



# Q4 FY20

CARDINAL HEALTH, INC.  
EARNINGS CALL

AUGUST 6, 2020

# Forward-looking statements and GAAP reconciliation

## Cautions Concerning Forward-Looking Statements

This presentation contains forward-looking statements addressing expectations, prospects, estimates and other matters that are dependent upon future events or developments. These statements may be identified by words such as "expect," "anticipate," "intend," "plan," "believe," "will," "should," "could," "would," "project," "continue," "likely," and similar expressions, and include statements reflecting future results or guidance, statements of outlook and various accruals and estimates. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. These risks and uncertainties include risks arising from the ongoing COVID-19 pandemic and our critical role in the global healthcare supply chain, including the possibility that continued deferrals and cancellations of elective medical procedures will result in a sustained reduction in demand for our products and the possibility that we will not be successful in recouping or offsetting the cost increases to source certain personal protective equipment, or that such cost increases will be larger or more sustained than we currently anticipate, the possibility that we will experience supply disruptions either from new regulations or forced shut downs of distribution or manufacturing facilities; competitive pressures in Cardinal Health's various lines of business; the amount or rate of generic deflation and our ability to offset generic deflation and maintain other financial and strategic benefits through our generic sourcing venture with CVS Health and other components of our generics pharmaceutical program; risks associated with the distribution of opioids, including potential financial impact associated with the outcome of the ongoing lawsuits and investigations by certain governmental and regulatory authorities and the risks associated with the ongoing global settlement framework discussions, including the risk that we may fail to reach a settlement agreement or that a final settlement could require us to pay more than we currently anticipate; risks associated with the manufacture and sourcing of certain products, including risks related to our ability and the ability of third-party manufacturers to comply with applicable regulations; our ability to manage uncertainties associated with the pricing of branded pharmaceuticals; and risks associated with our cost savings initiatives, including the possibility that they could result in greater charges or expenses than we anticipate, could fail to achieve the desired efficiencies or strategic outcomes and could have unintended consequences, such as business disruption. Cardinal Health is subject to additional risks and uncertainties described in Cardinal Health's Form 10-K, Form 10-Q and Form 8-K reports and exhibits to those reports. This presentation reflects management's views as of August 6, 2020. Except to the extent required by applicable law, Cardinal Health undertakes no obligation to update or revise any forward-looking statement. In addition, this presentation contains non-GAAP financial measures. Cardinal Health provides definitions and reconciliations of non-GAAP financial measures and their most directly comparable GAAP financial measures in the Financial Appendix at the end of this presentation and at [ir.cardinalhealth.com](http://ir.cardinalhealth.com).

# FY20 highlights

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## Financial Performance

- Grew non-GAAP operating earnings and exceeded non-GAAP EPS guidance range
  - Received positive contributions from generics program
  - Surpassed enterprise cost savings target, with excellent savings contributions from Medical global manufacturing and supply chain
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## Capital Deployment

- Returned over \$900M to shareholders through dividends and share repurchases
  - Improved balance sheet by paying down \$1.4B of long-term debt
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## Portfolio & Strategic Positioning

- Divested minority equity interest in naviHealth
  - Continued focus in evolving growth areas with investments and partnerships in Specialty, at Home, and Services
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## COVID-19 Response

- Maintained operations across all global manufacturing and distribution facilities, as well as all nuclear pharmacies (>250 locations)
- Leveraged Red Oak Sourcing capabilities to ensure minimal disruptions to pharmaceutical supply

# Q4 results

# Q4 FY20 financial summary

	GAAP Basis (\$M) Q4 FY20	Non-GAAP Basis (\$M) Q4 FY20
<b>Revenue</b> <i>% change</i>	<b>\$36,689</b> (2)%	<b>N/A</b>
<b>Gross Margin</b> <i>% change</i>	<b>\$1,590</b> (5)%	<b>\$1,583</b> (5)%
<b>SG&amp;A</b> <i>% change</i>	<b>\$1,137</b> (3)%	<b>\$1,141</b> (2)%
<b>Operating Earnings<sup>1</sup></b> <i>% change</i>	<b>\$270</b> (12)%	<b>\$442</b> (13)%
<b>Interest &amp; Other <sup>2</sup></b> <i>% change</i>	<b>\$27</b> (61)%	<b>N/A</b>
<b>Net Earnings <sup>1,3,4</sup></b> <i>% change</i>	<b>\$656</b> N.M.	<b>\$305</b> (9)%
<b>Diluted EPS <sup>1,3,4</sup></b> <i>% change</i>	<b>\$2.23</b> N.M.	<b>\$1.04</b> (6)%

<sup>1</sup> Includes an estimated net negative impact of approximately \$130 million due to the COVID-19 pandemic

<sup>2</sup> The sum of "other (income)/expense, net" and "interest expense, net"

<sup>3</sup> Attributable to Cardinal Health, Inc.

<sup>4</sup> GAAP results include a pre-tax gain of \$579 million related to the divestiture of a minority equity interest

Please see appendix for GAAP to Non-GAAP reconciliations.

# Q4 FY20 Pharmaceutical segment results

	Q4 FY20 (\$M)	Q4 FY19 (\$M)	YoY change
Revenue	\$33,241	\$33,401	0%
Segment profit	\$359	\$447	-20%
Segment profit margin	1.08%	1.34%	-26 bps

## Drivers:

### Revenue

- = Expected reduced pharmaceutical demand as a result of accelerated Q3 sales related to COVID-19

### Segment profit

- COVID-19 related volume declines
  - Nuclear and Precision Health Solutions
  - Generics program
- Pharmaceutical Distribution customer contract renewals

# Q4 FY20 Medical segment results

	Q4 FY20 (\$M)	Q4 FY19 (\$M)	YoY change
Revenue	\$3,453	\$3,956	-13%
Segment profit	\$120	\$97	24%
Segment profit margin	3.49%	2.45%	104 bps

## Drivers:

### Revenue

- Adverse effect of COVID-19, primarily on products and distribution

### Segment profit

- + Cost savings initiatives
- + Beneficial comparison to the supplier charge in the prior year
- Adverse effect of COVID-19, primarily on products and distribution

The sum of the components and certain computations may reflect rounding adjustments.

# FY20 results



# FY20 financial summary

	GAAP Basis (\$M) FY20	Non-GAAP Basis (\$M) FY20
<b>Revenue</b> <i>% change</i>	<b>\$152,922</b> 5%	<b>N/A</b>
<b>Gross Margin</b> <i>% change</i>	<b>\$6,868</b> 0%	<b>\$6,916</b> 1%
<b>SG&amp;A</b> <i>% change</i>	<b>\$4,572</b> 2%	<b>\$4,532</b> 1%
<b>Operating Earnings<sup>1</sup></b> <i>% change</i>	<b>\$(4,098)</b> N.M.	<b>\$2,384</b> 1%
<b>Interest &amp; Other<sup>2</sup></b> <i>% change</i>	<b>\$237</b> (23)%	<b>N/A</b>
<b>Net Earnings<sup>1,3</sup></b> <i>% change</i>	<b>\$(3,696)</b> N.M.	<b>\$1,605</b> 1%
<b>Diluted EPS<sup>1,3</sup></b> <i>% change</i>	<b>\$(12.61)</b> N.M.	<b>\$5.45</b> 3%

<sup>1</sup> GAAP results include a pre-tax charge of \$5.63 billion (\$5.14 billion after tax) in the first quarter of the fiscal year for the estimated liability associated with lawsuits and claims brought against us by states and political subdivisions relating to the distribution of prescription opioid pain medications

<sup>2</sup> The sum of "Other (income)/expense, net" and "interest expense, net"

<sup>3</sup> Attributable to Cardinal Health, Inc.

Please see appendix for GAAP to Non-GAAP reconciliations.

# FY20 Pharmaceutical segment results

	FY20 (\$M)	FY19 (\$M)	YoY change
Revenue	\$137,495	\$129,917	6%
Segment profit	\$1,753	\$1,834	-4%
Segment profit margin	1.28%	1.41%	-14 bps

## Drivers:

### Revenue

- + Pharmaceutical Distribution
- + Specialty Solutions

### Segment profit

- Pharmaceutical Distribution customer contract renewals
- + Brand sales mix
- + Specialty Solutions

The sum of the components and certain computations may reflect rounding adjustments.

# FY20 Medical segment results

	FY20 (\$M)	FY19 (\$M)	YoY change
Revenue	\$15,444	\$15,633	-1%
Segment profit	\$663	\$576	15%
Segment profit margin	4.30%	3.68%	61 bps

## Drivers:

### Revenue

- Adverse effect of COVID-19, primarily on products and distribution
- + Cardinal Health at Home

### Segment profit

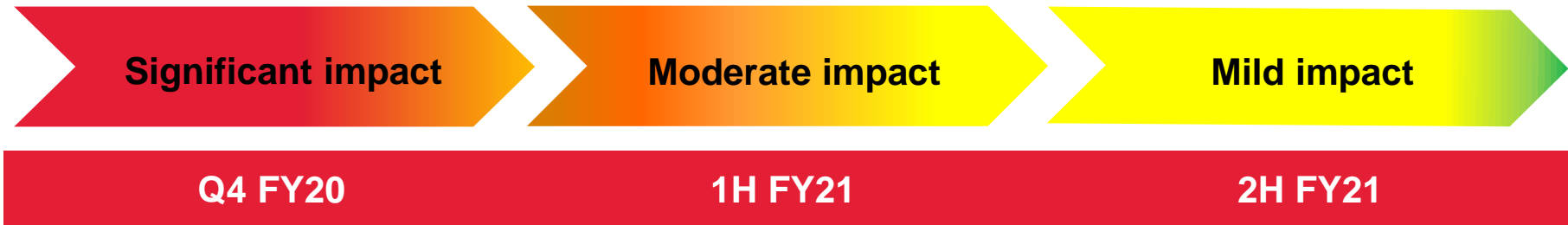
- + Cost savings initiatives
- + Beneficial comparison to the supplier charge in the prior year
- Adverse effect of COVID-19, primarily on products and distribution

The sum of the components and certain computations may reflect rounding adjustments.

# FY21 outlook

# COVID-19 trajectory

## Assumed recovery



## Key assumptions

- No additional widespread COVID-19 shutdowns
- Elective procedures and physician office visits expected to fully recover to pre-COVID-19 levels exiting FY21, with a more significant impact in the first half of the year
  - Elective procedures to average high-single digit decline in FY21
  - Physician office visits to average mid-single digit decline in FY21
- Demand for PPE products will continue to outstrip available supply; higher costs in procuring certain PPE products

### Key variables impacting rate of recovery:

Virus trajectory, provider capacity, patient psychology, and overall health of the economy

# FY21 financial expectations

	FY21 outlook	FY20 actual
Non-GAAP EPS	\$5.25 - \$5.65	\$5.45
Interest and other	\$190M - \$215M	\$237M
Non-GAAP ETR	24.0% - 26.0%	25.1%
Diluted weighted average shares outstanding	292M - 296M	295M
Capital expenditures	\$400M - \$450M	\$375M

The company does not provide forward-looking expectations on a GAAP basis as certain financial information, the probable significance of which cannot be determined, is not available and cannot be reasonably estimated. See "use of non-GAAP measures" in the financial appendix at the end of this presentation for additional explanation.

# FY21 Pharmaceutical segment outlook

## Revenue

Mid-single digit percentage growth

## Profit

Low-single digit percentage growth

## Key assumptions

- Consistent market dynamics within our generics program
- Similar contingent brand inflation rate, continued less dollar contribution each year
- Similar opioid-related legal costs as FY20, ~\$100M
- Increased contribution from key growth areas: Specialty and Connected Care

# FY21 Medical segment outlook

## Revenue

Low-single digit percentage growth

## Profit

High-single digit percentage decline

## Key assumptions

- Excluding effect from COVID-19, segment profit growth would be mid-single digits
- Continued benefits from global manufacturing and supply chain transformation
- Benefits from ongoing commercial transformation initiatives primarily in Q4 FY21
- Increased contribution from key growth areas: At Home and Services businesses



# FY21 strategic priorities

## Optimize core businesses

- Optimize our global supply chain
- Drive commercial excellence
- Maximize all aspects of our generics program
- Enhance cost savings initiatives to exceed our 5-year, \$500M goal

## Invest for growth

- Fuel growth in strategic areas:
  - Specialty
  - at Home
  - Medical Services
  - Connected Care
- Support our customers by focusing on our technology infrastructure, including our digital capabilities and ordering platforms

## Deploy capital efficiently

- Prioritize investment in the business to drive organic growth
- Maintain a strong balance sheet by paying down at least \$500M of LT debt
- Grow dividend at a modest rate

# Appendix



Cardinal Health, Inc. and Subsidiaries

GAAP / Non-GAAP Reconciliation<sup>1</sup>

	Gross Margin		SG&A <sup>2</sup>		Operating Earnings		Earnings Before Provision for		Net Earnings <sup>3</sup>		Effective Tax		Diluted EPS <sup>3</sup>								
	Gross Margin	Growth Rate	SG&A <sup>2</sup>	Growth Rate	Operating Earnings	Growth Rate	Income Taxes	Income Taxes	Net Earnings <sup>3</sup>	Growth Rate	Tax Rate	Diluted EPS <sup>3</sup>	Growth Rate								
	Margin	Rate		Rate	Earnings	Rate	Taxes	Taxes	Earnings <sup>3</sup>	Rate	Rate	EPS <sup>3</sup>	Rate								
(in millions, except per common share amounts)																					
Fourth Quarter 2020																					
<b>GAAP</b>	\$	1,590	(5)%	\$	1,137	(3)%	\$	270	(12)%	\$	815	\$	158	\$	656	N.M	19.4 %	\$	2.23	N.M	
Surgical gown recall costs		(7)			3			(10)			(10)		(3)		(7)					(0.02)	
State opioid assessment related to prior fiscal years		-			1			(1)			(1)		-		(1)					-	
Restructuring and employee severance		-			-			42			42		10		32					0.11	
Amortization and other acquisition-related costs		-			-			129			129		32		97					0.33	
Litigation (recoveries)/charges, net		-			-			12			12		5		7					0.02	
Loss on early extinguishment of debt		-			-			-			7		2		5					0.02	
Gain on sale of equity interest in naviHealth		-			-			-			(579)		(86)		(493)					(1.68)	
Transitional tax benefit, net		-			-			-			-		(9)		9					0.03	
<b>Non-GAAP</b>	\$	1,583	(5)%	\$	1,141	(2)%	\$	442	(13)%	\$	415	\$	110	\$	305	(9)%	26.4 %	\$	1.04	(6)%	
Fourth Quarter 2019																					
<b>GAAP</b>	\$	1,674	(4)%	\$	1,168	(8)%	\$	307	N.M	\$	238	\$	44	\$	194	N.M	18.4 %	\$	0.65	N.M	
Restructuring and employee severance		-			-			28			28		7		21					0.07	
Amortization and other acquisition-related costs		-			-			153			153		35		118					0.39	
Impairments and (gain)/loss on disposal of assets		-			-			3			3		15		(12)					(0.04)	
Litigation (recoveries)/charges, net		-			-			15			15		3		12					0.04	
Transitional tax benefit, net		-			-			-			-		(1)		1					-	
<b>Non-GAAP</b>	\$	1,674	(4)%	\$	1,168	(8)%	\$	507	9 %	\$	438	\$	103	\$	334	6 %	23.7 %	\$	1.11	10 %	

<sup>1</sup>For more information on these measures, refer to the Use of Non-GAAP Measures and Definitions schedules.

<sup>2</sup>Distribution, selling, general and administrative expenses.

<sup>3</sup>Attributable to Cardinal Health, Inc.

The sum of the components and certain computations may reflect rounding adjustments.

We generally apply varying tax rates depending on the item's nature and tax jurisdiction where it is incurred.



Cardinal Health, Inc. and Subsidiaries

GAAP / Non-GAAP Reconciliation<sup>1</sup>

	Gross Margin	Gross Growth Rate	SG&A <sup>2</sup>	SG&A <sup>2</sup> Growth Rate	Operating Earnings/ (Loss)	Operating Earnings/ (Loss) Growth Rate	Earnings/ (Loss) Before Income Taxes	Provision for/ (Benefit from) Income Taxes	Net Earnings/ (Loss) <sup>3</sup>	Net Earnings/ (Loss) <sup>3</sup> Growth Rate	Effective Tax Rate	Diluted EPS <sup>3,4</sup>	Diluted EPS <sup>3</sup> Growth Rate
Fiscal Year 2020													
GAAP	\$ 6,868	- %	\$ 4,572	2 %	\$ (4,098)	N.M.	\$ (3,772)	\$ (79)	\$ (3,696)	N.M.	2.1 %	\$ (12.61)	N.M.
Surgical gown recall costs	48		(37)		85		85	22	63			0.22	
State opioid assessment related to prior fiscal years	-		(3)		3		3	1	2			0.01	
Restructuring and employee severance	-		-		122		122	29	93			0.31	
Amortization and other acquisition-related costs	-		-		524		524	130	394			1.34	
Impairments and (gain)/loss on disposal of assets	-		-		7		7	2	5			0.02	
Litigation (recoveries)/charges, net <sup>4</sup>	-		-		5,741		5,741	514	5,227			17.84	
Loss on early extinguishment of debt	-		-		-		16	4	12			0.04	
Gain on sale of equity interest in naviHealth	-		-		-		(579)	(86)	(493)			(1.68)	
Transitional tax benefit, net	-		-		-		-	2	(2)			(0.01)	
<b>Non-GAAP</b>	<b>\$ 6,916</b>	<b>1 %</b>	<b>\$ 4,532</b>	<b>1 %</b>	<b>\$ 2,384</b>	<b>1 %</b>	<b>\$ 2,147</b>	<b>\$ 539</b>	<b>\$ 1,605</b>	<b>1 %</b>	<b>25.1 %</b>	<b>\$ 5.45</b>	<b>3 %</b>
Fiscal Year 2019													
GAAP	\$ 6,834	(5)%	\$ 4,480	(3)%	\$ 2,060	N.M.	\$ 1,751	\$ 386	\$ 1,363	N.M.	22.1 %	\$ 4.53	N.M.
Restructuring and employee severance	-		-		125		125	32	93			0.31	
Amortization and other acquisition-related costs	-		-		621		621	148	473			1.57	
Impairments and (gain)/loss on disposal of assets <sup>5</sup>	-		-		(488)		(488)	(113)	(375)			(1.25)	
Litigation (recoveries)/charges, net	-		-		36		36	10	26			0.09	
Transitional tax benefit, net	-		-		-		-	(9)	9			0.03	
<b>Non-GAAP</b>	<b>\$ 6,834</b>	<b>(5)%</b>	<b>\$ 4,480</b>	<b>(3)%</b>	<b>\$ 2,353</b>	<b>(9)%</b>	<b>\$ 2,044</b>	<b>\$ 453</b>	<b>\$ 1,589</b>	<b>1 %</b>	<b>22.1 %</b>	<b>\$ 5.28</b>	<b>6 %</b>

<sup>1</sup>For more information on these measures, refer to the Use of Non-GAAP Measures and Definitions schedules.

<sup>2</sup>Distribution, selling, general and administrative expenses.

<sup>3</sup>Attributable to Cardinal Health, Inc.

<sup>4</sup>For fiscal 2020, GAAP diluted loss per share attributable to Cardinal Health, Inc. ("GAAP diluted EPS") and the EPS impact from the GAAP to non-GAAP per share reconciling items are calculated using a weighted average of 293 million common shares, which excludes potentially dilutive securities from the denominator due to their anti-dilutive effects resulting from our GAAP net loss for the quarter. Fiscal 2020 non-GAAP diluted EPS is calculated using a weighted average of 295 million common shares, which includes potentially dilutive shares.

<sup>5</sup>Litigation (recoveries)/charges, net includes a pre-tax charge of \$5.63 billion (\$5.14 billion after tax) recorded in the first quarter of fiscal 2020 related to the opioid litigation.

<sup>6</sup>During fiscal 2019, we sold our majority interest in naviHealth and recognized a pre-tax gain of \$508 million (\$378 million after tax).

The sum of the components and certain computations may reflect rounding adjustments.

We generally apply varying tax rates depending on the item's nature and tax jurisdiction where it is incurred.



**Cardinal Health, Inc. and Subsidiaries**  
**Segment Information**

(in millions)	Fourth Quarter				
	2020	2019	(in millions)	2020	2019
<b>Pharmaceutical</b>			<b>Medical</b>		
<b>Revenue</b>			<b>Revenue</b>		
Amount	\$ 33,241	\$ 33,401	Amount	\$ 3,453	\$ 3,956
Growth rate	-	6 %	Growth rate	(13)%	1 %
<b>Segment profit</b>			<b>Segment profit</b>		
Amount	\$ 359	\$ 447	Amount	\$ 120	\$ 97
Growth rate	(20)%	7 %	Growth rate	24 %	(15)%
Segment profit margin	1.08 %	1.34 %	Segment profit margin	3.49 %	2.45 %

(in millions)	Fiscal Year				
	2020	2019	(in millions)	2020	2019
<b>Pharmaceutical</b>			<b>Medical</b>		
<b>Revenue</b>			<b>Revenue</b>		
Amount	\$ 137,495	\$ 129,917	Amount	\$ 15,444	\$ 15,633
Growth rate	6 %	7 %	Growth rate	(1)%	-
<b>Segment profit</b>			<b>Segment profit</b>		
Amount	\$ 1,753	\$ 1,834	Amount <sup>1</sup>	\$ 663	\$ 576
Growth rate	(4)%	(8)%	Growth rate	15 %	(13)%
Segment profit margin	1.28 %	1.41 %	Segment profit margin	4.30 %	3.68 %

<sup>1</sup>Medical segment profit for fiscal 2020 does not include \$85 million incurred for inventory write-offs and certain remediation and supply disruption costs associated with fiscal 2020 voluntary surgical gown-related recalls.

The sum of the components and certain computations may reflect rounding adjustments.



**Cardinal Health, Inc. and Subsidiaries**  
**Forward Looking non-GAAP Measures**

In this document, the Company presents certain forward-looking non-GAAP metrics. The Company does not provide outlook on a GAAP basis because the items that the Company excludes from GAAP to calculate the comparable non-GAAP measure can be dependent on future events that are less capable of being controlled or reliably predicted by management and are not part of the Company's routine operating activities. Additionally, management does not forecast many of the excluded items for internal use and therefore cannot create or rely on outlook done on a GAAP basis.

The occurrence, timing and amount of any of the items excluded from GAAP to calculate non-GAAP could significantly impact the Company's fiscal 2021 GAAP results. Over the past five fiscal years, the excluded items have impacted the Company's EPS from \$0.75 to \$18.06, which includes a goodwill impairment charge of \$4.36 per share related to our Medical segment that we recognized in fiscal 2018. The excluded items for fiscal 2020 impacted the Company's EPS by \$18.06, which includes a \$17.54 charge related to the opioid litigation.



Definitions

**Growth rate calculation:** growth rates are determined by dividing the difference between current-period results and prior-period results by prior-period results.

**Interest and Other, net:** other (income)/expense, net plus interest expense, net.

**Segment Profit:** segment revenue minus (segment cost of products sold and segment distribution, selling, general, and administrative expenses).

**Segment Profit Margin:** segment profit divided by segment revenue.

**Non-GAAP gross margin:** gross margin, excluding LIFO charges/(credits) and surgical gown recall costs.

**Non-GAAP distribution, selling, general and administrative expenses or Non-GAAP SG&A:** distribution, selling, general and administrative expenses, excluding state opioid assessment related to prior fiscal years and surgical gown recall costs.

**Non-GAAP operating earnings:** operating earnings/(loss) excluding (1) LIFO charges/(credits), (2) surgical gown recall costs, (3) state opioid assessment related to prior fiscal years, (4) restructuring and employee severance, (5) amortization and other acquisition-related costs, (6) impairments and (gain)/loss on disposal of assets, and (7) litigation (recoveries)/charges, net.

**Non-GAAP effective tax rate:** provision for/(benefit from) income taxes adjusted for (1) LIFO charges/(credits), (2) surgical gown recall costs, (3) state opioid assessment related to prior fiscal years, (4) restructuring and employee severance, (5) amortization and other acquisition-related costs, (6) impairments and (gain)/loss on disposal of assets, (7) litigation (recoveries)/charges, net, (8) loss on early extinguishment of debt and (9) gain on sale of equity interest in naviHealth, each net of tax, and (10) transitional tax benefit, net divided by (earnings before income taxes adjusted for the first nine items).

**Non-GAAP net earnings attributable to Cardinal Health, Inc.:** net earnings/(loss) attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) surgical gown recall costs, (3) state opioid assessment related to prior fiscal years, (4) restructuring and employee severance, (5) amortization and other acquisition-related costs, (6) impairments and (gain)/loss on disposal of assets, (7) litigation (recoveries)/charges, net, (8) loss on early extinguishment of debt and (9) gain on sale of equity interest in naviHealth, each net of tax, and (10) transitional tax benefit, net.

**Non-GAAP diluted earnings per share attributable to Cardinal Health, Inc.:** non-GAAP net earnings attributable to Cardinal Health, Inc. divided by diluted weighted-average shares outstanding.

<sup>1</sup> LIFO charges and credits are excluded because the factors that drive last-in first-out ("LIFO") inventory charges or credits, such as pharmaceutical manufacturer price appreciation or deflation and year-end inventory levels (which can be meaningfully influenced by customer buying behavior immediately preceding our fiscal year-end), are largely out of our control and cannot be accurately predicted. The exclusion of LIFO charges and credits from non-GAAP metrics facilitates comparison of our current financial results to our historical financial results and to our peer group companies' financial results.

<sup>2</sup> Surgical gown recall costs includes inventory write-offs and certain remediation and supply disruption costs arising from the January 2020 recall of select Association for the Advancement of Medical Instrumentation ("AAMI") Level 3 surgical gowns and voluntary field actions (a recall of some packs and a corrective action allowing overlabeling of other packs) for Presource Procedure Packs containing affected gowns. We have excluded these costs from our non-GAAP metrics to allow investors to better understand the underlying operating results of the business and to facilitate comparison of our current financial results to our historical financial results and to our peer group companies' financial results.

<sup>3</sup> State opioid assessments related to prior fiscal years is the portion of state assessments for prescription opioid medications that were sold or distributed in periods prior to the fiscal year of the initial assessment. This portion is excluded from non-GAAP financial measures because it is retrospectively applied to sales in prior fiscal years and inclusion would obscure analysis of the current fiscal year results of our underlying, ongoing business. Additionally, while states' laws may require us to make payments on an ongoing basis, the portion of the assessment related to sales in prior periods are contemplated to be one-time, nonrecurring items. Reversals of these accruals have occurred when certain assessments were found by a Court unconstitutional.

<sup>4</sup> Restructuring and employee severance costs are excluded because they are not part of the ongoing operations of our underlying business.

<sup>5</sup> Amortization and other acquisition-related costs, which include transaction costs, integration costs, and changes in the fair value of contingent consideration obligations, are excluded because they are not part of the ongoing operations of our underlying business and to facilitate comparison of our current financial results to our historical financial results and to our peer group companies' financial results. Additionally, costs for amortization of acquisition-related intangible assets are non-cash amounts, which are variable in amount and frequency and are significantly impacted by the timing and size of acquisitions, so their exclusion facilitates comparison of historical, current and forecasted financial results. We also exclude other acquisition-related costs, which are directly related to an acquisition but do not meet the criteria to be recognized on the acquired entity's initial balance sheet as part of the purchase price allocation. These costs are also significantly impacted by the timing, complexity and size of acquisitions.

<sup>6</sup> Impairments and gain or loss on disposal of assets are excluded because they do not occur in or reflect the ordinary course of our ongoing business operations and are inherently unpredictable in timing and amount, and in the case of impairments, are non-cash amounts, so their exclusion facilitates comparison of historical, current and forecasted financial results.

<sup>7</sup> Litigation recoveries or charges, net are excluded because they often relate to events that may have occurred in prior or multiple periods, do not occur in or reflect the ordinary course of our business and are inherently unpredictable in timing and amount.

<sup>8</sup> Loss on early extinguishment of debt is excluded because it does not typically occur in the normal course of business and may obscure analysis of trends and financial performance. Additionally, the amount and frequency of this type of charge is not consistent and is significantly impacted by the timing and size of debt extinguishment transactions.

<sup>9</sup> Gain on sale of equity interest in naviHealth was incurred in connection with the sale of our remaining equity interest in naviHealth in fiscal 2020. The equity interest was retained in connection with the initial sale of our majority interest in naviHealth during fiscal 2019. We exclude this significant gain because gains or losses on investments of this magnitude do not typically occur in the normal course of business and are similar in nature to a gain or loss from a divestiture of a majority interest, which we exclude from non-GAAP results. The gain on the initial sale of our majority interest in naviHealth in fiscal 2019 was also excluded from our non-GAAP measures.

<sup>10</sup> Transitional tax benefit, net related to the Tax Cuts and Jobs Act is excluded because it results from the one-time impact of a very significant change in the U.S. federal corporate tax rate and, due to the significant size of the benefit, obscures analysis of trends and financial performance. The transitional tax benefit includes the initial estimate and subsequent adjustments for the re-measurement of deferred tax assets and liabilities due to the reduction of the U.S. federal corporate income tax rate and the repatriation tax on undistributed foreign earnings.

