

Cognex Q4 2023 Financial Results

February 15, 2024

COGNEX
A COMPANY WITH
VISION

Forward Looking Statements

Certain statements made in this report, as well as oral statements made by the Company from time to time, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Readers can identify these forward-looking statements by our use of the words “expects,” “anticipates,” “estimates,” “potential,” “believes,” “projects,” “intends,” “plans,” “will,” “may,” “shall,” “could,” “should,” “opportunity,” “goal” and similar words and other statements of a similar sense. These statements are based on our current estimates and expectations as to prospective events and circumstances, which may or may not be in our control and as to which there can be no firm assurances given. These forward-looking statements, which include statements regarding business and market growth opportunities and trends, future financial performance and financial targets, customer demand and order rates and timing of related revenue, managing supply shortages, delivery lead times, future product mix, research and development activities, sales and marketing activities (including our Emerging Customer Program), new product offerings and product development activities, customer acceptance of our products, the potential effects of emerging technologies, capital expenditures, cost management activities, investments, liquidity, dividends and stock repurchases, strategic and growth plans, our ability to maintain and grow key relationships, acquisitions, the expected impact of the fire at our primary contract manufacturer's plant on our assets, business and results of operations and related insurance recoveries, and estimated tax benefits and expenses and other tax matters, involve known and unknown risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include: (1) the technological obsolescence of current products and the inability to develop new products; (2) the impact of competitive pressures; (3) the inability to attract and retain skilled employees and maintain our unique corporate culture; (4) the failure to properly manage the distribution of products and services; (5) economic, political, and other risks associated with international sales and operations, including the impact of trade disputes on the economic climate in China and the wars in Ukraine and Israel; (6) the challenges in integrating and achieving expected results from acquired businesses; (7) information security breaches; (8) the failure to comply with laws or regulations relating to data privacy or data protection; (9) the inability to protect our proprietary technology and intellectual property; (10) the failure to manufacture and deliver products in a timely manner; (11) the inability to obtain, or the delay in obtaining, components for our products at reasonable prices; (12) the failure to effectively manage product transitions or accurately forecast customer demand; (13) the inability to manage disruptions to our distribution centers or to our key suppliers; (14) the inability to design and manufacture high-quality products; (15) the loss of, or curtailment of purchases by, large customers in the logistics, consumer electronics, or automotive industries; (16) potential impairment charges with respect to our investments or acquired intangible assets; (17) exposure to additional tax liabilities, increases and fluctuations in our effective tax rate, and other tax matters; (18) fluctuations in foreign currency exchange rates and the use of derivative instruments; (19) unfavorable global economic conditions, including increases in interest rates and high inflation rates; (20) business disruptions from natural or man-made disasters, such as fire, or public health issues; (21) exposure to potential liabilities, increased costs, reputational harm, and other adverse effects associated with expectations relating to environmental, social, and governance considerations; (22) stock price volatility; and (23) our involvement in time-consuming and costly litigation or activist shareholder activities. The foregoing list should not be construed as exhaustive and we encourage readers to refer to the detailed discussion of risk factors included in Part I - Item 1A of this Annual Report on Form 10-K. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation to subsequently revise forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date such statements are made.

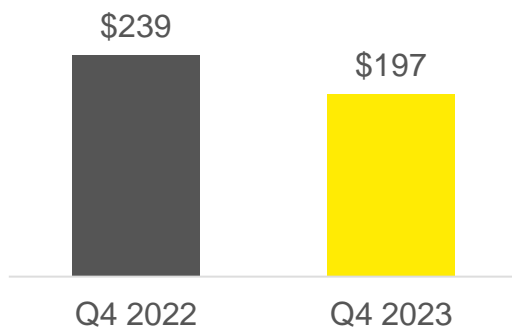
Q4 2023 Overview

Continue to operate in a challenging, yet stable operating environment, while making strong progress on strategic initiatives.

- Q4 completed record year for new product introductions
- Reported revenue -18% Y/Y with most major end markets down, while Logistics remained stable
 - F/X added +1% Y/Y
 - Moritex (six weeks) added \$7M / +3% Y/Y
- Adjusted Operating Margin decline (to 10.2%) driven by operating de-leverage and strategic investment in Emerging Customer initiative
- Emerging Customer 2023 Salesnoid cohort completed training and is now actively selling
 - Expect positive contribution to 2024 operating income from Emerging Customer 2023 Salesnoid cohort
- Expect 1Q24 revenue in-line with 4Q23 as operating environment remains challenging, but more optimistic about momentum building in 2H24

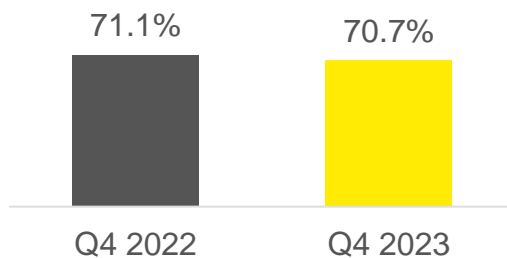
Q4 2023 Financial Highlights

Revenue (\$M)



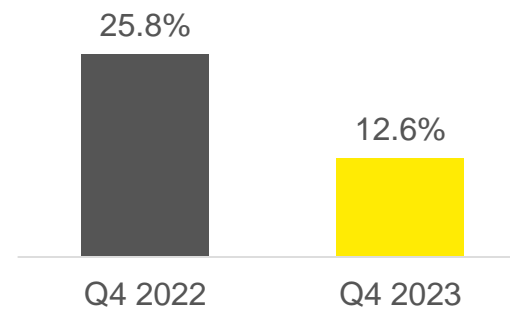
- Reported revenue -18%
 - F/X +1%
 - Moritex +3%
- 4Q2022 boosted by ~\$20M of revenue delayed from 3Q2022 due to fire
- Most end markets declined Y/Y; Logistics stable

Adjusted Gross Margin



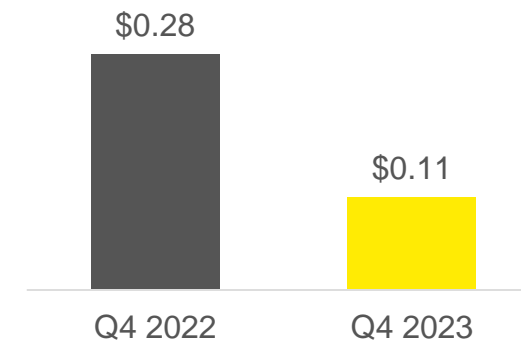
- Favorable: Less broker buys
- Unfavorable
 - Product / industry mix
 - Moritex
 - Volume de-leverage

Adjusted EBITDA Margin



- Operating de-leverage
- Strategic investment in Emerging Customer initiative

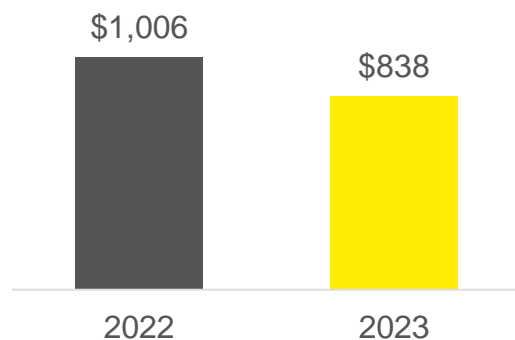
Adjusted EPS



- Decline driven by lower revenue and operating margin
- Partially offset by lower tax rate and share count

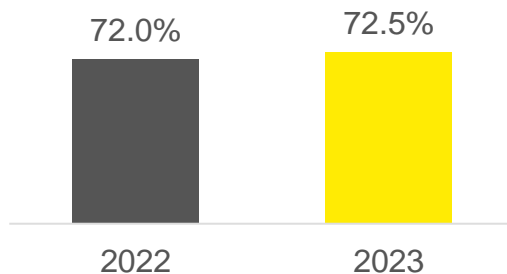
2023 Financial Highlights

Revenue (\$M)



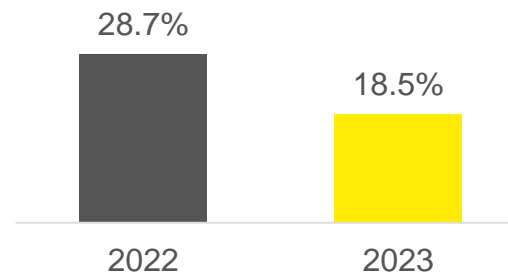
- Reported revenue -17%
 - F/X -1% / Moritex +1%
- >50% of decline driven by capex pause at two large, long-standing customers
- Weakness in electronics and semi, particularly in China
- Growth in EV Battery and Base Logistics

Adjusted Gross Margin



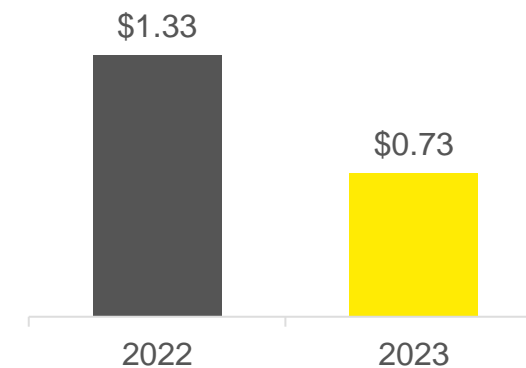
- Favorable: Less broker buys
- Unfavorable
 - Product / industry mix
 - Moritex
 - Volume de-leverage

Adjusted EBITDA Margin



- Operating de-leverage
- \$28M investment in Emerging Customer initiative
- Prudent cost management beyond strategic investments
 - Adj. opex \$s excluding Emerging Customer investment declined Y/Y





Adjusted EPS



- Decline driven by lower revenue and operating margin and slightly higher tax rate
- Partially offset by \$80 million of share repurchase activity

Please see the appendix of this presentation for a description of certain Non-GAAP measures and a full GAAP to Non-GAAP reconciliation

2023 End Market Results

	End Market	% of Rev	'23 vs. '22	Drivers
	Auto	25%	Down MSD	↓ Base auto ↑ EV Battery
	Logistics	20%	Down ~20%	↓ A few large e-commerce customers down significantly in 1H23; steady since 3Q22 ↑ Base logistics
	Consumer Electronics	20%	Down ~30%	↓ Slowdown in capex investment at large customer ↓ Weakness in China
	Other	35%	Down LDD	↓ Semi down significantly ↓ Medical-related ↑ Other Packaging end markets ¹

1) Includes Consumer Products and Food & Beverage.

2023 Was Record Year for New Products

- >2x as many products launched compared to recent years
- DataMan[®] 580 enables higher-speed logistics operations
- In-Sight[®] 3800 provides edge learning at twice the speed as previous systems
- In-Sight SnAPP[™] brings new levels of ease, providing machine vision entry point for new customers. Expanded served market by \$1B annually



Emerging Customer Initiative

- Expanding salesforce to reach underpenetrated customers
- Simplicity of new products driven by edge learning AI enables served market expansion
- Opex investment of \$28M in 2023

2024 Expectations

- >\$50 million revenue
 - Emerging Customer Salesnoid 2023 cohort is actively selling in the field as of January 2024
- ~\$25M Y/Y opex increase
 - Full-year of 2023 Emerging Customer Salesnoid cohort plus ramping of 2024 cohort
 - Partially offset by natural attrition and leverage of program initiation costs
- 2023 cohort expected to be accretive to operating income \$ on a stand-alone basis
- Initiative expected to be in line with >30% adjusted operating margin target over long-term

Outlook

Metric	Q1 2024
Revenue	\$190M to \$205M
Adjusted Gross Margin	High 60%
Adjusted Operating Expenses	+MSD sequentially
Adjusted Effective Tax Rate	16%

Full Year 2024 Expectations

- We expect challenging, yet stable operating environment to continue through first-half, but momentum to build in back-half
 - Logistics growth, but likely below long-term market growth
 - EV battery to continue to grow
 - Consumer Electronics positive long-term trends; uncertain timing
 - Semi market improving
- Moritex expected to contribute 6-8% of revenue
- Emerging Customers
 - >\$50M revenue
 - ~\$25M Y/Y increase in opex
- Incentive compensation headwind of \$15-20M Y/Y



Non-GAAP Metric Changes

Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, including adjusted gross margin, adjusted operating expense, adjusted operating income, adjusted EBITDA, adjusted net income, adjusted earnings per share of common stock, diluted, adjusted effective tax rate, and free cash flow. Cognex defines its non-GAAP metrics as follows:

- *Adjusted gross margin:* Gross margin adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted operating expense:* Operating expense adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted operating income:* Operating income adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted EBITDA:* Operating income adjusted for amortization of acquisition-related intangible assets and depreciation, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted net income:* Net income adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire or a foreign currency (gain) loss on a forward contract to hedge the Moritex purchase price.
- *Free cash flow:* Cash provided by operating activities less cash for capital expenditures.

Beginning in the fourth quarter of 2023, we updated the calculation of our non-GAAP measures to exclude acquisition and integration costs and amortization of acquisition-related intangible assets. These changes have been applied retrospectively to the third quarter of 2023, fourth quarter of 2022 and twelve months ended December 31, 2022 and December 31, 2023. Cognex also uses results on a constant-currency basis as one measure to evaluate its performance and compares results between periods as if the exchange rates had remained constant period-over-period.

Cognex believes these non-GAAP financial measures are helpful because they allow investors to more accurately compare results over multiple periods using the same methodology that management employs in its budgeting process, in its review of operating results, and for forecasting and planning for future periods. Cognex's definitions may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Furthermore, these measures have certain limitations in that they do not include the impact of certain non-recurring expenses that are reflected in our consolidated statement of operations that are necessary to run our business. Thus, our non-GAAP financial measures should be considered in addition to, not as substitutes for, or in isolation from, measures prepared in accordance with GAAP.

GAAP to Non-GAAP Tables

USD \$ in 000s unless noted as per share

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Gross Margin (GAAP)	\$143,740	\$179,683	\$142,774	\$135,044	\$203,617	\$196,485	\$152,239	\$169,564	\$601,241	\$721,905
Restructuring charges	-	-	-	-	-	-	-	-	-	-
Loss (recovery) from fire	-	-	-	-	-	-	-	-	-	-
Acquisition and integration costs	-	-	-	2,882	-	-	-	-	2,882	-
Amortization of acquisition-related intangible assets	749	550	550	1,126	659	613	613	613	2,975	2,498
Adjusted gross margin	\$144,489	\$180,233	\$143,324	\$139,052	\$204,276	\$197,098	\$152,852	\$170,177	\$607,098	\$724,403
GAAP Gross Margin %	71.5%	74.1%	72.4%	68.7%	72.1%	71.5%	72.6%	70.8%	71.8%	71.8%
Adjusted Gross Margin %	71.8%	74.3%	72.7%	70.7%	72.3%	71.8%	72.9%	71.1%	72.5%	72.0%

Reconciliation of Operating Expense to Adjusted Operating Expense

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Operating Expense (GAAP)	\$121,579	\$114,508	\$112,137	\$122,315	\$116,889	\$131,344	\$112,216	\$115,227	\$470,539	\$475,676
Restructuring charges	-	-	-	-	-	-	-	(1,657)	-	(1,657)
(Loss) recovery from fire	-	2,500	2,750	2,750	-	(17,403)	(2,891)	(485)	8,000	(20,779)
Acquisition and integration costs	(116)	(623)	(1,241)	(5,101)	-	-	-	(280)	(7,080)	(280)
Amortization of acquisition-related intangible assets	(194)	(194)	(194)	(1,053)	(194)	(194)	(194)	(194)	(1,635)	(776)
Adjusted Operating Expense	\$121,269	\$116,192	\$113,452	\$118,911	\$116,695	\$113,747	\$109,131	\$112,611	\$469,824	\$452,184

Reconciliation of Operating Income to Adjusted Operating Income

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Operating Income (GAAP)	\$22,161	\$65,175	\$30,637	\$12,729	\$86,728	\$65,141	\$40,023	\$54,337	\$130,702	\$246,229
Restructuring charges	-	-	-	-	-	-	-	1,657	-	1,657
Loss (recovery) from fire	-	(2,500)	(2,750)	(2,750)	-	17,403	2,891	485	(8,000)	20,779
Acquisition and integration costs	116	623	1,241	7,983	-	-	-	280	9,962	280
Amortization of acquisition-related intangible assets	943	744	744	2,179	853	807	807	807	4,610	3,274
Adjusted Operating Income	\$23,220	\$64,042	\$29,872	\$20,141	\$87,581	\$83,351	\$43,721	\$57,566	\$137,274	\$272,219
GAAP Operating Margin	11.0%	26.9%	15.5%	6.5%	30.7%	23.7%	19.1%	22.7%	15.6%	24.5%
Adjusted Operating Margin	11.5%	26.4%	15.1%	10.2%	31.0%	30.4%	20.9%	24.0%	16.4%	27.1%

GAAP to Non-GAAP Tables

USD \$ in 000s unless noted as per share

Reconciliation of Operating Income to Adjusted EBITDA

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Operating Income (GAAP)	\$22,161	\$65,175	\$30,637	\$12,729	\$86,728	\$65,141	\$40,023	\$54,337	\$130,702	\$246,229
Restructuring charges	-	-	-	-	-	-	-	1,657	-	1,657
Loss (recovery) from fire	-	(2,500)	(2,750)	(2,750)	-	17,403	2,891	485	(8,000)	20,779
Acquisition and integration costs	116	623	1,241	7,983	-	-	-	280	9,962	280
Amortization of acquisition-related intangible assets	943	744	744	2,179	853	807	807	807	4,610	3,274
Depreciation	3,986	4,191	4,380	4,713	4,117	3,997	4,062	4,171	17,270	16,347
Adjusted EBITDA	\$27,206	\$68,233	\$34,252	\$24,854	\$91,698	\$87,348	\$47,783	\$61,737	\$154,544	\$288,566
Adjusted EBITDA Margin	13.5%	28.1%	17.4%	12.6%	32.5%	31.8%	22.8%	25.8%	18.5%	28.7%

Reconciliation of Net Income to Adjusted Net Income

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Net Income (GAAP)	\$25,615	\$57,474	\$18,916	\$11,229	\$67,333	\$58,901	\$33,980	\$55,311	\$113,234	\$215,525
Restructuring charges	-	-	-	-	-	-	-	1,657	-	1,657
Loss (recovery) from fire	-	(2,500)	(2,750)	(2,750)	-	17,403	2,891	485	(8,000)	20,779
Acquisition and integration costs	116	623	1,241	7,983	-	-	-	280	9,962	280
Amortization of acquisition-related intangible assets	943	744	744	2,179	853	807	807	807	4,610	3,274
Foreign currency (gain) loss on forward contract to hedge	-	-	8,456	-	-	-	-	-	8,456	-
Moritex purchase price	-	-	-	-	-	-	-	-	-	-
Adjusted Pretax Income	-	-	-	-	-	-	-	-	-	-
Discrete tax (benefit) expense	(3,594)	399	4,035	1,498	6,338	(2,352)	(2)	(8,858)	2,338	(4,874)
Tax impact of reconciling items	(184)	149	(2,037)	(1,134)	(136)	(2,568)	(1,063)	(981)	(3,207)	(4,748)
Adjusted Net Income	\$22,895	\$56,888	\$28,605	\$19,006	\$74,389	\$72,191	\$36,613	\$48,701	\$127,393	\$231,894

GAAP to Non-GAAP Tables

USD \$ in 000s unless noted as per share

Reconciliation of Earnings Per Share to Adjusted Earnings Per Share

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Earnings Per Share of common stock, diluted (GAAP)	\$0.15	\$0.33	\$0.11	\$0.07	\$0.38	\$0.34	\$0.19	\$0.32	\$0.65	\$1.23
Restructuring charges	-	-	-	-	-	-	-	0.01	-	0.01
Loss (recovery) from fire	-	(0.01)	(0.02)	(0.02)	-	0.10	0.02	-	(0.05)	0.12
Acquisition and integration costs	-	-	0.01	0.05	-	-	-	-	0.06	-
Amortization of acquisition-related intangible assets	0.01	-	-	0.01	-	-	-	-	0.03	0.02
Foreign currency (gain) loss on forward contract to hedge	-	-	-	-	-	-	-	-	-	-
Moritex purchase price	-	-	0.05	-	-	-	-	-	0.05	-
Discrete tax (benefit) expense	(0.02)	-	0.02	0.01	0.04	(0.01)	-	(0.05)	0.01	(0.03)
Tax impact of reconciling items	-	-	(0.01)	(0.01)	-	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)
Adjusted Earnings Per Share of common stock, diluted	\$0.13	\$0.33	\$0.17	\$0.11	\$0.42	\$0.41	\$0.21	\$0.28	\$0.73	\$1.33

Reconciliation of Cash Provided by Operating Activities to Free Cash Flow

	Three-months Ended								Full-year Ended	
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 3, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Cash Provided by Operating Activities (GAAP)	\$27,553	\$29,849	\$41,023	\$14,491	\$49,517	\$44,112	\$83,520	\$66,257	\$112,916	\$243,406
Capital expenditures	(5,507)	(4,700)	(5,855)	(7,015)	(4,585)	(6,668)	(4,352)	(4,062)	(23,077)	(19,667)
Free Cash Flow	\$22,046	\$25,149	\$35,168	\$7,476	\$44,932	\$37,444	\$79,168	\$62,195	\$89,839	\$223,739

Comparison of non-GAAP Adjustment Methodologies

USD \$ in 000s unless noted as per share

Adjusted Operating Income Comparison of Old vs. New Methodology

	Three-months Ended								YTD 3Q23	Year End
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 4, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	1Q-3Q 2023	Dec. 31, 2022
Non-GAAP Operating Income (old methodology)	\$22,161	\$62,675	\$29,057		\$86,728	\$82,544	\$42,914	\$56,479	\$113,893	\$268,665
Acquisition and integration costs	116	623	71		-	-	-	280	809	280
Amortization of acquisition-related intangible assets	943	744	744		853	807	807	807	2,431	3,274
Adjusted Operating Income (new methodology)	\$23,220	\$64,042	\$29,872		\$87,581	\$83,351	\$43,721	\$57,566	\$117,133	\$272,219

Adjusted Net Income Comparison of Old vs. New Methodology

	Three-months Ended								YTD 3Q23	Year End
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 4, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	1Q-3Q 2023	Dec. 31, 2022
Non-GAAP Net Income (old methodology)	\$22,021	\$55,806	\$27,931		\$73,671	\$71,512	\$35,941	\$47,794	\$105,758	\$228,918
Acquisition and integration costs	116	623	71		-	-	-	280	809	280
Amortization of acquisition-related intangible assets	943	744	744		853	807	807	807	2,431	3,274
Tax impact of reconciling items	(185)	(285)	(141)		(135)	(128)	(135)	(180)	(611)	(578)
Adjusted Net Income (new methodology)	\$22,895	\$56,888	\$28,605		\$74,389	\$72,191	\$36,613	\$48,701	\$108,387	\$231,894

Adjusted EPS Comparison of Old vs. New Methodology

	Three-months Ended								YTD 3Q23	Year End
	Apr. 2, 2023	Jul. 2, 2023	Oct. 1, 2023	Dec. 31, 2023	Apr. 4, 2022	Jul. 3, 2022	Oct. 2, 2022	Dec. 31, 2022	1Q-3Q 2023	Dec. 31, 2022
Non-GAAP EPS (old methodology)	\$0.13	\$0.32	\$0.16		\$0.42	\$0.41	\$0.21	\$0.27	\$0.61	\$1.31
Acquisition and integration costs	0.00	0.00	0.00		-	-	-	0.00	0.00	0.00
Amortization of acquisition-related intangible assets	0.01	0.00	0.00		0.00	0.00	0.00	0.00	0.01	0.02
Tax impact of reconciling items	(0.00)	(0.00)	(0.00)		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Adjusted EPS (new methodology)	\$0.13	\$0.33	\$0.17		\$0.42	\$0.41	\$0.21	\$0.28	\$0.62	\$1.33

Description of Adjustments

In addition to reporting financial results in accordance with U.S. GAAP, the Company also provides various non-GAAP measures that incorporate adjustments for the impacts of special items. Adjustments incorporated in the preparation of these non-GAAP measures for the periods presented include the items described below:

Restructuring charges:

- Restructuring costs include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of the Company's business such as employee severance costs and costs for consolidating facilities. In December 2022, following its acquisition of SAC Sirius Advanced Cybernetics GmbH, the Company completed restructuring activities to align the cost and operating structure of the acquired business with the Company's business strategy.

Loss (recovery) from fire:

- On June 7, 2022, the Company's primary contract manufacturer experienced a fire at its plant in Indonesia. In 2022, the Company recorded a net loss related to the fire of \$20,779,000, consisting primarily of losses of inventories and other assets of \$48,339,000, partially offset by insurance proceeds received from the Company's insurance carrier of \$27,560,000. In 2023, the Company recorded recoveries related to the fire of \$8,000,000, consisting of \$2,500,000 for proceeds received from the Company's insurance carrier in relation to a business interruption claim and \$5,500,000 for proceeds received as part of a financial settlement for lost inventory and other losses incurred as a result of the fire. Management does not anticipate additional recoveries.

Acquisition and integration costs:

- The Company has incurred charges for transaction expenses and related to the integration of acquired businesses. In the fourth quarter of 2023, these costs were primarily related to the acquisition of Moritex Corporation on October 18, 2023.

Description of Adjustments (Continued)

Amortization of acquisition-related intangible assets:

- The Company excludes the amortization of acquired intangible assets from non-GAAP expense and income measures. These items are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions, and include the amortization of customer relationships, completed technologies, and trademarks that originated from prior acquisitions. The largest driver of these intangible assets was the acquisition of Moritex Corporation on October 18, 2023.

Foreign currency (gain) loss on forward contract to hedge Moritex purchase price:

- In the third quarter of 2023, the Company recorded a foreign currency loss of \$8,456,000 on the settlement of a foreign currency forward contract entered into to hedge the Japanese Yen purchase price of the acquisition of Moritex Corporation.

Discrete tax (benefit) expense:

- Items unrelated to current period ordinary income or (loss) that generally relate to changes in tax laws, adjustments to prior period's actual liability determined upon filing tax returns, and adjustments to previously recorded reserves for uncertain tax positions, initially recording or fully reversing valuation allowances.

We estimate the tax effect of items identified in the reconciliation by applying the effective tax rate to the pre-tax amount. However, if a specific tax rate or tax treatment is required because of the nature of the item and/or the tax jurisdiction where the item was recorded, we estimate the tax effect by applying the relevant specific tax rate or tax treatment, rather than the effective tax rate.