November 29, 2016

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 in accordance with GAAP, to evaluate the company's operating performance. In addition, the company believes that they 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;

- Loss (income) 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 represents the change in 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; and

- Income taxes include the current and deferred tax effects associated with the aforementioned pre-tax adjustments and other deferred tax benefits recognized upon pay down of intercompany installment notes created by internal sales of acquired intangible assets. Consistent with the removal of deferred tax benefits recognized on amortization of acquired intangibles, management does not believe that this favorable item is indicative of the company's core operating performance.

In addition to these items, the company has developed a recurring quarterly process to identify 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 adjustment should result in adjustment to GAAP financial results and therefore be included in a non-GAAP measure. An example of the type of items identified through this process includes:

- 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)

The initial identification and review of the non-GAAP adjustments is performed by a team consisting of finance, tax, legal and investor relations, including the Corporate Controller, Vice President of Tax, Vice President and Corporate Secretary, and Vice President of Investor Relations. This team presents the proposed adjustments, along with any items considered but excluded, to the Chief Financial Officer for his consideration. In turn, the non-GAAP adjustments are 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, 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 restructuring and related charges, net; amortization and impairment charges; discontinued operations; acquisition-related expenses; changes in fair value of contingent consideration obligations; inventory step-up expenses; significant legal and environmental charges; tax effects of above adjustments as well as the elimination of deferred tax benefits associated with internal installment sales transactions (which reduces adjusted net income) 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.

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; discontinued operations; acquisition-related expenses; inventory step-up expenses; significant legal and environmental charges 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; discontinued operations; acquisition-related expenses; changes in fair value of contingent consideration obligations; inventory step-up expenses; 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 net income, divided by income from continuing and discontinued operations plus the pre-tax impacts in the determination of adjusted net income (excluding dilutive share impact). The income tax adjustment included in the reconciliation of net income to adjusted net income includes the current and deferred tax impact of pre-tax adjustments between net income and adjusted net income as well as the elimination of deferred tax benefits associated with internal installment sale transactions.

Net Debt Leverage Ratio

The net debt leverage ratio is calculated as net debt (total principal debt outstanding less unrestricted cash) divided by adjusted EBITDA for the trailing twelve month period. Adjusted EBITDA represents net income, prepared in accordance with GAAP, adjusted for interest, taxes, depreciation and amortization and certain items that management believes are not reflective of the operational performance of the business. These adjustments include, but are not limited to, restructuring and related charges, net; discontinued operations; acquisition-related expenses; changes in fair value of contingent consideration obligations; inventory step-up expenses; 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 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 its quarterly earnings releases or published on the company’s website (for Net Debt Leverage Ratio).