

Moving forward



# **Sustainability 2020**

## **Reconciliations of Non-GAAP Financial Measures**

## Purpose of Reconciliation Tables

Our sustainability report includes references to certain non-GAAP (“adjusted”) financial measures. The purpose of this document is to provide a reconciliation for each non-GAAP financial measure to the most directly comparable financial measure calculated in accordance with U.S. generally accepted accounting principles (“GAAP”).

We believe these non-GAAP measures provide useful information to evaluate the performance of our business because such measures, when viewed together with financial results computed in accordance with GAAP, provide a more complete understanding of the factors and trends affecting our historical financial performance. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for the most directly comparable measures calculated in accordance with GAAP. Our non-GAAP financial measures supplement our GAAP disclosures and should be considered within the context of our complete audited financial results for the given periods, which are available on our website at [www.airproducts.com](http://www.airproducts.com).

In many cases, non-GAAP measures are determined by adjusting the most directly comparable GAAP measure to exclude certain disclosed items, or “non-GAAP adjustments,” that we believe are not representative of underlying business performance. Users of our non-GAAP financial measures should consider the limitations associated with these non-GAAP measures, including the potential lack of comparability of these measures from one company to another.

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## Adjusted Diluted Earnings Per Share ("EPS")

	2019	2018	\$ Change	% Change
<b>Diluted EPS<sup>(A)</sup></b>	\$7.94	\$6.59	\$1.35	20.5%
Change in inventory valuation method	—	(0.08)		
Facility closure	0.10	—		
Cost reduction actions	0.08	—		
Gain on exchange of equity affiliate investments	(0.13)	—		
Pension settlement loss	0.02	0.15		
Tax reform repatriation	(0.06)	2.16		
Tax reform adjustment related to deemed foreign dividends	0.26	(0.25)		
Tax reform rate change and other	—	(0.96)		
Tax restructuring	—	(0.16)		
<b>Adjusted Diluted EPS<sup>(A)</sup></b>	<b>\$8.21</b>	<b>\$7.45</b>	<b>\$0.76</b>	<b>10.2%</b>

<sup>(A)</sup>Measure is reflected on a continuing operations basis.

## Adjusted EBITDA Margin

\$ Millions	2019	2018	Change
Sales	\$8,918.9	\$8,930.2	
Net income	1,809.4	1,532.9	
<b>Net income margin</b>	20.3%	17.2%	310 bp
Net income	\$1,809.4	\$1,532.9	
Less: Income from discontinued operations, net of tax	—	42.2	
Add: Interest expense	137.0	130.5	
Less: Other non-operating income (expense), net	66.7	5.1	
Add: Income tax provision	480.1	524.3	
Add: Depreciation and amortization	1,082.8	970.7	
Less: Change in inventory valuation method	—	24.1	
Add: Facility closure	29.0	—	
Add: Cost reduction actions	25.5	—	
Less: Gain on exchange of equity affiliate investments	29.1	—	
Add: Tax reform repatriation - equity method investment	—	28.5	
Adjusted EBITDA	\$3,468.0	\$3,115.5	
<b>Adjusted EBITDA margin</b>	38.9%	34.9%	400 bp

## Adjusted Operating Margin

\$ Millions	2019	2018	Change
Sales	\$8,918.9	\$8,930.2	
Operating income	2,144.4	1,965.6	
<b>Operating margin</b>	24.0%	22.0%	200 bp
Operating income	\$2,144.4	\$1,965.6	
Change in inventory valuation method	—	(24.1)	
Facility closure	29.0	—	
Cost reduction actions	25.5	—	
Gain on exchange of equity affiliate investments	(29.1)	—	
Adjusted operating income	\$2,169.8	\$1,941.5	
<b>Adjusted operating margin</b>	24.3%	21.7%	260 bp

## Return on Capital Employed ("ROCE") (Non-GAAP basis)

\$ Millions	2019				2018				2017
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>ROCE (GAAP Basis)</b>									
Net income	\$518.7	\$500.2	\$433.5	\$357.0	\$459.7	\$487.9	\$423.6	\$161.7	
Total liabilities and equity	18,942.8	19,531.9	19,244.5	19,142.0	19,178.3	19,206.0	18,511.1	18,208.8	18,467.2
Four-Quarter Trailing Net Income	1,809.4				1,532.9				
Five-Quarter Average Total Liabilities and Equity	19,207.9				18,714.3				
<b>ROCE (GAAP Basis)</b>	9.4%				8.2%				
<b>Change</b>	120 bp								
<b>ROCE (Non-GAAP Basis)</b>									
Net income	\$518.7	\$500.2	\$433.5	\$357.0	\$459.7	\$487.9	\$423.6	\$161.7	
(Income) loss from discontinued operations, net of tax	—	—	—	—	—	(43.2)	—	1.0	
Interest expense	30.1	34.2	35.4	37.3	35.4	34.9	30.4	29.8	
Change in inventory valuation method	—	—	—	—	(24.1)	—	—	—	
Facility closure	—	—	—	29.0	—	—	—	—	
Cost reduction actions	—	25.5	—	—	—	—	—	—	
Gain on exchange of equity affiliate investments	—	(29.1)	—	—	—	—	—	—	
Pension settlement loss	—	—	5.0	—	43.7	—	—	—	
Tax reform repatriation	—	3.2	—	(15.6)	24.1	—	—	453.0	
Tax reform adjustment related to deemed foreign dividends	—	—	—	56.2	(56.2)	—	—	—	
Tax reform rate change and other	—	—	—	—	2.2	—	—	(214.0)	
Tax restructuring	—	—	—	—	3.1	—	(38.8)	—	
Tax other <sup>(A)</sup>	(6.1)	(12.8)	(8.2)	(17.0)	(8.5)	(6.8)	(3.6)	(19.1)	
<b>Return After-Tax (Non-GAAP Basis)</b>	\$542.7	\$521.2	\$465.7	\$446.9	\$479.4	\$472.8	\$411.6	\$412.4	
<b>Total Capital</b>									
Total liabilities and equity	\$18,942.8	\$19,531.9	\$19,244.5	\$19,142.0	\$19,178.3	\$19,206.0	\$18,511.1	\$18,208.8	\$18,467.2
Less: Payables and accrued liabilities	1,635.7	1,543.2	1,513.7	1,738.3	1,817.8	1,968.4	1,551.6	1,609.5	1,814.3
Less: Accrued income taxes	86.6	65.6	70.7	111.9	59.6	46.0	76.6	110.1	98.6
Less: Other noncurrent liabilities	1,712.4	1,553.6	1,560.5	1,551.6	1,536.9	1,831.8	1,923.5	1,921.9	1,611.9
Less: Deferred income taxes	793.8	823.2	805.4	768.9	775.1	678.6	699.7	719.2	778.4
Less: Current liabilities of discontinued operations	—	—	—	—	—	—	—	13.6	15.7
Less: Assets of discontinued operations	—	—	—	—	—	—	—	10.2	10.2
<b>Capital Employed (Non-GAAP Basis)</b>	\$14,714.3	\$15,546.3	\$15,294.2	\$14,971.3	\$14,988.9	\$14,681.2	\$14,259.7	\$13,824.3	\$14,138.1
Four-Quarter Trailing Return After-Tax—Non-GAAP	\$1,976.5				\$1,776.2				
Five-Quarter Average Capital Employed—Non-GAAP	15,103.0				14,378.4				
<b>ROCE (Non-GAAP Basis)</b>	13.1%				12.4%				
<b>Change</b>	70 bp								

<sup>(A)</sup> Represents the tax impact on our pre-tax non-GAAP adjustments.

## Capital Expenditures

Capital expenditures is a non-GAAP measure that we define as cash flows for additions to plant and equipment, acquisitions (less cash acquired), and investment in and advances to unconsolidated affiliates. A reconciliation of cash used for investing activities to our reported capital expenditures is provided below:

\$ Millions	2019
<b>Cash used for investing activities</b>	\$2,113.4
Proceeds from sale of assets and investments	11.1
Purchases of investments	(172.1)
Proceeds from investments	190.5
Other investing activities	(14.3)
<b>Capital Expenditures</b>	<b>\$2,128.6</b>

The components of our capital expenditures are detailed in the table below:

\$ Millions	2019
Additions to plant and equipment	\$1,989.7
Acquisitions, less cash acquired	123.2
Investment in and advances to unconsolidated affiliates	15.7
<b>Capital Expenditures</b>	<b>\$2,128.6</b>