



Q3 FY19

CARDINAL HEALTH, INC.
EARNINGS CALL

MAY 9, 2019

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; our ability to manage uncertainties associated with the pricing of branded pharmaceuticals, including decreased branded inflation and possible branded price reductions; risks associated with our ability to improve the performance of our Cordis business; risks associated with the integration of the Patient Recovery business, including the ability to successfully operate the acquired businesses, retain customers of the acquired businesses, and achieve the expected synergies and accretion in earnings; the risk of non-renewal 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 federal health care reform proposals; changes in the distribution patterns, reimbursement rates, pricing or rebates for health care products and services; risks associated with the distribution of opioids, including the cost and risk of ongoing investigations and lawsuits by certain governmental and regulatory authorities as well as private plaintiffs, the potential financial impact of 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 9, 2019. 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.

Q3 results

Q3 FY19 financial summary

	GAAP Basis (\$M) Q3 FY19	Non-GAAP Basis (\$M) Q3 FY19
Revenue <i>% change</i>	\$35,228 5%	N/A
Gross Margin <i>% change</i>	\$1,764 (8)%	N/A
SG&A <i>% change</i>	\$1,097 (3)%	N/A
Operating Earnings <i>% change</i>	\$432 (21)%	\$667 (15)%
Interest & Other¹ <i>% change</i>	\$62 (24)%	N/A
Net Earnings² <i>% change</i>	\$296 16%	\$475 9%
Diluted EPS² <i>% change</i>	\$0.99 22%	\$1.59 14%

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

² Attributable to Cardinal Health, Inc.

Please see appendix for GAAP to Non-GAAP reconciliations.

Q3 FY19 pharmaceutical segment results

	Q3 FY19 (\$M)	Q3 FY18 (\$M)	YoY change
Revenue	\$31,361	\$29,720	6%
Segment profit	\$536	\$596	(10)%
Segment profit margin	1.71%	2.00%	-29 bps

Drivers:

Revenue

- + Pharmaceutical Distribution and Specialty Solutions customers

Segment profit

- Impact from the company's generics program performance
- + Specialty Solutions performance

Q3 FY19 medical segment results

	Q3 FY19 (\$M)	Q3 FY18 (\$M)	YoY change
Revenue	\$3,871	\$3,916	(1)%
Segment profit	\$155	\$199	(22)%
Segment profit margin	4.01%	5.09%	-108 bps

Drivers:

Revenue

- Divestitures of the China distribution and naviHealth businesses
- + Existing customers

Segment profit

- Cardinal Health Brand products performance

FY19 outlook

FY19 segment outlook

Segment	Revenue	Profit
Pharmaceutical	Mid to high-single digit percentage growth	High-single to low-double digit percentage decline
Medical	Approximately flat	Low to mid-single digit percentage decline

Bold indicates updates to the FY19 financial guidance provided on February 7, 2019

FY19 financial expectations

	FY19 outlook	FY18 actual
Revenue	Mid-single digit percentage growth	\$136.8B
Non-GAAP EPS	\$5.02 to \$5.17	\$5.00
Non-GAAP ETR	23.5% - 25.5%	29.3%
Diluted weighted average shares outstanding	300M – 302M	315M
Interest and other	\$330M - \$350M	\$352M
Capital expenditures	\$310M - \$340M	\$384M

Bold indicates updates to the FY19 financial guidance provided on February 7, 2019



Q3 FY19 trailing five quarters

GAAP TO NON-GAAP RECONCILIATION
STATEMENTS AND SUPPLEMENTAL
FINANCIAL INFORMATION

Q3 FY19 trailing five quarters segment analysis

Pharmaceutical segment

	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
Revenue (\$M)	29,720	31,455	31,416	33,740	31,361
Segment Profit (\$M)	596	416	409	443	536

Medical segment

	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
Revenue (\$M)	3,916	3,898	3,801	4,006	3,871
Segment Profit (\$M)	199	114	135	188	155

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

	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Provision for Income Taxes	Net Earnings ²	Net Earnings ² Growth Rate	Effective Tax Rate	Diluted EPS ^{2,3,4}	Diluted EPS ² Growth Rate
<i>(in millions, except per common share amounts)</i>									
Third Quarter 2019									
GAAP	\$ 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)	5			0.02	
Non-GAAP	\$ 667	(15)%	\$ 605	\$ 130	\$ 475	9 %	21.6 %	\$ 1.59	14 %
Third Quarter 2018									
GAAP	\$ 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	(6)		(6)	(14)	8			0.02	
Litigation (recoveries)/charges, net	64		64	21	43			0.14	
Transitional tax benefit, net ⁵	—		—	17	(17)			(0.06)	
Non-GAAP	\$ 781	3 %	\$ 700	\$ 262	\$ 437	(10)%	37.5 %	\$ 1.39	(9)%

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

²attributable to Cardinal Health, Inc.

³GAAP diluted EPS for the three months ended March 31, 2019 compared to the prior year period was favorably impacted by \$0.36 per share, which includes \$0.31 per share due to change in the effective tax rate and \$0.05 per share 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 current 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).

⁴Non-GAAP diluted EPS for the three months ended March 31, 2019 compared to the prior year period was favorably impacted by \$0.40 per share, which includes \$0.32 per share due to change in the effective tax rate and \$0.08 per share 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 Taxes for the current 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).

⁵Reflects the 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.

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

<i>(in millions, except per common share amounts)</i>	Operating Earnings/ (Loss)	Operating Earnings Growth Rate	Earnings/(Loss) Before Income Taxes	Provision for/ (Benefit from) Income Taxes	Net Earnings/ (Loss) ²	Net Earnings ² Growth Rate	Effective Tax Rate	Diluted EPS ²	Diluted EPS ² Growth Rate
	Fiscal Year 2018								
GAAP	\$ 126	(94)%	\$ (228)	\$ (487)	\$ 259	(80)%	213.8 %	\$ 0.81	(80)%
Restructuring and employee severance	176		176	25	151			0.48	
Amortization and other acquisition-related costs	707		707	176	531			1.69	
Impairments and (gain)/loss on disposal of assets ⁴	1,417		1,417	(44)	1,461			4.64	
Litigation (recoveries)/charges, net	159		159	48	111			0.35	
Loss on extinguishment of debt	—		2	1	1			—	
Transitional tax benefit, net ³	—		—	936	(936)			(2.97)	
Non-GAAP	\$ 2,585	(7)%	\$ 2,233	\$ 655	\$ 1,578	(9)%	29.3 %	\$ 5.00	(7)%

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

²attributable to Cardinal Health, Inc.

³Reflects the 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.

⁴Fourth quarter and fiscal year 2018 include a goodwill impairment charge of \$1.4 billion related to our Medical segment.

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

		Third Quarter							
(in millions)	2019		2018		(in millions)	2019		2018	
Pharmaceutical					Medical				
Revenue					Revenue				
Amount	\$	31,361	\$	29,720	Amount	\$	3,871	\$	3,916
Growth rate		6 %		5 %	Growth rate		(1)%		15 %
Segment profit					Segment profit				
Amount	\$	536	\$	596	Amount	\$	155	\$	199
Growth rate		(10)%		(3)%	Growth rate		(22)%		34 %
Segment profit margin		1.71 %		2.00 %	Segment profit margin		4.01 %		5.09 %

		Third Quarter Year-to-Date							
(in millions)	2019		2018		(in millions)	2019		2018	
Pharmaceutical					Medical				
Revenue					Revenue				
Amount	\$	96,516	\$	89,786	Amount	\$	11,678	\$	11,684
Growth rate		7 %		3 %	Growth rate		—%		16 %
Segment profit					Segment profit				
Amount	\$	1,388	\$	1,576	Amount	\$	479	\$	548
Growth rate		(12)%		(6)%	Growth rate ¹		(13)%		26 %
Segment profit margin		1.44 %		1.76 %	Segment profit margin		4.10 %		4.69 %

¹Segment profit for the nine months ended March 31, 2018 includes a \$64 million impact from the roll-out of the inventory fair value step up related to the Patient Recovery acquisition.

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 changes in 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 timing and amount of any of the items excluded from GAAP to calculate non-GAAP could significantly impact the Company's fiscal 2019 GAAP results. Over the past five years, the excluded items have lowered the Company's EPS from \$0.47 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. Additionally, the excluded items for the fiscal 2019 year-to-date period have increased the Company's EPS by \$0.29, which includes a \$508 million gain (\$378 million after-tax) related to the naviHealth divestiture.

Definitions

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

Non-GAAP diluted EPS attributable to Cardinal Health, Inc.: non-GAAP net earnings attributable to Cardinal Health, Inc. divided by diluted weighted-average shares outstanding.

Non-GAAP effective tax rate: (provision for income taxes adjusted for (1) LIFO charges/(credits), (2) state opioid assessment related to prior fiscal years, (3) restructuring and employee severance, (4) amortization and other acquisition-related costs, (5) impairments and (gain)/loss on disposal of assets, (6) litigation (recoveries)/charges, net, (7) loss on extinguishment of debt, and (8) transitional tax benefit, (net) divided by (earnings before income taxes adjusted for the first seven items).

Non-GAAP net earnings attributable to Cardinal Health, Inc.: net earnings attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) state opioid assessment related to prior fiscal years, (3) restructuring and employee severance, (4) amortization and other acquisition-related costs, (5) impairments and (gain)/loss on disposal of assets, (6) litigation (recoveries)/charges, net, (7) loss on extinguishment of debt, each net of tax, and (8) transitional tax benefit, net.

Non-GAAP operating earnings: operating earnings excluding (1) LIFO charges/(credits), (2) state opioid assessment related to prior fiscal years, (3) restructuring and employee severance, (4) amortization and other acquisition-related costs, (5) impairments and (gain)/loss on disposal of assets, and (6) litigation (recoveries)/charges, 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.

- (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.
- (2) State opioid assessment related to prior fiscal years is the portion of the New York State assessment under the Opioid Stewardship Act for prescription opioid medications that were sold or distributed in periods prior to fiscal 2019. This portion was excluded from non-GAAP financial measures because it related to sales in prior fiscal years and inclusion would have obscured analysis of the current fiscal year results of our underlying, ongoing business. Additionally, while the New York law would have required us to make payments on an ongoing basis, the portion of the assessment related to sales in periods prior to fiscal 2019 was contemplated to be a one-time, nonrecurring item. In December 2018, this assessment was declared to be unconstitutional.
- (3) Restructuring and employee severance costs are excluded because they are not part of the ongoing operations of our underlying business.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.