



# Q2 FY19

CARDINAL HEALTH, INC.  
EARNINGS CALL

FEBRUARY 7, 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 stabilize the performance of and reduce costs associated with our Cordis business; risks associated with the acquisition of the Patient Recovery business, including the ability to successfully integrate the acquired businesses and the ability to achieve the expected synergies and accretion in earnings; the risk of non-renewal under our contracts with CVS Health or one or more other 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 legislation or administrative action; changes in the distribution patterns or reimbursement rates for health care products and services; risks associated with the distribution of opioids, including the cost and risk of ongoing investigations and lawsuits by governmental and regulatory authorities as well as private plaintiffs, the financial impact of enacted and possible 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 Feb. 7, 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](http://ir.cardinalhealth.com).

# Q2 results

# Q2 FY19 financial summary

	GAAP Basis (\$M) Q2 FY19	Non-GAAP Basis (\$M) Q2 FY19
<b>Revenue</b> <i>% change</i>	<b>\$37,740</b> 7%	N/A
<b>Gross Margin</b> <i>% change</i>	<b>\$1,730</b> (7)%	N/A
<b>SG&amp;A</b> <i>% change</i>	<b>\$1,064</b> (6)%	<b>\$1,093</b> (3)%
<b>Operating Earnings</b> <i>% change</i>	<b>\$504</b> 26%	<b>\$637</b> (13)%
<b>Interest &amp; Other<sup>1</sup></b> <i>% change</i>	<b>\$97</b> 18%	N/A
<b>Net Earnings<sup>2</sup></b> <i>% change</i>	<b>\$280</b> (73)%	<b>\$385</b> (19)%
<b>Diluted EPS<sup>2,3</sup></b> <i>% change</i>	<b>\$0.93</b> (72)%	<b>\$1.29</b> (15)%

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

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

<sup>3</sup> Q2 FY18 included the net benefit of \$2.83 per share from the re-measurement of our deferred tax assets and liabilities, partially offset by the repatriation tax on cash and earnings of foreign subsidiaries. Please see appendix for GAAP to Non-GAAP reconciliations.

# Q2 FY19 pharmaceutical segment results

	Q2 FY19 (\$M)	Q2 FY18 (\$M)	YoY change
Revenue	\$33,740	\$31,146	8%
Segment profit	\$443	\$514	(14)%
Segment profit margin	1.31%	1.65%	-34 bps

## Drivers:

### Revenue

- + Pharmaceutical Distribution and Specialty Solutions customers
- Divestiture of the China distribution business

### Segment profit

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

# Q2 FY19 medical segment results

	Q2 FY19 (\$M)	Q2 FY18 (\$M)	YoY change
Revenue	\$4,006	\$4,044	(1)%
Segment profit	\$188	\$220	(14)%
Segment profit margin	4.70%	5.43%	-73 bps

## Drivers:

### Revenue

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

### Segment profit

- Increased costs related to Cardinal Health Brand products
- Divestitures of the China distribution and naviHealth businesses
- + Prior year comparison of Patient Recovery fair value step up of inventory

# FY19 outlook

# FY19 financial expectations

	FY19 outlook	FY18 actual
Revenue	<b>Mid-single digit percentage growth</b>	\$136.8B
Non-GAAP EPS	<b>\$4.97 to \$5.17</b>	\$5.00
Non-GAAP ETR	<b>25% - 27%</b>	29.3%
Diluted weighted average shares outstanding	<b>300M – 302M</b>	315M
Interest and other	\$340M - \$360M	\$352M
Capital expenditures	\$360M - \$390M	\$384M

*Bold numbers indicate updates to FY19 financial guidance*



# FY19 segment outlook

Segment	Revenue	Profit
Pharmaceutical	<b>Mid to high-single digit percentage growth</b>	High-single to low-double digit percentage decline
Medical	<b>Approximately flat</b>	Mid to high-single digit percentage growth

*Bold numbers indicate updates to FY19 financial guidance*



# **Q2 FY19 trailing five quarters**

GAAP TO NON-GAAP RECONCILIATION  
STATEMENTS AND SUPPLEMENTAL  
FINANCIAL INFORMATION

# Q2 FY19 trailing five quarters segment analysis

## Pharmaceutical segment

	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Revenue (\$M)	31,146	29,720	31,455	31,416	33,740
Segment Profit (\$M)	514	596	416	409	443

## Medical segment

	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Revenue (\$M)	4,044	3,916	3,898	3,801	4,006
Segment Profit (\$M)	220	199	114	135	188

Cardinal Health, Inc. and Subsidiaries  
GAAP / Non-GAAP Reconciliation<sup>1</sup>

(in millions, except per common share amounts)

	Gross Margin	Gross Growth Rate	SG&A <sup>2</sup>	SG&A <sup>2</sup> Growth Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings/(Loss) Before Income Taxes	Provision for/(Benefit from) 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							
Second Quarter 2019																				
<b>GAAP</b>	\$	1,730	(7)%	\$	1,064	(6)%	\$	504	26 %	\$	407	\$	126	\$	280	(73)%	31.0 %	\$	0.93	(72)%
State opioid assessment related to prior fiscal years		—			29		(29)		(8)		(21)									(0.07)
Restructuring and employee severance		—			—		12		3		9									0.03
Amortization and other acquisition-related costs		—			—		157		39		119									0.40
Impairments and (gain)/loss on disposal of assets		—			—		8		1		7									0.02
Litigation (recoveries)/charges, net		—			—		(15)		(4)		(11)									(0.04)
Transitional tax benefit, net <sup>4</sup>		—			—		—		(3)		3									0.01
<b>Non-GAAP</b>	\$	1,730	(7)%	\$	1,093	(3)%	\$	637	(13)%	\$	540	\$	154	\$	385	(19)%	28.5 %	\$	1.29	(15)%
Second Quarter 2018																				
<b>GAAP</b>	\$	1,861	16 %		1,131	24 %	\$	399	(26)%	\$	317	\$	(736)	\$	1,053	225 %	(231.9)%	\$	3.33	226 %
Restructuring and employee severance		—			—		21		(2)		23									0.07
Amortization and other acquisition-related costs		—			—		184		41		143									0.46
Impairments and (gain)/loss on disposal of assets		—			—		68		(43)		111									0.35
Litigation (recoveries)/charges, net		—			—		58		17		41									0.13
Transitional tax benefit, net <sup>4</sup>		—			—		—		894		(894)									(2.83)
<b>Non-GAAP</b>	\$	1,861	16 %		1,131	24 %	\$	730	4 %	\$	648	\$	171	\$	478	12 %	26.2 %	\$	1.51	13 %

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

<sup>2</sup>Distribution, selling, general and administrative expenses.

<sup>3</sup>attributable to Cardinal Health, Inc.

<sup>4</sup>Reflects 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 Reconciliation<sup>1</sup>**

	Gross Margin	Gross Growth Rate	Operating Earnings	Operating Growth Rate	Earnings/(Loss) Before Income Taxes	Provision for/ (Benefit from) Income Taxes	Net Earnings/(Loss) <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						
<i>(in millions, except per common share amounts)</i>																	
<b>Fiscal Year 2018</b>																	
<b>GAAP</b>	\$	7,181	10 %	\$	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 <sup>4</sup>		—			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 <sup>3</sup>		—			—			—		936		(936)				(2.97)	
<b>Non-GAAP</b>	\$	7,181	10 %	\$	2,585	(7)%	\$	2,233	\$	655	\$	1,578	(9)%	29.3 %	\$	5.00	(7)%

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

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

<sup>3</sup>Reflects 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.

<sup>4</sup>Fourth 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**

<u>(in millions)</u>	Second Quarter								
	2019		2018		<u>(in millions)</u>	2019		2018	
<b>Pharmaceutical</b>					<b>Medical</b>				
<b>Revenue</b>					<b>Revenue</b>				
Amount	\$	33,740	\$	31,146	Amount	\$	4,006	\$	4,044
Growth rate		8 %		5 %	Growth rate		(1)%		19 %
<b>Segment profit</b>					<b>Segment profit</b>				
Amount	\$	443	\$	514	Amount	\$	188	\$	220
Growth rate		(14)%		(4)%	Growth rate <sup>1</sup>		(14)%		38 %
Segment profit margin		1.31 %		1.65 %	Segment profit margin		4.70 %		5.43 %

<u>(in millions)</u>	Year-to-Date								
	2019		2018		<u>(in millions)</u>	2019		2018	
<b>Pharmaceutical</b>					<b>Medical</b>				
<b>Revenue</b>					<b>Revenue</b>				
Amount	\$	65,155	\$	60,066	Amount	\$	7,807	\$	7,768
Growth rate		8 %		3 %	Growth rate		1 %		16 %
<b>Segment profit</b>					<b>Segment profit</b>				
Amount	\$	851	\$	981	Amount	\$	323	\$	348
Growth rate		(13)%		(8)%	Growth rate <sup>1</sup>		(7)%		22 %
Segment profit margin		1.31 %		1.63 %	Segment profit margin		4.14 %		4.48 %

<sup>1</sup>Segment profit for the three and six months ended December 31, 2017 includes a \$22 million and \$64 million impact, respectively, 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 \$0.30, 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 Gross Margin:** Gross margin excluding LIFO charges/(credits).

**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.

**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 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 unconstitutional. The charges we had previously recorded for the assessment related to periods prior to fiscal 2019 were reversed in the second quarter of our fiscal 2019 and also excluded from non-GAAP financial measures.

(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 primarily for consistency with the presentation of the financial results of our peer group companies. 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.