



# **Alcon 4Q20 Earnings Presentation**

February 24, 2021

**Alcon**

# Legal Disclaimers

## Forward-Looking Statements

This document contains, and our officers and representatives may from time to time make, certain “forward-looking statements” within the meaning of the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipate,” “intend,” “commitment,” “look forward,” “maintain,” “plan,” “goal,” “seek,” “target,” “assume,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods. Examples of forward-looking statements include, among others, statements Alcon makes regarding its liquidity, revenue, gross margin, effective tax rate, foreign currency exchange movements, earnings per share, its plans and decisions relating to various capital expenditures, capital allocation priorities and other discretionary items, market growth assumptions, and generally, its expectations concerning its future performance and the effects of the COVID-19 pandemic on its businesses.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on Alcon’s current beliefs, expectations and assumptions regarding the future of its business, future plans and strategies, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties and risks that are difficult to predict. Such forward-looking statements are subject to various risks and uncertainties facing Alcon, including: the effect of the COVID-19 pandemic as well as other viral or disease outbreaks; the commercial success of its products and its ability to maintain and strengthen its position in its markets; the success of its research and development efforts, including its ability to innovate to compete effectively; its success in completing and integrating strategic acquisitions; pricing pressure from changes in third party payor coverage and reimbursement methodologies; global and regional economic, financial, legal, tax, political, and social change; data breaches or other disruptions of its information technology systems; ongoing industry consolidation; its ability to properly educate and train healthcare providers on its products; changes in inventory levels or buying patterns of its customers; the impact of a disruption in its global supply chain or important facilities; ability to service its debt obligations; its ability to comply with the US Foreign Corrupt Practices Act of 1977 and other applicable anti-corruption laws, particularly given that it has entered into a three-year Deferred Prosecution Agreement with the US Department of Justice; uncertainty and impact relating to the potential phasing out of LIBOR and transition to alternative reference rates; the need for additional financing through the issuance of debt or equity; its reliance on outsourcing key business functions; its ability to protect its intellectual property; the impact on unauthorized importation of its products from countries with lower prices to countries with higher prices; uncertainties regarding the success of Alcon’s separation and Spin-off from Novartis and the subsequent transformation program, including the expected separation and transformation costs, as well as any potential savings, incurred or realized by Alcon; the effects of litigation, including product liability lawsuits and government investigations; its ability to comply with all laws to which it may be subject; effect of product recalls or voluntary market withdrawals; the implementation of its enterprise resource planning system; its ability to attract and retain qualified personnel; the accuracy of its accounting estimates and assumptions, including pension plan obligations and the carrying value of intangible assets; the ability to obtain regulatory clearance and approval of its products as well as compliance with any post-approval obligations, including quality control of its manufacturing; legislative and regulatory reform; the ability of Alcon Pharmaceuticals Ltd. to comply with its investment tax incentive agreement with the Swiss State Secretariat for Economic Affairs in Switzerland and the Canton of Fribourg, Switzerland; its ability to manage environmental, social and governance matters to the satisfaction of its many stakeholders, some of which may have competing interests; its ability to operate as a stand-alone company; whether the transitional services Novartis has agreed to provide Alcon are sufficient; the impact of the spin-off from Novartis on Alcon’s shareholder base; the impact of being listed on two stock exchanges; the ability to declare and pay dividends; the different rights afforded to its shareholders as a Swiss corporation compared to a US corporation; and the effect of maintaining or losing its foreign private issuer status under US securities laws. Additional factors are discussed in Alcon’s filings with the United States Securities and Exchange Commission, including its Form 20-F. Should one or more of these uncertainties or risks materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated. Therefore, you should not rely on any of these forward-looking statements. Forward-looking statements in this document speak only as of the date of its filing, and Alcon assumes no obligation to update forward-looking statements as a result of new information, future events or otherwise.

## Intellectual property

This report may contain references to our proprietary intellectual property. All product names appearing in italics or ALL CAPS are trademarks owned by or licensed to Alcon Inc.

## Non-IFRS measures

Alcon uses certain non-IFRS metrics when measuring performance, including when measuring current period results against prior periods, including core results, percentage changes measured in constant currencies, and free cash flow. Because of their non-standardized definitions, the non-IFRS measures (unlike IFRS measures) may not be comparable to the calculation of similar measures of other companies. These non-IFRS measures are presented solely to permit investors to more fully understand how Alcon management assesses underlying performance. These non-IFRS measures are not, and should not be viewed as, a substitute for IFRS measures.

# Agenda

- Key Topics
- Financial Results
- Outlook

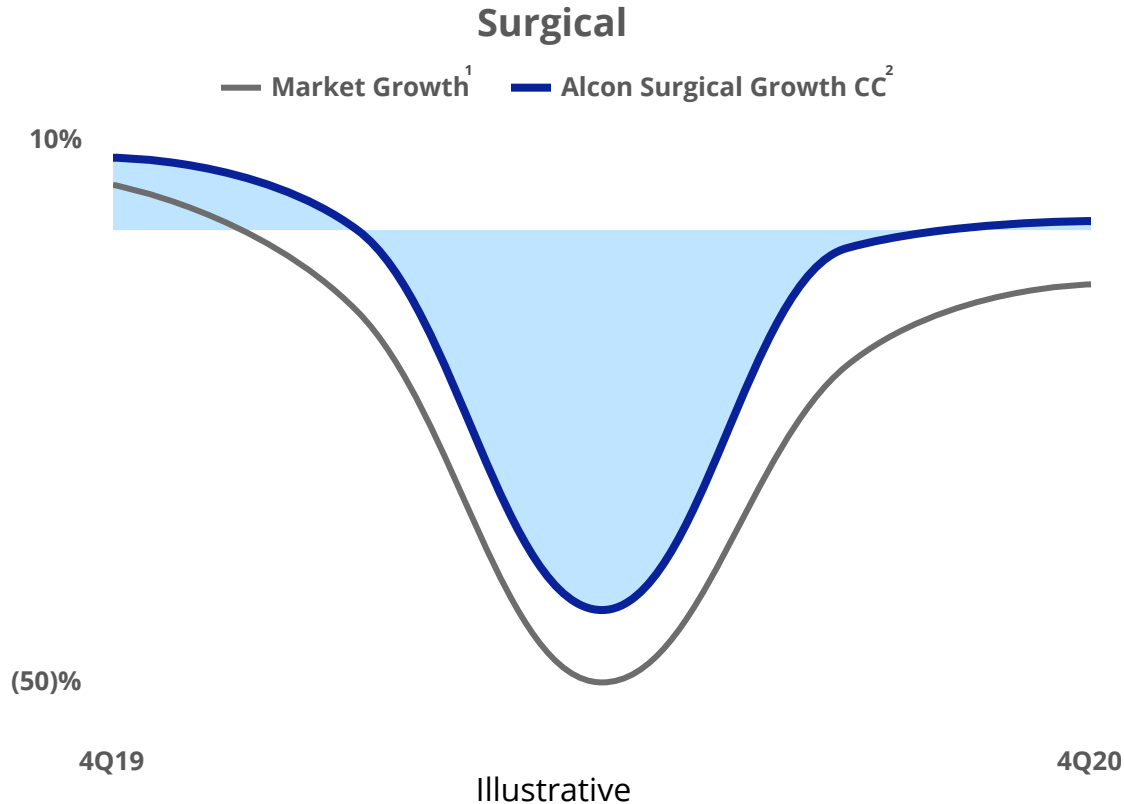




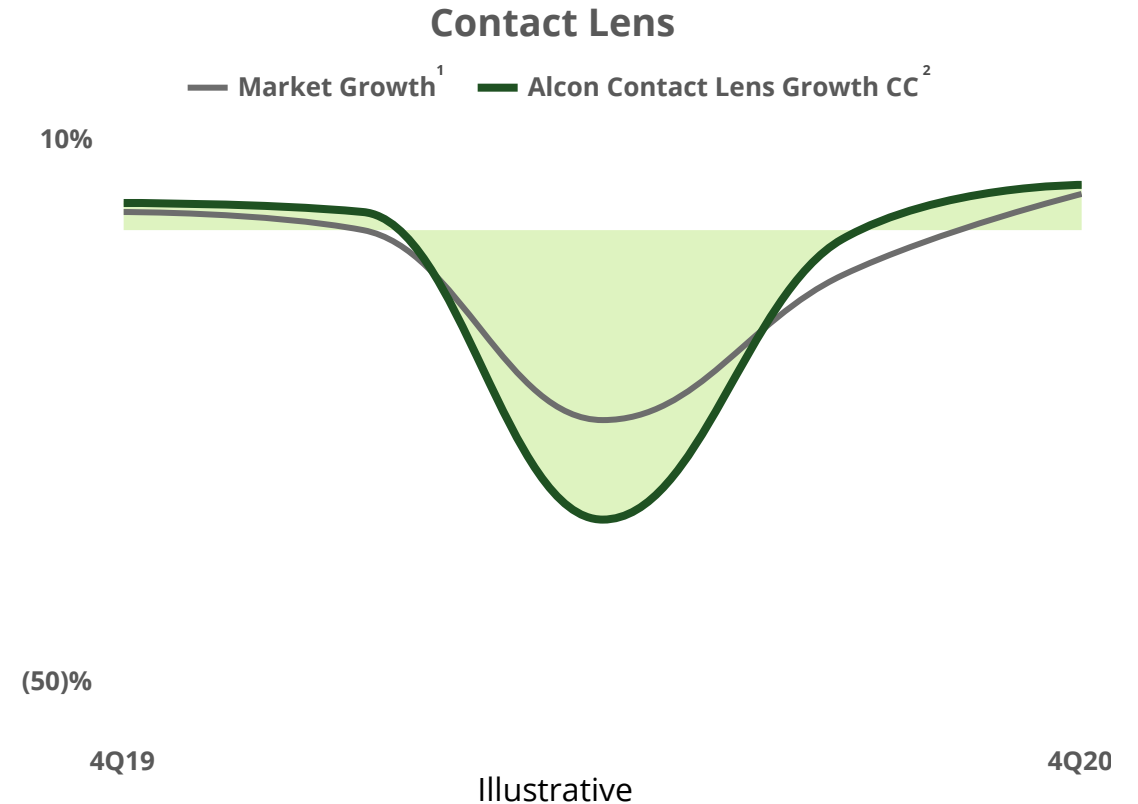


**Key Topics**

# Strong execution, new products drive performance



- Surgical market improving, but still at 95% recovery; improvements in North America, partially offset by Int'l
- Strong continued adoption of *PanOptix*
- Early signs of *Vivity* expanding patient population of AT-IOLs



- Continued momentum from *Precision1* sphere in the US
- Recovery driven by US, partially offset by Int'l
- Positive customer feedback on performance of *Precision1* for Astigmatism

# Navigating challenges effectively in a global crisis

## PROTECT OUR ASSOCIATES SERVE OUR CUSTOMERS



- Industry safety protocols and reopening plan
- COVID-19 Resource Center
- Direct-to-consumer fulfillment
- Product and monetary donations
- Managed risk of supply chain disruption
- Maintained full employment despite the disruption

## ADVANCE STRATEGIC INITIATIVES



- Separation activities near completion
- SAP implementation reaches final stage
- Transformation continues its momentum; reinvesting back into the business

## MANUFACTURING EXPANSION



- Continued expansion of contact lens manufacturing platform to support new product launches
- Significant increase in manufacturing flexibility
- Adding capacity to enable new product development of specialty lens

# Strong innovation and commercial execution

## 11 first-in-market launches in 2020

### *PanOptix*: 1<sup>st</sup> trifocal in the US

Alcon's US PC-IOL market share exceeds 75%<sup>1</sup>



### *Vivity*: 1<sup>st</sup> non-diffractive EDOF IOL

Ground-breaking design that combines PC-IOL performance with a monofocal disturbance profile



### *Precision1*: fastest growing daily CL in the US

Alcon's leading brand for new and switch fits

Concurrent sphere / toric launch, which we believe is an industry first



### *Pataday*: fastest OTC switch in recent history

Leading Rx ingredient for ocular allergy

Three OTC switches in the last 12 months

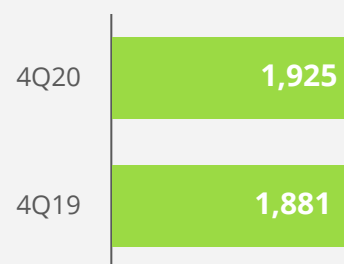




# 4Q20 & 2020 Select Financial Highlights

## TOP LINE

### Third Party Sales (\$M)

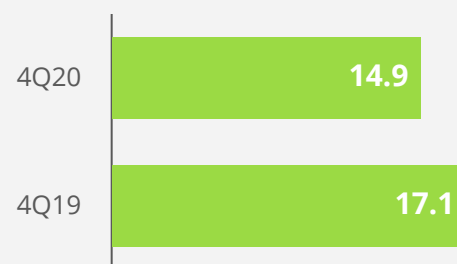


Strong rebound continues as 4Q20 sales return to growth

New product launches driving market share gains

## PROFITABILITY

### Core Operating Margin<sup>1</sup> (%)



4Q20 core operating margin down 220 bps vs. prior year

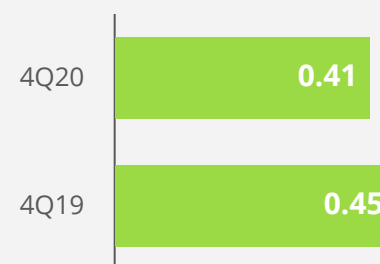
60 bps in gross margin primarily due to unfavorable manufacturing absorption

110 bps in R&D investment

40 bps negative impact from foreign currency

## CORE EPS

### Core Diluted EPS<sup>1</sup> (\$)



4Q20 core earnings per share of \$0.41 / share driven by unfavorable manufacturing absorption, higher R&D and marketing and sales

## CASH GENERATION

### Free Cash Flow<sup>1</sup> (\$M)



\$823 million in cash from operations

Lower free cash flow vs. prior year driven by lower cash from operations, offset by lower capex

Improved collections in second half of the year; trade receivables beginning to normalize

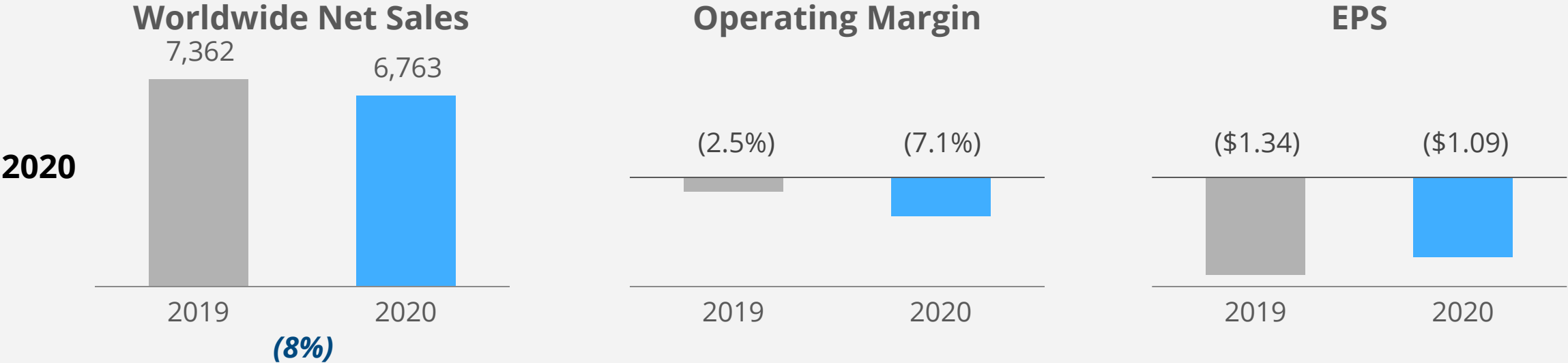
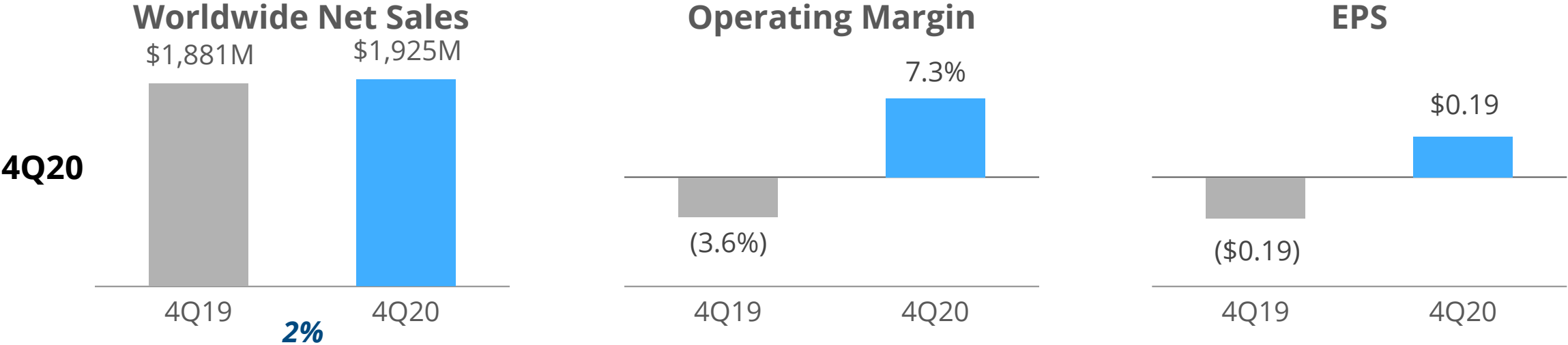




# IFRS Results

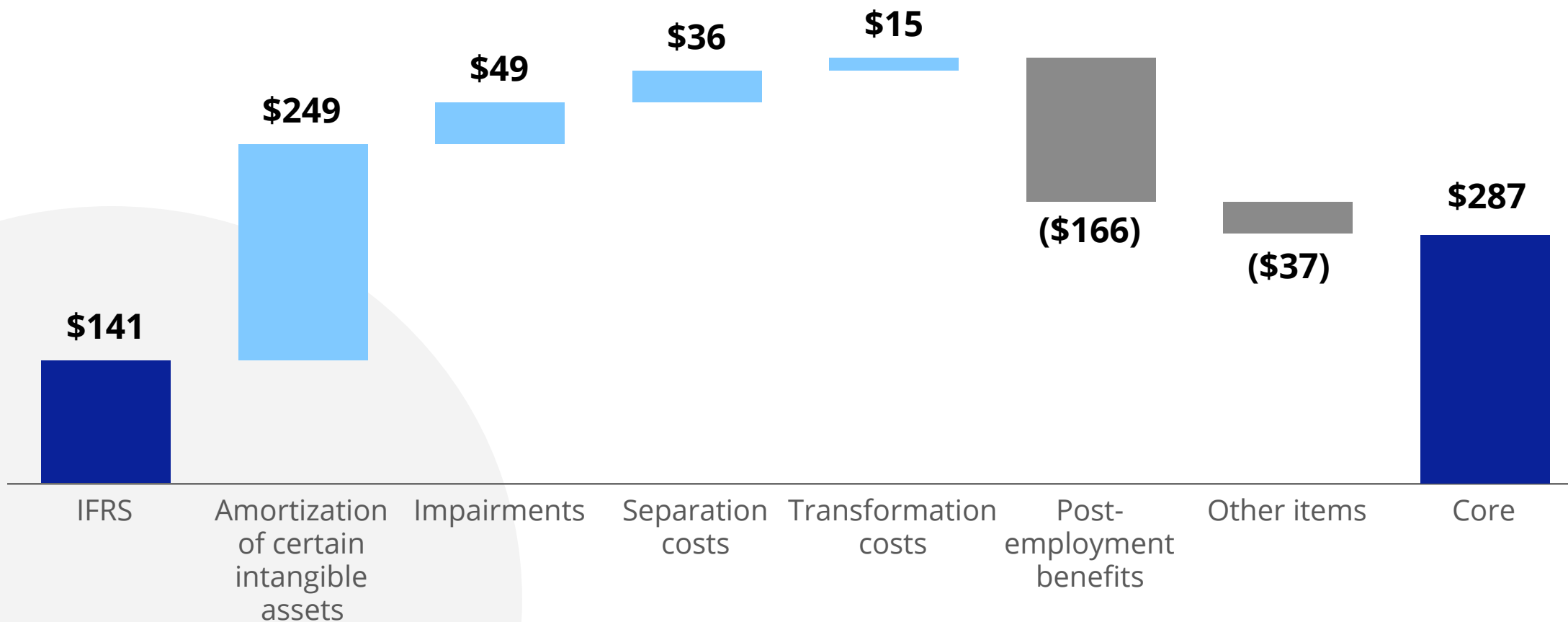
Alcon

# 4Q20 & 2020 IFRS Results



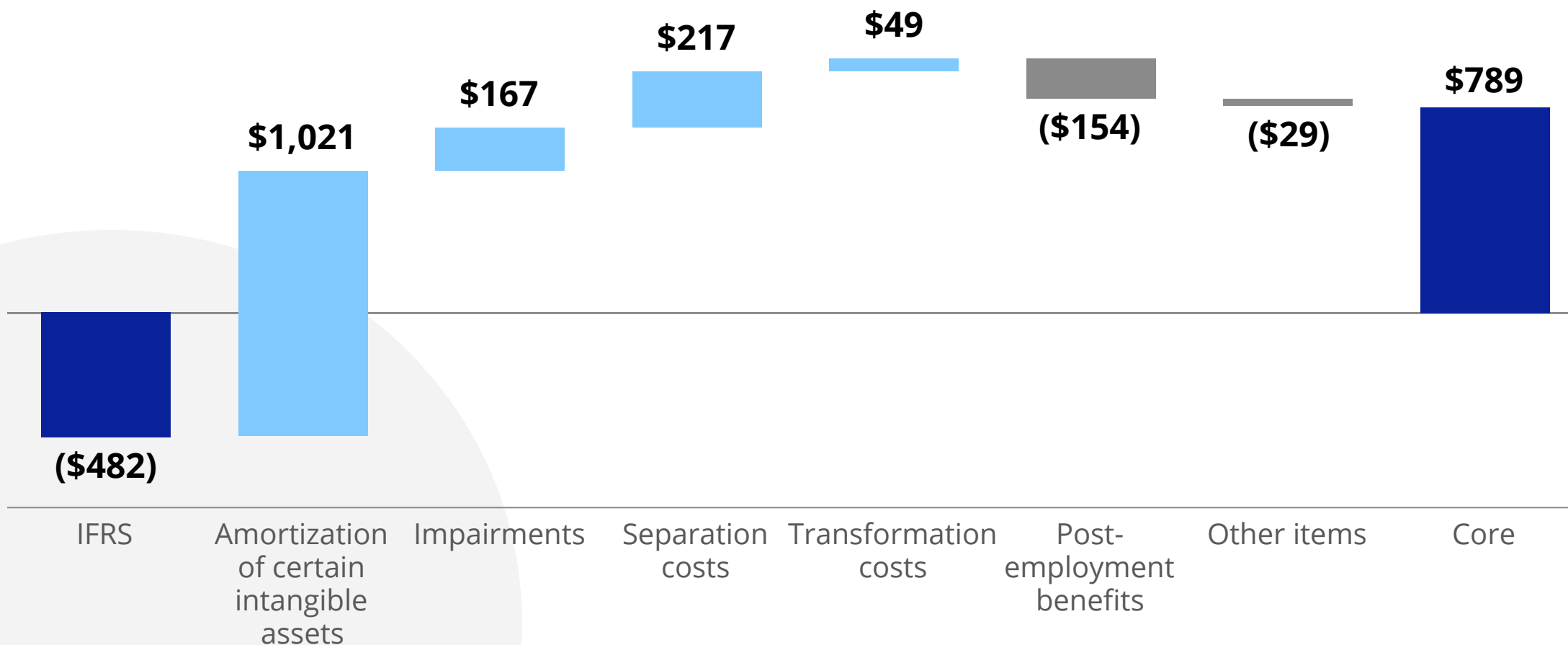
# 4Q20 IFRS to Core Operating Income<sup>1</sup> bridge

(in USD millions)



# 2020 IFRS to Core Operating Income<sup>1</sup> bridge

(in USD millions)



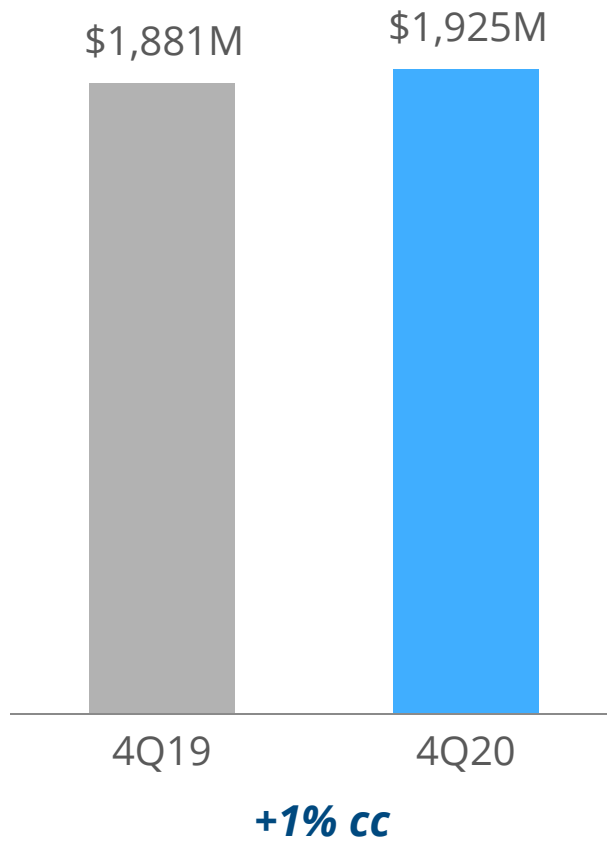




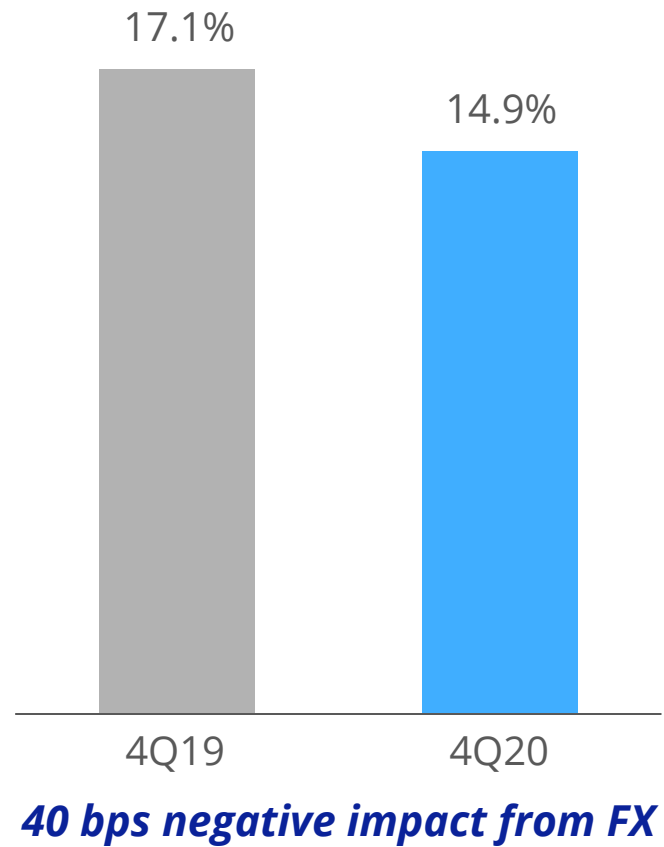
**Core  
Results**

# 4Q20 Core Results<sup>1</sup>

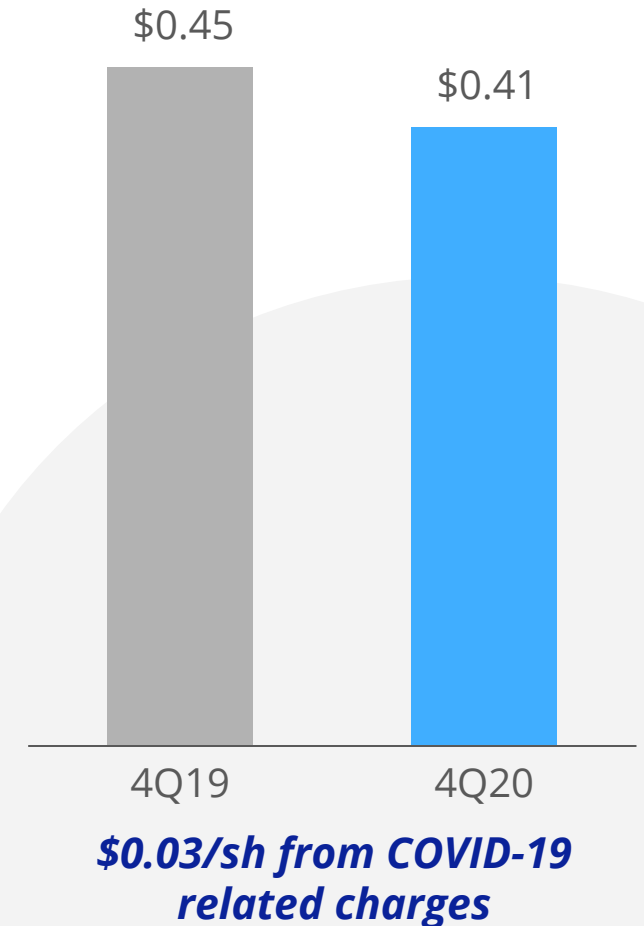
## Worldwide Net Sales



## Core Operating Margin

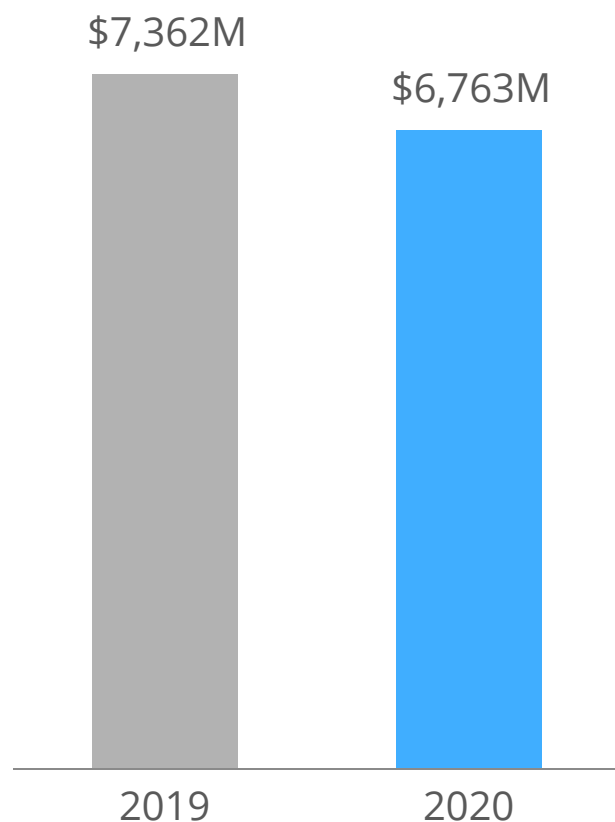


## Core Diluted EPS



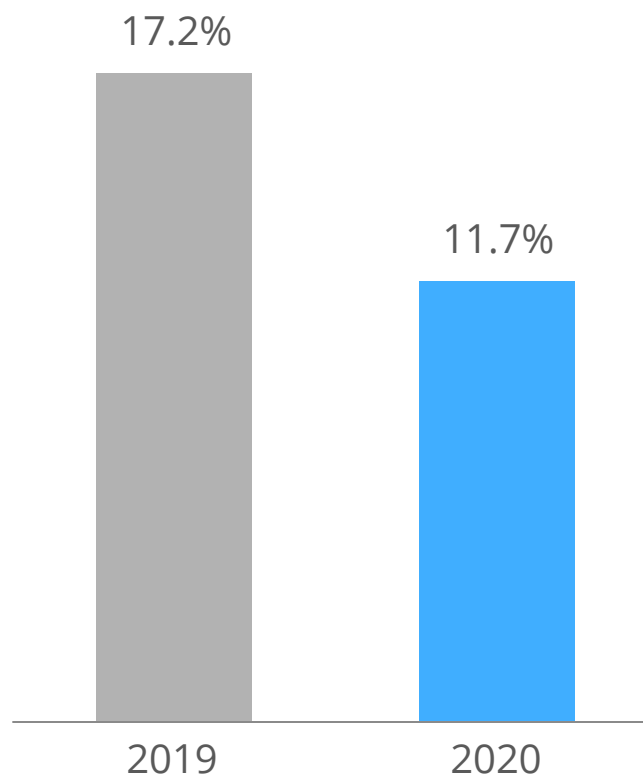
# 2020 Core Results<sup>1</sup>

## Worldwide Net Sales



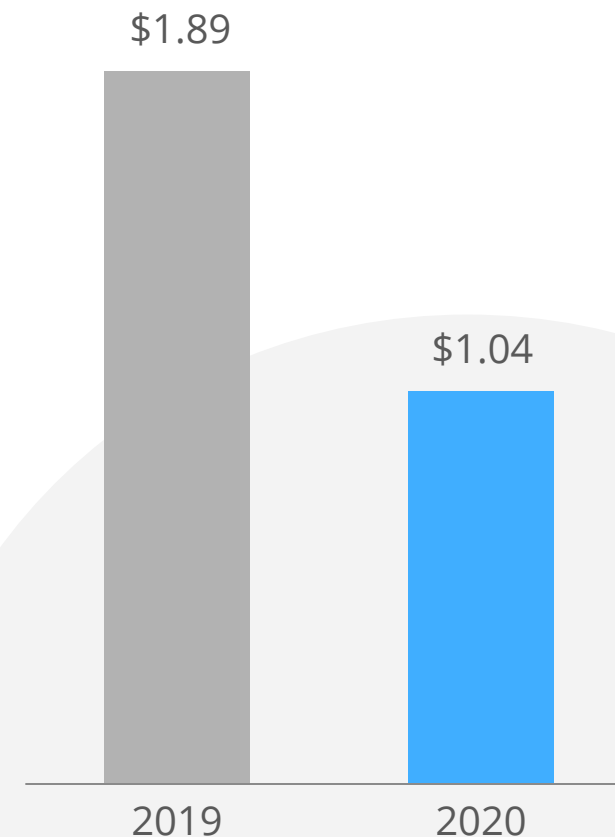
**(8%) cc**

## Core Operating Margin



**40 bps negative impact from FX**

## Core Diluted EPS



**\$0.21/sh from COVID-19 related charges**

# Mix of Vision Care and Surgical Products

## Vision Care \$3.1B (45%)

### Ocular Health (40%)

- Dry eye products
- Allergy eye drops
- Contact lens solution

### Contact Lenses (60%)

- Daily lenses
- Reusable lenses
- Cosmetic lenses

## Surgical \$3.7B (55%)

### Implantables (30%)

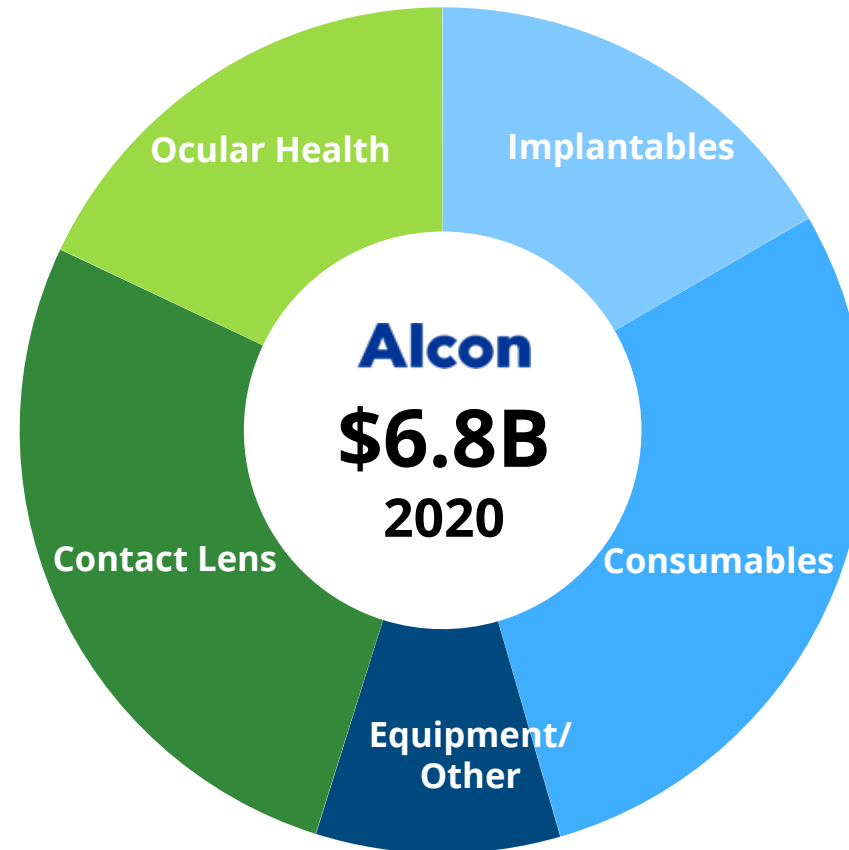
- Monofocal intraocular lenses (IOLs)
- Advanced technology IOLs

### Consumables (53%)

- Dedicated consumables
- Custom surgical packs
- Procedural products

### Equipment/Other (17%)

- Cataract equipment
- Retinal equipment
- Refractive equipment
- Diagnostic and visualization
- Equipment service
- Procedural eye drops

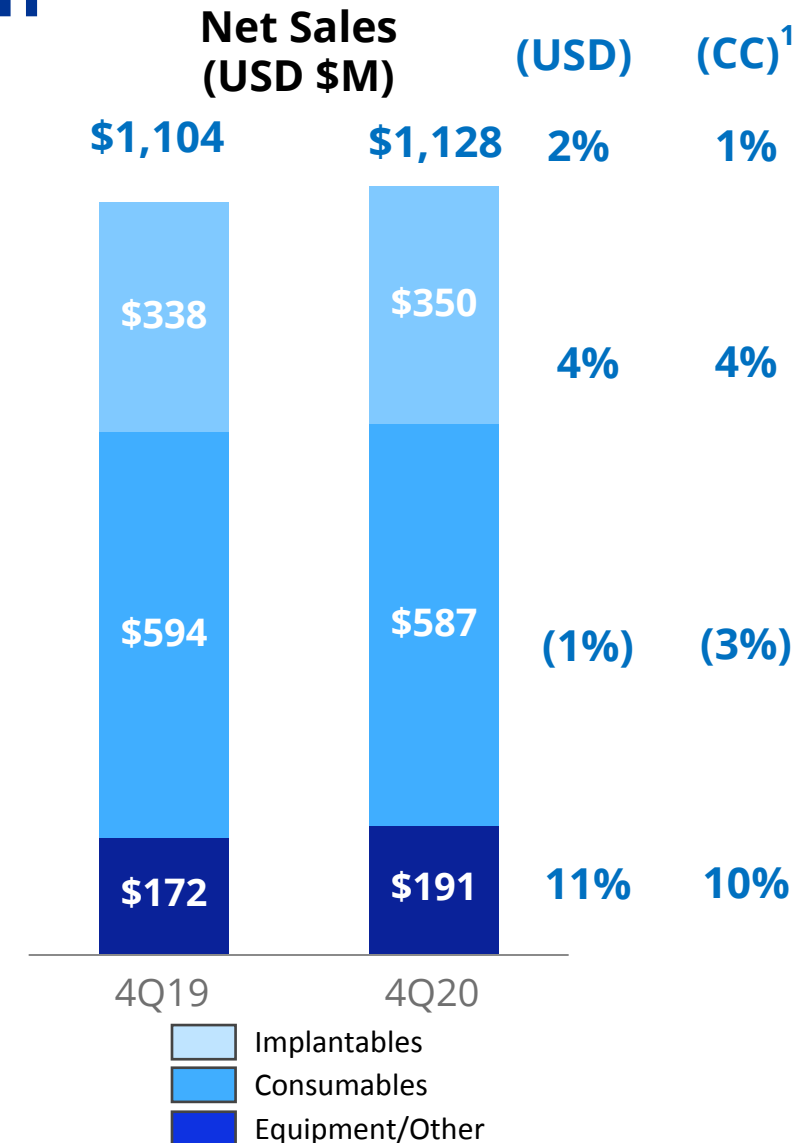


Numbers may be rounded for presentation purposes.

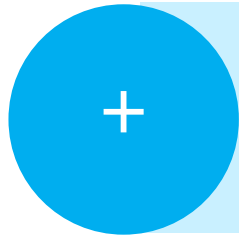


# 4Q20 Surgical growth driven by innovation

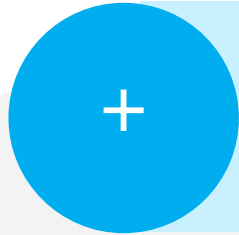
- +**
  - PanOptix* continues to gain share in the US and Japan
  - Positive surgeon feedback in China for *PanOptix*
  - Vivity* for patients previously disqualified for AT-IOLs
- - Monofocal IOLs continue to reflect COVID impact
- +**
  - Demand for recent innovation and equipment upgrades
  - Prior year equipment sales impacted by Japanese consumption tax increase



# Vision Care growth driven by contact lenses; *Precision1* gaining momentum



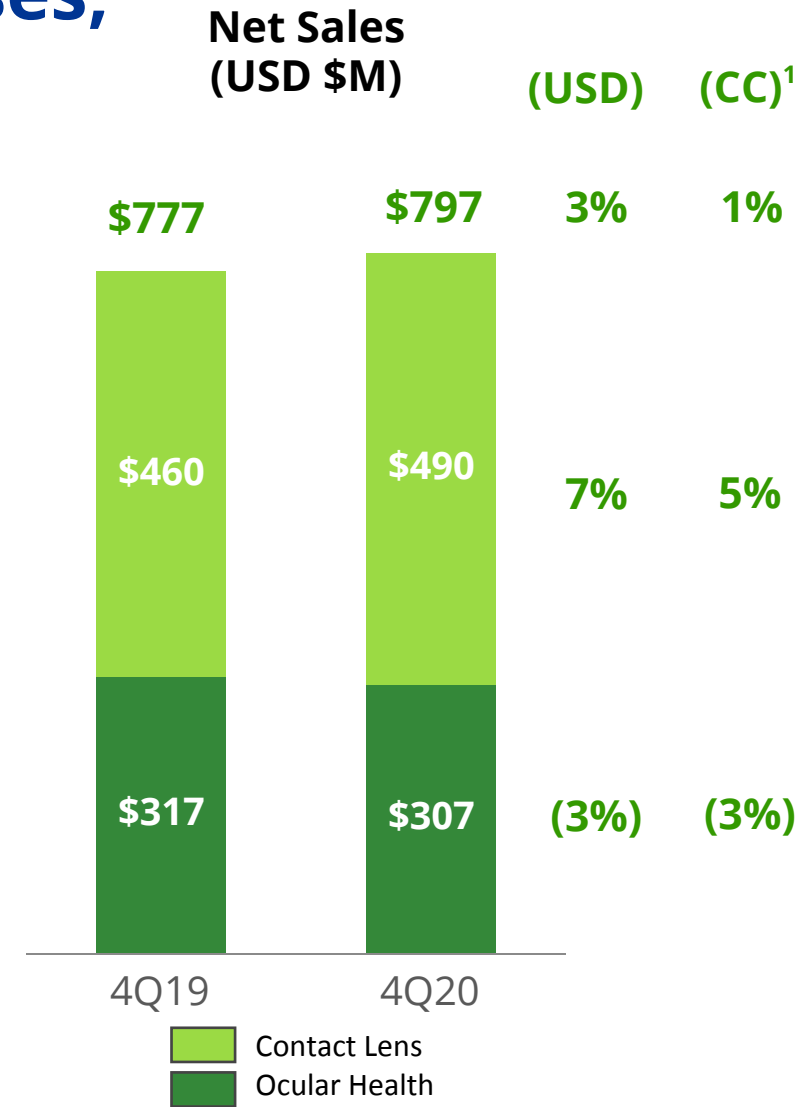
- Growth in reusables
- Strong demand for *Precision1*
- Prior year contact lens sales impacted by Japanese consumption tax increase



- Continued growth from *Pataday's* US OTC<sup>2</sup> switch
- Strong US demand for *Systane*



- Declines in other artificial tears and contact lens care

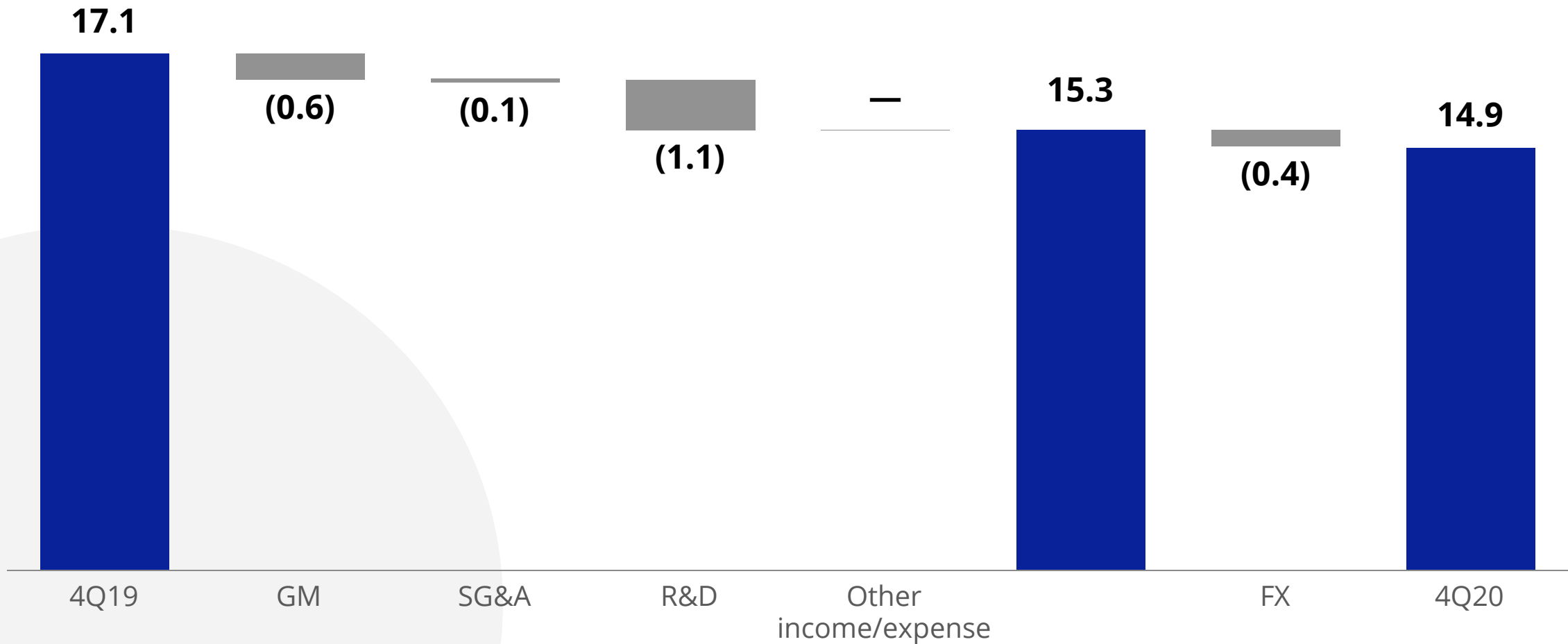


# Core operating margin<sup>1</sup> bridge

4Q20 vs 4Q19 (% of net sales)

## Key Drivers:

- **GM:** Primarily higher unabsorbed manufacturing overhead
- **R&D:** Timing of spend

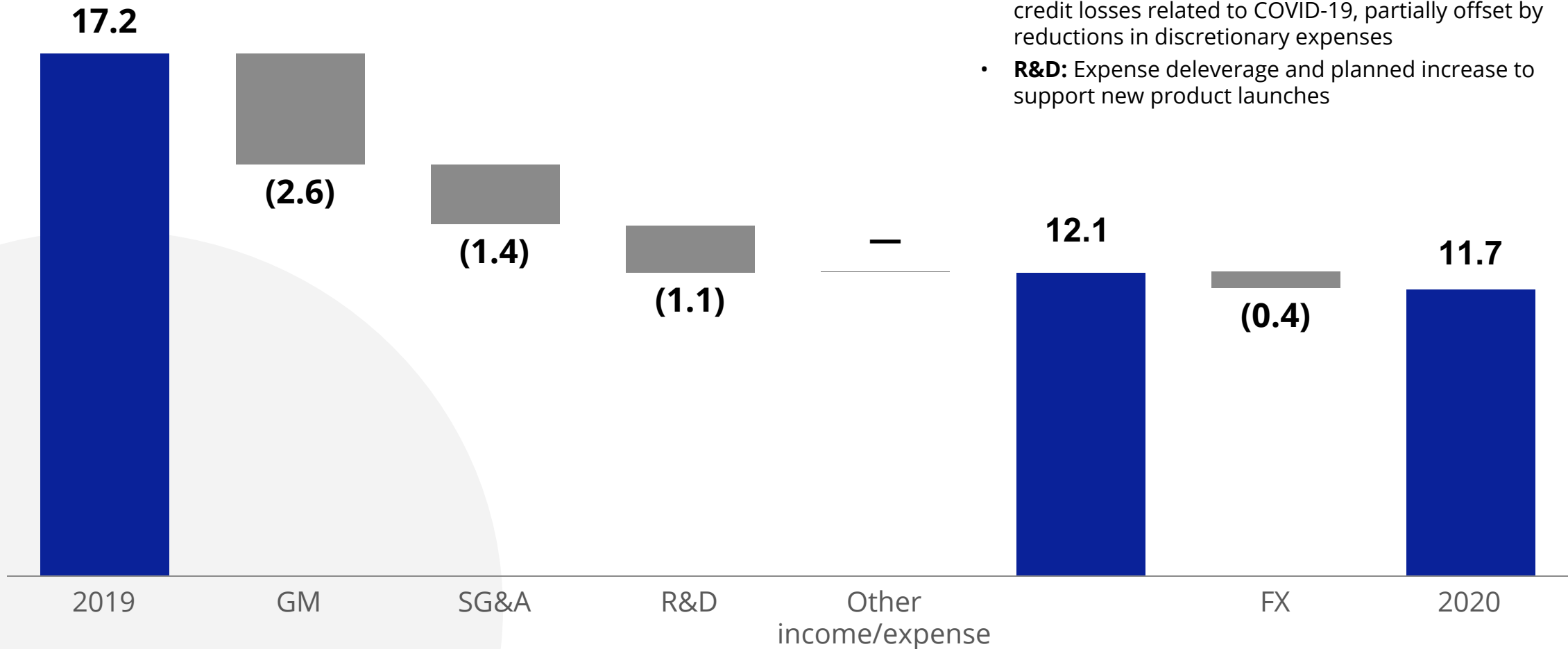


# Core operating margin<sup>1</sup> bridge

2020 vs 2019 (% of net sales)

## Key Drivers:

- **GM:** Lower sales leverage, inventory provisions and higher unabsorbed manufacturing overhead
- **SG&A:** Expense deleverage and provisions for expected credit losses related to COVID-19, partially offset by reductions in discretionary expenses
- **R&D:** Expense deleverage and planned increase to support new product launches





# Balance sheet and cash flow to support key investments

## Cash and cash equivalents

**\$1.6 billion**

2020 cash flows from operations \$823 million

2020 free cash flow<sup>1</sup> \$350 million

## Capex

**\$479 million**

Investing in new contact lens  
manufacturing lines

## Debt

**\$4.1 billion**

Raised \$750 million in senior notes in May 2020

No financial covenants





**Serving customers, doctors  
and patients**

**See Brilliantly**



# Appendix

# Appendix: Non-IFRS measures as defined by the Company

Alcon uses certain non-IFRS metrics when measuring performance, including when measuring current period results against prior periods, including core results, percentage changes measured in constant currencies and free cash flow. Because of their non-standardized definitions, the non-IFRS measures (unlike IFRS measures) may not be comparable to the calculation of similar measures of other companies. These non-IFRS measures are presented solely to permit investors to more fully understand how Alcon management assesses underlying performance. These non-IFRS measures are not, and should not be viewed as, a substitute for IFRS measures.

## Core results

Alcon core results, including core operating income and core net income, exclude all amortization and impairment charges of intangible assets, excluding software, net gains and losses on fund investments and equity securities valued at fair value through profit and loss ("FVPL"), fair value adjustments of financial assets in the form of options to acquire a company carried at FVPL, obligations related to product recalls, and certain acquisition related items. The following items that exceed a threshold of \$10 million and are deemed exceptional are also excluded from core results: integration and divestment related income and expenses, divestment gains and losses, restructuring charges/releases and related items, legal related items, gains/losses on early extinguishment of debt or debt modifications, past service costs for post-employment benefit plans, impairments of property, plant and equipment and software, as well as income and expense items that management deems exceptional and that are or are expected to accumulate within the year to be over a \$10 million threshold.

Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that will finally be applicable to the item based on the jurisdiction where the adjustment will finally have a tax impact. Generally, this results in amortization and impairment of intangible assets and acquisition-related restructuring and integration items having a full tax impact. There is usually a tax impact on other items, although this is not always the case for items arising from legal settlements in certain jurisdictions.

Alcon believes that investor understanding of its performance is enhanced by disclosing core measures of performance because, since they exclude items that can vary significantly from period to period, the core measures enable a helpful comparison of business performance across periods. For this same reason, Alcon uses these core measures in addition to IFRS and other measures as important factors in assessing its performance.

A limitation of the core measures is that they provide a view of Alcon operations without including all events during a period, such as the effects of an acquisition, divestment, or amortization/impairments of purchased intangible assets and restructurings.

## Constant currencies

Changes in the relative values of non-US currencies to the US dollar can affect Alcon's financial results and financial position. To provide additional information that may be useful to investors, including changes in sales volume, we present information about changes in our net sales and various values relating to operating and net income that are adjusted for such foreign currency effects. Constant currency calculations have the goal of eliminating two exchange rate effects so that an estimate can be made of underlying changes in the consolidated income statement excluding (1) the impact of translating the income statements of consolidated entities from their non-US dollar functional currencies to the US dollar and (ii) the impact of exchange rate movements on the major transactions of consolidated entities performed in currencies other than their functional currency. Alcon calculates constant currency measures by translating the current year's foreign currency values for sales and other income statement items into US dollars, using the average exchange rates from the prior year and comparing them to the prior year values in US dollars.

## Free cash flow

Alcon defines free cash flow as net cash flows from operating activities less cash flow associated with the purchase or sale of property, plant and equipment. Free cash flow is presented as additional information because Alcon management believes it is a useful supplemental indicator of Alcon's ability to operate without reliance on additional borrowing or use of existing cash. Free cash flow is not intended to be a substitute measure for net cash flows from operating activities as determined under IFRS.



# Reconciliation of IFRS to Core Results

Three months ended December 31, 2020

(\$ millions except earnings per share)	IFRS results	Amortization of certain intangible assets <sup>(1)</sup>	Impairments <sup>(2)</sup>	Separation costs <sup>(3)</sup>	Transformation costs <sup>(4)</sup>	Post-employment benefits <sup>(5)</sup>	Other items <sup>(7)</sup>	Core results
<b>Gross profit</b>	<b>875</b>	<b>249</b>	<b>49</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>14</b>	<b>1,189</b>
<b>Operating income</b>	<b>141</b>	<b>249</b>	<b>49</b>	<b>36</b>	<b>15</b>	<b>(166)</b>	<b>(37)</b>	<b>287</b>
<b>Income before taxes</b>	<b>104</b>	<b>249</b>	<b>49</b>	<b>36</b>	<b>15</b>	<b>(166)</b>	<b>(37)</b>	<b>250</b>
Taxes <sup>(8)</sup>	(9)	(41)	(12)	(6)	(3)	40	(16)	(47)
<b>Net income</b>	<b>95</b>	<b>208</b>	<b>37</b>	<b>30</b>	<b>12</b>	<b>(126)</b>	<b>(53)</b>	<b>203</b>
Basic earnings per share (\$)	0.19							0.41
Diluted earnings per share (\$)	0.19							0.41
Basic - weighted average shares outstanding (millions) <sup>(9)</sup>	489.2							489.2
Diluted - weighted average shares outstanding (millions) <sup>(9)</sup>	492.4							492.4
<b>Adjustments to arrive at core operating income</b>								
Selling, general & administration	(737)	—	—	8	—	—	—	(729)
Research & development	(155)	—	—	—	—	—	(19)	(174)
Other income	210	—	—	—	—	(166)	(32)	12
Other expense	(52)	—	—	26	15	—	—	(11)

Refer to the associated explanatory footnotes at the end of the 'Reconciliation of IFRS to Core Results' tables.

# Reconciliation of IFRS to Core Results

Three months ended December 31, 2019

(\$ millions except (loss)/earnings per share)	IFRS results	Amortization of certain intangible assets <sup>(1)</sup>	Separation costs <sup>(3)</sup>	Transformation costs <sup>(4)</sup>	Other items <sup>(7)</sup>	Core results
<b>Gross profit</b>	<b>913</b>	<b>253</b>	<b>3</b>	<b>—</b>	<b>5</b>	<b>1,174</b>
<b>Operating (loss)/income</b>	<b>(68)</b>	<b>269</b>	<b>82</b>	<b>39</b>	<b>(1)</b>	<b>321</b>
<b>(Loss)/income before taxes</b>	<b>(107)</b>	<b>269</b>	<b>82</b>	<b>39</b>	<b>(1)</b>	<b>282</b>
Taxes <sup>(8)</sup>	16	(36)	(17)	(4)	(18)	(59)
<b>Net (loss)/income</b>	<b>(91)</b>	<b>233</b>	<b>65</b>	<b>35</b>	<b>(19)</b>	<b>223</b>
Basic (loss)/earnings per share (\$)	(0.19)					0.46
Diluted (loss)/earnings per share (\$)	(0.19)					0.45
Basic - weighted average shares outstanding (millions) <sup>(9)</sup>	488.2					488.2
Diluted - weighted average shares outstanding (millions) <sup>(9)</sup>	488.2					491.0
<b>Adjustments to arrive at core operating income</b>						
Selling, general & administration	(714)	—	9	—	1	(704)
Research & development	(164)	16	1	—	(4)	(151)
Other income	20	—	—	—	(8)	12
Other expense	(123)	—	69	39	5	(10)

Refer to the associated explanatory footnotes at the end of the 'Reconciliation of IFRS to Core Results' tables.

# Reconciliation of IFRS to Core Results

Twelve months ended December 31, 2020

(\$ millions except (loss)/earnings per share)	IFRS Results	Amortization of certain intangible assets <sup>(1)</sup>	Impairments <sup>(2)</sup>	Separation costs <sup>(3)</sup>	Transformation costs <sup>(4)</sup>	Post- employment benefits <sup>(5)</sup>	Other items <sup>(7)</sup>	Core results
<b>Gross profit</b>	<b>2,940</b>	<b>1,001</b>	<b>106</b>	<b>13</b>	<b>—</b>	<b>—</b>	<b>32</b>	<b>4,092</b>
<b>Operating (loss)/income</b>	<b>(482)</b>	<b>1,021</b>	<b>167</b>	<b>217</b>	<b>49</b>	<b>(154)</b>	<b>(29)</b>	<b>789</b>
<b>(Loss)/income before taxes</b>	<b>(635)</b>	<b>1,021</b>	<b>167</b>	<b>217</b>	<b>49</b>	<b>(154)</b>	<b>(29)</b>	<b>636</b>
Taxes <sup>(8)</sup>	104	(172)	(34)	(37)	(10)	38	(13)	(124)
<b>Net (loss)/income</b>	<b>(531)</b>	<b>849</b>	<b>133</b>	<b>180</b>	<b>39</b>	<b>(116)</b>	<b>(42)</b>	<b>512</b>
Basic (loss)/earnings per share (\$)	(1.09)							1.05
Diluted (loss)/earnings per share (\$)	(1.09)							1.04
Basic - weighted average shares outstanding (millions) <sup>(9)</sup>	489.0							489.0
Diluted - weighted average shares outstanding (millions) <sup>(9)</sup>	489.0							491.8
<b>Adjustments to arrive at core operating income</b>								
Selling, general & administration	(2,694)	—	—	22	—	—	—	(2,672)
Research & development	(673)	20	61	—	—	—	(25)	(617)
Other income	235	—	—	—	—	(166)	(36)	33
Other expense	(290)	—	—	182	49	12	—	(47)

Refer to the associated explanatory footnotes at the end of the 'Reconciliation of IFRS to Core Results' tables.

# Reconciliation of IFRS to Core Results

Twelve months ended December 31, 2019

(\$ millions except (loss)/earnings per share)	IFRS results	Amortization of certain intangible assets <sup>(1)</sup>	Separation costs <sup>(3)</sup>	Transformation costs <sup>(4)</sup>	Legal items <sup>(6)</sup>	Other items <sup>(7)</sup>	Core results
<b>Gross profit</b>	<b>3,662</b>	<b>1,007</b>	<b>10</b>	<b>—</b>	<b>—</b>	<b>(16)</b>	<b>4,663</b>
<b>Operating (loss)/income</b>	<b>(187)</b>	<b>1,040</b>	<b>237</b>	<b>52</b>	<b>32</b>	<b>91</b>	<b>1,265</b>
<b>(Loss)/income before taxes</b>	<b>(332)</b>	<b>1,040</b>	<b>237</b>	<b>52</b>	<b>32</b>	<b>91</b>	<b>1,120</b>
Taxes <sup>(8)</sup>	(324)	(140)	(54)	(7)	(8)	338	(195)
<b>Net (loss)/income</b>	<b>(656)</b>	<b>900</b>	<b>183</b>	<b>45</b>	<b>24</b>	<b>429</b>	<b>925</b>
Basic (loss)/earnings per share (\$)	(1.34)						1.89
Diluted (loss)/earnings per share (\$)	(1.34)						1.89
Basic - weighted average shares outstanding (millions) <sup>(9)</sup>	488.2						488.2
Diluted - weighted average shares outstanding (millions) <sup>(9)</sup>	488.2						490.1
<b>Adjustments to arrive at core operating income</b>							
Selling, general & administration	(2,847)	—	30	—	—	15	(2,802)
Research & development	(656)	33	4	—	—	35	(584)
Other income	55	—	—	—	—	(9)	46
Other expense	(401)	—	193	52	32	66	(58)

Refer to the associated explanatory footnotes at the end of the 'Reconciliation of IFRS to Core Results' tables.

# Reconciliation of IFRS to Core Results

## Explanatory footnotes to IFRS to Core reconciliation tables

- (1) Includes recurring amortization for all intangible assets other than software.
- (2) Includes impairment charges related to intangible assets.
- (3) Separation costs are expected to be incurred over the two to three-year period following the completion of the Spin-off from Novartis and primarily include costs related to IT and third party consulting fees.
- (4) Transformation costs, primarily related to restructuring and third party consulting fees, for the multi-year transformation program.
- (5) For the three months ended December 31, 2020, Other income includes impacts from post-employment benefit plan amendments.

For the twelve months ended December 31, 2020, Other income and other expense include impacts from pension and other post-employment benefit plan amendments.

- (6) Includes legal settlement costs and certain external legal fees.
- (7) For the three months ended December 31, 2020, Gross profit includes losses on disposal of property, plant & equipment and a fair value adjustment of a contingent consideration liability. Research & development includes a \$26 million fair value adjustment of a contingent consideration liability, partially offset by \$7 million in expenses primarily related to the amortization of option rights. Other income includes a gain relating to an extinguishment of certain potential liabilities under the employee matters agreement executed at Spin-off and fair value adjustments of financial assets.

For the three months ended December 31, 2019, Gross profit includes \$5 million in manufacturing sites consolidation activities and integration of recent acquisitions. Selling, general & administration includes integration of recent acquisitions. Research & development includes \$24 million in fair value adjustments for contingent consideration liabilities partially offset by \$20 million for the amortization of option rights and the integration of recent acquisitions. Other income primarily includes a realized gain on a financial asset. Other expense primarily includes fair value adjustments of a financial asset and other items.

For the twelve months ended December 31, 2020, Gross profit includes \$35 million primarily for losses on disposal of property, plant & equipment partially offset by \$3 million in fair value adjustments of contingent consideration liabilities. Research & development includes \$60 million in fair value adjustments of contingent consideration liabilities, partially offset by \$35 million in expenses primarily related to the amortization of option rights. Other income includes a gain relating to an extinguishment of certain potential liabilities under the employee matters agreement executed at Spin-off and fair value adjustments of financial assets.

For the twelve months ended December 31, 2019, Gross profit includes \$37 million in fair value adjustments of contingent consideration liabilities, partially offset by \$21 million in spin readiness costs, manufacturing sites consolidation activities, and integration of recent acquisitions. Selling, general & administration primarily includes spin readiness costs and the integration of recent acquisitions. Research & development includes \$73 million for the amortization of option rights, post-marketing study following a product's voluntary market withdrawal, and the integration of recent acquisitions, partially offset by \$38 million in fair value adjustments for contingent consideration liabilities. Other income primarily includes a realized gain on a financial asset. Other expense primarily includes spin readiness costs, fair value adjustments of a financial asset and other items.

# Reconciliation of IFRS to Core Results

## Explanatory footnotes to IFRS to Core reconciliation tables (continued)

- (8) For the three months ended December 31, 2020, total tax adjustments of \$38 million include tax associated with operating income core adjustments and discrete tax items. Tax associated with operating income core adjustments of \$146 million totaled \$25 million with an average tax rate of 17.1%. Core tax adjustments for discrete items totaled \$13 million, primarily related to a change in estimate related to periods prior to the Spin-off.

For the three months ended December 31, 2019, total tax adjustments of \$75 million include tax associated with operating income core adjustments and discrete tax items. Tax associated with operating income core adjustments of \$389 million totaled \$43 million with an average tax rate of 11.1%. Core tax adjustments for discrete items were \$32 million, primarily related to rate changes in the US following legal entity reorganizations executed related to the Spin-off.

For the twelve months ended December 31, 2020, total tax adjustments of \$228 million include tax associated with operating income core adjustments and discrete tax items. Tax associated with operating income core adjustments of \$1.3 billion totaled \$221 million with an average tax rate of 17.4%. Core tax adjustments for discrete items totaled \$7 million.

For the twelve months ended December 31, 2019, total tax adjustments of \$129 million include tax associated with operating income core adjustments and discrete tax items. Tax associated with operating income core adjustments of \$1.5 billion totaled \$215 million with an average tax rate of 14.8%. Core tax adjustments for discrete items totaled \$344 million, primarily including \$304 million in non-cash tax expense for re-measurement of deferred tax balances as a result of Swiss tax reform, tax expense related to rate changes in the US following legal entity reorganizations executed related to the Spin-off, non-cash tax expense related to the re-measurement of deferred tax assets and liabilities following a tax rate change in India, and net changes in uncertain tax positions.

- (9) Core basic earnings per share was calculated using the weighted-average shares of common stock outstanding during the period. Core diluted earnings per share also contemplate dilutive shares associated with unvested equity-based awards as described in Note 5 to the Condensed Consolidated Interim Financial Statements.

# Reconciliation of Free Cash Flow

The following is a summary of Alcon free cash flow for the twelve months ended December 31, 2020 and 2019 together with a reconciliation to net cash flows from operating activities, the most directly comparable IFRS measure:

(\$ millions)	2020	2019
<b>Net cash flows from operating activities</b>	<b>823</b>	<b>920</b>
Purchase of property, plant & equipment	(479)	(553)
Proceeds from sale of property, plant & equipment	6	—
<b>Free cash flow</b>	<b>350</b>	<b>367</b>



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