



*Improving Patient Outcomes*

*Reducing the Cost of Care<sup>®</sup>*

# Second Quarter 2021

Earnings Presentation | July 27, 2021

# FORWARD-LOOKING STATEMENTS

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These presentations contain forward-looking statements within the meaning of federal securities laws, including, among others, statements about our expectations, plans, strategies or prospects. We generally use the words “may,” “will,” “expect,” “believe,” “anticipate,” “plan,” “estimate,” “project,” “assume,” “guide,” “target,” “forecast,” “see,” “seek,” “can,” “should,” “could,” “would,” “intend” “predict,” “potential,” “strategy,” “is confident that,” “future,” “opportunity,” “work toward,” and similar expressions to identify forward-looking statements. All statements other than statements of historical or current fact are, or may be deemed to be, forward-looking statements. Such statements are based upon the current beliefs, expectations and assumptions of management and are subject to significant risks, uncertainties and changes in circumstances that could cause actual results to differ materially from the forward-looking statements. Forward-looking statements speak only as of the date they are made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers of these presentations are cautioned not to rely on these forward-looking statements, since there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in these presentations. The risks and uncertainties that may cause actual results to differ materially from Masimo’s current expectations are more fully described in Masimo’s reports filed with the U.S. Securities and Exchange Commission (SEC), including our most recent Form 10-K and Form 10-Q. Copies of these filings, as well as subsequent filings, are available online at [www.sec.gov](http://www.sec.gov), [www.masimo.com](http://www.masimo.com) or upon request.



# NON-GAAP FINANCIAL MEASURES

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The non-GAAP financial measures contained herein are a supplement to the corresponding financial measures prepared in accordance with U.S. GAAP. The non-GAAP financial measures presented exclude certain items that are more fully described in the Appendix. Management believes that adjustments for these items assist investors in making comparisons of period-to-period operating results. Furthermore, management also believes that these items are not indicative of the Company's on-going core operating performance. These non-GAAP financial measures have certain limitations in that they do not reflect all of the costs associated with the operations of the Company's business as determined in accordance with GAAP. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. The non-GAAP financial measures presented by the Company may be different from the non-GAAP financial measures used by other companies. The Company has presented the following non-GAAP measures to assist investors in understanding the Company's core net operating results on an on-going basis: (i) constant currency product revenue growth %, (ii) non-GAAP gross profit/margin %, (iii) non-GAAP SG&A expense, (iv) non-GAAP R&D expense, (v) non-GAAP litigation settlements and (awards), (vi) non-GAAP operating expense %, (vii) non-GAAP operating income/margin %, (viii) non-GAAP earnings per diluted share and (ix) adjusted free cash flow. These non-GAAP financial measures may also assist investors in making comparisons of the company's core operating results with those of other companies. Management believes constant currency product revenue growth, non-GAAP gross profit/margin, non-GAAP operating income/margin, non-GAAP net income, non-GAAP net income per diluted share, and adjusted free cash flow are important measures in the evaluation of the Company's performance and uses these measures to better understand and evaluate our business. For additional financial details, including GAAP to non-GAAP reconciliations, please visit the Investor Relations section of the Company's website at [www.masimo.com](http://www.masimo.com) to access Supplementary Financial Information.



# Second Quarter 2021 Highlights

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## Revenue

- ❖ Product revenue was \$305.1 million

## Shipments

- ❖ Excluding handheld and fingertip pulse oximeters, shipments of noninvasive technology boards and instruments was 72,500

## Profitability

- ❖ GAAP operating margin was 21.3%
- ❖ Non-GAAP operating margin<sup>(1)</sup> was 23.4%

## EPS

- ❖ GAAP EPS was \$0.88 per diluted share
- ❖ Non-GAAP EPS<sup>(1)</sup> was \$0.94 per diluted share

## Cash

- ❖ Operating cash flow was \$26.0 million
- ❖ Adjusted free cash flow<sup>(1)</sup> was \$20.7 million
- ❖ Cash and investments balance was \$576.0 million

<sup>(1)</sup> Non-GAAP measures shown have been adjusted for certain items that are fully described in the Appendix. Please visit the Investor Relations section of the Company's website at [www.masimo.com](http://www.masimo.com) to access additional information related to our Non-GAAP adjustments and Supplementary Financial Information.

# Second Quarter 2021 Results – GAAP<sup>(1)</sup>

(in millions; except % and EPS)	Q2 2021	Q2 2020	vs. Prior Year
<b>Revenue</b>	<b>\$305.1</b>	<b>\$301.0</b>	<b>1.4%</b>
<b>Gross Margin</b>	<b>63.2%</b>	<b>63.7%</b>	<b>(50) bps</b>
SG&A Expense	30.8%	32.7%	(190) bps
R&D Expense	11.1%	10.3%	80 bps
<b>Operating Expenses</b>	<b>41.9%</b>	<b>43.0%</b>	<b>(110) bps</b>
<b>Operating Margin</b>	<b>21.3%</b>	<b>20.7%</b>	<b>60 bps</b>
Tax Rate	23.0%	12.3%	1070 bps
<b>GAAP EPS</b>	<b>\$0.88</b>	<b>\$0.96</b>	<b>(8.3)%</b>

<sup>(1)</sup> May not foot due to rounding.

# Second Quarter 2021 Results – **Non-GAAP**<sup>(1)</sup>

(in millions; except % and EPS)	Q2 2021	Q2 2020	vs. Prior Year	
			Reported	Constant Currency
<b>Revenue</b>	<b>\$305.1</b>	<b>\$301.0</b>	<b>1.4%</b>	<b>(0.1)%</b>
<b>Gross Margin</b>	<b>64.7%</b>	<b>63.9%</b>	<b>80 bps</b>	
SG&A Expense	30.2%	32.5%	(230) bps	
R&D Expense	11.1%	10.3%	80 bps	
<b>Operating Expenses</b>	<b>41.3%</b>	<b>42.7%</b>	<b>(140) bps</b>	
<b>Operating Margin</b>	<b>23.4%</b>	<b>21.1%</b>	<b>230 bps</b>	
Tax Rate	24.5%	24.2%	30 bps	
<b>Non-GAAP EPS</b>	<b>\$0.94</b>	<b>\$0.85</b>	<b>10.6%</b>	

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# Second Quarter 2021 Results – **Non-GAAP**<sup>(1)</sup>

## Product Revenue

**\$301M**

**\$305M**

**(0.1)%**

Constant Currency Impact<sup>(1)</sup>

Q2 2020

Q2 2021

## Non-GAAP<sup>(1)</sup> Operating Margin

**21.1%**

**23.4%**

**230 bps**

Q2 2020

Q2 2021

## Non-GAAP<sup>(1)</sup> EPS

**\$0.85**

**\$0.94**

**+10.6%**

Q2 2020

Q2 2021

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# Full Year 2021 Financial Guidance

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**Revenue** ❖ Product revenue increasing 6.3% to \$1,216 million or 5.4% constant on a currency basis<sup>(1)</sup>

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**Profitability** ❖ GAAP operating margin of 22.3%  
❖ Non-GAAP operating margin<sup>(1)</sup> of 23.8%

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**EPS** ❖ GAAP EPS of \$3.83 per diluted share  
❖ Non-GAAP EPS<sup>(1)</sup> of \$3.85 per diluted share

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# Full Year 2021 Financial Guidance – **GAAP**<sup>(1)</sup>

(in millions; except % and EPS)	FY 2021	FY 2020	vs. Prior Year
<b>Revenue</b>	<b>\$1,216.0</b>	<b>\$1,143.7</b>	<b>6.3%</b>
<b>Gross Margin</b>	<b>65.3%</b>	<b>65.0%</b>	<b>30 bps</b>
<b>Operating Expenses</b>	<b>43.1%</b>	<b>42.6%</b>	<b>50 bps</b>
<b>Operating Margin</b>	<b>22.3%</b>	<b>22.4%</b>	<b>(10) bps</b>
Tax Rate	18.2%	8.9%	930 bps
<b>GAAP EPS</b>	<b>\$3.83</b>	<b>\$4.14</b>	<b>(7.5)%</b>

<sup>(1)</sup> May not foot due to rounding.

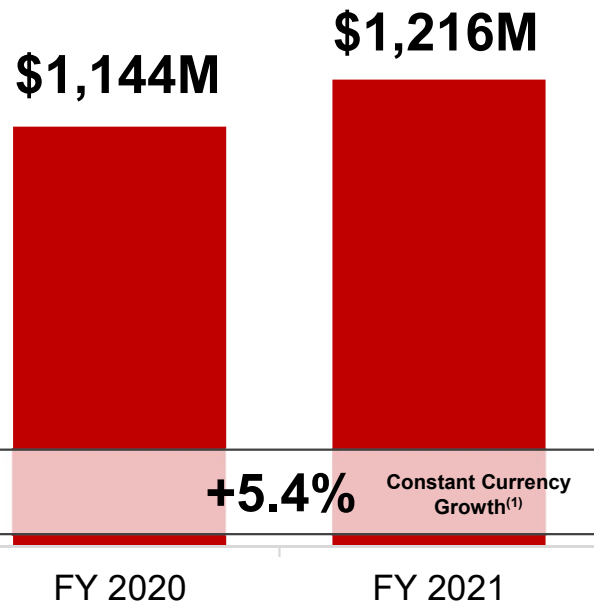
# Full Year 2021 Financial Guidance – **Non-GAAP**<sup>(1)</sup>

(in millions; except % and EPS)	FY 2021	FY 2020	vs. Prior Year	
			Reported	Constant Currency
<b>Revenue</b>	<b>\$1,216.0</b>	<b>\$1,143.7</b>	<b>6.3%</b>	<b>5.4%</b>
<b>Gross Margin</b>	<b>66.0%</b>	<b>65.1%</b>	<b>90 bps</b>	
<b>Operating Expenses</b>	<b>42.2%</b>	<b>42.1%</b>	<b>10 bps</b>	
<b>Operating Margin</b>	<b>23.8%</b>	<b>23.1%</b>	<b>70 bps</b>	
<b>Tax Rate</b>	<b>23.4%</b>	<b>22.2%</b>	<b>120 bps</b>	
<b>Non-GAAP EPS</b>	<b>\$3.85</b>	<b>\$3.60</b>	<b>6.9%</b>	

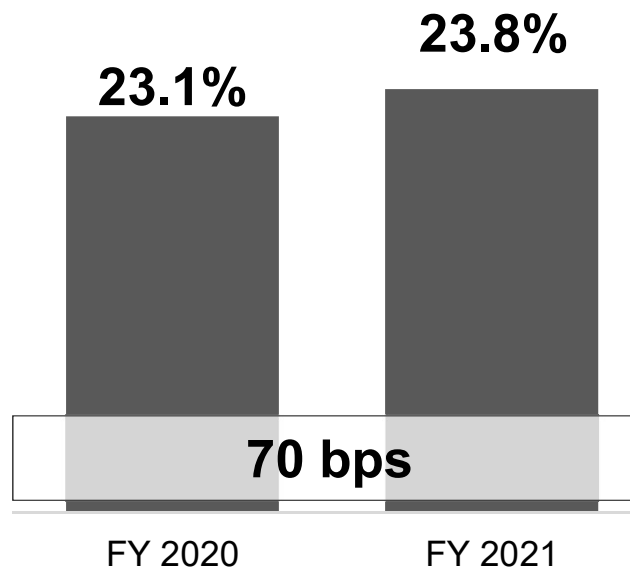
<sup>(1)</sup> Non-GAAP measures shown have been adjusted for certain items that are fully described in the Appendix. Please visit the Investor Relations section of the Company's website at [www.masimo.com](http://www.masimo.com) to access additional information related to our Non-GAAP adjustments and Supplementary Financial Information. May not foot due to rounding.

# Full Year 2021 Financial Guidance – **Non-GAAP**<sup>(1)</sup>

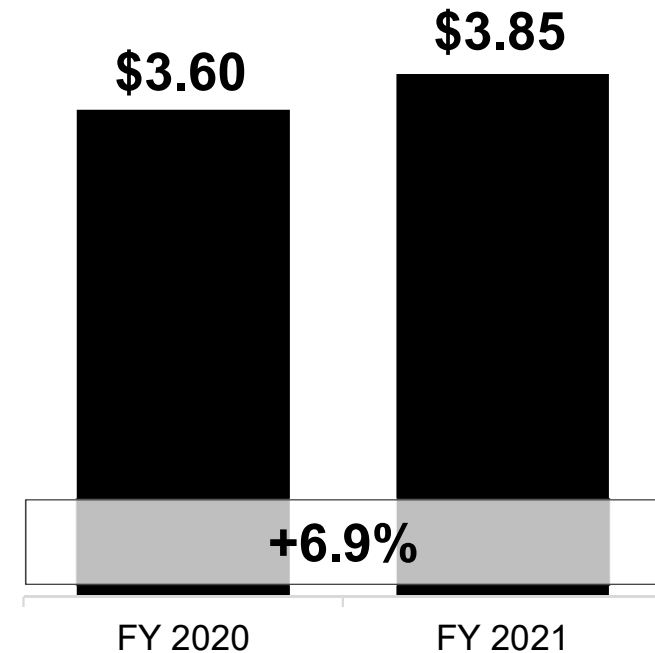
## Product Revenue



## Non-GAAP<sup>(1)</sup> Operating Margin



## Non-GAAP<sup>(1)</sup> EPS



<sup>(1)</sup> Non-GAAP measures shown have been adjusted for certain items that are fully described in the Appendix. Please visit the Investor Relations section of the Company's website at [www.masimo.com](http://www.masimo.com) to access additional information related to our Non-GAAP adjustments and Supplementary Financial Information.



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# APPENDICES

GAAP to Non-GAAP  
Adjustments and Reconciliations

# Description of Non-GAAP Adjustments

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The non-GAAP financial measures reflect adjustments for the following items, as well as the related income tax effects thereof:

## **Constant currency adjustments**

Some of our sales agreements with foreign customers provide for payment in currencies other than the U.S. Dollar. These foreign currency revenues, when converted into U.S. Dollars, can vary significantly from period-to-period depending on the average and quarter-end exchange rates during a respective period. We believe that comparing these foreign currency denominated revenues by holding the exchange rates constant with the prior year period is useful to management and investors in evaluating our product revenue growth rates on a period-to-period basis. We anticipate that fluctuations in foreign exchange rates and the related constant currency adjustments for calculation of our product revenue growth rate will continue to occur in future periods.

## **Royalty and other revenue, net of related costs**

We derive royalty and other revenue, net of related costs, from certain non-recurring contractual arrangements that we do not expect to continue in the future. We believe the exclusion of royalty and other revenue, net of related costs, associated with these non-recurring revenue streams is useful to management and investors in evaluating the performance of our ongoing operations on a period-to-period basis.

## **Acquisition, integration and related costs**

These transactions represent gains, losses, and other related costs associated with acquisitions, integrations, investments and divestitures. These items also include but are not limited to amortization and depreciation of intangible assets, asset impairments, and in-process research and development. We believe that the exclusion of these items is useful to management and investors in evaluating the performance of our ongoing operations on a period-to-period basis.

## **Litigation related expenses, settlements and awards**

These transactions represent gains, losses, and other related costs associated with certain litigation matters, which can vary in their characteristics, frequency and significance to our operating results. We believe that the exclusion of these items is useful to management and investors in evaluating the performance of our ongoing operations on a period-to-period basis.

## **Other adjustments**

In the event there are gains, losses and other adjustments which impact period-to-period comparability and do not represent the underlying ongoing results of the business, the Company may choose to exclude these from non-GAAP earnings.

# Description of Non-GAAP Adjustments

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## **Realized and unrealized gains or losses from foreign currency transactions**

These transactions represent gains, losses, and other related costs associated with foreign currency denominated transactions and investments. As the Company does not actively hedge these currency exposures, changes in the underlying currency rates relative to the U.S. Dollar may result in realized and unrealized foreign currency gains and losses between the time these receivables and payables arise and the time that they are settled in cash. Unrealized and realized gains and losses on investments may impact the Company's reported results of operations for a period. These items are highly variable, difficult to predict and outside the control of those responsible for the underlying operations of the business. We believe that exclusion of these items is useful to management and investors in evaluating the performance of our ongoing operations on a period-to-period basis.

## **Tax impact of non-GAAP adjustments.**

In order to reflect the tax effected impact of the non-GAAP adjustments, the Company will adjust the non-GAAP earnings by the approximate tax impact of these adjustments.

## **Excess tax benefits from stock-based compensation**

GAAP requires that excess tax benefits recognized on stock-based compensation expense be reflected in our provision for income taxes rather than paid-in capital. As these excess tax benefits may be highly variable from period-to-period, the Company may choose to exclude these tax benefits from non-GAAP earnings to facilitate comparability between periods and with peers.

## **Adjusted Free Cash Flow**

Represents free cash flow (cash flow from operations less cash used for the purchase of property, plant and equipment) adjusted for the impact of cash receipts or payments relating to certain previously described non-GAAP adjustments, which may impact period over period comparability.

# Constant Currency Product Revenue<sup>(1),(2)</sup>

## RECONCILIATION OF GAAP PRODUCT REVENUE GROWTH TO CONSTANT CURRENCY PRODUCT REVENUE GROWTH

(in thousands, except percentages)

	<u>Q2 2020</u>	<u>FY 2020</u>	<u>Q2 2021</u>	<u>2021 Full Year Guidance<sup>(3)</sup></u>
GAAP product revenue	\$ 300,953	\$ 1,143,744	\$ 305,118	\$ 1,216,000
Constant currency F/X adjustments	N/A	N/A	(4,335)	(10,000)
Constant currency (non-GAAP) product revenue	<u>\$ 300,953</u>	<u>\$ 1,143,744</u>	<u>\$ 300,783</u>	<u>\$ 1,206,000</u>
GAAP product revenue growth			1.4%	6.3%
Constant currency (non-GAAP) product revenue growth			-0.1%	5.4%



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<sup>(2)</sup> Reported amounts may vary from amounts previously reported due to rounding conventions; Note items may not foot due to rounding.

<sup>(3)</sup> Updated for guidance provided on July 27, 2021.

# Non-GAAP Gross Margin %<sup>(1),(2)</sup>

## RECONCILIATION OF GAAP GROSS PROFIT/MARGIN TO NON-GAAP GROSS PROFIT/MARGIN:

(in thousands, except percentages)

	<u>Q2 2020</u>	<u>FY 2020</u>	<u>Q2 2021</u>	<u>2021 Full Year Guidance<sup>(3)</sup></u>
GAAP gross profit/margin	\$ 191,584	\$ 743,065	\$ 192,912	\$ 794,500
Non-GAAP adjustments:				
Royalty and other revenue, net of related costs	-	-	-	-
Acquisition, integration and related costs	578	1,807	1,208	4,100
Other adjustments <sup>(5)</sup>	-	-	3,362	3,400
Total non-GAAP gross profit/margin adjustments	<u>578</u>	<u>1,807</u>	<u>4,570</u>	<u>7,500</u>
Non-GAAP gross profit/margin	<u>\$ 192,163</u>	<u>\$ 744,872</u>	<u>\$ 197,481</u>	<u>\$ 802,000</u>
Non-GAAP gross margin % <sup>(4)</sup>	63.9%	65.1%	64.7%	66.0%

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<sup>(3)</sup> Updated for guidance provided on July 27, 2021.

<sup>(4)</sup> Calculated as a percentage of product revenue.

<sup>(5)</sup> Other adjustments includes a charge in the second quarter of 2021 related to assisting a long-term OEM customer with their medical device correction.





# Non-GAAP Operating Expense %<sup>(1),(2)</sup>

## RECONCILIATION OF GAAP OPERATING EXPENSES TO NON-GAAP OPERATING EXPENSES:

(in thousands, except percentages)

	Q2 2020	FY 2020	Q2 2021	2021 Full Year Guidance <sup>(3)</sup>
GAAP selling, general and administrative operating expenses	\$ 98,461	\$ 369,057	\$ 93,833	
Non-GAAP adjustments:				
Acquisition, integration and related costs	(711)	(6,347)	(1,301)	
Litigation related expenses, settlements and awards <sup>(5)</sup>	-	-	(373)	
Non-GAAP selling, general and administrative operating expenses	\$ 97,750	\$ 362,709	\$ 92,157	
Non-GAAP selling, general, and administrative operating expenses % <sup>(4)</sup>	32.5%	31.7%	30.2%	
GAAP research and development operating expenses	\$ 30,878	\$ 118,659	\$ 33,943	
Non-GAAP adjustments:				
Acquisition, integration and related costs	(24)	(132)	-	
Non-GAAP research and development operating expenses	\$ 30,854	\$ 118,526	\$ 33,943	
Non-GAAP research and development operating expenses % <sup>(4)</sup>	10.3%	10.4%	11.1%	
GAAP litigation settlements and (awards)	\$ 25	\$ (474)	\$ -	
Non-GAAP adjustments:				
Litigation related expenses, settlements and awards <sup>(5)</sup>	(25)	474	-	
Non-GAAP litigation settlements and (awards)	\$ -	\$ -	\$ -	
GAAP operating expenses	\$ 129,364	\$ 487,242	\$ 127,776	\$ 524,000
Non-GAAP adjustments:				
Acquisition, integration and related costs	(735)	(6,479)	(1,301)	(6,000)
Litigation related expenses, settlements and awards <sup>(5)</sup>	(25)	474	(373)	(5,000)
Total non-GAAP operating expense adjustments	(760)	(6,005)	(1,674)	(11,000)
Non-GAAP operating expenses	\$ 128,604	\$ 481,236	\$ 126,100	\$ 513,000
Non-GAAP operating expenses % <sup>(4)</sup>	42.7%	42.1%	41.3%	42.2%

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<sup>(3)</sup> Updated for guidance provided on July 27, 2021.

<sup>(4)</sup> Calculated as a percentage of product revenue.

<sup>(5)</sup> Litigation related expenses, settlements and awards includes legal expenses in 2021 related to a complaint filed against Apple, Inc. with the U.S. International Trade Commission (ITC).



# Non-GAAP Operating Margin %<sup>(1),(2)</sup>

## RECONCILIATION OF GAAP OPERATING INCOME/MARGIN TO NON-GAAP OPERATING INCOME/MARGIN:

(in thousands, except percentages)

	<u>Q2 2020</u>	<u>FY 2020</u>	<u>Q2 2021</u>	<u>2021 Full Year Guidance<sup>(3)</sup></u>
GAAP operating income/margin	\$ 62,220	\$ 255,823	\$ 65,136	\$ 270,900
Non-GAAP adjustments:				
Royalty and other revenue, net of related costs	-	-	-	-
Acquisition, integration and related costs	1,313	8,286	2,509	10,100
Litigation related expenses, settlements and awards <sup>(5)</sup>	25	(474)	373	5,000
Other adjustments <sup>(6)</sup>	-	-	3,362	3,400
Total non-GAAP operating income/margin adjustments	<u>1,338</u>	<u>7,812</u>	<u>6,244</u>	<u>18,500</u>
Non-GAAP operating income/margin	<u>\$ 63,558</u>	<u>\$ 263,636</u>	<u>\$ 71,381</u>	<u>\$ 289,400</u>
Non-GAAP operating income % <sup>(4)</sup>	21.1%	23.1%	23.4%	23.8%

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<sup>(6)</sup> Other adjustments includes a charge in the second quarter of 2021 related to assisting a long-term OEM customer with their medical device correction.



# Non-GAAP Net Income and Diluted EPS<sup>(1),(2)</sup>

## **RECONCILIATION OF GAAP NET INCOME TO NON-GAAP NET INCOME:**

(in thousands, except percentages)

	Q2 2020	FY 2020	Q2 2021	2021 Full Year Guidance <sup>(3)</sup>
GAAP net income	\$ 55,772	\$ 240,302	\$ 50,235	\$ 221,300
Non-GAAP adjustments:				
Royalty and other revenue, net of related costs	-	-	-	-
Acquisition, integration and related costs				
Cost of goods sold	578	1,807	1,208	4,100
Operating expenses	735	6,479	1,301	6,000
Subtotal - Acquisition, integration and related costs	1,313	8,286	2,509	10,100
Litigation related expenses, settlements and awards <sup>(5)</sup>				
Operating expenses	25	(474)	373	5,000
Other adjustments <sup>(6)</sup>				
Cost of goods sold	-	-	3,362	3,400
Realized and unrealized gains or losses				
Foreign currency	(11)	(2,631)	59	900
Tax impact of non-GAAP net income adjustments	(361)	(6,096)	(1,218)	(3,500)
Excess tax benefits from stock-based compensation	(7,486)	(30,172)	(1,324)	(15,000)
Total non-GAAP net income adjustments	(6,519)	(31,086)	3,760	800
Non-GAAP net income	\$ 49,253	\$ 209,216	\$ 53,997	\$ 222,100
Non-GAAP net income per diluted share	\$ 0.85	\$ 3.60	\$ 0.94	\$ 3.85

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# Adjusted Free Cash Flow<sup>(1),(2)</sup>

## **RECONCILIATION OF FREE CASH FLOW TO ADJUSTED FREE CASH FLOW**

*(in thousands, except percentages)*

	<u>Q2 2020</u>	<u>FY 2020</u>	<u>Q2 2021</u>
Net cash provided by operating activities			
Net cash provided by operating activities	\$ 63,712	\$ 210,963	\$ 25,998
Purchases of property and equipment, net	(14,266)	(72,549)	(5,339)
Free cash flow	49,446	138,414	20,659
Litigation settlements and (awards)	-	(499)	-
Tax payments related to litigation awards	-	-	-
Adjusted free cash flow	<u>\$ 49,446</u>	<u>\$ 137,915</u>	<u>\$ 20,659</u>



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