

Cardinal Health Reports Second Quarter Results for Fiscal Year 2020

- Revenue increased 5% to \$39.7 billion
- GAAP diluted EPS were \$0.75, non-GAAP diluted EPS were \$1.52
- Company raises FY20 guidance

DUBLIN, Ohio, Feb. 6, 2020 /PRNewswire/ -- Cardinal Health (NYSE: CAH) today reported financial results for the second quarter of fiscal 2020 ended December 31, 2019. Second quarter revenue was \$39.7 billion, an increase of 5% from the second quarter of last year.

Second quarter GAAP operating earnings decreased 34% to \$334 million, which included a \$96 million charge in connection to the recently announced voluntary surgical gown-related recalls. Non-GAAP operating earnings increased 1% to \$646 million. GAAP diluted earnings per share (EPS) decreased 19% to \$0.75, while non-GAAP diluted EPS increased 18% to \$1.52. Non-GAAP diluted EPS benefited from a lower effective tax rate and a lower share count.

"With the first half of the year behind us, we are raising our fiscal year 2020 guidance," said Mike Kaufmann, CEO of Cardinal Health. "This increase was driven by improved performance across our Pharmaceutical segment, particularly within our generics program. As we look forward, we remain focused on executing our strategic growth initiatives."

Q2 FY20 summary

	Q2 FY20	Q2 FY19	Y/Y
Revenue	\$39.7 billion	\$37.7 billion	5%

Operating earnings	\$334 million	\$504 million	(34)%
Non-GAAP operating earnings	\$646 million	\$637 million	1%

Net earnings attributable to Cardinal Health, Inc.	\$220 million	\$280 million	(21)%
Non-GAAP net earnings attributable to Cardinal Health, Inc.	\$448 million	\$385 million	16%

Diluted EPS attributable to Cardinal Health, Inc.	\$0.75	\$0.93	(19)%
Non-GAAP diluted EPS attributable to Cardinal Health, Inc.	\$1.52	\$1.29	18%

Segment results

Pharmaceutical segment

	Q2 FY20	Q2 FY19	Y/Y
Revenue	\$35.7 billion	\$33.7 billion	6%
Segment profit	\$462 million	\$443 million	4%

Second quarter revenue for the Pharmaceutical segment increased 6% to \$35.7 billion, due to sales growth from Pharmaceutical Distribution and Specialty Solutions customers.

Pharmaceutical segment profit increased 4% to \$462 million in the second quarter, reflecting positive performance in the company's generics program and Specialty Solutions business. This was partially offset by the adverse impact of Pharmaceutical Distribution customer contract renewals.

Medical segment

	Q2 FY20	Q2 FY19	Y/Y
Revenue	\$4.0 billion	\$4.0 billion	0%
Segment profit	\$195 million ¹	\$188 million	4%

¹Medical segment profit does not include the \$96 million charge incurred for inventory write-offs and certain remediation and supply disruption costs associated with the recently announced voluntary surgical gown-related recalls.

Second quarter revenue for the Medical segment was flat at \$4.0 billion. Growth in Cardinal Health at Home was offset by a decline in products and distribution.

Medical segment profit increased 4% to \$195 million in the second quarter. This increase reflects benefits from cost savings initiatives, partially offset by a decline in products and distribution.

Tax rate

During the second quarters of fiscal 2020 and 2019, GAAP effective tax rates were 21.0% and 31.0%, respectively. Non-GAAP effective tax rates were 24.8% and 28.5%, respectively. The GAAP effective tax rate benefitted from jurisdictional mix and discrete items recognized in the second quarter of 2020, largely driven by changes as a result of tax reform. The Non-GAAP effective tax rate benefitted from jurisdictional mix.

Fiscal year 2020 outlook

The company does not provide forward-looking guidance 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" following the attached schedules for additional explanation.

The company raises its fiscal year 2020 guidance range for non-GAAP diluted earnings per share attributable to Cardinal Health, Inc. to the range of \$5.20 to \$5.40 from the range of \$4.85 to \$5.10.

Recent highlights

- For the 12th consecutive year in a row, Cardinal Health was honored as one of the "Best Places to Work for LGBTQ Equality" by the Human Rights Campaign (HRC) Foundation, achieving 100% on the HRC's 2020 Corporate Equality Index (CEI).
- Cardinal Health was recognized by the Women's Forum of New York for having at least 40% of board seats held by women.

Webcast

Cardinal Health will host a webcast today at 8:30 a.m. Eastern to discuss second quarter results. To access the webcast and corresponding slide presentation, go to the Investor Relations page at ir.cardinalhealth.com. No access code is required.

Presentation slides and a webcast replay will be available until February 5, 2021.

Upcoming webcasted investor events

- Barclays Global Healthcare Conference on March 10 at 8:30 a.m. Eastern in Miami Beach, Fla.

About Cardinal Health

Cardinal Health, Inc. is a global, integrated healthcare services and products company, providing customized solutions for hospitals, healthcare systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices worldwide. The company enhances supply chain efficiency for clinically proven medical products, pharmaceuticals and cost-effective solutions. To combat prescription drug misuse, the Cardinal Health Foundation and its education partners created Generation Rx, a national drug prevention education and awareness program. The Foundation actively supports an array of other solutions, including efforts to reduce opioid prescribing, promote drug take back and safe disposal and expand collaborative community work.

Cardinal Health is backed by nearly 100 years of experience with operations in nearly 46 countries. For more information, visit cardinalhealth.com. Follow us on [Twitter](#), [Facebook](#) and [LinkedIn](#).

¹GAAP refers to U.S. generally accepted accounting principles. This news release includes GAAP financial measures as well as non-GAAP financial measures, which are financial measures not calculated in accordance with GAAP. See "Use of Non-GAAP Measures" following the attached schedules for definitions of the non-GAAP financial measures presented in this news release and see the attached schedules for reconciliations of the differences between the non-GAAP financial measures and their most directly comparable GAAP financial measures.

Cardinal Health uses its website as a channel of distribution for material company information. Important information, including news releases, financial information, earnings and analyst presentations, and information about upcoming presentations and events is routinely posted and accessible on the Investor Relations page at ir.cardinalhealth.com. In addition, the website allows investors and other interested persons to sign up automatically to receive email alerts when the company posts news releases, SEC filings and certain other information on its website.

Cautions Concerning Forward-Looking Statements

This release 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 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 recalls of our surgical gowns and affected Presource Packs, including the risk that the costs associated with the recalls, including inventory write-off costs and certain remediation and supply disruption costs, could have additional negative impact on our financial results, the possibility of government investigations or actions by regulators which could result in product seizures, suspension of our ability to produce, distribute or sell products and civil or criminal sanction, damage to our reputation, and loss of customers and sales; our ability to manage uncertainties associated with the pricing of branded pharmaceuticals; risks associated with our ability to improve the performance of our Medical segment's Cardinal Health Brand Products business; uncertainties due to government health care reform; 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 release reflects management's views as of February 6, 2020. Except to the extent required by applicable law, Cardinal Health undertakes no obligation to update or revise any forward-looking statement.

Schedule 1

Cardinal Health, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings (Unaudited)

(in millions, except per common share amounts)	Second Quarter			Year-to-Date		
	2020	2019	% Change	2020	2019	% Change
Revenue	\$ 39,735	\$ 37,740	5 %	\$ 77,076	\$ 72,953	6 %
Cost of products sold	38,021	36,010	6 %	73,683	69,556	6 %
Gross margin	1,714	1,730	(1) %	3,393	3,397	— %
Operating expenses:						
Distribution, selling, general and administrative expenses	1,163	1,064	9 %	2,270	2,219	2 %
Restructuring and employee severance	56	12		86	44	
Amortization and other acquisition-related costs	133	157		265	314	
Impairments and (gain)/loss on disposal of assets, net	7	8		8	(503)	
Litigation (recoveries)/charges, net ¹	21	(15)		5,694	3	
Operating earnings/(loss)	334	504	(34) %	(4,930)	1,320	N.M.
Other (income)/expense, net	(12)	21		2	25	
Interest expense, net	63	76	(17) %	129	152	(15) %
Loss on extinguishment of debt	4	—		4	—	
Earnings/(loss) before income taxes	279	407	(31) %	(5,065)	1,143	N.M.
Provision for/(benefit from) income taxes ²	59	126	(53) %	(364)	269	N.M.
Net earnings/(loss)	220	281	(22) %	(4,701)	874	N.M.
Less: Net earnings attributable to noncontrolling interests	—	(1)		(1)	(1)	
Net earnings/(loss) attributable to Cardinal Health, Inc.	\$ 220	\$ 280	(21) %	\$ (4,702)	\$ 873	N.M.
Earnings/(loss) per common share attributable to Cardinal Health, Inc.:						
Basic	\$ 0.75	\$ 0.94	(20) %	\$ (15.99)	\$ 2.90	N.M.
Diluted	0.75	0.93	(19) %	(15.99) ³	2.88	N.M.
Weighted-average number of common shares outstanding:						
Basic	292	299		294	302	
Diluted	294	300		294 ³	303	

¹ 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 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. In October 2019, we agreed in principle to a global settlement framework with a leadership group of state attorneys general that is designed to resolve all pending and future opioid lawsuits and claims by states and political subdivisions (the "Settlement Framework"). We accrue for contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because loss contingencies are inherently unpredictable and unfavorable developments or resolutions can occur, the assessment is highly subjective and requires judgments about future events. Final terms of a settlement under the Settlement Framework continue to be negotiated, and there is no assurance that the necessary parties will agree to a definitive settlement agreement or that the contingencies to any agreement will be satisfied. We will regularly review these opioid litigation matters to determine whether our accrual is adequate. We are unable to reasonably estimate the liability associated with any potential distribution of treatment medications and any incremental costs for changes to our controlled substance anti-diversion program that we may agree to under the Settlement Framework. The amount of ultimate loss may differ materially from this accrual.

² In connection with these matters, we recorded a tax benefit of \$487 million, which is net of unrecognized tax benefits of \$468 million, during the first quarter of fiscal 2020, reflecting our current assessment of the estimated future deductibility of the amount that may be paid under the \$5.63 billion accrual taken in connection with the opioid litigation. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination of the technical merits of the position, including resolutions of any related appeals or litigation. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement. For tax benefits that do not qualify for recognition, we recognize a liability for unrecognized tax benefits. Our assumptions and estimates around this benefit and uncertain tax position require significant judgment since the definitive settlement terms and documentation, including provisions related to deductibility, under the Settlement Framework have not been negotiated and the U.S. tax law governing deductibility was changed by the U.S. Tax Cuts and Jobs Act ("Tax Act"). We have made reasonable estimates and recorded amounts based on management's judgment and our current understanding of the Tax Act which is subject to further interpretation by the U.S. Internal Revenue Service. Further, it is possible that the tax authorities could challenge our interpretation of the Tax Act or the estimates and assumptions used to assess the future deductibility of these benefits. The actual amount of tax benefit related to uncertain tax positions may differ materially from these

estimates.

³ Due to the net loss for the six months ended December 31, 2019, potentially dilutive common shares have not been included in the denominator of the dilutive per share computation due to their anti-dilutive effect.

Schedule 2

Cardinal Health, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(in millions)	December 31, 2019	June 30, 2019
Assets		
Current assets:		
Cash and equivalents	\$ 1,659	\$ 2,531
Trade receivables, net	8,280	8,448
Inventories, net	13,799	12,822
Prepaid expenses and other	1,998	1,946
Total current assets	25,736	25,747
Property and equipment, net	2,301	2,356
Goodwill and other intangibles, net	11,523	11,808
Other assets	1,482	1,052
Total assets	\$ 41,042	\$ 40,963
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,459	\$ 21,535
Current portion of long-term obligations and other short-term borrowings	1,192	452
Other accrued liabilities	2,239	2,122
Total current liabilities	24,890	24,109
Long-term obligations, less current portion	6,742	7,579
Deferred income taxes and other liabilities	8,408	2,945
Total shareholders' equity	1,002	6,330
Total liabilities and shareholders' equity	\$ 41,042	\$ 40,963

Schedule 3

Cardinal Health, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in millions)	Second Quarter		Year-to-Date	
	2020	2019	2020	2019
Cash flows from operating activities:				
Net earnings/(loss)	\$ 220	\$ 281	\$ (4,701)	\$ 874
Adjustments to reconcile net earnings/(loss) to net cash provided by operating activities:				
Depreciation and amortization	230	253	464	498
Impairments and loss on sale of other investments	—	—	—	2
Impairments and (gain)/loss on disposal of assets, net	7	8	8	(503)
Loss on extinguishment of debt	4	—	4	—
Share-based compensation	21	22	41	41
Provision for bad debts	18	19	47	40
Change in operating assets and liabilities, net of effects from acquisitions and divestitures:				
(Increase)/decrease in trade receivables	(108)	111	121	(191)
Increase in inventories	(1,347)	(575)	(991)	(753)
Increase/(decrease) in accounts payable	1,735	382	(77)	941
Other accrued liabilities and operating items, net	(83)	(129)	5,128	(213)
Net cash provided by operating activities	697	372	44	736
Cash flows from investing activities:				
Acquisition of subsidiaries, net of cash acquired	—	(21)	—	(21)
Additions to property and equipment	(77)	(58)	(149)	(116)
Purchases of investments	(3)	(6)	(6)	(10)
Proceeds from sale of investments	—	—	2	2
Proceeds from divestitures, net of cash sold, and disposal of property and equipment	2	—	2	740
Net cash provided by/(used in) investing activities	(78)	(85)	(151)	595
Cash flows from financing activities:				
Net change in short-term borrowings	683	—	681	—
Reduction of long-term obligations	(719)	(1)	(793)	(2)
Net tax proceeds/(withholdings) from share-based compensation	2	—	(11)	(13)
Dividends on common shares	(141)	(143)	(287)	(293)
Purchase of treasury shares	—	—	(350)	(600)
Net cash used in financing activities	(175)	(144)	(760)	(908)
Effect of exchange rates changes on cash and equivalents	3	(6)	(5)	(4)
Net increase/(decrease) in cash and equivalents	447	137	(872)	419
Cash and equivalents at beginning of period	1,212	2,045	2,531	1,763
Cash and equivalents at end of period	\$ 1,659	\$ 2,182	\$ 1,659	\$ 2,182

Schedule 4

Cardinal Health, Inc. and Subsidiaries

Segment Information

Second Quarter

(in millions)	2020	2019	(in millions)	2020	2019
Pharmaceutical			Medical		
Revenue			Revenue		
Amount	\$ 35,714	\$ 33,740	Amount	\$ 4,023	\$ 4,006
Growth rate	6 %	8 %	Growth rate	— %	(1) %
Segment profit			Segment profit		
Amount	\$ 462	\$ 443	Amount ¹	\$ 195	\$ 188
Growth rate	4 %	(14) %	Growth rate	4 %	(14) %
Segment profit margin	1.29 %	1.31 %	Segment profit margin	4.86 %	4.70 %

Year-to-Date

(in millions)	2020	2019	(in millions)	2020	2019
Pharmaceutical			Medical		
Revenue			Revenue		
Amount	\$ 69,142	\$ 65,155	Amount	\$ 7,940	\$ 7,807
Growth rate	6 %	8 %	Growth rate	2 %	1 %
Segment profit			Segment profit		
Amount	\$ 860	\$ 851	Amount ¹	\$ 365	\$ 323
Growth rate	1 %	(13) %	Growth rate	13 %	(7) %
Segment profit margin	1.24 %	1.31 %	Segment profit margin	4.60 %	4.14 %

¹ Medical segment profit for the three and six months ended December 31, 2019 does not include the \$96 million charge incurred for inventory write-offs and certain remediation and supply disruption costs associated with the recently announced voluntary surgical gown-related recalls.

Cardinal Health, Inc. and Subsidiaries

GAAP / Non-GAAP Reconciliation¹

(in millions, except per common share amounts)	Gross Margin	Gross Margin Growth Rate	SG&A ²	SG&A ² Growth Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Provision for Income Taxes	Net Earnings ³	Net Earnings ³ Growth Rate	Effective Tax Rate	Diluted EPS
Second Quarter 2020												
GAAP	\$ 1,714	(1) %	\$ 1,163	9 %	\$ 334	(34) %	\$ 279	\$ 59	\$ 220	(21) %	21.0 %	\$ 0.1
Surgical gown recall costs	56		(40)		96		96	25	71			0.1
State opioid assessment related to prior fiscal years	—		1		(1)		(1)	—	(1)			
Restructuring and employee severance	—		—		56		56	14	42			0.1
Amortization and other acquisition-related costs	—		—		133		133	33	100			0.1
Impairments and (gain)/loss on disposal of assets, net	—		—		7		7	2	5			0.1
Litigation (recoveries)/charges, net	—		—		21		21	3	18			0.1
Loss on extinguishment of debt	—		—		—		4	1	3			0.1
Transitional tax benefit, net	—		—		—		—	11	(11)			(0.0)
Non-GAAP	\$ 1,770	2 %	\$ 1,124	3 %	\$ 646	1 %	\$ 596	\$ 148	\$ 448	16 %	24.8 %	\$ 1.1
Second Quarter 2019												
GAAP	\$ 1,730	(7) %	\$ 1,064	(6) %	\$ 504	26 %	\$ 407	\$ 126	\$ 280	(73) %	31.0 %	\$ 0.1
State opioid assessment related to prior fiscal years	—		29		(29)		(29)	(8)	(21)			(0.0)
Restructuring and employee severance	—		—		12		12	3	9			0.1
Amortization and other acquisition-related costs	—		—		157		157	39	119			0.1
Impairments and (gain)/loss on disposal of assets, net	—		—		8		8	1	7			0.1
Litigation (recoveries)/charges, net	—		—		(15)		(15)	(4)	(11)			(0.0)
Transitional tax benefit, net	—		—		—		—	(3)	3			0.1
Non-GAAP	\$ 1,730	(7) %	\$ 1,093	(3) %	\$ 637	(13) %	\$ 540	\$ 154	\$ 385	(19) %	28.5 %	\$ 1.1

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

²Distribution, selling, general and administrative expenses.

³Attributable to Cardinal Health, Inc.

The sum of the components may not equal the total due to rounding.

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 Reconciliation¹

(in millions, except per common share amounts)	Gross Margin	Gross Margin Growth Rate	SG&A ²	SG&A ² Growth Rate	Operating Earnings/ (Loss)	Operating Earnings/ (Loss) Growth Rate	Earnings/ (Loss) Before Income Taxes	Provision for/ (Benefit from) Income Taxes	Net Earnings/ (Loss) ³	Net Earnings/ (Loss) ³ Growth Rate	Effective Tax Rate
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common share amounts)											
GAAP	\$ 3,393	— %	\$ 2,270	2 %	\$ (4,930)	N.M	Year-to-Date 2020				
Surgical gown recall costs	56		(40)		96		\$ (5,065)	\$ (364)	\$ (4,702)	N.M	7.2
State opioid assessment related to prior fiscal years	—		(4)		4		4	1	3		
Restructuring and employee severance	—		—		86		86	21	65		
Amortization and other acquisition-related costs	—		—		265		265	67	198		
Impairments and (gain)/loss on disposal of assets, net	—		—		8		8	2	6		
Litigation (recoveries)/charges, net ⁵	—		—		5,694		5,694	501	5,193		
Loss on extinguishment of debt	—		—		—		4	1	3		
Transitional tax benefit, net	—		—		—		—	11	(11)		
Non-GAAP	\$ 3,449	2 %	\$ 2,226	— %	\$ 1,223	4 %	\$ 1,092	\$ 265	\$ 826	6 %	24.3
Year-to-Date 2019											
GAAP	\$ 3,397	(4) %	\$ 2,219	1 %	\$ 1,320	100 %	\$ 1,143	\$ 269	\$ 873	(25) %	23.5
Restructuring and employee severance	—		—		44		44	11	33		
Amortization and other acquisition-related costs	—		—		314		314	74	240		
Impairments and (gain)/loss on disposal of assets, net	—		—		(503)		(503)	(133)	(370)		
Litigation (recoveries)/charges, net	—		—		3		3	—	3		
Transitional tax benefit, net	—		—		—		—	(3)	3		
Non-GAAP	\$ 3,397	(4) %	\$ 2,219	1 %	\$ 1,178	(12) %	\$ 1,001	\$ 218	\$ 782	(5) %	21.8

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

²Distribution, selling, general and administrative expenses.

³Attributable to Cardinal Health, Inc.

⁴For the six months ended December 31, 2019, 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 294 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 period. Year-to-date fiscal 2020 non-GAAP diluted EPS is calculated using a weighted average of 295 million common shares, which includes potentially dilutive shares.

⁵Litigation (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.

The sum of the components may not equal the total due to rounding.

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

Cardinal Health, Inc. and Subsidiaries

Use of Non-GAAP Measures

This earnings release contains financial measures that are not calculated in accordance with U.S. generally accepted accounting principles ("GAAP").

In addition to analyzing our business based on financial information prepared in accordance with GAAP, we use these non-GAAP financial measures internally to evaluate our performance, engage in financial and operational planning, and, in most cases, determine incentive compensation because we believe that these measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of our underlying, ongoing business. We provide these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results on a year-over-year basis and in comparing our performance to that of our competitors. However, the non-GAAP financial measures that we use may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements set forth below should be carefully evaluated.

Exclusions from Non-GAAP Financial Measures

Management believes it is useful to exclude the following items from the non-GAAP measures presented in this report for its own and for investors' assessment of the business for the reasons identified below:

- 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.
- 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.
- 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 declared unconstitutional.
- Restructuring and employee severance costs are excluded because they are not part of the ongoing operations of our underlying business.
- 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.
- 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.

- 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.
- Loss on 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.
- 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.

The tax effect for each of the items listed above, other than the transitional tax benefit item, is determined using the tax rate and other tax attributes applicable to the item and the jurisdiction(s) in which the item is recorded. The gross, tax and net impact of each item are presented with our GAAP to non-GAAP reconciliations.

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 2020 GAAP results. Over the past five fiscal years, the excluded items have impacted the Company's EPS from \$0.75 to \$4.19, 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 year to date period impacted the Company's EPS by \$18.79, which includes a \$17.49 charge related to the opioid litigation.

Definitions

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

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 earnings before income taxes: earnings/(loss) before income taxes 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, and (8) loss on extinguishment of debt.

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 extinguishment of debt, each net of tax, and (9) transitional tax benefit, 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 extinguishment of debt, and (9) transitional tax benefit, (net) divided by (earnings/(loss) before income taxes adjusted for the first eight items).

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.

SOURCE Cardinal Health