



# Q3 FY20

CARDINAL HEALTH, INC.  
EARNINGS CALL

MAY 11, 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 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 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 of product shortages or supply disruptions from either new international regulations or forced shut downs of distribution or manufacturing facilities; risks associated with the recent recalls of our surgical gowns and affected Presource Packs, including the possibility of government investigations or actions by regulators which could result suspension of our ability to produce, distribute or sell products and civil or criminal sanction; 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 presentation reflects management's views as of May 11, 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).

# Q3 results

# Q3 FY20 financial summary

	GAAP Basis (\$M) Q3 FY20	Non-GAAP Basis (\$M) Q3 FY20
<b>Revenue</b> <i>% change</i>	<b>\$39,157</b> 11%	N/A
<b>Gross Margin</b> <i>% change</i>	<b>\$1,885</b> 7%	<b>\$1,884</b> 7%
<b>SG&amp;A</b> <i>% change</i>	<b>\$1,165</b> 6%	<b>\$1,165</b> 6%
<b>Operating Earnings</b> <i>% change</i>	<b>\$562</b> 30%	<b>\$719</b> 8%
<b>Interest &amp; Other <sup>1</sup></b> <i>% change</i>	<b>\$79</b> 28%	N/A
<b>Net Earnings <sup>2</sup></b> <i>% change</i>	<b>\$350</b> 18%	<b>\$474</b> 0%
<b>Diluted EPS <sup>2</sup></b> <i>% change</i>	<b>\$1.19</b> 20%	<b>\$1.62</b> 2%

<sup>1</sup> The sum of other (income)/expense, net and interest expense, net.

<sup>2</sup> Attributable to Cardinal Health, Inc.

Please see appendix for GAAP to Non-GAAP reconciliations.

# Q3 FY20 Pharmaceutical segment results

	Q3 FY20 (\$M)	Q3 FY19 (\$M)	YoY change
Revenue	\$35,112	\$31,361	12%
Segment profit	\$534	\$536	0%
Segment profit margin	1.52%	1.71%	-19 bps

## Drivers:

### Revenue

- + Pharmaceutical Distribution<sup>1</sup>
- + Specialty Solutions

### Segment profit

- + Generics program
- Pharmaceutical Distribution customer contract renewals

<sup>1</sup>Included an acceleration in overall pharmaceutical sales in March, which the company believes was due to the COVID-19 pandemic

# Q3 FY20 Medical segment results

	Q3 FY20 (\$M)	Q3 FY19 (\$M)	YoY change
Revenue	\$4,051	\$3,871	5%
Segment profit	\$178	\$155	15%
Segment profit margin	4.39%	4.01%	38 bps

## Drivers:

### Revenue

- + Products and distribution
- + Cardinal Health at Home

### Segment profit

- + Products and distribution, including benefits from global manufacturing and cost savings initiatives

# FY20 outlook

# FY20 financial expectations

	FY20 outlook	FY19 actual
Non-GAAP EPS	\$5.20 - \$5.40	\$5.28
Interest and other	\$260M - \$280M	\$309M
Non-GAAP ETR	24.0% - 26.0%	22.1%
Diluted weighted average shares outstanding	293M - 296M	301M
Incremental cost savings	>\$130M	\$133M
Capital expenditures	\$320M - \$360M	\$328M

*There have been no updates to the FY20 financial expectations provided on February 6, 2020*



# FY20 segment outlook

Segment	Revenue	Profit
Pharmaceutical	Mid-single digit percentage growth	<b>Mid-single digit percentage decline</b> <i>Previously low-single digit percentage decline</i>
Medical	Low-single digit percentage growth	Low-double digit percentage growth

***Bold** indicates updates to the FY20 segment outlook provided on February 6, 2020*



# Q3 FY20

GAAP TO NON-GAAP RECONCILIATION  
STATEMENTS AND SUPPLEMENTAL  
FINANCIAL INFORMATION

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	Operating Earnings Growth Rate	Earnings/Before Taxes	Provision for Income Taxes	Net Earnings <sup>3</sup>	Net Earnings <sup>3</sup> Growth Rate	Effective Tax Rate	Diluted EPS <sup>3</sup>	Diluted EPS <sup>3</sup> Growth Rate
Third Quarter 2020													
<b>GAAP</b>	\$ 1,885	7 %	\$ 1,165	6 %	\$ 562	30 %	\$ 478	\$ 127	\$ 350	18 %	26.8 %	\$ 1.19	20 %
Sterile surgical gown recall costs	(1)		-		(1)		(1)	-	(1)			-	
Restructuring and employee severance	-		-		(6)		(6)	(3)	(3)			(0.01)	
Amortization and other acquisition-related costs	-		-		130		130	31	99			0.34	
Impairments and (gain)/loss on disposal of assets	-		-		(1)		(1)	(1)	-			-	
Litigation (recoveries)/charges, net	-		-		35		35	8	27			0.09	
Loss on extinguishment of debt	-		-		-		5	1	4			0.01	
Transitional tax benefit, net	-		-		-		-	1	(1)			-	
<b>Non-GAAP</b>	\$ 1,884	7 %	\$ 1,165	6 %	\$ 719	8 %	\$ 639	\$ 164	\$ 474	- %	25.7 %	\$ 1.62	2 %
Third Quarter 2019													
<b>GAAP</b>	\$ 1,764	(8)%	\$ 1,097	(3)%	\$ 432	(21)%	\$ 370	\$ 74	\$ 296	16 %	20.0 %	\$ 0.99	22 %
Restructuring and employee severance	-		-		53		53	14	39			0.13	
Amortization and other acquisition-related costs	-		-		154		154	38	116			0.39	
Impairments and (gain)/loss on disposal of assets	-		-		11		11	4	7			0.03	
Litigation (recoveries)/charges, net	-		-		17		17	7	10			0.03	
Transitional tax benefit, net	-		-		-		-	(5)	5			0.02	
<b>Non-GAAP</b>	\$ 1,764	(8)%	\$ 1,097	(3)%	\$ 667	(15)%	\$ 605	\$ 130	\$ 475	9 %	21.6 %	\$ 1.59	14 %

<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 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 Reconciliation<sup>1</sup>**

	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Provision for/ (Benefit From) Income Taxes	Net Earnings <sup>2</sup>	Net Earnings <sup>2</sup> Growth Rate	Effective Tax Rate	Diluted EPS <sup>2</sup>	Diluted EPS <sup>2</sup> Growth Rate					
(in millions, except per common share amounts)														
Fiscal Year 2019														
<b>GAAP</b>	\$	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		(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>	\$	2,353	(9)%	\$	2,044	\$	453	\$	1,589	1 %	22.1 %	\$	5.28	6 %

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

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Segment Information

Third Quarter

<u>(in millions)</u>	2020		2019		<u>(in millions)</u>	2020		2019	
<b>Pharmaceutical</b>					<b>Medical</b>				
<b>Revenue</b>					<b>Revenue</b>				
Amount	\$	35,112	\$	31,361	Amount	\$	4,051	\$	3,871
Growth rate		12 %		6 %	Growth rate		5 %		(1)%
<b>Segment profit</b>					<b>Segment profit</b>				
Amount	\$	534	\$	536	Amount	\$	178	\$	155
Growth rate		- %		(10)%	Growth rate		15 %		(22)%
Segment profit margin		1.52 %		1.71 %	Segment profit margin		4.39 %		4.01 %

Year-to-Date

<u>(in millions)</u>	2020		2019		<u>(in millions)</u>	2020		2019	
<b>Pharmaceutical</b>					<b>Medical</b>				
<b>Revenue</b>					<b>Revenue</b>				
Amount	\$	104,254	\$	96,516	Amount	\$	11,991	\$	11,678
Growth rate		8 %		7 %	Growth rate		3 %		- %
<b>Segment profit</b>					<b>Segment profit</b>				
Amount	\$	1,394	\$	1,388	Amount <sup>1</sup>	\$	543	\$	479
Growth rate		- %		(12)%	Growth rate		13 %		(13)%
Segment profit margin		1.34 %		1.44 %	Segment profit margin		4.53 %		4.10 %

<sup>1</sup>Medical segment profit for the nine months ended March 31, 2020 does not include the \$95 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**

### **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 \$19.25, which includes a \$17.53 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 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 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 before income taxes adjusted for the first eight items).

**Non-GAAP net earnings attributable to Cardinal Health, Inc.:** net earnings 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 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 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> 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.

