



Q3 FY23

**Cardinal Health, Inc.
Earnings Call**

May 4, 2023

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 ongoing inflationary pressures and supply chain constraints, including the risk that our plans to mitigate such effects may not be as successful as we anticipate; the possibility that our Medical unit goodwill could be further impaired due to increases in global interest rates, possible unfavorable changes in the U.S. statutory tax rate or additional changes to our long-term financial plan; competitive pressures in Cardinal Health's various lines of business; the performance of our generics program, including 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 or other components of our generics programs; ongoing risks associated with the distribution of opioids, including the financial impact associated with the settlements with governmental authorities, the risk that challenges to our plans to take tax deductions for opioid-related losses could adversely impact our financial results; risks arising from the Department of Justice investigation which we believe concerns our anti-diversion program and risks associated with the injunctive relief requirements under the national settlement, including the risk that we may incur higher costs or operational challenges in the implementation and maintenance of the required changes; risks associated with the manufacture and sourcing of certain products, including risks related to our ability and the ability of third-party manufacturers to import or export certain products or component parts and 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 or other business process initiatives, such as the Medical Improvement Plan, including the possibility that they could fail to achieve the intended results. 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 May 4, 2023. Except to the extent required by applicable law, Cardinal Health undertakes no obligation to update or revise any forward-looking statement. Forward-looking statements are aspirational and not guarantees or promises that goals, targets or projections will be met, and no assurance can be given that any commitment, expectation, initiative or plan in this report can or will be achieved or completed. Cardinal Health provides definitions and reconciliations of non-GAAP financial measures and their most directly comparable GAAP financial measures at ir.cardinalhealth.com.

Q3 results

Q3 FY23 financial summary

	GAAP Basis (\$M) Q3 FY23	Non-GAAP Basis (\$M) Q3 FY23
Revenue <i>% change</i>	\$50,487 13%	N/A
Gross Margin <i>% change</i>	\$1,785 6%	\$1,785 6%
SG&A <i>% change</i>	\$1,179 4%	\$1,179 4%
Operating Earnings <i>% change</i>	\$572 N.M.	\$606 11%
Interest and Other¹ <i>% change</i>	\$28 (32)%	N/A
Net Earnings² <i>% change</i>	\$345 N.M.	\$447 11%
Diluted EPS² <i>% change</i>	\$1.34 N.M.	\$1.74 20%

¹The sum of "other (income)/expense, net" and "interest expense, net"

²Attributable to Cardinal Health, Inc.

Please see appendix for GAAP to Non-GAAP reconciliations.

Q3 FY23 Pharmaceutical segment results

	Q3 FY23 (\$M)	Q3 FY22 (\$M)	YoY change
Revenue	\$46,809	\$40,957	14%
Segment profit	\$600	\$487	23%
Segment profit margin	1.28%	1.19%	+9 bps

Drivers:

Revenue

- + Brand and specialty pharmaceutical sales growth from existing customers

Segment profit

- + Generics program
- + Brand and specialty products

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

Q3 FY23 Medical segment results

	Q3 FY23 (\$M)	Q3 FY22 (\$M)	YoY change
Revenue	\$3,684	\$3,884	-5%
Segment profit	\$20	\$59	-66%
Segment profit margin	0.54%	1.52%	-98 bps

Drivers:

Revenue

- Products and Distribution sales: primarily PPE volumes and pricing

Segment profit

- Lower Products and Distribution volumes and mix
- Non-recurring adjustments: including simplification actions
- + Improvement in PPE margins

FY23 outlook

FY23 financial expectations

	FY23 outlook	FY22 actual
Non-GAAP EPS	\$5.60 - \$5.80 <i>Previously \$5.20 - \$5.50</i>	\$5.06
Interest and Other	\$95M - \$105M <i>Previously \$115M - \$130M</i>	\$165M
Non-GAAP ETR	22.0% - 23.0% <i>Previously 23.0% - 24.0%</i>	22.1%
Diluted weighted average shares outstanding	262M - 263M <i>Previously 262M - 264M</i>	280M
Share repurchases	\$1.5B - \$2.0B	\$1.0B
Capital expenditures	~\$450M <i>Previously ~\$500M</i>	\$387M
Adjusted free cash flow	\$2.0B - \$2.3B <i>Previously \$1.5B - \$2.0B</i>	\$2.3B

Bold indicates an update to the FY23 outlook provided on February 2, 2023.

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.

FY23 segment outlook

Segment	Revenue	Segment Profit
Pharmaceutical	14% to 15% growth <i>Previously 13% to 15% growth</i>	10.5% to 12% growth <i>Previously 4% to 6.5% growth</i>
Medical	~6% decline <i>Previously 3% to 6% decline</i>	~50% decline <i>Previously flat to 20% decline</i>

Bold indicates an update to the FY23 outlook provided on February 2, 2023.

Medical improvement plan

Targeting at least \$650M in Medical segment profit by FY25

Foundational: returning to a normalized environment

Area of focus	FY22–25 Total
1. Mitigate Inflation and Global Supply Chain Constraints Exit FY23 offsetting at least 50% of gross impact Exit FY24 offsetting 100% of gross impact	~\$300M

Growth initiatives: generating ~\$185M+ of segment profit growth by FY25

Area of focus	FY22–25 Total
2. Optimize and Grow Cardinal Health Brand Portfolio New product innovation and investments in capacity In-channel and out-of-channel growth	\$75M+
3. Accelerate Growth Businesses, Primarily at-Home Solutions Core growth New technology offerings	\$60M+
4. Drive Simplification and Continued Cost Optimization Value improvement projects Sourcing, transportation, and manufacturing strategies	\$50M+

FY23 strategic priorities

1

Execute Medical Improvement Plan initiatives

- **Mitigate inflation** and global supply chain constraints
- Optimize and grow **Cardinal Health Brand** portfolio
- Accelerate growth businesses, primarily **at-Home Solutions**
- Drive **simplification** and continued cost optimization

2

Build upon growth and resiliency of Pharmaceutical Segment

- Prioritize **customer experience**, reduce complexity, and drive productivity
- Continue to effectively manage our **Generics Program**
- Accelerate growth areas, primarily **Specialty**
- **Support pharmaceutical manufacturers** with end-to-end capabilities

3

Relentless focus on shareholder value

- Maximize sustainable, **profitable growth** and **cash flow generation**, as well as **return of capital to shareholders**
- Business Review Committee reviews **strategy, portfolio, capital-allocation framework** and **operations** and company to hold **Investor Day** in June 2023

Long-term targets

Taking action to drive sustainable growth

Pharma

Low-single digit to mid-single digit segment profit growth



1. **Strengthening our core** Pharmaceutical Distribution business
2. Fueling our growth businesses: primarily **Specialty**

Medical

At least \$650 million in segment profit by FY25



1. **Mitigating** supply chain inflation
2. Optimizing and growing our **Cardinal Health Brand** portfolio
3. Accelerating our growth businesses: primarily **at-Home Solutions**
4. Driving **simplification** and optimizing cost



Capital Allocation

Balanced, disciplined and shareholder-friendly capital deployment

1. Moderating debt paydown = **greater flexibility** for shareholder return
2. Commitment to **dividend**
3. Remaining **\$1.2B share repurchase authorization**¹



Double-digit combined Non-GAAP EPS growth and dividend yield on average

¹As of May 4th, 2023, \$1.2B of original \$3.0B share repurchase authorization remaining, expiring December 31, 2024

Relentless focus on shareholder value

Enterprise-wide efforts aimed at maximizing and sustaining value at Cardinal Health

FY23 Value Creation Initiatives to-Date

- ✓ Deployed **\$1.5B for share repurchases** through Q3
- ✓ Appointed four **new independent Board members**
- ✓ Formed **Business Review Committee** to assess opportunities to enhance business – term extended for an additional year through July 15, 2024
- ✓ Executed **simplification actions**, including exit of non-healthcare disposable gloves portfolio and streamlined organizational structure

Active & Ongoing Value Creation Initiatives

- Business Review Committee actively reviewing **strategy, portfolio, capital-allocation framework** and **operations**
- **Mitigating** macro-economic inflationary **headwinds**
- **Investing** in highest-value projects to **drive organic growth**
- To hold **Investor Day in June 2023** where company plans to detail its growth strategies and provide updates on its long-term outlook, capital allocation framework and the ongoing business and portfolio review

Relentlessly focused on maximizing value creation for Cardinal Health shareholders



Appendix

Cardinal Health, Inc. and Subsidiaries
GAAP / Non-GAAP Reconciliation¹

	Gross Margin		SG&A ²		Operating Earnings/		Earnings/		Provision for		Net Earnings ³		Effective Tax		Diluted EPS ^{3,4}					
	Margin	Rate	SG&A ²	Rate	Earnings/	Growth	(Loss)	Income	Income	Earnings/	Growth	Rate	Rate	Rate	Rate	Rate				
					(Loss)			Taxes	Taxes	(Loss) ³										
(in millions, except per common share amounts)																				
Third Quarter 2023																				
GAAP	\$	1,785	6 %	\$	1,179	4 %	\$	572	N.M.	\$	544	\$	197	\$	345	N.M.	36.3 %	\$	1.34	N.M.
Restructuring and employee severance		-			-			16			16		4		12					0.05
Amortization and other acquisition-related costs		-			-			74			74		19		55					0.21
Impairments and (gain)/loss on disposal of assets, net ⁵		-			-			20			20		(69)		89					0.35
Litigation (recoveries)/charges, net		-			-			(76)			(76)		(22)		(54)					(0.21)
Non-GAAP	\$	1,785	6 %	\$	1,179	4 %	\$	606	11 %	\$	578	\$	129	\$	447	11 %	22.4 %	\$	1.74	20 %
Third Quarter 2022																				
GAAP	\$	1,682	(7)%	\$	1,137	2 %	\$	(97)	N.M.	\$	(137)	\$	1,253	\$	(1,391)	N.M.	(916.5)%	\$	(5.05)	N.M.
Restructuring and employee severance		-			-			31			31		8		23					0.08
Amortization and other acquisition-related costs		-			-			79			79		20		59					0.21
Impairments and (gain)/loss on disposal of assets, net ⁵		-			-			471			471		(1,189)		1,660					6.03
Litigation (recoveries)/charges, net ⁶		-			-			61			61		10		51					0.18
(Gain)/Loss on sale of equity interest in nav iHealth		-			-			-			(1)		-		(1)					-
Non-GAAP	\$	1,683	(7)%	\$	1,138	2 %	\$	545	(21)%	\$	504	\$	101	\$	402	(11)%	20.1 %	\$	1.45	(5)%

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

² Distribution, selling, general and administrative expenses.

³ Attributable to Cardinal Health, Inc.

⁴ For the three months ended March 31, 2022, GAAP diluted EPS and the EPS impact from the GAAP to non-GAAP per share reconciling items are calculated using a weighted average of 275 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 periods. For the three months ended March 31, 2022, non-GAAP diluted EPS is calculated using a weighted average of 277 million common shares, which includes potentially dilutive shares.

⁵ Impairments and (gain)/loss on disposal of assets, net included pre-tax goodwill impairment charges related to the Medical segment of \$863 million recorded during the nine months ended March 31, 2023. For fiscal 2023, the estimated net tax benefit related to the impairments is \$68 million and is included in the annual effective tax rate. As a result, the amount of tax expense recognized increased approximately by an incremental \$74 million during the three months ended March 31, 2023.

During the three months ended March 31, 2022, impairments and (gain)/loss on disposal of assets, net included pre-tax impairment charges of \$474 million. For fiscal 2022, the estimated net tax benefit related to the impairment was \$126 million and was included in the annual effective tax rate. As a result, the amount of tax expense recognized during the three months ended March 31, 2022 increased approximately by an incremental \$1.2 billion, and lowered the provision for income taxes during the fourth quarter of fiscal 2022 by approximately \$180 million.

⁶ Litigation (recoveries)/charges, net includes a one-time contingent attorney fee of \$18 million recorded during the three months ended March 31, 2022 related to the finalization of the settlement agreement (the "Settlement Agreement") resulting in the settlement of the vast majority of opioid lawsuits filed by state and local governmental entities. Due to the unique nature and significance of the Settlement Agreement, and the one-time, contingent nature of the fee, this related fee was included in litigation (recoveries)/charges, net.

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 Reconciliation¹

	Gross Margin	Gross Growth Rate	SG&A ² Growth Rate	Operating Earnings/ (Loss)	Operating Earnings Growth Rate	Earnings/ (Loss) Before Income Taxes	Provision for/ (Benefit from) Income Taxes	Net Earnings/ (Loss) ³	Net Earnings ³ Growth Rate	Effective Tax Rate	Diluted EPS ^{3,4}	Diluted EPS ³ Growth Rate	
Fiscal Year 2022													
GAAP	\$ 6,545	(3)%	\$ 4,557	1%	\$ (596)	N.M.	\$ (769)	\$ 163	\$ (933)	N.M.	(21.2)%	\$ (3.35)	N.M.
Surgical gown recall costs/(income)	1		-		1	1	-	1				-	
Restructuring and employee severance	-		-		101	101	26	75				0.27	
Amortization and other acquisition-related costs	-		-		324	324	84	240				0.87	
Impairments and (gain)/loss on disposal of assets, net ⁵	-		-		2,050	2,050	107	1,943				6.93	
Litigation (recoveries)/charges, net ^{6,7}	-		-		109	109	21	88				0.31	
Loss on early extinguishment of debt	-		-		-	10	3	7				0.03	
(Gain)/Loss on sale of equity interest in navHealth	-		-		-	(2)	-	(2)				-	
Non-GAAP	\$ 6,547	(3)%	\$ 4,557	1%	\$ 1,990	(12)%	\$ 1,824	\$ 404	\$ 1,419	(13)%	22.1%	\$ 5.06	(9)%

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

² Distribution, selling, general and administrative expenses.

³ Attributable to Cardinal Health, Inc.

⁴ For fiscal 2022, 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 is calculated using a weighted average of 279 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. For fiscal 2022, non-GAAP diluted EPS is calculated using a weighted average of 280 million common shares, which includes potentially dilutive shares.

⁵ Impairments and (gain)/loss on disposals of assets, net includes pre-tax goodwill impairment charges of \$2.1 billion related to our Medical segment recorded in fiscal 2022. For fiscal 2022, the net tax benefit related to these impairments is \$150 million and is included in the annual effective tax rate.

⁶ Litigation (recoveries)/charges, net for fiscal 2022 does not include a \$16 million judgement for lost profits related to an ordinary course intellectual property claim, which positively impacted Pharmaceutical segment profit.

⁷ Litigation (recoveries)/charges, net includes a one-time contingent attorney's fee of \$18 million recorded during fiscal 2022 related to the finalization of the Settlement Agreement resulting in the settlement of the vast majority of opioid lawsuits filed by state and local governmental entities. Due to the unique nature and significance of the Settlement Agreement, and the one-time, contingent nature of the fee, this fee was included in litigation (recoveries)/charges, net.

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 - GAAP Cash Flow to Non-GAAP Adjusted Free Cash Flow

(in millions)

GAAP - Cash Flow Categories

Net cash provided by operating activities

Net cash used in investing activities

Net cash used in financing activities

Effect of exchange rates changes on cash and equivalents

Net increase/(decrease) in cash and equivalents

	Third Quarter		Year-to-Date
	2023		2023
\$	1,361	\$	1,981
	(91)	\$	(248)
	(934)	\$	(2,459)
	-	\$	(1)
\$	336	\$	(727)

Non-GAAP Adjusted Free Cash Flow

Net cash provided by operating activities

Additions to property and equipment

Payments related to matters included in litigation (recoveries)/charges, net

Non-GAAP Adjusted Free Cash Flow

\$	1,361	\$	1,981
	(109)	\$	(264)
	57	\$	373
\$	1,309	\$	2,090

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

Cardinal Health, Inc. and Subsidiaries

GAAP / Non-GAAP Reconciliation - GAAP Cash Flow to Non-GAAP Adjusted Free Cash Flow

	Fiscal Year
	2022
<u>(in millions)</u>	
GAAP - Cash Flow Categories	
Net cash provided by operating activities	\$ 3,122
Net cash provided by investing activities	567
Net cash provided by financing activities	(2,463)
Effect of exchange rates changes on cash and equivalents	(25)
Cash reclassified from assets held for sale	109
Net increase in cash and equivalents	\$ 1,310
Non-GAAP Adjusted Free Cash Flow	
Net cash provided by operating activities	\$ 3,122
Additions to property and equipment	(387)
Payments related to matters included in litigation (recoveries)/charges, net	511
Other significant and unusual or non-recurring items	
U.S. federal tax refund from net operating loss carryback	(966)
Non-GAAP Adjusted Free Cash Flow	\$ 2,280

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



Segment Information

Third Quarter

<u>(in millions)</u>	<u>2023</u>		<u>2022</u>		<u>(in millions)</u>	<u>2023</u>		<u>2022</u>	
Pharmaceutical					Medical				
Revenue					Revenue				
Amount	\$	46,809	\$	40,957	Amount	\$	3,684	\$	3,884
Growth rate		14 %		17 %	Growth rate		(5)%		(7)%
Segment profit					Segment profit				
Amount	\$	600	\$	487	Amount	\$	20	\$	59
Growth rate		23 %		(5)%	Growth rate		(66)%		(66)%
Segment profit margin		1.28 %		1.19 %	Segment profit margin		0.54 %		1.52 %

Year-to-Date

<u>(in millions)</u>	<u>2023</u>		<u>2022</u>		<u>(in millions)</u>	<u>2023</u>		<u>2022</u>	
Pharmaceutical					Medical				
Revenue					Revenue				
Amount	\$	140,310	\$	122,154	Amount	\$	11,259	\$	12,118
Growth rate		15 %		14 %	Growth rate		(7)%		(3)%
Segment profit					Segment profit				
Amount	\$	1,495	\$	1,319	Amount	\$	29	\$	232
Growth rate		13 %		(1)%	Growth rate		(88)%		(64)%
Segment profit margin		1.07 %		1.08 %	Segment profit margin		0.26 %		1.91 %

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 2023 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 \$17.54 charge related to the opioid litigation we recognized in fiscal 2020.



Cardinal Health, Inc. and Subsidiaries

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/(income).

Non-GAAP distribution, selling, general and administrative expenses or Non-GAAP SG&A: distribution, selling, general and administrative expenses, excluding surgical gown recall costs/(income), state opioid assessment related to prior fiscal years and shareholder cooperation agreement costs.

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

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/(income), (3) state opioid assessment related to prior fiscal years, (4) shareholder cooperation agreement costs, (5) restructuring and employee severance, (6) amortization and other acquisition-related costs, (7) impairments and (gain)/loss on disposal of assets, net, (8) litigation (recoveries)/charges, net, (9) loss on early extinguishment of debt and (10) (gain)/loss on sale of equity interest in naviHealth, each net of tax.

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

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.

Non-GAAP adjusted free cash flow: net cash provided by operating activities less payments related to additions to property and equipment, excluding settlement payments and receipts related to matters included in litigation (recoveries)/charges, net, as defined above, or other significant and unusual or non-recurring cash payments or receipts. For example, the U.S. federal income tax refund of \$966 million for the tax benefit from the net operating loss carryback related to a self-insurance pre-tax loss was excluded from the Company's fiscal 2022 non-GAAP adjusted free cash flow.

Definitions continued

¹ 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. We did not recognize any LIFO charges or credits during the periods presented.

² Surgical gown recall costs or income includes inventory write-offs and certain remediation and supply disruption costs, net of related insurance recoveries, 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. Income from surgical gown recall costs represents insurance recoveries of these certain costs. 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.

³ 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 period in which the expense is incurred. 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. Income from state opioid assessments related to prior fiscal years represents reversals of accruals due to changes in estimates or when the underlying assessments were invalidated by a Court or reimbursed by manufacturers.

⁴ Shareholder cooperation agreement costs includes costs such as legal, consulting and other expenses incurred in relation to the agreement (the "Cooperation Agreement") entered into among Elliott Associates, L.P., Elliott International, L.P. (together, "Elliott") and Cardinal Health, including costs incurred to negotiate and finalize the Cooperation Agreement and costs incurred by the new Business Review Committee of the Board of Directors, which was formed under this Cooperation Agreement. We have excluded these costs from our non-GAAP metrics because they do not occur in or reflect the ordinary course of our ongoing business operations and may obscure analysis of trends and financial performance.

⁵ Restructuring and employee severance costs are excluded because they are not part of the ongoing operations of our underlying business.

⁶ 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.

⁷ Impairments and gain or loss on disposal of assets, net 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.



Cardinal Health, Inc. and Subsidiaries

Definitions continued

⁸ 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. During fiscal 2022, we incurred a one-time contingent attorneys' fee of \$18 million related to the finalization of the settlement agreement (the "Settlement Agreement") resulting in the settlement of the vast majority of opioid lawsuits filed by state and local governmental entities. Due to the unique nature and significance of the Settlement Agreement, and the one-time, contingent nature of the fee, this fee was included in litigation recoveries or charges, net. Additionally, during fiscal 2022 our Pharmaceutical segment profit was positively impacted by a \$16 million judgment for lost profits. This judgment was the result of an ordinary course intellectual property rights claim and, therefore, is not adjusted in calculating the litigation recoveries or charges, net adjustment. During fiscal 2021, we incurred a tax benefit related to a carryback of a net operating loss. Some pre-tax amounts, which contributed to this loss, relate to litigation charges. As a result, we allocated substantially all of the tax benefit to litigation charges.

⁹ 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.

¹⁰ (Gain)/Loss 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.

The tax effect for each of the items listed above 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.

Non-GAAP adjusted free cash flow: We provide this non-GAAP financial measure as a supplemental metric to assist readers in assessing the effects of items and events on our cash flow on a year-over-year basis and in comparing our performance to that of our peer group companies. In calculating this non-GAAP metric, certain items are excluded from net cash provided by operating activities because they relate to significant and unusual or non-recurring events and are inherently unpredictable in timing and amount. We believe adjusted free cash flow is important to management and useful to investors as a supplemental measure as it indicates the cash flow available for working capital needs, debt repayments, dividend payments, share repurchases, strategic acquisitions, or other strategic uses of cash. A reconciliation of our GAAP financial results to Non-GAAP adjusted free cash flow is provided in Schedule 6 of the financial statement tables included with this release.

