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Q2 2022 Earnings

August 9, 2022

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 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,” “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 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 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 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 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 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 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; inadequate protection of our intellectual property; our ability to implement, maintain and improve effective internal controls and remediate the material weakness; and 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.

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 Growth," “Adjusted Earnings Per Share,” “organic constant currency revenue growth,” and “Adjusted 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 “Adjusted 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 it is 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

Q2 2022 Highlights
Organic Revenue Drivers
Why we win

Continued Strong Results in Q2 2022

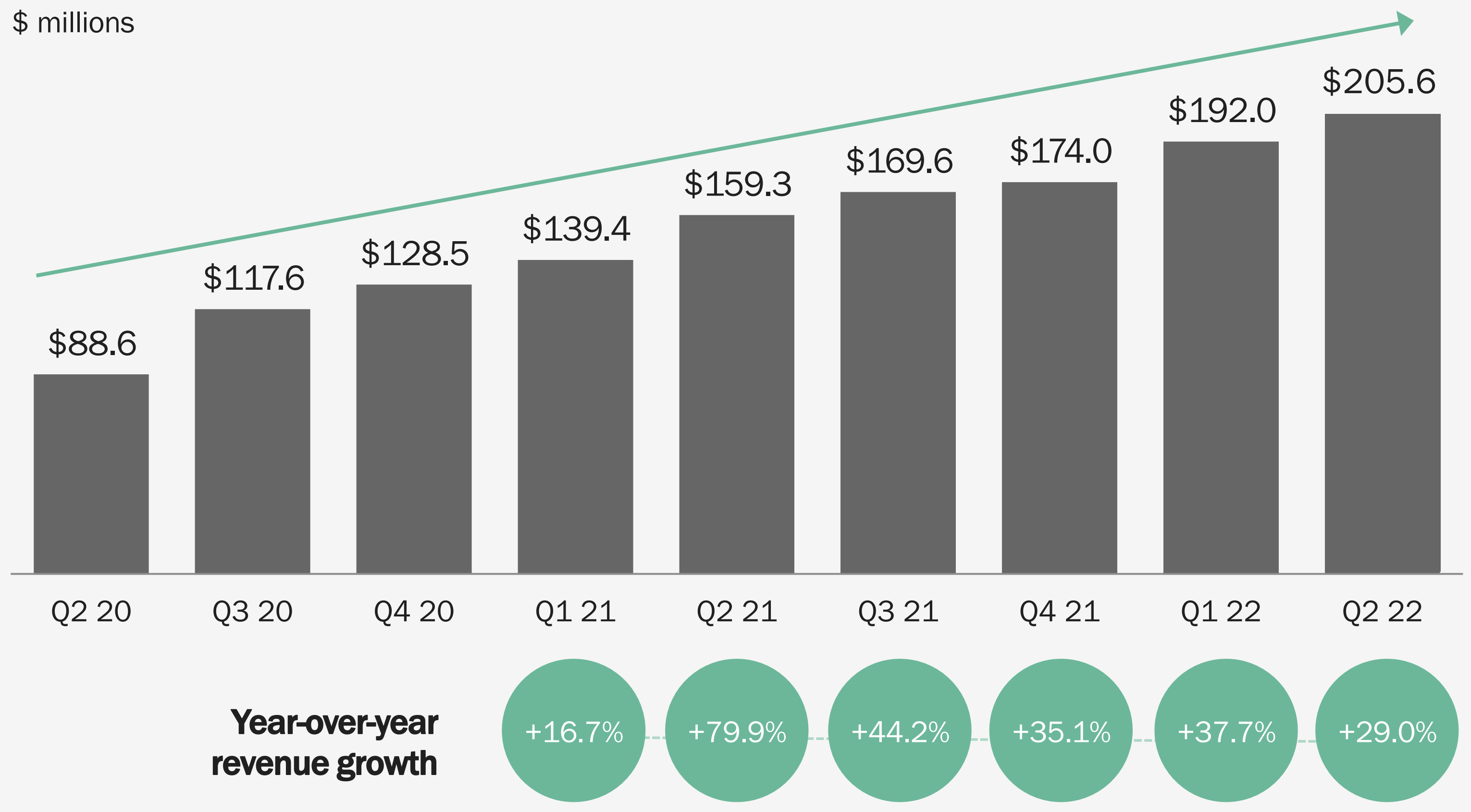
- 29% revenue growth even while lapping Q2 2021's 80% revenue growth; results included 23% organic constant currency revenue growth[1] and 8% inorganic revenue contribution from M&A
- 10% revenue growth from new customers; 7th straight quarter of double-digit growth from new customers
- Above our targets for all organic revenue drivers (base growth, up-sell / cross-sell, new customers, and retention)
- 20% growth in Adjusted EBITDA and 44% growth in Adjusted Net Income[1]
- Increased 2022 guidance for revenues, Adjusted EBITDA, and Adjusted Net Income[1]; updated outlook includes 22.0 – 24.0% revenue growth (17.0 – 19.0% organic constant currency revenue growth[1])

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

Strong Business Momentum[1]

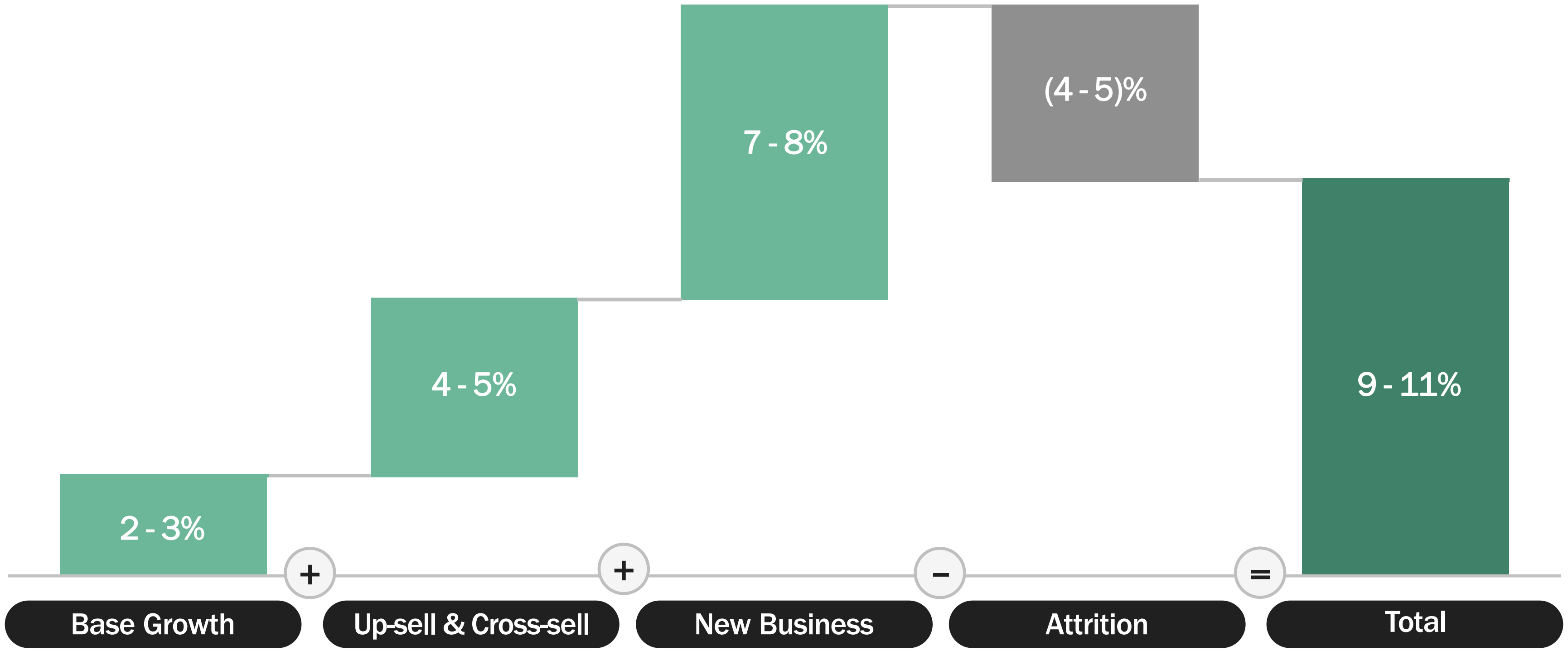
6 consecutive quarters of double-digit y/y organic revenue growth

8 consecutive quarters of sequential revenue growth



1. Past performance is not indicative of future results.

3-5 Year Organic Revenue Growth Target[1]



Base Growth	Up-sell & Cross-sell	New Business	Attrition	Total
Revenue from existing customers[2] due to increased volumes	Revenue from existing customers[2] due to additional products, geographies, or divisions	Revenue from new customers (in first 12 months)	Revenue declines due to lost customers	

REVENUE DRIVERS

Base Growth
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

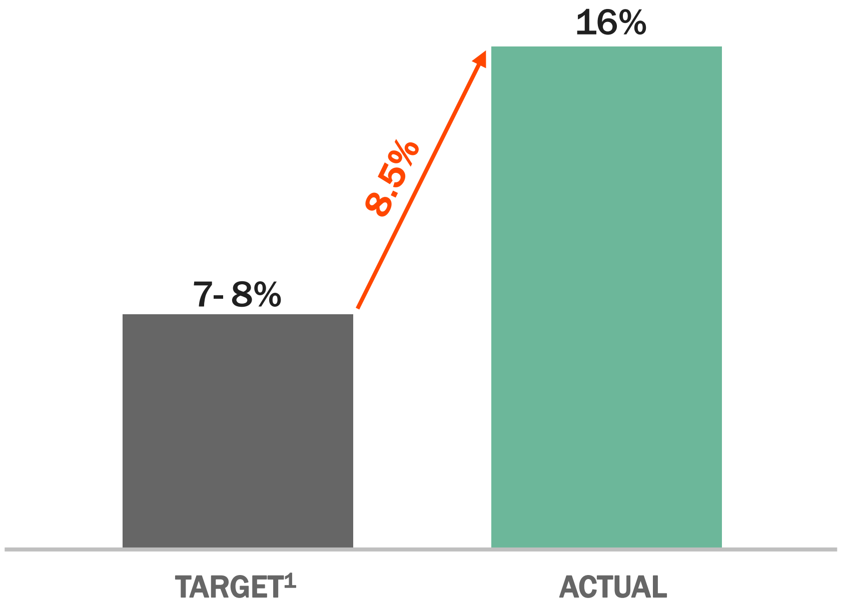
Attrition
World-class team and customer service excellence built on vertical expertise, speed, accuracy, compliance

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 Form 10-K, filed with the SEC on March 16, 2022. 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. Defined as customers with tenures over 12 months

Overperforming on Drivers Within Our Control

Combined growth from Up/Cross-Sell, New Business, and Attrition has been more than double our target

Up/Cross-sell + New Business – Attrition
(Average growth; 2021 and YTD 2022)



16% average growth since 1Q21 from the combination of Up-sell & Cross-sell, New Business, and Attrition (versus 7-8% combined target)

7 consecutive quarters of double-digit year-over-year growth from New Business

96% LTM gross retention rate, up 200bps from 2021's 94% rate

VERY STRONG Pipeline and ACV signed for new business and cross-sell/up-sell

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Why We Win and Retain Business

Global Leader

- A market leader in the US, Canada, EMEA and APAC
- Scaled operations for future growth in each region
- Optimized to serve both local and global businesses

Deep Market Expertise

- Dedicated resources
- Deep market expertise and unrivaled client service
- Highly localized and specialized solutions
- Client partnership model

Cloud-Based Technology

- Cloud-based infrastructure
- Robust Integration Hub
- Seamless Candidate and Client Hubs
- Analytics Hub

Fulfillment Automation at Scale

- Leading fulfillment automation
- Among the fastest turnaround times and most accurate results

World Class Team

Peter Walker,
Chief Financial Officer

Q2 2022 Financial Review
2022 Updated Guidance
Long-Term Outlook

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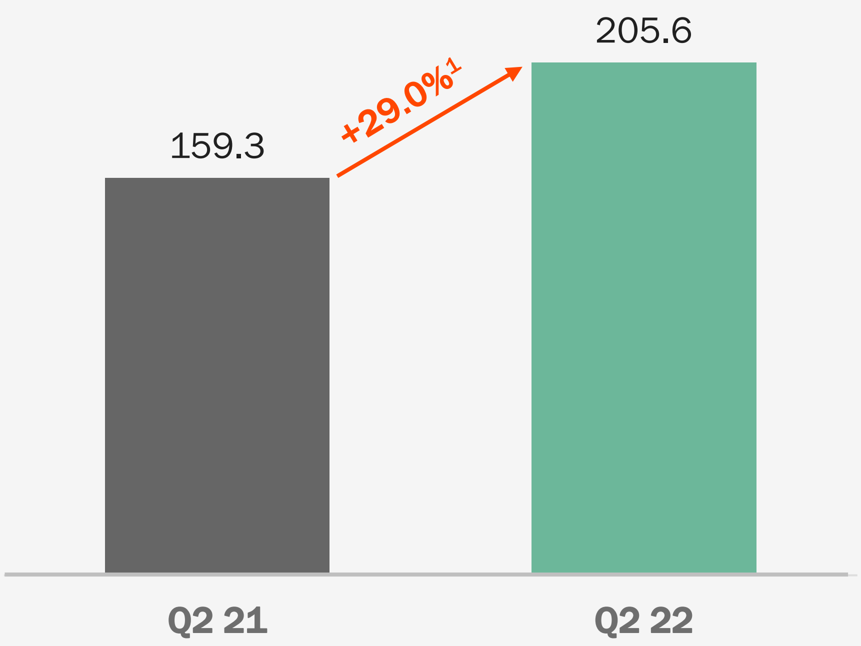
Q2 2022 Financial Highlights

Revenue

Chart in $ millions



Strong, broad-based revenue growth

- **29.0%** revenue growth even while lapping Q2 2021's 80% revenue growth
- **22.8%** organic constant currency revenue growth[2]
- **Above our targets** for all organic revenue drivers (base growth, up-sell / cross-sell, new customers, and retention)
- **96%** LTM gross retention rate
- **10%** revenue growth from new customers; 7th straight quarter of double-digit growth from new customers
- **7.7%** inorganic revenue growth from EBI; second consecutive quarter above expectations
- US growth led by **Industrials**, **Healthcare**, and **FinBiz** verticals
- International growth led by **APAC** region

1. Includes +22.8% organic constant currency revenue growth[2] and +7.7% due to inorganic revenue growth, partially offset by (1.5)% drag from the impact of fluctuations in foreign exchange currency rates.
2. See appendix for a reconciliation of GAAP to non-GAAP measures.

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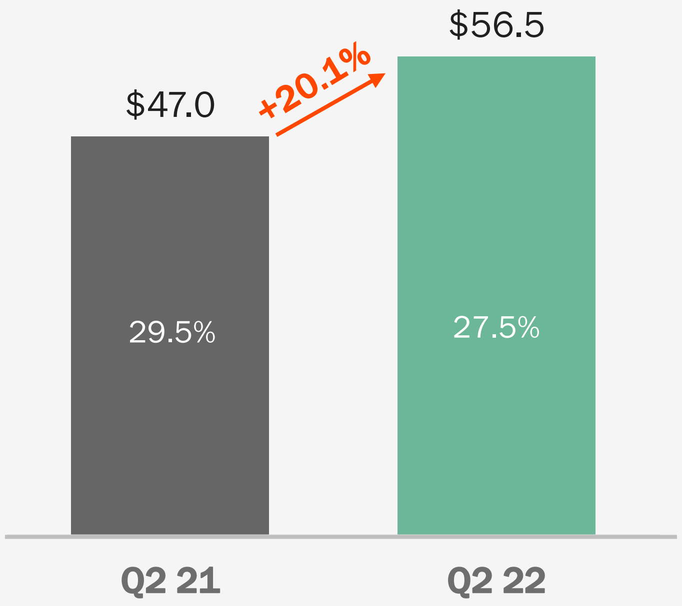
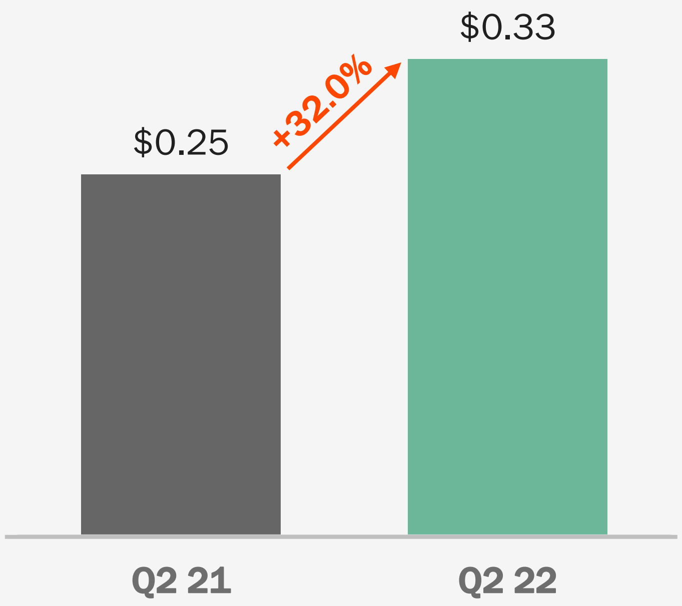
Q2 2022 Financial Highlights

Adjusted EBITDA and Margin[1]

Chart in $ millions



Adjusted Earnings Per Share[1]



Focus on strong profitable growth

- **20.1%** growth in Adjusted EBITDA due to strong revenue growth and cost controls
- Continued focus on **cost discipline**, **healthy growth**, and **innovation** in Automation
- **27.5%** Adjusted EBITDA margin, **265bps** sequential increase due to savings initiatives and accelerated EBI synergies
- **32.0%** growth in Adjusted EPS driven by strong revenue growth, improved operating leverage, and modest reduction in interest expense

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

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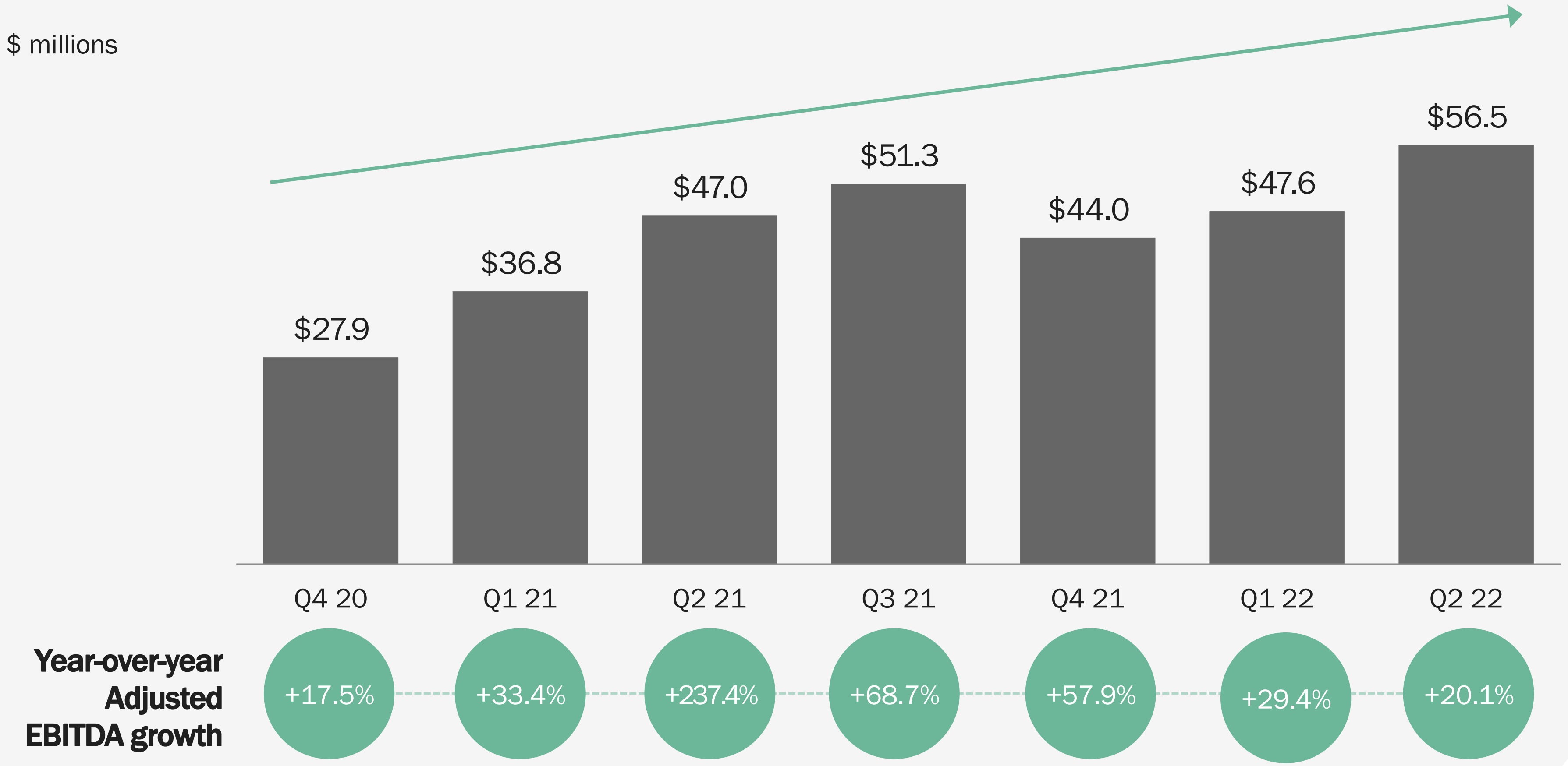
Consistent Profitable Growth[1]

7 consecutive quarters

of double-digit y/y growth in Adjusted EBITDA[2]

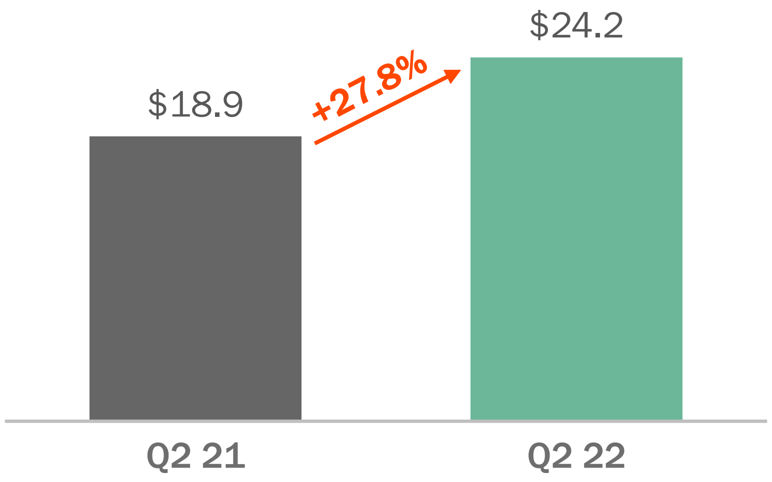


1. Past performance is not indicative of future results.
2. See appendix for a reconciliation of GAAP to non-GAAP measures.

Cash Flow, Balance Sheet and Capital Expenditures

Adjusted Free Cash Flow [1]

Chart in $ millions



+27.8% growth in Adjusted Free Cash Flow due primarily to growth in operating income

Net Leverage

Total Debt	$507.1M
Cash & Cash Equivalents	$65.8M
LTM Adjusted EBITDA[1]	$199.5M
Net Leverage	**2.2x**

Net leverage continues to decline due to strong growth in Adjusted EBITDA

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

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Updated Full Year Fiscal 2022 Guidance[1]

	Previous (5/10/22)	Updated (8/9/22)	Year-over-Year Growth
Revenue	$770M – $780M	**$785M – $795M**	22.0% – 24.0%[3]
Adjusted EBITDA[2]	$210M – $216M	**$214M – $220M**	19.5% – 23.0%
Adjusted Net Income[2]	$112M – $115M	**$115M – $118M**	25.0% – 28.0%

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 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.
3. Includes 6.0% contribution from inorganic revenue growth, partially offset by (1.0)% drag from fluctuation in foreign currency; see slide 14.

Updated Full Year Fiscal 2022 Guidance[1]

cont'd

	Previous (5/10/22)	Updated (8/9/22)
Organic constant currency revenue growth[2]	14.5% — 16.5%	**17.0% — 19.0%**
Impact of foreign currency translation	(0.25)%	(1.0)%
Impact of inorganic revenue growth from M&A	5.5%	6.0%
Total revenue growth	20.0% — 21.5%	**22.0% — 24.0%**

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.

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]

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Appendix

Full Year Fiscal 2022 Modeling Assumptions[1]

LINE ITEM	AMOUNT
Capital expenditures	~$20 million
Stock-based compensation	~$23 million
Interest expense	~$30 million
D&A net of intangible amortization	~$24 million
Adjusted effective tax rate	27 - 28%
Diluted shares outstanding	~99 million

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

Sterling At A Glance[1]

50K+
Clients

95M+
Background checks annually

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

96%
Overall gross retention rate[2]

50%+
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 and 2022 for Best Comprehensive Solution for Enterprises & Talent Acquisition[3]

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

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
- 96% gross retention rate [1]

Diversified Client Base and Low Client Concentration

- 50,000+ clients [2]
- 50%+ 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 ending June 30, 2022
2. As of December 31, 2021.

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Capital Allocation Strategy

Invest In Organic Growth

Pursue Strategic M&A

Target Leverage Ratio 2x – 3x (1)

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Non-GAAP to GAAP Reconciliation

Organic constant currency revenue growth

Organic constant currency revenue growth is a non-GAAP financial measure calculated by adjusting for inorganic revenue growth, which is defined as the impact to revenue growth 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. We present organic constant currency revenue growth 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 US GAAP. In particular, organic constant currency revenue growth 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 adjusted for provision for income taxes, interest expense, depreciation and amortization, stock-based compensation, transaction expenses related to our IPO and one-time public company transition expenses, 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 to evaluate the factors and trends affecting our business to assess our financial performance and in preparing and approving our annual budget and believe it is 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 US 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. Our management uses Adjusted EBITDA to supplement US GAAP results to evaluate the factors and trends affecting the business to assess our financial performance and in preparing and approving our annual budget and believe it is helpful in highlighting trends in our core operating performance. 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 adjusted for amortization of acquired intangible assets, stock-based compensation, transaction expenses related to our IPO and one-time public company transition expenses, 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 US GAAP.

Adjusted Free Cash Flow

Adjusted 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. For the three and six months ended June 30, 2021, Adjusted Free Cash Flow includes adjustments for one-time, non-operating cash expenses related to the IPO. We present Adjusted Free Cash Flow because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding certain material non-recurring, non-operating cash items that we do not expect to continue at the same level in the future. Adjusted 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 US GAAP.

Non-GAAP to GAAP Reconciliation

Adjusted EBITDA and Adjusted EBITDA Margin Reconciliation

The following table reconciles net income, the most directly comparable US GAAP measure, to Adjusted EBITDA for the three months ended December 31, 2020, March 31, 2021, June 30, 2021, September 30, 2021, December 31, 2021, March 31, 2022, and June 30, 2022, respectively, and for the twelve months ended June 30, 2022.

	Three Months Ended							Twelve Months Ended
	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022	June 30, 2022
(dollars in thousands)								
Net income (loss)	$ (1,060)	$ 628	$ 3,398	$ (25,256)	$ 2,703	$ 6,236	$ 11,571	$ (4,746)
Income tax provision (benefit)	(12,280)	526	4,026	(12,633)	(2,380)	4,085	5,392	(5,536)
Interest expense, net	7,837	7,570	7,603	7,668	8,015	6,336	6,619	28,638
Depreciation and amortization	22,758	20,549	20,299	20,346	20,870	20,156	19,872	81,244
Stock-based compensation	1,708	898	756	25,582	5,344	5,108	6,023	42,057
Transaction expenses(1)	1,406	1,089	6,139	31,526	4,292	1,888	1,894	39,600
Restructuring(2)	1,768	3,035	604	621	655	346	836	2,458
Technology Transformation(3)	2,872	2,059	3,942	3,137	3,950	3,762	4,537	15,386
Settlements impacting comparability(4)	2,662	—	—	—	468	—	—	468
(Gain) loss on interest rate swaps(5)	(153)	(46)	133	112	(168)	(328)	32	(352)
Other(6)	383	496	134	196	297	47	(304)	236
Adjusted EBITDA	$ 27,901	$ 36,804	$ 47,034	$ 51,299	$ 44,046	$ 47,636	$ 56,472	$ 199,453
Adjusted EBITDA Margin	26.4 %	26.4 %	29.5 %	30.3 %	25.4 %	24.8 %	27.5 %	26.9 %
Net income (loss)	$ (1,060)	$ 628	$ 3,398	$ (25,256)	$ 2,703	$ 6,236	$ 11,571	$ (4,746)
Adjusted EBITDA	$ 27,901	$ 36,804	$ 47,034	$ 51,299	$ 44,046	$ 47,636	$ 56,472	$ 199,453
Revenues	$ 128,503	$ 139,370	$ 159,328	$ 169,557	$ 173,629	$ 191,972	$ 205,591	$ 740,749
Net Income (Loss) Margin	(0.8)%	0.5 %	2.1 %	(14.9)%	1.6 %	3.2 %	5.6 %	(0.6)%
Adjusted EBITDA Margin	21.7 %	26.4 %	29.5 %	30.3 %	25.4 %	24.8 %	27.5 %	26.9 %

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Non-GAAP to GAAP Reconciliation

(1) Consists of transaction expenses related to mergers and acquisitions, associated earn-outs, investor management fees in connection with the Fourth Amended and Restated Management Services Agreement and costs related to preparation of the IPO. For the three months ended December 31, 2020 these costs include $0.9 million of earn-out contingent consideration related an acquisition in 2018 and $0.5 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement. For the three months ended March 31, 2021 costs include $0.5 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement and $0.6 million of costs related to preparation of the initial public offering. For the three months ended June 30, 2021 costs include $0.8 million of earn-out contingent consideration related to an acquisition in 2018, $0.5 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement, and $4.9 million in costs related to the preparation of the IPO. For the three months ended September 30, 2021, costs consisted primarily of IPO related expenses of $30.6 million, including $16.8 million of contractual compensation payments to former executives (of which, $15.6 million was funded by a stockholder), $8.3 million final settlement of investor management fees, and $5.5 million of professional fees and other related expenses. The period also included $0.6 million of earn-out and performance-based incentive payments associated with an acquisition in 2018. For the three months ended December 31, 2021, costs consisted primarily of IPO related expenses of $2.3 million, and $2.0 million in costs related to the EBI acquisition. For the three months ended March 31, 2022, costs consisted primarily of $1.5 million of one-time public company transition expenses and $0.3 million in costs related to mergers and acquisitions. 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 mergers and acquisitions.

(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 2019 and 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. We expect this real estate consolidation effort to be completed by the end of 2021. For the three months ended December 31, 2020, these costs include $0.9 million of restructuring-related severance and executive recruiting charges and $0.8 million of costs related to our real estate consolidation program. For the three months ended March 31, 2021 costs include $0.5 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement and $0.6 million of costs related to preparation of the initial public offering. For the three months ended June 30, 2021 costs include $0.8 million of earn-out contingent consideration related to the 2018 acquisition of NCC, $0.5 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement, and $4.9 million in costs related to the preparation of the initial public offering. For the three months ended December 31, 2021, costs of $0.6 million pertain to lease termination costs and write-offs on disposal of fixed assets related to our real estate consolidation program. For the three months ended March 31, 2022, the costs consisted of $0.3 million in expenses related to our real estate consolidation program. For the three months ended June 30, 2022, these costs include $0.8 million of charges related to our real estate consolidation program.

(3) Includes costs related to technology modernization efforts. We believe that these costs related to “Project Ignite”, 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. For the three months ended December 31, 2020, investment related to Project Ignite was $2.4 million. For the same period, additional investments made to modernize internal functional systems was $0.5 million. For the three months ended March 31, 2021, and June 30, 2021, these costs included investment related to Project Ignite of $2.1 million, and $3.9 million respectively. For the three months ended December 30, 2021, investment related to Project Ignite was $3.5 million, and additional investment made to modernize internal functional systems was $0.4 million. For the three months ended March 31, 2022, investment related to Project Ignite was $3.2 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 the Company’s platform. 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 the Company’s platform.

4) Consists of non-recurring settlements impacting comparability. For the three months ended December 31, 2020 the costs include a $2.3 million settlement related to sales tax and $0.4 million of charges related to legal settlements outside the ordinary course of business. For the three months ended December 31, 2021, costs include a $0.5 million settlement related to sales tax.

5) Consists of (gain) loss on 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, 2021 and “Part I. Item 3. Quantitative and Qualitative Disclosures about Market Risk— Interest Rate Risk” in our Form 10-Q for the periods ended March 31, 2022 and June 30, 2022 for additional information on interest rate swaps.

6) Consists of costs related to a local government mandate in India, (gain) loss on foreign currency transactions, impairment of capitalized software and other costs outside of the ordinary course of business. For the three months ended December 31, 2020 there was a $0.2 million gain on translation of foreign exchange and $0.6 million charge for impairment of capitalized software. For the three months ended March 30, 2021 there was a $0.5 million loss on translation of foreign exchange. For the three months ended June 30, 2021 there was a $0.6 million loss on translation of foreign exchange and a charge of less than $0.1 million for impairment of capitalized software. These costs were partially offset by a $0.5 million insurance reimbursement related to duplicate fulfillment charges incurred in 2019. For the three months ended September 30, 2021, there was a $0.2 million gain on translation of foreign exchange. For the three months ended December 21, 2021, there was a $0.1 million loss on translation of foreign exchange and $0.2 million charge for impairment of capitalized software. For the three months ended March 31, 2022, there was a $0.04 million loss on translation of foreign exchange. For the three months ended June 30, 2022, there was a $0.3 million loss on translation of foreign exchange.

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, 2021 and 2022.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2022	2021	2022
(in thousands, except per share amounts)				
Net income	$ 3,397	$ 11,571	$ 4,025	$ 17,807
Income tax provision	4,026	5,392	4,552	9,477
Income before income taxes	7,423	16,963	8,577	27,284
Amortization of acquired intangible assets	13,006	13,363	26,270	27,127
Stock-based compensation	756	6,023	1,653	11,131
Transaction expenses(1)	6,139	1,894	7,258	3,782
Restructuring(2)	604	836	3,609	1,182
Technology Transformation(3)	3,942	4,537	6,001	8,299
Loss (gain) on interest rate swaps(4)	133	32	87	(296)
Other(5)	134	(304)	630	(257)
Adjusted Net Income before income tax effect	32,137	43,344	54,085	78,252
Income tax effect(6)	9,516	10,845	16,014	21,352
Adjusted Net Income	$ 22,621	$ 32,499	$ 38,071	$ 56,900
Net Income per share – basic	$ 0.04	$ 0.12	$ 0.05	$ 0.19
Net Income per share – diluted	$ 0.04	$ 0.12	$ 0.05	$ 0.18
Adjusted Earnings Per Share – basic	$ 0.25	$ 0.35	$ 0.43	$ 0.61
Adjusted Earnings Per Share – diluted	$ 0.25	$ 0.33	$ 0.43	$ 0.57

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share and per share amounts)	2021	2022	2021	2022
Net income	$ 3,397	$ 11,571	$ 4,025	$ 17,807
Less: Undistributed amounts allocated to participating securities	14	—	17	—
Undistributed income allocated to stockholders	$ 3,383	$ 11,571	$ 4,008	$ 17,807
Weighted average number of shares outstanding – basic	88,826,919	94,024,970	88,717,890	93,996,553
Weighted average number of shares outstanding – diluted	88,913,175	99,344,563	88,802,948	99,265,668
Net income per share – basic	$ 0.04	$ 0.12	$ 0.05	$ 0.19
Net income per share – diluted	$ 0.04	$ 0.12	$ 0.05	$ 0.18
Adjusted Net Income	$ 22,621	$ 32,499	$ 38,071	$ 56,900
Less: Undistributed amounts allocated to participating securities	94	—	158	—
Undistributed earnings allocated to stockholders	$ 22,527	$ 32,499	$ 37,913	$ 56,900
Weighted average number of shares outstanding – basic	88,826,919	94,024,970	88,717,890	93,996,553
Weighted average number of shares outstanding – diluted	88,913,175	99,344,563	88,802,948	99,265,668
Adjusted Earnings Per Share - basic	$ 0.25	$ 0.35	$ 0.43	$ 0.61
Adjusted Earnings Per Share - diluted	$ 0.25	$ 0.33	$ 0.43	$ 0.57

Sterling

Non-GAAP to GAAP Reconciliation

Adjusted Net Income and Adjusted EPS Reconciliation cont'd

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2022	2021	2022
Net income per share – diluted	$ 0.04	$ 0.12	$ 0.05	$ 0.18
Adjusted Net Income adjustments per share				
Income tax provision	0.05	0.05	0.05	0.09
Amortization of acquired intangible assets	0.15	0.13	0.30	0.27
Stock-based compensation	0.01	0.06	0.02	0.11
Transaction expenses(1)	0.07	0.02	0.08	0.04
Restructuring(2)	—	0.01	0.04	0.01
Technology Transformation(3)	0.04	0.05	0.07	0.09
Loss (gain) on interest rate swaps(4)	—	—	—	—
Other(5)	—	—	—	—
Income tax effect(6)	(0.11)	(0.11)	(0.18)	(0.22)
Adjusted Earnings Per Share – diluted	$ 0.25	$ 0.33	$ 0.43	$ 0.57
Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:				
Weighted average number of shares outstanding – diluted (GAAP)	88,913,175	99,344,563	88,802,948	99,265,668
Options not included in weighted average number of shares outstanding – diluted (GAAP) (using treasury stock method)	—	—	—	—
Weighted average number of shares outstanding – diluted (non-GAAP) (using treasury stock method)	88,913,175	99,344,563	88,802,948	99,265,668

Sterling

Non-GAAP to GAAP Reconciliation

(1) Consists of transaction expenses related to mergers and acquisitions, associated earn-outs, investor management fees, and costs related to preparation of our IPO and one-time public company transition expenses.

(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.

(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 loss (gain) on 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, 2022 for additional information on interest rate swaps.

(5) Consists of costs related to loss (gain) on foreign currency transactions, impairment of capitalized software and other costs outside of the ordinary course of business.

(6) Effective tax rates of 29.6% and 25.0% have been used to compute Adjusted Net Income for the three months ended June 30, 2021 and 2022, respectively. Effective tax rates of 29.6% and 27.3% have been used to compute Adjusted Net Income for the six months ended June 30, 2021 and 2022, respectively. In previously reported information for the six months ended June 30, 2021, a statutory rate of 26.0% was used to calculate Adjusted Net Income. However, we subsequently adjusted the rate used to align with our current methodology of calculating the actual adjusted effective tax rate that reflects the adjustments to arrive at Adjusted Net Income. As of December 31, 2021, we had net operating loss carryforwards of approximately $80.7 million for federal income tax purposes and deferred tax assets of approximately $8.2 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 “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, 2022.

Non-GAAP to GAAP Reconciliation

Adjusted Free Cash Flow

The following table reconciles net cash flow provided by operating activities, the most directly comparable US GAAP measure, to Adjusted Free Cash Flow for the three and six months ended June 30, 2021 and 2022. For the three and six months ended June 30, 2021, Adjusted Free Cash Flow included adjustments for one-time, non-operating cash expenses related to the IPO.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2021**	**2022**	**2021**	**2022**
Net Cash provided by Operating Activities	$ 23,307	$ 29,834	$ 45,290	$ 33,279
Total IPO adjustments (1)	733	—	855	—
Purchases of intangible assets and capitalized software	(4,196)	(3,874)	(8,035)	(7,616)
Purchases of property and equipment	(914)	(1,771)	(1,260)	(3,266)
Adjusted Free Cash Flow	$ 18,930	$ 24,189	$ 36,850	$ 22,397

(1) Includes one-time, non-operating cash expenses related to our IPO. Costs for the three and six months ended June 30, 2021 include $0.7 million and $0.9 million, respectively, of professional fees incurred in preparation of our IPO.

Non-GAAP to GAAP Reconciliation

Organic Constant Currency Revenue Growth

The following table reconciles revenue growth, the most directly comparable GAAP measure, to organic constant currency revenue growth for the three and six months ended June 30, 2022. There was no impact of inorganic revenue growth on our revenue for the three and six months ended June 30, 2021. For the three and six months ended June 30, 2022, we have provided the impact of revenue from the acquisition of EBI.

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Reported revenue growth	29.0 %	33.1 %
Inorganic revenue growth (1)	7.7 %	7.8 %
Impact from foreign currency exchange (2)	(1.5)%	(1.1)%
Organic constant currency revenue growth	22.8 %	26.4 %

(1) Impact to revenue growth in the current period from M&A activity that has occurred over the past twelve months

(2) Impact to revenue growth in the current period from fluctuations in foreign currency exchange rates