Sterling

Q2 2023 Earnings

August 8, 2023

Disclaimer

This presentation (including the verbal information and discussion relating to these materials) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and we intend that all forward-looking statements that we make will be subject to the safe harbor protections created thereby. You can generally identify forward-looking statements by our use of forward-looking terminology such as “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “projection,” “seek,” “should,” “strategy,” “target” “will” or “would,” or the negative thereof or other variations thereon or comparable terminology. In particular, statements that address guidance, outlook, targets, market trends or projections about the future, and statements regarding our expectations, beliefs, plans, strategies, objectives, prospects or assumptions, or statements regarding future events or performance, contained in this presentation are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in our Annual Report on Form 10-K for the year ended December 31, 2022 and in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023 under the heading “Risk Factors” and in our Quarterly Report on Form 10-Q for the period ended June 30, 2023 under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, may cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements, or could affect our share price. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include: changes in economic, political and market conditions, including bank failures and concerns of a potential economic downturn or recession, and the impact of these changes on our clients’ hiring trends; the sufficiency of our cash to meet our liquidity needs; the possibility of cyber-attacks, security vulnerabilities, and internet disruptions, including breaches of data security and privacy leaks, data loss and business interruptions; our ability to comply with the extensive United States (“U.S.”) and foreign laws, regulations and policies applicable to our industry, and changes in such laws, regulations and policies; our compliance with data privacy laws and regulations; potential liability for failures to provide accurate information to our clients, which may not be covered, or may be only partially covered, by insurance; the possible effects of negative publicity on our reputation and the value of our brand; our failure to compete successfully; our ability to keep pace with changes in technology and to provide timely enhancements to our products and services; the continued impact of COVID-19 on global markets, economic conditions and the response by governments and third parties; our ability to cost-effectively attract new clients and retain our existing clients; our ability to grow our Identity-as-a-Service offerings; our success in new product introductions and adjacent market penetrations; our ability to expand into new geographies; our ability to pursue and integrate strategic mergers and acquisitions; design defects, errors, failures or delays with our products and services; systems failures, interruptions, delays in services, catastrophic events and resulting interruptions; natural or man-made disasters including pandemics and other significant public health emergencies, outbreaks of hostilities or effects of climate change, and our ability to deal effectively with damage or disruption caused by the foregoing; our ability to implement our business strategies profitably; our ability to retain the services of certain members of our management; our ability to adequately protect our intellectual property; our ability to implement, maintain and improve effective internal controls; our ability to comply with public company requirements in a timely and cost-effective manner, and expense, strain on our resources and diversion of our management’s attention resulting from public company compliance requirements; and the other risks described in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 and in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023..

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements contained in this presentation are not guarantees of future performance and our actual results of operations, financial condition, and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements contained in this presentation. In addition, even if our results of operations, financial condition, and liquidity, and events in the industry in which we operate, are consistent with the forward-looking statements contained in this presentation, they may not be predictive of results or developments in future periods. Any forward-looking statement that we make in this presentation speaks only as of the date of such statement. Except as required by law, we do not undertake any obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this presentation.

This presentation contains “non-GAAP financial measures,” which are financial measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States (“GAAP”). Specifically, we make use of the non-GAAP financial measures “Adjusted EBITDA,” “Adjusted EBITDA Margin,” "Adjusted Net Income," "Adjusted Net Income Growth," “Adjusted Earnings Per Share,” “organic constant currency revenue growth,” and “Free Cash Flow" in evaluating our past results and future prospects. We present “Adjusted EBITDA,” “Adjusted EBITDA Margin,” "Adjusted Net Income Growth," “Adjusted Earnings Per Share,” "organic constant currency revenue growth,” and “Free Cash Flow" 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 and our board of directors use Adjusted EBITDA to evaluate the factors and trends affecting our business to assess our financial performance and in preparing and approving our annual budget and believe they are helpful in highlighting trends in our core operating performance. The non-GAAP measures as defined by us may not be comparable to similar non-GAAP measures presented by other companies. Our presentation of such measures should not be construed as an inference that our future results will be unaffected by other unusual or non-recurring items. A reconciliation is provided elsewhere in this presentation for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. We have not presented a quantitative reconciliation of the forward-looking non-GAAP financial measures “Adjusted EBITDA,” “Adjusted EBITDA Margin,” "Adjusted Net Income Growth," “Adjusted Earnings Per Share,” and “organic constant currency revenue growth,” to their most directly comparable GAAP financial measures because it is impractical to forecast certain items without unreasonable efforts due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of and the periods in which such items may be recognized.

Josh Peirez,
Chief Executive Officer

2Q 2023 Highlights
Execution on Strategic Focus Areas

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2Q 2023 Highlights[1]

- Another quarter of successful execution toward 2023 goals and long-term strategy with 2Q 2023 results at or above our prior expectations
- Revenue of ~$190M driven by continued success in the organic revenue drivers in our control, including 10% y/y growth from the combination of new clients and up-sell/cross-sell
- Adj. EBITDA margin of 26.3% fueled by further progress in cost optimization; on track to achieve cost savings targets ($10M in 2023 and $25M annualized)[2]
- Identity Verification and Post-Hire Monitoring, both differentiated and newer solutions, continue building momentum with global adoption
- Extended our industry leading global position in Identity with 1) the renewal of our exclusive partnership with ID.me (U.S.) through 2028 and 2) the launch of digital Identity Verification overseas with Yoti

1. See appendix for a reconciliation of GAAP to non-GAAP measures
2. For a discussion of some of the important factors that could prevent our strategy from being achieved, please consult the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2022 and our Quarterly Report on Form 10-Q for the period ended March 31, 2023, and our discussion of forward-looking statements on slide 2.

Long-Term Strategy Fuels Near-Term Goals[1]

Long-Term Strategy

Sterling aspires to be the world's most trusted background and identity services company, differentiated by our deep market expertise, unrivaled client service, best-in-class data, and seamless workflows.

- Drive organic revenue with new clients, increased cross-sell, up-sell, and retention
- Grow market share internationally
- Execute M&A opportunities
- Add Identity to every background screen and create standalone Identity-based offerings
- Expand adoption of post-hire Monitoring
- Leverage proprietary data

2023 Strategic Focus Areas

Achieving long-term success by focusing on items in our control

Organic revenue. Execution on revenue drivers we control

High Impact Innovation and Differentiation. Continued expansion of identity capabilities and post-hire monitoring solutions

Cost Optimization. Increased automation, process improvements, and cost reduction measures

M&A. Market share gains and geographic expansion

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2Q 2023 Execution: Organic Revenue

Focusing on revenue drivers in our control through culture of innovation and enhanced client experiences

Enhancing Innovation and Differentiation

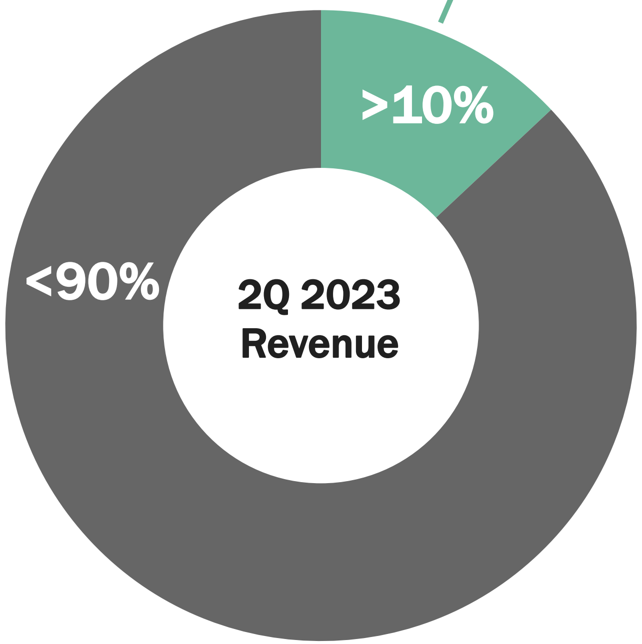
- **High Impact Innovation:**
  - Launched unique UK Identity workflow strengthening Right to Work experience and turnaround times
  - Unveiled fully-integrated Sterling Monitoring solution providing global scale, increased coverage, and improved functionality
  - Upcoming release of Sterling I9 virtual inspection capabilities enabled by our partnership with ID.me
- **Enhanced Client Experiences:**
  - New automated sub-report functionality providing greater flexibility and transparency to staffing clients
  - New Drug & Health tools enabling convenient methods for clients to manage registrations and drug testing programs

Enhancing Revenue

- Sustained **market share gains** with 2Q23 growth of 10% from the combination of new clients and up-sell/cross-sell (even as base industry volumes contracted)
- Increase in number of **new and expanded client RFPs** and average RFP deal size
- **Increasing package density** with up-sell of newer, higher margin solutions such as Identity Verification and Post-Hire
- Continued success in **International expansion** with multi-national and local clients
- New **Latin America** improved capabilities are helping to win more multi-national deals.

2Q 2023 Execution: Identity & Post-Hire

Identity & Post-Hire solutions bend our trajectory with faster-growing, higher-margin products



Pre-Hire

Core Businesses:

- Criminal Background Checks
- Verifications
- Drug & Health Screening

Identity & Post-Hire

IDENTITY

- Continued strong y/y global growth driven by new innovative solutions
- UK Identity Verification released to market in partnership with Yoti
- Extension of exclusive partnership with ID.me in the U.S. through 2028

POST-HIRE

- Continued client adoption of new subscription–based Monitoring solution including Criminal, Motor Vehicle Registry, Licensing/Credential, and Social Media
- Convenient and centralized experience in our Client Hub
- Attractive tech-enabled solutions for Enterprise customers

Identity Fueling Post-Hire Capabilities: ID.me partnership enabling future Sterling I-9 virtual inspection capabilities

2Q 2023 Execution: Cost Optimization

$10M of 2023 savings identified with ongoing efforts to achieve target of $25M annualized cost savings[1]

Enhancing Financial Profile with a Three Pillar Approach:

- Product Fulfillment Operations
- Facilities
- Functions

IMPLEMENTED

- Implemented initiatives driving **efficiency and automation** in fulfillment and operational processes
- Doubled-down on **virtual first** strategy; closing or downsizing facilities
- **Streamlined functions** to align with go-to-market strategy
- Initiatives already implemented expected to drive vast majority of **~$10M** of 2023 savings with **~$18M** of run rate savings

ON THE HORIZON

- **Initiatives in process** will drive process improvement, elimination of manual queues via increased automation, and use of AI.
- Upcoming initiatives expected to **reimagine global fulfillment**, moving toward a more touchless environment and streamlining end-to-end operational processes
- Implemented, in-process and future initiatives expected to bring total annualized savings over time to **~$25M**

1. For a discussion of some of the important factors that could prevent our strategy from being achieved, please consult the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2022 and our Quarterly Report on Form 10-Q for the period ended March 31, 2023, and our discussion of forward-looking statements on slide 2.

2Q 2023 Execution: M&A

Successful M&A integration is driving synergy realization and value creation[1]

SOCRATES

A-Check Global

M&A Integrations

- **Strong execution** against integration timelines, including on track migration of client-facing and fulfillment platforms
- **Targeted completion** of deal integrations by end of 2023 (for Socrates) and end of 2Q 2024 (for A-Check)
- Client experience substantially benefiting from **elevated experiences**
- Fully leveraging the **M&A playbook** developed for EBI, and refining capabilities for future deals

M&A Synergy

- **Promising revenue trends**, with YTD inorganic revenue ahead of prior expectations
- Robust cost synergy gains **on track** to be realized throughout the year
- A-Check cost synergies **tracking in-line** with pre-deal expectations
- Socrates acquisition yielding **substantial benefits** for multi-national and local LatAm clients

1. For a discussion of some of the important factors that could prevent our strategy from being achieved, please consult the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022 and our Quarterly Report on Form 10-Q for the period ended March 31, 2023, and our discussion of forward-looking statements on slide 2.

Peter Walker,
Chief Financial Officer

Q2 2023 Financial Review
2023 Guidance
Long-Term Outlook

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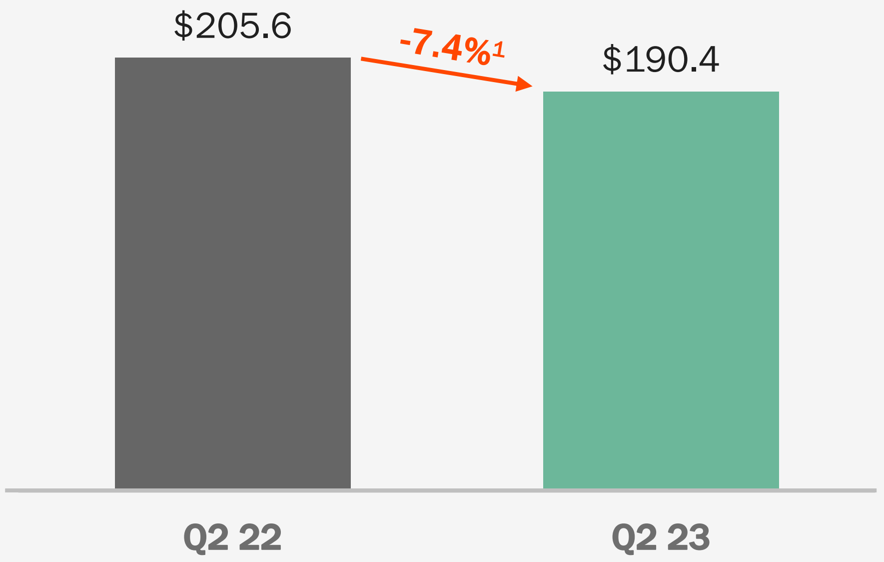
Q2 2023 Revenue

Revenue

Chart in $ millions



Strong core trends offset by base revenue declines

- **7.4%** revenue decline, in line with our expectations, due to base business declines and lapping Q2 2022's company record quarterly revenues
- **3.2%** inorganic revenue growth from Socrates and A-Check
- **Base business declines** due to macro uncertainty offset positive results in other revenue drivers (particularly new clients and up-sell / cross-sell)
- **95%** LTM Gross Retention Rate
- **10%** revenue growth from new clients + up-sell / cross-sell: strong new client wins and traction in new products, tempered by moderated base volumes of new clients
- Strong global adoption of **Identity Verification** with robust q/q and y/y growth
- U.S. region led by **Healthcare** vertical with y/y growth
- International led by **EMEA** region with y/y growth

1. Includes 10.1% organic constant currency revenue decline[2] and 0.5% decline due to the impact of fluctuations in foreign exchange currency rates, partially offset by 3.2% inorganic revenue growth. See appendix for a reconciliation of GAAP to non-GAAP measures.

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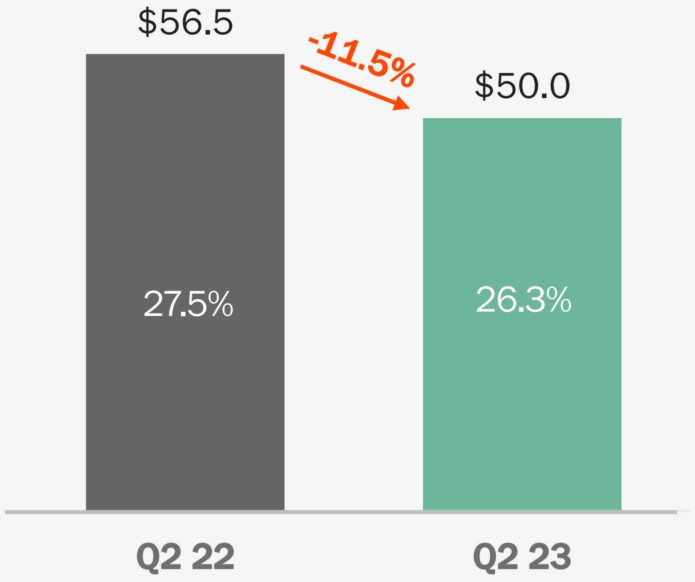
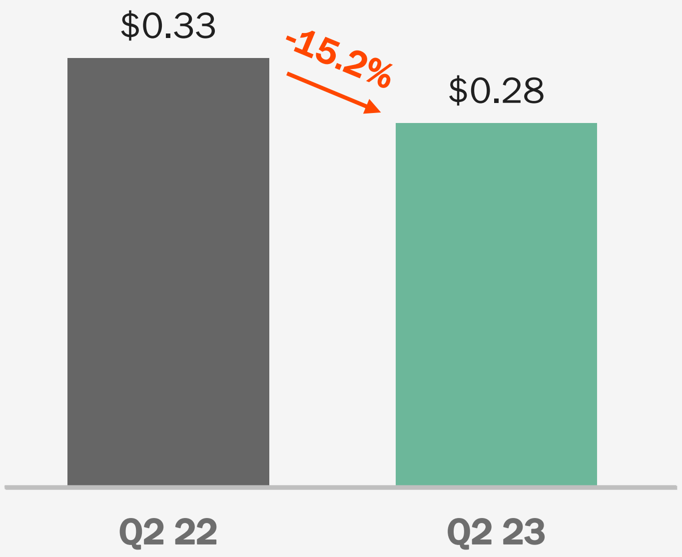
Q2 2023 Profitability

Adjusted EBITDA and Adjusted EBITDA Margin[1]

Chart in $ millions



Adjusted Earnings Per Share[1]



Cost actions benefiting in 2023

- **Adjusted EBITDA decline** due primarily to base revenue decline
- **26.3%** Adjusted EBITDA margin, down 120bps y/y, **above our expectations** due to continued strong progress in achieving 2023 cost optimization targets
- **Ongoing cost optimization actions** yielding meaningful benefits for 2023 and beyond through focus on automation, efficiency, and process re-engineering
- **Adjusted EPS decline** driven primarily by Adjusted EBITDA decline

1. See appendix for a reconciliation of GAAP to non-GAAP measures.

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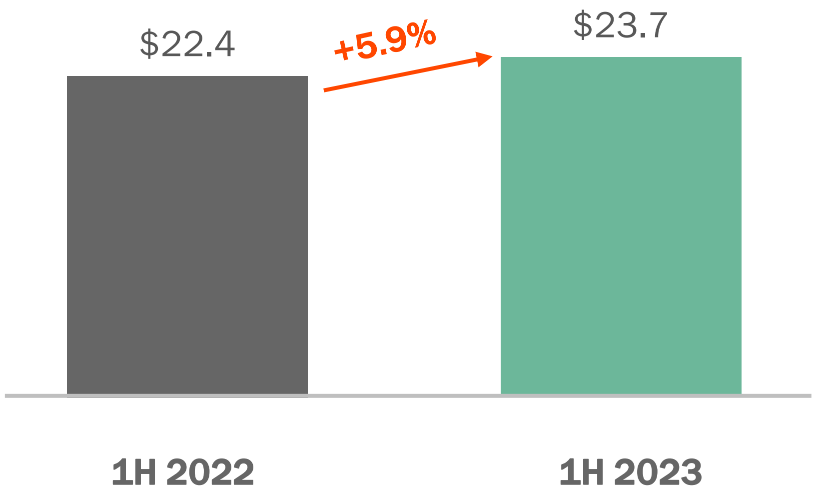
Cash Flow, Balance Sheet and Capital Expenditures

Free Cash Flow [1]

Chart in $ millions



Free Cash Flow YTD up y/y due to improvement in cash flow from our interest rate hedging program and a decrease in capital expenditures, partially offset by higher interest paid.

Net Leverage

Total Debt	$501.7M
Cash & Cash Equivalents	48.8M
LTM Adjusted EBITDA[1]	$189.9M
Net Leverage	**2.4x**

Net leverage remains at the lower end of our 2-3x long-term target due to strong cash generation. Cash balance includes impact of 2 acquisitions (~$49M) and share buyback activity (~$25M) during 1H 2023.

1. See appendix for a reconciliation of GAAP to non-GAAP measures.

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Full Year 2023 Updated Guidance[1]

	2023 Ranges	Year-over-Year Growth
Revenue	$760M – $780M	(1.0)% – 1.0%
Adjusted EBITDA[2]	$198M – $208M	0.0% – 5.0%
Adjusted Net Income[2]	$106M – $114M	0.0% – 7.0%

The Company's full-year 2023 guidance ranges reflect expectations that recent macroeconomic conditions will continue through the year and the Company's results improve through the year.

1. See discussion of forward-looking statements on slide 2.
2. We have not presented a quantitative reconciliation of the forward-looking non-GAAP financial measures "Adjusted EBITDA" and "Adjusted Net Income" to their most directly comparable GAAP financial measures because it is impractical to forecast certain items without unreasonable efforts due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of the periods in which such items may be recognized.

Long-term Targets Remain the Same

Three- To Five-Year Targets[1]

9% – 11%	29% – 32%+	15% – 20%
ANNUAL ORGANIC CONSTANT CURRENCY REVENUE GROWTH[2]	ADJUSTED EBITDA MARGIN[2]	ANNUAL ADJUSTED NET INCOME GROWTH[2]

1. These are not projections. They are targets and are forward-looking, are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and the control of management, and are based upon assumptions with respect to future decisions, which are subject to change. Actual results may vary and these variations may be material. For a discussion of some of the important factors that could cause these variations, please consult the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022, and our Quarterly Report on Form 10-Q for the period ended March 31, 2023. Nothing in this presentation should be regarded as a representation by any person that these targets will be achieved and we undertake no duty to update our goals. See discussion of forward-looking statements on slide 2.
2. We have not presented a quantitative reconciliation of the forward-looking non-GAAP financial measures "Adjusted EBITDA", "Adjusted Net Income," and "organic constant currency revenue growth" to their most directly comparable GAAP financial measures because it is impractical to forecast certain items without unreasonable efforts due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of the periods in which such items may be recognized.

Appendix

Full Year 2023 Updated Modeling Assumptions[1]

LINE ITEM	AMOUNT
Capital expenditures	~$19 million
Stock-based compensation	~$38 million
Interest expense	~$36 million
D&A net of intangible amortization	~$16 million
Adjusted effective tax rate	25.5 – 27.5%
Diluted shares outstanding	~95 million

1. See discussion of forward-looking statements on slide 2.

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Full Year 2023 Updated Guidance[1]

	FULL YEAR 2023
Organic constant currency revenue growth[2]	**(3.0)% — (1.5)%**
Impact of foreign currency translation	0.0% — 0.0%
Impact of inorganic revenue growth from M&A	2.5% — 3.0%
Total revenue growth	**(1.0)% — 1.0%**

1. See discussion of forward-looking statements on slide 2.
2. We have not presented a quantitative reconciliation of the forward-looking non-GAAP financial measure "Organic constant currency revenue growth" to its most directly comparable GAAP financial measure because it is impractical to forecast certain items without unreasonable efforts due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of the periods in which such items may be recognized.

Sterling At A Glance[1]

50K+
Clients

110M+
Background checks annually

75+
Platform integrations, with 60%+ of revenue integrated

95%
Overall gross retention rate[2]

60%+
of the Fortune 100 choose Sterling

240+
Countries and territories where Sterling has screening capabilities

9 Years
Average tenure for top 100 clients

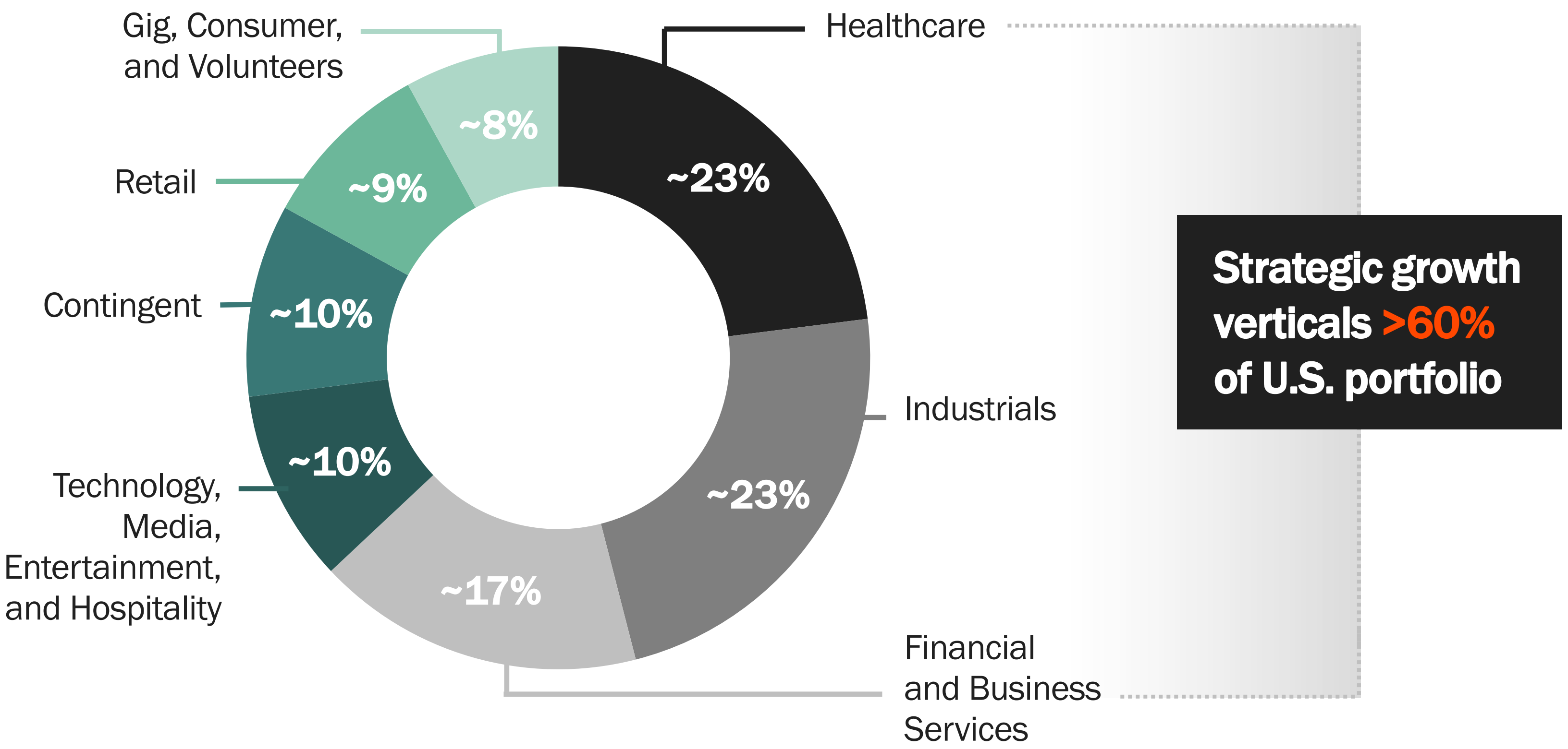
HR Tech Awards
in 2021 – 2023 for Best Comprehensive Solution for Enterprises & Talent Acquisition[3]

1. As of December 31, 2022 except where otherwise noted
2. For the last twelve months ended June 30, 2023
3. Tech Awards from Lighthouse Research & Advisory, 2021, 2022, and 2023

Diversified and Attractive U.S. Vertical Mix (2022)

Strong growth enabled by:

- Deep market expertise with industry-specific solutions
- Strategic increase in exposure to attractive verticals
- Secular growth
- Resilience during challenging economic times



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Key Attributes of Our Financial Model

Long-Term Contracts

- Multi-year terms with auto-renew
- Exclusivity or primary designation
- Fixed pricing with annual price increases

Strong Base of Recurring Revenue

- "Mission-critical" services drive significant revenue visibility
- Entrenched, long-tenured clients provide strong repeat revenue base
- 95% gross retention rate[1]

Diversified Client Base and Low Client Concentration

- 50,000+ clients[2]
- 60%+ of Fortune 100[2]
- Top client <3% of revenue, top 25 clients <25% of revenue[2]
- Growing international presence

Strong Free Cash Flow Generation

- Highly scalable cloud-based technology platform
- High incremental contribution margins
- Minimal capital requirements
- Favorable working capital dynamics

1. For the last twelve months ended June 30, 2023
2. As of December 31, 2022

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3-5 Year Organic Revenue Growth Target[1]

REVENUE DRIVERS

Base Business
Secular tailwinds, strategic verticals, client-specific factors, client M&A, economic cycles

Up-sell and Cross-sell
Increasing package density, product innovation, serving new geographies or divisions

New Business
Go-to-market strategy, deep market expertise, global scale, cloud-based technology

Attrition
World-class team and customer service excellence built on vertical expertise, speed, accuracy, compliance

1. These are not projections. They are targets and are forward-looking, are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and the control of management, and are based upon assumptions with respect to future decisions, which are subject to change. Actual results may vary and these variations may be material. For a discussion of some of the important factors that could cause these variations, please consult the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022 and our Quarterly Report on Form 10-Q for the period ended March 31, 2023. Nothing in this presentation should be regarded as a representation by any person that these targets will be achieved and we undertake no duty to update our targets. See discussion of forward-looking statements on slide 2.
2. Defined as clients with tenures over 12 months.

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Capital Allocation Strategy

Invest In Organic Growth

Pursue Strategic M&A

Target Leverage Ratio 2x – 3x [1]

1. This is not a projection. This is a target and is forward-looking, is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and the control of management, and is based upon assumptions with respect to future decisions, which are subject to change. Actual results may vary and these variations may be material. For a discussion of some of the important factors that could cause these variations, please consult the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022 and in our Quarterly Report on Form 10-Q for the period ended March 31 2023. Nothing in this presentation should be regarded as a representation by any person that this target will be achieved and we undertake no duty to update this target. See discussion of forward-looking statements on slide 2.

Non-GAAP to GAAP Reconciliation

Organic constant currency revenue growth (decline)

Organic constant currency revenue growth (decline) is calculated by adjusting for inorganic revenue growth (decline), which is defined as the impact to revenue growth (decline) in the current period from merger and acquisition ("M&A") activity that has occurred over the past twelve months, and converting the current period revenue at foreign currency exchange rates consistent with the prior period. For the three and six months ended June 30, 2022 and 2023, we have provided the impact of revenue from the acquisitions of Employment Background Investigations, Inc. ("EBI") in November 2021 and Socrates and A-Check during the first quarter of 2023. We present organic constant currency revenue growth (decline) because we believe it assists 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; however, it has limitations as an analytical tool, and you should not consider such a measure either in isolation or as a substitute for analyzing our results as reported under GAAP. In particular, organic constant currency revenue growth (decline) does not reflect M&A activity or the impact of foreign currency exchange rate fluctuations.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA is defined as net income (loss) adjusted for provision (benefit) for income taxes, interest expense, depreciation and amortization, stock-based compensation, transaction expenses related to the IPO, one-time public company transition expenses and costs associated with financing transactions, M&A activity, optimization and restructuring, technology transformation costs, foreign currency (gains) and losses and other costs affecting comparability. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue for the applicable period. We present Adjusted EBITDA and Adjusted EBITDA Margin 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 and our board of directors use Adjusted EBITDA and Adjusted EBITDA Margin to evaluate the factors and trends affecting our business to assess our financial performance and in preparing and approving our annual budget and believe they are helpful in highlighting trends in our core operating performance. Further, our executive incentive compensation is based in part on components of Adjusted EBITDA. Adjusted EBITDA and Adjusted EBITDA Margin have limitations as analytical tools and should not be considered in isolation or as substitutes for our results as reported under GAAP. Adjusted EBITDA excludes items that can have a significant effect on our profit or loss and should, therefore, be considered only in conjunction with net income (loss) for the period. Because not all companies use identical calculations, these measures may not be comparable to other similarly titled measures of other companies.

Non-GAAP to GAAP Reconciliation

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted Net Income is a non-GAAP profitability measure. Adjusted Net Income is defined as net income (loss) adjusted for amortization of acquired intangible assets, stock-based compensation, transaction expenses related to the IPO, one-time public company transition expenses and costs associated with financing transactions, M&A activity, optimization and restructuring, technology transformation costs, and certain other costs affecting comparability, adjusted for the applicable tax rate. Adjusted Earnings Per Share is defined as Adjusted Net Income divided by diluted weighted average shares for the applicable period. We present Adjusted Net Income and Adjusted Earnings Per Share because we believe they assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding certain material non-cash items and unusual items that we do not expect to continue at the same level in the future. Our management believes that the inclusion of supplementary adjustments to net income (loss) applied in presenting Adjusted Net Income provide additional information to investors about certain material non-cash items and about items that we do not expect to continue at the same level in the future. Adjusted Net Income and Adjusted Earnings Per Share have limitations as analytical tools, and you should not consider such measures either in isolation or as substitutes for analyzing our results as reported under GAAP.

Free Cash Flow

Free Cash Flow is defined as Net Cash provided by (used in) Operating Activities minus purchases of property and equipment and purchases of intangible assets and capitalized software. We present Free Cash Flow because we believe it provides cash available for strategic measures, after making necessary capital investments in property and equipment to support ongoing business operations, and provides investors with the same measures that management uses as the basis for making resource allocation decisions. Free Cash Flow has limitations as an analytical tool, and you should not consider such measure either in isolation or as a substitute for analyzing our results as reported under GAAP. Historically, we presented Adjusted Free Cash Flow, defined as Net Cash provided by (used in) Operating Activities minus purchases of property and equipment and purchases of intangible assets and capitalized software and reflecting adjustments for one-time, cash, non-operating expenses related to the IPO. As there are no adjustments related to the IPO for the three and six months ended June 30, 2022 and 2023, nor in the subsequent periods from such dates, management believes that Free Cash Flow is a more relevant measure.

Non-GAAP to GAAP Reconciliation

Adjusted EBITDA and Adjusted EBITDA Margin Reconciliation

The following table reconciles net income (loss), the most directly comparable US GAAP measure, to Adjusted EBITDA for the three months ended June 30, 2022, September 30, 2022, December 31, 2022, March 31, 2023, and June 30, 2023, respectively, and for the twelve months ended June 30, 2023.

	Three Months Ended					Twelve Months Ended
	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023	June 30, 2023
(dollars in thousands)						
Net income (loss)	$ 11,571	$ 9,303	$ (7,700)	$ 591	$ 323	$ 2,517
Income tax provision (benefit)	5,392	3,481	(4,252)	1,102	(85)	246
Interest expense, net	6,619	7,764	8,828	8,608	8,990	34,190
Depreciation and amortization	19,872	16,570	16,542	15,122	16,120	64,354
Stock-based compensation	6,023	6,293	6,381	8,043	9,358	30,075
Loss on extinguishment of debt	—	—	3,673	—	—	3,673
Transaction expenses(1)	1,894	2,809	4,902	5,126	3,133	15,970
Restructuring(2)	836	2,730	5,112	3,273	11,490	22,605
Technology Transformation(3)	4,537	4,767	3,728	3,233	179	11,907
Settlements impacting comparability(4)	—	213	3,106	—	—	3,319
(Gain) loss on interest rate swaps(5)	32	—	(1)	—	—	(1)
Other(6)	(304)	(832)	978	457	489	1,092
Adjusted EBITDA	$ 56,472	$ 53,098	$ 41,297	$ 45,555	$ 49,997	$ 189,947
Adjusted EBITDA Margin	27.5 %	26.6 %	24.3 %	25.4 %	26.3 %	25.7 %
Net income (loss)	$ 11,571	$ 9,303	$ (7,700)	$ 591	$ 323	$ 2,517
Adjusted EBITDA	$ 56,472	$ 53,098	$ 41,297	$ 45,555	$ 49,997	$ 189,947
Revenues	$ 205,591	$ 199,299	$ 169,920	$ 179,274	$ 190,384	$ 738,877
Net Income (Loss) Margin	5.6 %	4.7 %	(4.5)%	0.3 %	0.2 %	0.3 %
Adjusted EBITDA Margin	27.5 %	26.6 %	24.3 %	25.4 %	26.3 %	25.7 %

Non-GAAP to GAAP Reconciliation

(1) Consists of transaction expenses related to M&A, associated ear-outs, investor management fees in connection with the Fourth Amended and Restated Management Services Agreement, dated December 3, 2019 (“the MSA”), costs related to the preparation of the IPO, one-time public company transition expenses and fees associated with financing transactions. For the three months ended June 30, 2022, costs consisted primarily of $1.1 million of one-time public company transition expenses and $0.8 million in costs related to M&A.For the three months ended September 30, 2022, costs consisted primarily of $1.3 million of one-time public company transition expenses and $1.5 million in costs related to M&A. For the three months ended December 31, 2022, costs included approximately $1.4 million of one-time public company transition expenses and approximately $3.4 million related to M&A activity for the acquisitions of EBI and Socrates. For the three months ended March 31, 2023, costs consisted primarily of $2.7 million of M&A related costs for the acquisitions of Socrates and A-Check, $1.1 million of M&A costs for the EBI acquisition primarily due to the acceleration of contract costs related to completion of the EBI platform migration and $1.3 million of registration statement costs, one-time public company transition expenses and expenses related to executing our interest rate swap. For the three months ended June 30, 2023, costs consisted primarily of $1.9 million of M&A related costs for the acquisitions of Socrates and A-Check and $1.2 million of costs to support the secondary public offering in June 2023.

(2) Consists of restructuring-related costs, including executive recruiting and severance charges, and lease termination costs and disposal of fixed assets related to our real estate consolidation efforts. During 2020, we executed an extensive restructuring program, significantly strengthening our management team and creating a client facing industry-specific Vertical organization. This program was completed by the end of 2020 and the final costs related to this program were incurred through the first quarter of 2021. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. In 2022, we began executing on a restructuring program to realign senior leadership and functions with the goal of elevating our go-to-market strategy and accelerating our technology and product innovation. At the end of 2022, we also launched Project Nucleus which we expect to drive meaningful cost savings and efficiency gains. For the three months ended June 30, 2022, costs include $0.8 million of charges related to our real estate consolidation program. For the three months ended September 30, 2022, costs include $0.7 million of charges related to our real estate consolidation program primarily related to the exit of EBI’s office. The period also included approximately $2.0 million of restructuring-related executive recruiting and severance charges as well as one-time consulting and other costs. For the three months ended December 31, 2022, costs include approximately $4.8 million of restructuring-related severance charges as well as one-time consulting and other costs and approximately $0.2 million in expenses related to our real estate consolidation program, primarily due to the exit of EBI’s office. For the three months ended March 31, 2023, costs consisted of $2.9 million of restructuring-related charges and $0.3 million of real estate consolidation costs. For the three months ended June 30, 2023, costs consisted of $8.9 million in connection with executing against our real estate consolidation program which included a $5.3 million impairment charge on ROU assets, $1.9 million of accelerated rent and facilities costs, and $1.7 million of fixed asset disposals. The remaining $2.6 million consists of restructuring-related charges to support our strategy refresh and the execution of Project Nucleus.

(3) Includes costs related to technology modernization, as well as costs related to decommissioning of on-premise production systems and redundant fulfillment systems of acquired companies and the migration to our platform. We believe that these costs are discrete and non-recurring in nature, as they relate to a one-time restructuring and decommissioning of our on-premise production systems and corporate technological infrastructure and the move to a managed service provider, decommissioning redundant fulfillment systems and modernizing internal functional systems. As such, they are not normal, recurring operating expenses and are not reflective of ongoing trends in the cost of doing business. The significant majority of these are related to the last two phases of Project Ignite, a three-phase strategic investment initiative launched in 2019 to create an enterprise-class global platform, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure. Phase two of Project Ignite was completed in 2022 and phase three of Project Ignite was completed in the first quarter of 2023. For the three months ended June 30, 2022, investment related to Project Ignite was $3.7 million. The remaining $0.8 million relates to costs for decommissioning of the on-premise production system and decommissioning of the redundant fulfillment system of EBI and migrating onto our platform. For the three months ended September 30, 2022, investment related to Project Ignite was $4.2 million. The remaining $0.6 million relates to costs for decommissioning of the on-premise production system and decommissioning of the redundant fulfillment system of EBI and migrating onto our platform. For the three months ended December 31, 2022, investment related to Project Ignite was $3.2 million and $0.5 million for decommissioning of the on-premise production system and decommissioning of the redundant fulfillment system of EBI and migrating onto our platform. For the three months ended March 31, 2023, investment related to Project Ignite was approximately $3.1 million. The remaining $0.1 million for the three months ended March 31, 2023 relates to costs for decommissioning of the on-premise production system and decommissioning of the redundant fulfillment system of EBI and migrating onto our platform. For the three months ended June 30, 2023, $0.2 million related to decommissioning of the redundant production and fulfillment systems of Acheck and the redundant fulfillment systems of Socrates.

4) Consists of non-recurring settlements and the related legal fees impacting comparability. For the three months ended December 31, 2022, costs include $3.1 million, net of insurance recovery, for certain class action cases settled during the period. These legal settlement related costs were discrete and non-recurring in nature, and we do not expect them to occur in future periods.

5) Consists of gains or losses on historical non-designated derivative interest rate swaps. See “Part II. Item 7A. Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk” of our Annual Report on Form 10-K for the period ended December 31, 2022 and “Part I. Item 3. Quantitative and Qualitative Disclosures about Market Risk— Interest Rate Risk” in our Form 10-Q for the quarterly periods ended June 30, 2022, September 30, 2022, March 31, 2023, and June 30, 2023 for additional information on interest rate swaps.

6) Consists of costs related to a local government mandate in India, loss (gain) on foreign currency transactions, impairment of capitalized software and other costs outside of the ordinary course of business. For the three months ended June 30, 2022, there was a $0.3 million loss on translation of foreign exchange. For the three months ended September 30, 2022, there was a $0.8 million loss on translation of foreign exchange. For the three months ended December 31, 2022, there was a $0.8 million loss on translation of foreign exchange and $0.2 million charge for impairment of capitalized software.

Non-GAAP to GAAP Reconciliation

Adjusted Net Income and Adjusted EPS Reconciliation

The following table reconciles net income, the most directly comparable US GAAP measure, to Adjusted Net Income and Adjusted Earnings per Share for the three and six months ended June 30, 2022 and 2023.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
(in thousands, except per share amounts)				
Net income	$ 11,571	$ 323	$ 17,807	$ 914
Income tax provision (benefit)	5,392	(85)	9,477	1,017
Income before income taxes	16,963	238	27,284	1,931
Amortization of acquired intangible assets	13,363	10,625	27,127	20,686
Stock-based compensation	6,023	9,358	11,131	17,401
Transaction expenses(1)	1,894	3,133	3,782	8,259
Restructuring(2)	836	11,490	1,182	14,763
Technology transformation(3)	4,537	179	8,299	3,412
Loss (gain) on interest rate swaps(4)	32	—	(296)	—
Other(5)	(304)	489	(257)	946
Adjusted Net Income before income tax effect	43,344	35,512	78,252	67,398
Income tax effect(6)	10,845	9,308	21,352	17,908
Adjusted Net Income	$ 32,499	26,204	$ 56,900	49,490
Net Income per share – basic	$ 0.12	$ 0.00	$ 0.19	$ 0.01
Net Income per share – diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Adjusted Earnings Per Share – basic	0.35	0.28	0.61	0.53
Adjusted Earnings Per Share – diluted	0.33	0.28	0.57	0.52

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share and per share amounts)	2022	2023	2022	2023
Net income	$ 11,571	$ 323	$ 17,807	$ 914
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ 11,571	$ 323	$ 17,807	$ 914
Weighted average number of shares outstanding – basic	94,024,970	92,723,901	93,996,553	92,800,279
Weighted average number of shares outstanding – diluted	99,344,563	94,498,666	99,265,668	94,924,080
Net income per share – basic	$ 0.12	$ 0.00	$ 0.19	$ 0.01
Net income per share – diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Adjusted Net Income	$ 32,499	$ 26,204	$ 56,900	$ 49,490
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ 32,499	$ 26,204	$ 56,900	$ 49,490
Weighted average number of shares outstanding – basic	94,024,970	92,723,901	93,996,553	92,800,279
Weighted average number of shares outstanding – diluted	99,344,563	94,498,666	99,265,668	94,924,080
Adjusted Earnings Per Share - basic	$ 0.35	$ 0.28	$ 0.61	$ 0.53
Adjusted Earnings Per Share - diluted	$ 0.33	$ 0.28	$ 0.57	$ 0.52

Non-GAAP to GAAP Reconciliation

Adjusted Net Income and Adjusted EPS Reconciliation cont'd

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
Net income per share – diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Adjusted Net Income adjustments per share				
Income tax expense	0.05	$ 0.00	0.09	0.01
Amortization of acquired intangible assets	0.13	0.11	0.27	0.22
Stock-based compensation	0.06	0.10	0.11	0.18
Transaction expenses(1)	0.02	0.04	0.04	0.09
Restructuring(2)	0.01	0.12	0.01	0.16
Technology transformation(3)	0.05	0.00	0.09	0.03
Gain on interest rate swaps(4)	0.00	—	0.00	—
Other(5)	0.00	0.01	0.00	0.01
Income tax effect(6)	(0.11)	(0.10)	(0.22)	(0.19)
Adjusted Earnings Per Share – diluted	$ 0.33	$ 0.28	$ 0.57	$ 0.52
Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:				
Weighted average number of shares outstanding – diluted (US GAAP)	99,344,563	94,498,666	99,265,668	94,924,080
Options not included in weighted average number of shares outstanding – diluted (US GAAP) (using treasury stock method)	—	—	—	—
Weighted average number of shares outstanding – diluted (non-GAAP) (using treasury stock method)	99,344,563	94,498,666	99,265,668	94,924,080

Non-GAAP to GAAP Reconciliation

(1) Consists of transaction expenses related to M&A, associated earn-outs, investor management fees, costs related to the preparation of the IPO, one-time public company transition expenses and fees associated with financing transactions.

(2) Consists of restructuring-related costs, including executive recruiting and severance charges, and lease termination costs and disposal of fixed assets related to our real estate consolidation efforts. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. In 2022, we began executing on a restructuring program to realign senior leadership and functions with the goal of elevating our go-to-market strategy and accelerating our technology and product innovation. At the end of 2022, we also launched Project Nucleus which we expect to drive meaningful cost savings and efficiency gains.

(3) Includes costs related to technology modernization and acquisition-related technology integration and migration efforts. We believe that these costs are discrete and non-recurring in nature, as they relate to a one-time restructuring and decommissioning of our on-premise production systems and corporate technological infrastructure and the move to a managed service provider, decommissioning redundant fulfillment systems and modernizing internal functional systems. As such, they are not normal, recurring operating expenses and are not reflective of ongoing trends in the cost of doing business. The significant majority of these are related to the last two phases of Project Ignite, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure.

(4) Consists of gains or losses on historical non-designated derivative interest rate swaps. See Part I. Item 3. “Quantitative and Qualitative Disclosures about Market Risk— Interest Rate Risk” in our Form 10-Q for the quarterly period ended June 30, 2023 for additional information on interest rate swaps.

(5) Consists of costs related to gains or losses on foreign currency transactions and impairment of capitalized software.

(6) Normalized effective tax rates of 25.0% and 26.2% have been used to compute Adjusted Net Income for the three months ended June 30, 2022 and 2023, respectively. Normalized effective tax rates of 27.3% and 26.6% have been used to compute Adjusted Net Income for the six months ended June 30, 2022 and 2023, respectively. As of December 31, 2022, we had net operating loss carryforwards of approximately $16.3 million for federal income tax purposes and deferred tax assets of approximately $6.3 million related to state and foreign income tax loss carryforwards available to reduce future income subject to income taxes. The amount of actual cash taxes we pay for federal, state, and foreign income taxes differs significantly from the effective income tax rate computed in accordance with US GAAP, and from the normalized rate shown above.

For further detail, see the footnotes to Part I. Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023.

Non-GAAP to GAAP Reconciliation

Free Cash Flow

The following table reconciles net cash flow provided by operating activities, the most directly comparable US GAAP measure, to Free Cash Flow for the three and six months ended June 30, 2022 and 2023, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2022**	**2023**	**2022**	**2023**
Net cash provided by operating activities	$ 29,834	$ 21,616	$ 33,279	$ 32,898
Purchases of intangible assets and capitalized software	(3,874)	(4,469)	(7,616)	(8,589)
Purchases of property and equipment	(1,771)	(453)	(3,266)	(593)
Free Cash Flow	$ 24,189	$ 16,694	$ 22,397	$ 23,716

Sterling

Non-GAAP to GAAP Reconciliation

Organic Constant Currency Revenue

The following table reconciles revenue growth (decline), the most directly comparable US GAAP measure, to organic constant currency revenue growth (decline) for the three and six months ended June 30, 2023. For the three and six months ended June 30, 2023, we have provided the impact of revenue from the acquisitions of Socrates and A-Check.

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Reported revenue decline	(7.4)%	(7.0)%
Inorganic revenue growth(1)	3.2 %	2.4 %
Impact from foreign currency exchange(2)	(0.5)%	(0.7)%
Organic constant currency revenue decline	(10.1)%	(8.7)%

(1) Impact to revenue growth (decline) in the current period from M&A activity that has occurred over the past twelve months.
(2) Impact to revenue growth (decline) in the current period from fluctuations in foreign currency exchange rates.

Sterling