Mallinckrodt Pharmaceuticals

November 6, 2018

NON-GAAP FINANCIAL MEASURES

Mallinckrodt plc (the company) utilizes certain financial measures that are not prescribed by or prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The company utilizes these financial measures, commonly referred to as “non-GAAP”, because they are used by management, along with financial measures prepared in accordance with GAAP, to evaluate the company's operating performance. In addition, the company believes that these non-GAAP measures will be used by certain investors to measure the company’s operating results. Management believes that presenting these non-GAAP measures provides useful information about the company's performance across reporting periods on a consistent basis by excluding items (which may be favorable or unfavorable) that the company does not believe are indicative of its core operating performance.

Adjustments to GAAP financial results are identified through the execution of a recurring process on a quarterly basis. This process identifies transactions, both favorable and unfavorable, that may not be indicative of the company’s core operating performance in the respective period. Each transaction is evaluated by the company based on several factors; including, but not limited to, materiality, frequency of occurrence, the facts and circumstances giving rise to the transaction, and the business’ ability to influence the transaction. Based on these factors, the company applies judgment in determining whether the transaction(s) should result in adjustment to GAAP financial results and therefore be included in a non-GAAP measure.

Adjustments to GAAP financial results include certain items regardless of materiality as they are not part of the underlying operating performance of the company. These items currently include the following:

- Intangible amortization expense and non-restructuring impairments as these represent charges that are outside the control of those responsible for the underlying operations of the business;

- Restructuring and related charges, net as these expenses represent long-term strategic planning decisions which the company believes do not represent the underlying operations of the respective period when the expenses are recognized under GAAP;

- Inventory step-up expense as this represents the expense recognition of fair value adjustments in excess of the historical cost basis of inventory obtained through acquisition, these charges are outside the control of those responsible for the underlying operations of the business;

- Income or loss from discontinued operations as this represents events that are not expected to be present in future periods and its exclusion provides better insight to the operating performance of the company's continuing operations;

- Change in contingent consideration fair value as this generally represents changes in expectations regarding future operating performance and therefore is not reflective of current period operating performance of the business;

- Acquisition-related expenses represent various transaction costs associated with acquisitions, as these costs are outside the control of those responsible for the underlying operations of the business;

- Losses/gains on divestiture as the impact of such transaction is outside the control of those responsible for the underlying operations of the business; and

- Income taxes include the current and deferred tax effects associated with the aforementioned pre-tax adjustments and tax impacts from certain transactions, such as acquisitions or reorganizations. Management does not believe that these net favorable items are indicative of the company's core operating performance.

In addition to these items, other transactions may be identified (both favorable and unfavorable) during the recurring quarterly process that may not be indicative of the company's core operating performance in the respective period. Each transaction is evaluated by the company based on several factors; including, but not limited to, established materiality thresholds, frequency of occurrence, the facts and circumstances giving rise to the transaction, and the business' ability to influence the transaction. Based on these factors the company applies judgment in determining whether the item should result in adjustment to GAAP financial results and therefore be included in the non-GAAP measure. Examples of the type of items identified through this process include:

- Significant legal and environmental charges as these represent significant expenses that may not be associated with the current operating footprint and performance of the business (e.g., environmental charges at former company owned facilities or charges for significant legal settlements).

- Pension settlement charges as these are attributable to previously deferred losses (in accordance with GAAP) within accumulated other comprehensive loss that is recognized upon lump sum disbursement to employees under the company's pension plan termination.

- Debt refinancing costs which relate to cash payments recorded to expense, the write-off of deferred financing costs associated with accelerated payments under the term loan arrangements and the subsequent refinancing of the term loan arrangement and revolving credit facility.

- Gains on the repurchase of debt as this represents a significant item that is outside the control of those responsible for the underlying operations of the business.

Based on the established process described above, the company's finance department compiles a list of proposed non-GAAP adjustments that is reviewed by a team consisting of the Executive Vice President and Chief Financial Officer (EVP/CFO); Senior Vice President (SVP) of Finance and Corporate Controller; Vice President of Tax; Vice President and Corporate Secretary; and Investor Relations and Strategy Officer. With the input of this group, the EVP/CFO and SVP of Finance and Corporate Controller approve the non-GAAP adjustments which are then presented to the Audit Committee on a quarterly basis as part of the company's earnings release and discussed as necessary.

These non-GAAP measures should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The company's definition of these non-GAAP measures may differ from similarly titled measures used by others.

The definitions of the most commonly used non-GAAP financial measures are presented below:

Adjusted Net Income

Adjusted net income represents net income (loss), prepared in accordance with GAAP, adjusted for certain items that management believes are not reflective of the operational performance of the business. Adjustments to GAAP amounts include the pre-tax impact from amortization and non-restructuring impairment charges; restructuring and related charges, net; inventory step-up expenses; discontinued operations; changes in fair value of contingent consideration obligations; acquisition-related expenses; significant legal and environmental charges; pension settlement charges; losses/gains on divestiture; tax effects of above adjustments as well as tax impacts from certain transactions, such as acquisitions or reorganizations; and other items identified by the company.

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share represent adjusted net income divided by the number of diluted shares. In periods where losses are incurred, potential ordinary shares outstanding are excluded from the calculation of diluted earnings per share, prepared in accordance with GAAP, as they would be anti-dilutive. These dilutive shares are included in the calculation of adjusted diluted earnings per share if dilutive to adjusted net income.

Adjusted Gross Profit

Adjusted gross profit represents gross profit, prepared in accordance with GAAP, adjusted for certain items that management believes are not reflective of the operational performance of the business. Adjustments to GAAP amounts include, as applicable, the pre-tax impact from restructuring and related charges, net; amortization and impairment charges; inventory step-up expenses and other items identified by the company.

Adjusted Selling, General and Administrative (SG&A)

Adjusted SG&A represents SG&A, prepared in accordance with GAAP, adjusted for certain items that management believes are not reflective of the operational performance of the business. Adjustments to GAAP amounts include, as applicable, the pre-tax impact from restructuring and related charges, net; amortization and impairment charges; acquisition-related expenses; changes in fair value of contingent consideration obligations; significant legal and environmental charges and other items identified by the company.

Adjusted Effective Tax Rate

The adjusted effective tax rate is calculated as the income tax effects on continuing and discontinued operations plus the income tax impacts included in the reconciliation to adjusted net income, divided by income from continuing and discontinued operations plus the pre-tax, non-income, tax-related adjustments included in the determination of adjusted net income (excluding dilutive share impact). The income tax adjustment included in the reconciliation of net income (loss) to adjusted net income primarily represents the tax impact of adjustments between net income (loss) and adjusted net income as well as tax impacts from certain transactions, such as acquisitions or reorganizations.

Net Debt
Net debt represents the total principal debt outstanding less unrestricted cash, each as prepared in accordance with GAAP.

Net Debt Leverage Ratio
The net debt leverage ratio is calculated as net debt divided by adjusted EBITDA for the trailing twelve month period. Adjusted EBITDA for purposes of the net debt leverage ratio represents net income (loss), prepared in accordance with GAAP, adjusted for interest expense, taxes, depreciation and amortization; certain items that management believes are not reflective of the operational performance of the business and additional adjustments as allowable under the company's credit facility. These adjustments include, but are not limited to, non-restructuring impairment charges; restructuring and related charges, net; inventory step-up expenses; discontinued operations; changes in fair value of contingent consideration obligations; acquisition-related expenses; losses/gains on divestiture; significant legal and environmental charges; historical EBITDA of companies acquired during the period; and other items identified by the company.

Net Sales Growth on a Constant-Currency Basis
Net sales growth on a constant-currency basis measures the change in net sales between current- and prior-year periods using a constant currency, the exchange rate in effect during the applicable prior-year period.

Pro Forma Net Sales
Pro forma net sales represents the net sales of acquired products or businesses as if the product or business had been owned by the company for the entire current year or prior year period presented.

Free Cash Flow
Free cash flow represents net cash provided by or used in operating activities less capital expenditures, each as prepared in accordance with GAAP.

Because adjusted financial measures exclude the effect of items that will increase or decrease the company's reported results of operations, management strongly encourages investors to review the company's consolidated financial statements and publicly filed reports in their entirety. A reconciliation of these historical adjusted financial measures to the most directly comparable GAAP financial measures is included in the tables accompanying the company's quarterly earnings releases, with the exception of the Net Debt Leverage Ratio, which is published on the company's website.