

Q3 FY18

Cardinal Health, Inc. Earnings Investor/Analyst call
May 3, 2018



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 expense accruals. 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 pharmaceutical price appreciation or deflation and the timing of and benefit from generic pharmaceutical introductions; the ability to maintain the benefits from the generic sourcing venture with CVS Health; risks associated with our ability to improve the performance of our Cordis business; risks associated with the acquisition of the Patient Recovery Business, including the ability to successfully integrate the acquired businesses into our operations and the ability to achieve the expected synergies as well as accretion in earnings; the risk of non-renewal or a default under one or more key customer or supplier arrangements or changes to the pricing or other terms of, or level of purchases under those arrangements; uncertainties due to government health care reform including proposals to modify or repeal the Affordable Care Act; uncertainties with respect to the recently enacted Tax Cuts and Jobs Act; changes in the distribution patterns or reimbursement rates for health care products and services; risks associated with the distribution of opioids, including ongoing investigations and lawsuits by certain governmental and regulatory authorities, the potential financial impact of enacted and proposed taxes or other assessments on the sale of opioids, and potential reputational or operational harm; and changes in foreign currency rates and the cost of commodities such as oil based resins, cotton, latex and diesel fuel. 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 3, 2018. 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 of 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

Q3 FY18 results



Q3 FY18 financial summary

GAAP Basis (\$M)

	Q3 FY18	Q3 FY17
Revenue	\$33,633	\$31,821
<i>% change</i>	6% increase YoY	4% increase YoY
Operating Earnings	\$546	\$605
<i>% change</i>	10% decrease YoY	8% decrease YoY
<i>Ratio to revenue</i>	1.62%	1.90%
Net Earnings¹	\$255	\$381
<i>% change</i>	33% decrease YoY	1% decrease YoY
<i>Ratio to revenue</i>	0.76%	1.20%
Diluted EPS¹	\$0.81	\$1.20
<i>% change</i>	33% decrease YoY	3% increase YoY

Non-GAAP Basis (\$M)

	Q3 FY18	Q3 FY17
	N/A	N/A
	\$781	\$759
<i>% change</i>	3% increase YoY	4% decrease YoY
<i>Ratio to revenue</i>	2.32%	2.39%
	\$437	\$485
<i>% change</i>	10% decrease YoY	3% increase YoY
<i>Ratio to revenue</i>	1.30%	1.52%
	\$1.39	\$1.53
<i>% change</i>	9% decrease YoY	7% increase YoY

¹Attributable to Cardinal Health, Inc.

Please see appendix for GAAP to Non-GAAP reconciliations.

Q3 FY18 Pharmaceutical segment business analysis

	Q3 FY18 (\$M)	Q3 FY17 (\$M)	YoY Change
Revenue	\$29,720	\$28,406	5%
Segment Profit	\$596	\$611	(3)%
Segment Profit Margin	2.00%	2.15%	-15 bps

Highlights:

- **Revenue** increase due to sales growth from pharmaceutical and specialty distribution customers. This was partially offset by the previously announced expiration of a large, mail-order customer contract and the divestiture of the company's China distribution business.
- **Segment profit** decrease which reflects a modest negative impact from the company's generic program performance.

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

Q3 FY18 Medical segment business analysis

	Q3 FY18 (\$M)	Q3 FY17 (\$M)	YoY Change
Revenue	\$3,916	\$3,418	15%
Segment Profit	\$199	\$148	34%
Segment Profit Margin	5.09%	4.34%	+75 bps

Highlights:

- **Revenue** increase was driven primarily by the acquisition of the Patient Recovery business.
- **Segment profit** increase primarily driven by contributions from acquisitions. This was partially offset by performance in Cordis and, to a lesser extent, other Cardinal Health Branded products.

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

Q3 FY18 GAAP to non-GAAP adjustments¹

	Q3 FY18			
	Gross Margin (\$M)	Operating Earnings (\$M)	Net Earnings ² (\$M)	Diluted EPS ²
GAAP	\$1,913	\$546	\$255	\$0.81
LIFO charges/(credits)	-	-	-	-
Restructuring and employee severance	-	2	19	0.06
Amortization and other acquisition-related costs	-	175	131	0.42
Impairments and (gain)/loss on disposal of assets	-	(6)	8	0.02
Litigation (recoveries)/charges, net	-	64	43	0.14
Transitional tax benefit ³	-	-	(17)	(0.06)
Non-GAAP	\$1,913	\$781	\$437	\$1.39

Amortization of acquisition-related intangible assets ⁴	-	\$149	\$110	\$0.35
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	Q3 FY17			
	Gross Margin (\$M)	Operating Earnings (\$M)	Net Earnings ² (\$M)	Diluted EPS ²
GAAP	\$1,728	\$605	\$381	\$1.20
LIFO charges/(credits)	(9)	(9)	(5)	(0.02)
Restructuring and employee severance	-	15	9	0.03
Amortization and other acquisition-related costs	-	128	87	0.27
Impairments and (gain)/loss on disposal of assets	-	2	2	0.01
Litigation (recoveries)/charges, net	-	18	11	0.03
Transitional tax benefit ³	-	-	-	-
Non-GAAP	\$1,719	\$759	\$485	\$1.53

Amortization of acquisition-related intangible assets ⁴	-	\$96	\$67	\$0.21
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¹Please see appendix for GAAP to Non-GAAP reconciliations.

²Attributable to Cardinal Health, Inc.

³Reflects the estimated net transitional benefit from the re-measurement of our deferred tax assets and liabilities partially offset by the repatriation tax on cash and earnings of foreign subsidiaries. We have not yet completed our analysis of the impact of the Tax Act and, as such, these amounts are provisional estimates and we may record additional provisional amounts or adjustments to the provisional amounts in future periods.

⁴Amortization of acquisition-related intangible assets is included in Amortization and other acquisition-related costs.

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

FY18 Outlook

The company presents its outlook for fiscal 2018 non-GAAP EPS and non-GAAP effective tax rate on the following pages. The company does not provide a GAAP EPS or GAAP effective tax rate outlook because it is unable to reliably forecast many of the items that the company excludes from GAAP EPS and effective tax rate to calculate them. See “Forward-Looking non-GAAP Measures” following the attached schedules for additional information.



FY18 financial expectations

	FY18 Outlook	FY17 Actual
Revenue	Mid-single digit percentage growth vs. PY	\$130.0B
Non-GAAP EPS	\$4.85 to \$4.95	\$5.40

Red font indicates a change since 2/8/18.

FY18 corporate assumptions

	FY18 Outlook	FY17 Actual
Non-GAAP effective tax rate	32% - 34% ¹	32.6% ³
Diluted weighted average Shares outstanding	315M - 316M	320M
Interest and other, net	\$330M - \$350M	\$197M
Capital expenditures	\$400M - \$430M	\$387M
Acquisition-related intangible amortization ²	\$575M	\$392M

¹May fluctuate quarterly due to unique items affecting periods.

²Includes only acquisitions/divestitures closed as of March 31, 2018.

³FY2017 GAAP ETR 32.7%, Please see appendix for GAAP to Non-GAAP reconciliations.

Red font indicates a change since February 8, 2018

Pharmaceutical segment FY18(E)

- Low- to mid-single digit percentage increase in revenue versus prior year
- **Full-year segment profit down high-single to low-double digits versus prior year**

Key assumptions

- **Generic drug price assumption of mid-to-high single digit deflation for full fiscal year**
- Brand drug manufacturer price assumption of 7% to 8% inflation for full fiscal year
- Incremental expense increase related to investment in information systems to support growth
- Incremental contribution from new generic launches, but Y-o-Y benefit significantly less
- **Better than expected incremental contribution from Red Oak Sourcing, essentially flat Y-o-Y**
- Double-digit revenue and profit growth from our Specialty business
- Reduced contribution (\$0.05 per share) from early closing of the China distribution business divestiture¹

¹Closed February 1, 2018. Cardinal Health China reports in both segments, but primarily contributes to the Pharmaceutical segment.
Red font indicates a change since February 8, 2018

Medical segment FY18(E)

- **High-teens percentage increase in revenue versus prior year**
- **Strong double-digit segment profit growth versus prior year**

Key assumptions

- Patient Recovery business acquisition completed in July 2017, accretive to FY18; integrated into Cardinal Health Branded products upon closing
- **Excluding Patient Recovery, Medical segment profit down high teens, driven primarily by Cordis**
- **Second-half segment profit margin rate will not reach 6% primarily due to Cordis performance**
- Significantly reduced portion of a Veterans Affairs contract, the full effect of which began in Q4FY17
- No reinstatement of a medical device tax

Red font indicates a change since February 8, 2018

Q3 FY18 trailing five quarters,
GAAP to Non-GAAP reconciliation statements
and supplemental financial information



Q3 FY18 segment analysis

Pharmaceutical segment

	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18
Revenue (\$M)	28,406	29,552	28,920	31,146	29,720
Segment Profit (\$M)	611	505	467	514	596

Medical segment

	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18
Revenue (\$M)	3,418	3,416	3,724	4,044	3,916
Segment Profit (\$M)	148	138	129	220	199

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

	Gross Margin	Gross Margin Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Income Taxes	Net Earnings ²	Net Earnings ² Growth Rate	Effective Tax Rate	Diluted EPS ²	Diluted EPS ² Growth Rate						
Third Quarter 2018																	
(in millions, except per common share amounts)																	
GAAP	\$	1,913	11 %	\$	546	(10)%	\$	464	\$	209	\$	255	(33)%	45.1 %	\$	0.81	(33)%
Restructuring and employee severance		-			2			2		(17)		19				0.06	
Amortization and other acquisition-related costs		-			175			175		44		131				0.42	
Impairments and (gain)/loss on disposal of assets, net		-			(6)			(6)		(14)		8				0.02	
Litigation (recoveries)/charges, net		-			64			64		21		43				0.14	
Transitional tax benefit, net ³		-			-			-		17		(17)				(0.06)	
Non-GAAP	\$	1,913	11 %	\$	781	3 %	\$	700	\$	262	\$	437	(10)%	37.5 %	\$	1.39^{4,5}	(9)%
Third Quarter 2017																	
GAAP	\$	1,728	2 %	\$	605	(8)%	\$	564	\$	182	\$	381	(1)%	32.3 %	\$	1.20	3 %
LIFO charges/(credits)		(9)			(9)			(9)		(4)		(5)				(0.02)	
Restructuring and employee severance		-			15			15		6		9				0.03	
Amortization and other acquisition-related costs		-			128			128		41		87				0.27	
Impairments and (gain)/loss on disposal of assets, net		-			2			2		-		2				0.01	
Litigation (recoveries)/charges, net		-			18			18		7		11				0.03	
Non-GAAP	\$	1,719	1 %	\$	759	(4)%	\$	718	\$	232	\$	485	3 %	32.3 %	\$	1.53	7 %

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

²attributable to Cardinal Health, Inc.

³Reflects the estimated net transitional benefit from the re-measurement of our deferred tax assets and liabilities partially offset by the repatriation tax on cash and earnings of foreign subsidiaries. We have not yet completed our analysis of the impact of the Tax Act and, as such, these amounts are provisional estimates and we may record additional provisional amounts or adjustments to the provisional amounts in future periods.

⁴Non-GAAP EPS for the three and nine months ended March 31, 2018 includes a \$0.13 and \$0.33 benefit from applying a lower federal tax rate to our year-to-date U.S. pre-tax non-GAAP earnings. Excluding this benefit, non-GAAP EPS would have been \$1.26 and \$3.66 for the three and nine months ended March 31, 2018, respectively.

⁵Non-GAAP EPS for the three months ended March 31, 2018 includes a \$0.13 negative impact on provision for income taxes from the reduction in Cordis projected income and jurisdictional mix. Excluding this provision, non-GAAP EPS would have been \$1.52 for the three months ended March 31, 2018.

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

	Gross Margin	Gross Growth Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Income Taxes	Net Earnings ²	Net Earnings ² Growth Rate	Effective Tax Rate	Diluted EPS ²	Diluted EPS ² Growth Rate
Year-to-Date 2018											
GAAP	\$ 5,446	11 %	\$ 1,206	(28)%	\$ 959	\$ (466)	\$ 1,422	40 %	(48.6)%	\$ 4.50	42 %
LIFO charges(credits)	-		-		-	-	-			-	
Restructuring and employee severance	-		155		155	29	126			0.40	
Amortization and other acquisition-related costs	-		543		543	143	400			1.27	
Impairments and (gain)/loss on disposal of assets, net	-		62		62	(57)	119			0.38	
Litigation (recoveries)/charges, net	-		155		155	51	104			0.33	
Loss on extinguishment of debt	-		-		2	1	1			-	
Transitional tax benefit, net ³	-		-		-	911	(911)			(2.88)	
Non-GAAP	\$ 5,446	11 %	\$ 2,121	(0)%	\$ 1,875	\$ 612	\$ 1,261	(4)%	32.6 %	\$ 3.99 ⁴	(3)%
Year-to-Date 2017											
GAAP	\$ 4,921	1 %	\$ 1,681	(9)%	\$ 1,549	\$ 533	\$ 1,014	(7)%	34.4 %	\$ 3.17	(4)%
LIFO charges(credits)	-		-		-	-	-			-	
Restructuring and employee severance	-		31		31	12	19			0.06	
Amortization and other acquisition-related costs	-		365		365	120	245			0.76	
Impairments and (gain)/loss on disposal of assets, net	-		15		15	4	11			0.03	
Litigation (recoveries)/charges, net	-		37		37	14	23			0.07	
Non-GAAP	\$ 4,921	(0)%	\$ 2,129	(5)%	\$ 1,997	\$ 684	\$ 1,311	(4)%	34.2 %	\$ 4.10	0 %

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

²attributable to Cardinal Health, Inc.

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⁵Non-GAAP EPS for the three months ended March 31, 2018 includes a \$0.13 negative impact on provision for income taxes from the reduction in Cordis projected income and jurisdictional mix. Excluding this provision, non-GAAP EPS would have been \$1.52 for the three months ended March 31, 2018.

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
Segment Information

(in millions)	Third Quarter		(in millions)	Third Quarter	
	2018	2017		2018	2017
Pharmaceutical			Medical		
Revenue			Revenue		
Amount	\$ 29,720	\$ 28,406	Amount	\$ 3,916	\$ 3,418
Growth rate	5 %	3 %	Growth rate	15 %	9 %
Segment profit			Segment profit		
Amount	\$ 596	\$ 611	Amount	\$ 199	\$ 148
Growth rate	(3)%	(7)%	Growth rate	34 %	16 %
Segment profit margin	2.00 %	2.15 %	Segment profit margin	5.09 %	4.34 %

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

(in millions)	Third Quarter		Year-to-Date		Fiscal Year
	2018	2017	2018	2017	2017
GAAP effective tax rate	45.1 %	32.3 %	(48.6)%	34.4 %	32.7 %
Non-GAAP effective tax rate					
Earnings before income taxes	\$ 464	\$ 564	\$ 959	\$ 1,549	\$ 1,924
LIFO charges/(credits)	-	(9)	-	-	-
Restructuring and employee severance	2	15	155	31	56
Amortization and other acquisition-related costs	175	128	543	365	527
Impairments and loss on disposal of assets	(6)	2	62	15	18
Litigation (recoveries)/charges, net	64	18	155	37	48
Transitional tax benefit, net	-	-	-	-	-
Adjusted earnings before income taxes	\$ 700	\$ 718	\$ 1,875	\$ 1,997	\$ 2,572
Provision for income taxes	\$ 209	\$ 182	\$ (466)	\$ 533	\$ 630
LIFO charges/(credits) tax benefit/(expense)	-	(4)	-	-	-
Restructuring and employee severance tax benefit/(expense)	(17)	6	29	12	20
Amortization and other acquisition-related costs tax benefit/(expense)	44	41	143	120	165
Impairments and loss on disposal of assets tax benefit/(expense)	(14)	-	(57)	4	6
Litigation (recoveries)/charges, net tax benefit/(expense)	21	7	51	14	19
Transitional tax benefit, net	17	-	911	-	-
Adjusted provision for income taxes	\$ 262	\$ 232	\$ 612	\$ 684	\$ 839
Non-GAAP effective tax rate	37.5 %	32.3 %	32.6 %	34.2 %	32.6 %

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

	Gross Margin	Gross Margin Growth Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Provision for Income Taxes	Net Earnings ²	Net Earnings ² Growth Rate	Diluted EPS ^{2,3,4}	Diluted EPS ² Growth Rate							
<u>(in millions, except per common share amounts)</u>	Fiscal Year 2017																
GAAP	\$	6,544	-	%	\$	2,120	(14)%	\$	1,924	\$	630	\$	1,288	(10)%	\$	4.03	(7)%
Restructuring and employee severance		-				56			56		20		36			0.11	
Amortization and other acquisition-related costs		-				527			527		165		362			1.13	
Impairments and (gain)/loss on disposal of assets		-				18			18		6		12			0.04	
Litigation (recoveries)/charges, net		-				48			48		19		29			0.09	
Non-GAAP	\$	6,544	-	%	\$	2,769	(4)%	\$	2,572	\$	839	\$	1,727	(0)%	\$	5.40	3%

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

² attributable to Cardinal Health, Inc.

³ GAAP diluted EPS for the three months ended June 30, 2017 compared to the prior year period was favorably impacted by \$0.21, which includes \$0.19 due to change in the effective tax rate and \$0.02 due to the change in weighted average shares outstanding. GAAP diluted EPS for the twelve months ended June 30, 2017 compared to the prior year period was favorably impacted by \$0.39, which includes \$0.26 due to change in the effective tax rate and \$0.13 due to the change in weighted average shares outstanding. The change in GAAP diluted EPS due to the effective tax rate is calculated as ((GAAP Earnings before Income Taxes for the current period times (one minus the current period GAAP Effective Tax Rate)) minus (GAAP Earnings before Income Taxes for the prior period times (one minus the prior period GAAP Effective Tax Rate))) divided by the current period weighted average shares outstanding. The change in GAAP diluted EPS due to the weighted average shares outstanding is calculated as (GAAP Net Earnings for the current period divided by the current period weighted average shares outstanding) minus (GAAP Net Earnings for the prior period divided by the prior period weighted average shares outstanding).

⁴ Non-GAAP diluted EPS for the three months ended June 30, 2017 compared to the prior year period was favorably impacted by \$0.22, which includes \$0.19 due to change in the effective tax rate and \$0.03 due to the change in weighted average shares outstanding. Non-GAAP diluted EPS for the twelve months ended June 30, 2017 compared to the prior year period was favorably impacted by \$0.44, which includes \$0.27 due to change in the effective tax rate and \$0.17 due to the change in weighted average shares outstanding. The change in Non-GAAP diluted EPS due to the effective tax rate is calculated as ((Non-GAAP Earnings before Income Taxes for the current period times (one minus the current period Non-GAAP Effective Tax Rate)) minus (Non-GAAP Earnings before Income Tax for the prior period times (one minus the prior period Non-GAAP Effective Tax Rate))) divided by the current period weighted average shares outstanding. The change in Non-GAAP diluted EPS due to the weighted average shares outstanding is calculated as (Non-GAAP Net Earnings for the current period divided by the current period weighted average shares outstanding) minus (Non-GAAP Net Earnings for the prior period divided by the prior period weighted average shares outstanding).

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

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

There were no losses on extinguishment of debt during the periods presented.

Cardinal Health, Inc. and Subsidiaries

Forward Looking non-GAAP Measures

In this presentation, the Company presents its outlook for fiscal 2018 non-GAAP EPS and non-GAAP Effective Tax Rate (ETR). The Company does not provide EPS or ETR outlook, which are the most directly comparable GAAP measures to non-GAAP EPS and non-GAAP ETR, respectively, because changes in the items that the Company excludes from GAAP EPS and GAAP ETR to calculate these measures 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, due to their unpredictability, management does not forecast many of the excluded items for internal use and therefore cannot create or rely on EPS or ETR outlook numbers.

The timing and amount of any of the excluded items could significantly impact the Company's fiscal 2018 EPS. Over the past five fiscal years, the excluded items have lowered the Company's EPS from \$0.47 to \$2.76, which includes a goodwill impairment charge of \$2.32 per share related to our Nuclear Pharmacy Services division that we recognized in fiscal 2013. For the nine months ending March 31, 2018, the excluded items have increased the Company's EPS by \$0.51, which includes a \$2.88 net transitional tax benefit related to the Tax Cuts and Jobs Act.

Cardinal Health, Inc. and Subsidiaries

Definitions

Debt: long-term obligations plus short-term borrowings.

Debt to Total Capital: debt divided by (debt plus total Cardinal Health, Inc. shareholders' equity).

Interest and Other, net: other (income)/expense, net plus interest expense, net.

Net Debt: a Non-GAAP measure defined as debt minus (cash and equivalents).

Net Debt to Capital: a Non-GAAP measure defined as net debt divided by (net debt plus total Cardinal Health, Inc. shareholders' equity).

Non-GAAP Diluted EPS attributable to Cardinal Health, Inc. or "Non-GAAP Diluted EPS" or "Non-GAAP Diluted Earnings Per Share": non-GAAP net earnings attributable to Cardinal Health, Inc. divided by diluted weighted-average shares outstanding.

Non-GAAP Diluted EPS from continuing operations: non-GAAP earnings from continuing operations divided by diluted weighted-average shares outstanding.

Non-GAAP Effective Tax Rate: (provision for income taxes adjusted for (1) LIFO charges/(credits)¹, (2) restructuring and employee severance², (3) amortization and other acquisition-related costs³, (4) impairments and (gain)/loss on disposal of assets⁴, (5) litigation (recoveries)/charges, net⁵, and (6) loss on extinguishment of debt⁶ and (7) transitional tax benefit⁷) divided by (earnings before income taxes adjusted for the first six items).

Non-GAAP Gross Margin: Gross margin excluding LIFO charges/(credits).

¹The inventories of the Company's core pharmaceutical distribution facilities in the Pharmaceutical segment are valued at the lower of cost, using the LIFO method, or market. These charges or credits are included in cost of products sold, and represent changes in the Company's LIFO inventory reserve.

²Programs by which the Company fundamentally changes its operations such as closing and consolidating facilities, moving manufacturing of a product to another location, production or business process sourcing, employee severance (including rationalizing headcount or other significant changes in personnel), and realigning operations (including realignment of the management structure of a business unit in response to changing market conditions).

³Costs that consist primarily of amortization of acquisition-related intangible assets, transaction costs, integration costs, and changes in the fair value of contingent consideration obligations.

⁴Asset impairments and (gains)/losses from the disposal of assets not eligible to be classified as discontinued operations are classified within impairments and (gain)/loss on disposal of assets within the condensed consolidated statements of earnings.

⁵Loss contingencies related to litigation and regulatory matters and income from favorable resolution of legal matters.

⁶Charges related to the make-whole premium on the redemption of notes.

⁷Estimate 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.

Cardinal Health, Inc. and Subsidiaries

Definitions

Non-GAAP Net Earnings attributable to Cardinal Health, Inc. or "Non-GAAP Net Earnings": net earnings attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net, and (6) loss on extinguishment of debt, and (7) transitional tax benefit, each net of tax.

Non-GAAP Operating Earnings: operating earnings excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net.

Non-GAAP Return on Equity: (annualized current period net earnings attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net, and (6) loss on extinguishment of debt, and (7) transitional tax benefit, each net of tax) divided by average Cardinal Health, Inc. shareholders' equity.

Return on Equity: annualized current period net earnings attributable to Cardinal Health, Inc. divided by average Cardinal Health, Inc. shareholders' equity.

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.