our filings with the SEC, which are accessible on the SEC’s website at www.sec.gov. The forward-looking statements included in this press release are made only as of the date of this press release, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise, except as required by law.

Non-GAAP Financial Information

This press release contains “non-GAAP financial measures” that are financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with accounting principles generally accepted in the United States (“GAAP”). Specifically, we make use of the non-GAAP financial measures “Adjusted EBITDA,” “Adjusted EBITDA Margin,” “Adjusted Net Income,” “Adjusted Diluted Earnings Per Share,” “Constant Currency Revenues,” and “Constant Currency Adjusted EBITDA.”

Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Diluted Earnings Per Share, Constant Currency Revenues, and Constant Currency Adjusted EBITDA have been presented in this press release as supplemental measures of financial performance that are not required by or presented in accordance with GAAP because we believe they assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. Management believes these non-GAAP measures are useful to investors in highlighting trends in our operating performance, while other measures can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which we operate, and capital investments. Management uses Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Diluted Earnings Per Share, Constant Currency Revenues, and Constant Currency Adjusted EBITDA to supplement GAAP measures of performance in the evaluation of the effectiveness of our business strategies, to make budgeting decisions, to establish discretionary annual incentive compensation, and to compare our performance against that of other peer companies using similar measures. Management supplements GAAP results with non-GAAP financial measures to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone.

Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Diluted Earnings Per Share, Constant Currency Revenues, and Constant Currency Adjusted EBITDA are not recognized terms under GAAP and should not be considered as an alternative to net income (loss) as a measure of financial performance or cash provided by (used in) operating activities as a measure of liquidity, or any other performance measure derived in accordance with GAAP. The presentations of these measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Because not all companies use identical calculations, the presentations of these measures may not be comparable to other similarly titled measures of other companies and can differ significantly from company to company.

We define Adjusted EBITDA as net income before interest, taxes, depreciation, and amortization, and as further adjusted for loss on extinguishment of debt, share-based compensation, transaction and acquisition-related charges, integration and restructuring charges, and other non-cash charges. We define Adjusted EBITDA Margin as Adjusted EBITDA divided by total revenues. We define Adjusted Net Income for a particular period as net income before taxes adjusted for debt-related costs, acquisition-related depreciation and amortization, share-based compensation, transaction and acquisition-related charges, integration and restructuring charges, and other non-cash charges, to which we then apply the related effective tax rate.

We define Adjusted Diluted Earnings Per Share as Adjusted Net Income divided by adjusted weighted average number of shares outstanding —diluted. We define Constant Currency Revenues as current period revenues translated using prior-year period exchange rates. We define Constant Currency Adjusted EBITDA as current period Adjusted EBITDA translated using prior-year period exchange rates. For reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures, see the reconciliations included at the end of this press release. Numerical figures included in the reconciliations have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them.

About First Advantage

First Advantage (NASDAQ: FA) is a leading global provider of employment background screening and verification solutions. The Company delivers innovative services and insights that help customers manage risk and hire the best talent. Enabled by its proprietary technology, First Advantage helps companies protect their brands and provide safer environments for their customers and their most important resources: employees, contractors, contingent workers, tenants, and drivers. Headquartered in Atlanta, Georgia, First Advantage performs screens in over 200 countries and territories on behalf of its approximately 33,000 customers. For more information about First Advantage, visit the Company's website at <https://fadv.com/>.

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Condensed Financial Statements

First Advantage Corporation
Condensed Consolidated Balance Sheets
(Unaudited)

<i>(in thousands, except share and per share amounts)</i>	September 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 164,874	\$ 391,655
Restricted cash	133	141
Short-term investments	2,167	1,956
Accounts receivable (net of allowance for doubtful accounts of \$1,571 and \$1,348 at September 30, 2023 and December 31, 2022, respectively)	156,912	143,811
Prepaid expenses and other current assets	19,335	25,407
Income tax receivable	5,893	3,225
Total current assets	349,314	566,195
Property and equipment, net	89,673	113,529
Goodwill	820,970	793,080
Trade name, net	65,690	71,162
Customer lists, net	291,559	326,014
Deferred tax asset, net	3,188	2,422
Other assets	9,053	13,423
TOTAL ASSETS	\$ 1,629,447	\$ 1,885,825
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 55,954	\$ 54,947
Accrued compensation	15,954	22,702
Accrued liabilities	16,502	16,400
Current portion of operating lease liability	4,733	4,957
Income tax payable	480	724
Deferred revenues	1,159	1,056
Total current liabilities	94,782	100,786
Long-term debt (net of deferred financing costs of \$6,712 and \$8,075 at September 30, 2023 and December 31, 2022, respectively)	558,012	556,649
Deferred tax liability, net	82,215	90,556
Operating lease liability, less current portion	3,847	7,879
Other liabilities	2,591	3,337
Total liabilities	741,447	759,207
EQUITY		
Common stock - \$0.001 par value; 1,000,000,000 shares authorized, 145,217,657 and 148,732,603 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	145	149
Additional paid-in-capital	972,063	1,176,163
Accumulated deficit	(61,354)	(27,363)

Accumulated other comprehensive loss	(22,854)	(22,331)
Total equity	888,000	1,126,618
TOTAL LIABILITIES AND EQUITY	\$ 1,629,447	\$ 1,885,825

First Advantage Corporation
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

<i>(in thousands, except share and per share amounts)</i>	Three Months Ended September 30,	
	2023	2022
REVENUES	\$ 200,364	\$ 205,986
OPERATING EXPENSES:		
Cost of services (exclusive of depreciation and amortization below)	101,410	104,300
Product and technology expense	13,107	13,250
Selling, general, and administrative expense	30,217	28,034
Depreciation and amortization	32,419	34,744
Total operating expenses	177,153	180,328
INCOME FROM OPERATIONS	23,211	25,658
OTHER EXPENSE, NET:		
Interest expense, net	7,557	1,740
Total other expense, net	7,557	1,740
INCOME BEFORE PROVISION FOR INCOME TAXES	15,654	23,918
Provision for income taxes	4,881	6,709
NET INCOME	\$ 10,773	\$ 17,209
Foreign currency translation loss	(1,610)	(10,253)
COMPREHENSIVE INCOME	\$ 9,163	\$ 6,956
NET INCOME	\$ 10,773	\$ 17,209
Basic net income per share	\$ 0.08	\$ 0.11
Diluted net income per share	\$ 0.07	\$ 0.11
Weighted average number of shares outstanding - basic	143,231,707	150,930,340
Weighted average number of shares outstanding - diluted	144,733,357	152,357,307

First Advantage Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 22,480	\$ 44,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,341	103,185
Amortization of deferred financing costs	1,362	1,347
Bad debt expense (recovery)	134	(6)
Deferred taxes	(8,723)	5,536
Share-based compensation	10,449	5,824
Loss on foreign currency exchange rates	26	115
Loss on disposal of fixed assets and impairment of ROU assets	1,724	197
Change in fair value of interest rate swaps	(2,201)	(11,376)
Changes in operating assets and liabilities:		
Accounts receivable	(12,162)	3,063
Prepaid expenses and other assets	8,661	700
Accounts payable	531	165

Accrued compensation and accrued liabilities	(8,389)	(9,337)
Deferred revenues	87	(116)
Operating lease liabilities	(1,134)	(773)
Other liabilities	(198)	1,055
Income taxes receivable and payable, net	(2,908)	(1,195)
Net cash provided by operating activities	<u>106,080</u>	<u>142,842</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(41,122)	(19,044)
Purchases of property and equipment	(1,798)	(6,034)
Capitalized software development costs	(18,781)	(16,320)
Other investing activities	(231)	872
Net cash used in investing activities	<u>(61,932)</u>	<u>(40,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(217,683)	—
Share repurchases	(55,917)	(2,248)
Payments on finance lease obligations	(97)	(673)
Payments on deferred purchase agreements	(703)	(704)
Proceeds from issuance of common stock under share-based compensation plans	4,089	3,090
Net settlement of share-based compensation plan awards	(254)	(292)
Net cash used in financing activities	<u>(270,565)</u>	<u>(827)</u>
Effect of exchange rate on cash, cash equivalents, and restricted cash	(372)	(3,879)
(Decrease) increase in cash, cash equivalents, and restricted cash	(226,789)	97,610
Cash, cash equivalents, and restricted cash at beginning of period	391,796	292,790
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 165,007</u>	<u>\$ 390,400</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for income taxes, net of refunds received	\$ 21,006	\$ 11,321
Cash paid for interest	\$ 33,787	\$ 17,640

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Property and equipment acquired on account	\$ 25	\$ 105
Excise taxes on share repurchases incurred but not paid	\$ 558	\$ —
Dividends declared but not paid	\$ 701	\$ —

Reconciliation of Consolidated Non-GAAP Financial Measures

	Three Months Ended September 30, 2023			
	Americas	International	Eliminations	Total revenues
<i>(in thousands)</i>				
Revenues, as reported (GAAP)	\$ 176,046	\$ 25,805	\$ (1,487)	\$ 200,364
Foreign currency translation impact ^(a)	(83)	(434)	19	(498)
Constant currency revenues	\$ 175,963	\$ 25,371	\$ (1,468)	\$ 199,866

(a) Constant currency revenues is calculated by translating current period amounts using prior-year period exchange rates.

	Three Months Ended September 30,	
	2023	2022
<i>(in thousands, except percentages)</i>		
Net income	\$ 10,773	\$ 17,209
Interest expense, net	7,557	1,740
Provision for income taxes	4,881	6,709
Depreciation and amortization	32,419	34,744
Share-based compensation	4,790	2,022
Transaction and acquisition-related charges ^(a)	1,571	1,908
Integration, restructuring, and other charges ^(b)	2,800	(144)
Adjusted EBITDA	\$ 64,791	\$ 64,188
Revenues	200,364	205,986
Net income margin	5.4 %	8.4 %
Adjusted EBITDA Margin	32.3 %	31.2 %
Adjusted EBITDA	\$ 64,791	

Foreign currency translation impact ^(c)

(61)
\$ 64,730

Constant currency Adjusted EBITDA

(a) Represents charges incurred related to acquisitions and similar transactions, primarily consisting of change in control-related costs, professional service fees, and other third-party costs. Also includes incremental professional service fees incurred related to the initial public offering and subsequent one-time compliance efforts. The three months ended September 30, 2023 and 2022 include a transaction bonus expense related to one of the Company's 2021 acquisitions.

(b) Represents charges from organizational restructuring and integration activities, non-cash, and other charges primarily related to nonrecurring legal exposures, foreign currency (gains) losses, and (gains) losses on the sale of assets.

(c) Constant currency Adjusted EBITDA is calculated by translating current period amounts using prior-year period exchange rates.

Reconciliation of Consolidated Non-GAAP Financial Measures (continued)

<i>(in thousands)</i>	Three Months Ended September 30,	
	2023	2022
Net income	\$ 10,773	\$ 17,209
Provision for income taxes	4,881	6,709
Income before provision for income taxes	15,654	23,918
Debt-related charges ^(a)	2,532	(3,545)
Acquisition-related depreciation and amortization ^(b)	25,660	28,927
Share-based compensation	4,790	2,022
Transaction and acquisition-related charges ^(c)	1,571	1,908
Integration, restructuring, and other charges ^(d)	2,800	(144)
Adjusted Net Income before income tax effect	53,007	53,086
Less: Income tax effect ^(e)	12,972	13,083
Adjusted Net Income	\$ 40,035	\$ 40,003

	Three Months Ended September 30,	
	2023	2022
Diluted net income per share (GAAP)	\$ 0.07	\$ 0.11
<i>Adjusted Net Income adjustments per share</i>		
Income taxes	0.03	0.04
Debt-related charges ^(a)	0.02	(0.02)
Acquisition-related depreciation and amortization ^(b)	0.18	0.19
Share-based compensation	0.03	0.01
Transaction and acquisition related charges ^(c)	0.01	0.01
Integration, restructuring, and other charges ^(d)	0.02	(0.00)
Adjusted income taxes ^(e)	(0.09)	(0.09)
Adjusted Diluted Earnings Per Share (Non-GAAP)	\$ 0.28	\$ 0.26

Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:

Weighted average number of shares outstanding—diluted (GAAP and Non-GAAP)	144,733,357	152,357,307
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(a) Represents non-cash interest expense related to the amortization of debt issuance costs for the Company's First Lien Credit Facility. Beginning in 2022, this adjustment also includes the impact of the change in fair value of interest rate swaps. This adjustment, which represents the difference between the fair value gains or losses and actual cash payments and receipts on the interest rate swaps, was added as a result of the increased interest rate volatility observed in 2022.

(b) Represents the depreciation and amortization expense related to intangible assets and developed technology assets recorded due to the application of ASC 805, *Business Combinations*. As a result, the purchase accounting related depreciation and amortization expense will recur in future periods until the related assets are fully depreciated or amortized, and the related purchase accounting assets may contribute to revenue generation.

(c) Represents charges incurred related to acquisitions and similar transactions, primarily consisting of change in control-related costs, professional service fees, and other third-party costs. Also includes incremental professional service fees incurred related to the initial public offering and subsequent one-time compliance efforts. The three months ended September 30, 2023 and 2022 include a transaction bonus expense related to one of the Company's 2021 acquisitions.

(d) Represents charges from organizational restructuring and integration activities, non-cash, and other charges primarily related to nonrecurring legal exposures, foreign currency (gains) losses, and (gains) losses on the sale of assets.

(e) Effective tax rates of approximately 24.5% and 24.6% have been used to compute Adjusted Net Income and Adjusted Diluted Earnings Per Share for the three months ended September 30, 2023 and 2022, respectively. As of December 31, 2022, we had net operating loss carryforwards of approximately \$11.0 million for federal income tax purposes available to reduce future income subject to income taxes. As a result, the amount of

actual cash taxes we may pay for federal income taxes differs significantly from the effective income tax rate computed in accordance with GAAP and from the normalized rates shown above.