Sally Curley: Good morning everyone and welcome to Cardinal Health’s Investor and Analyst Event. I’m Sally Curley, the Senior Vice President, Investor Relations for Cardinal Health. Before we begin, I just want to take a moment to introduce my team, so if you are in the room if you could please stand up: Director Jennifer Skinner; Manager Kevin Moran; Analyst Krysta Butler; and Manager Erika Wadlinger.

For those in the live audience, please note that we are all wearing a Cardinal Health pin. They’re small but hopefully they’re distinctive to easily identify us, so if you have any questions, please feel free to grab one of the members of IR Team. We’ll be able to help you out.

I’d also like to welcome those joining the webcast and remind everybody that we are webcasting today’s event in its entirety. We anticipate ending just after noon Eastern with a 20-minute break around 10 of 10:00 am. A detailed itinerary is available on our Web site at cardinalhealth.com.

In addition, we will be making forward-looking statements today, addressing expectations, prospects, estimates and other matters that are dependent on future events or developments. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. The most significant of these uncertainties are described in Cardinal Health’s Forms 8K, 10K and 10Q reports. These statements reflect management views of today and we undertake no obligation to update these statements, definitions and reconciling information for non-GAAP financial measures, as well as an audio replay of today’s meeting can be found on the Investor Relations page of the Cardinal Health Web site.
Before I hand the stage over to Chairman and CEO George Barrett, I did want to cover a few logistical items. First, today’s agenda -- which George is actually going to cover in a moment -- is designed to focus on our five key strategic priorities. We’ve tried to intersperse plenty of Q and A throughout the morning and we’ve also tried to address the questions that we’ve heard from you during the past couple of months. As a result, we do have a very full plate to cover today so please feel free to take breaks as needed throughout the morning.

And second, for those in the room, we invite you to visit the Cardinal Health Continuum of Care Exhibit -- which you will have seen outside where the food is located -- to learn more about the strategic priorities that we’ll cover today. In addition, for those here in the room in New York, you’ll notice that you’ve actually got a stack of index cards on your table. We ask that you please write down your questions on those cards for those that are shy. We will also have a couple of hand-held microphones in the room if you prefer to just directly ask the question, and so just wait for one of the individuals to come over to you with a live microphone to ask your question. In the event that we run out of time, we will actually be posting these on the Cardinal Health Web site within the next few weeks. So without further ado, I’d like to introduce our Chairman and CEO, George.

George Barrett: Good morning everyone. Good to see you all. Again, I appreciate your coming. I know the weather is looking a little bit threatening already, and so we’ll do our very best to keep things moving quickly and conscious of that. Again, I’m glad you guys had a chance -- if you haven’t already -- but please make sure to take a look at the exhibits. You know, I was talking to someone earlier in our group. You’ll see in those exhibits a number of the Cardinal Health brands, and actually one of the things that we’ve been working on in these last months is a lot of thought around those brands. My guess is if you look at this a year later, you’re actually going to see a much more cohesive approach to our own branding -- so a lot going on.
Here’s what I’d like to do today -- and again, part of my goal is to have you leaving with the same sense of confidence and optimism we have. We feel very good about our positioning as a company for the present and for future growth.

It’s an extraordinary time in health care. We talk about this a lot and many of you get to talk with us about this and we really very purposefully positioned our business around some important changes that are happening in our marketplace and we’re going to be talking about those during the course of the day.

We will show you a pattern of continued financial growth. We’re going to spend some time talking about history a little bit, about how we performed in each of our areas. You’ll hear from our team. I think it’s important for us to be able to give you a sense of how we’ve seen our trajectory but we’ll spend a good part of our time today talking about the future. Again, if all goes well, you’ll continue to feel convinced that we are responsible, thoughtful stewards of your capital. We will continue to deploy capital efficiently and smartly and with a very high focus on returning shareholder value.

And most important -- and one of the parts that makes this day really fun for me -- is you’re going to get to hear from our talent. This is a great opportunity for me to step back a little bit and let you see part of what makes Cardinal Health tick -- which is this incredible leadership team -- so you’re going to get to hear from a lot of folks.

You probably saw -- as you were walking in -- on the slide a reference to some recognition for our people and I think that’s something that we’re going to take great pride in and continue to develop and build. I want to just walk you through this slide, it captures a number of things but most importantly, essentially, this is a slice of performance metrics from the spinoff of CareFusion. And what we’ve captured here is our non-GAAP diluted EPS, our non-GAPP operating earnings and our non-GAAP operating margin.
I think you can see the direction on all of these is very positive. We haven’t gotten a chance to do these kinds of meetings that often and Anthony was just reminding me it’s been a couple of years. It is extremely important for us internally and externally to do what we say we’re going to do. We talk about that a lot in our own organization, in our culture, which is about making commitments to one another and honoring them, making things happen.

And I hope that as you look at this slide -- there’s 18.5% non-GAAP EPS growth and a 13.6% non-GAAP operating earnings compound annual growth -- that we’ve done that for you all. So again, I put some history on here just to remind you essentially for us this critical idea of doing what you say you’re going to do and we’ll hold ourselves to that. And I know that you will hold us to that expectation.

So I want to do something a little bit different here today. We get a chance to talk to you a lot. This is a little bit of a little twist and what we’d like to do is hear from you a little bit and so I’m going to have Sally just come up and describe this to you and then I’ll come back to you.

Sally Curley: So George mentioned we would actually be using a little bit of polling technology for a few questions today. We encourage everyone in the room here as well as those listening to the live webcast to participate and responses are completely anonymous so please feel free to be candid.

So here’s how it’s done. Please take out your phones to get ready, first of all, because we do need to give you a couple of seconds. In the To field where you would normally text, you’re going to type two 2’s and three 3’s so it’s 2, 2, 3, 3, 3 and in the Message field, type “Cardinal” and you’ll know that you’re linked in when you receive a message back saying that you’ve actually joined the Employee Comm and then parentheses, Cardinal. And no, don’t worry. This is just our account name. You have not all become employees of Cardinal Health.
Then as George goes through the questions, just text the number corresponding to your response and summary responses will appear on the screen. So again, for those on the live webcast you, too, can participate. Again, in the To field type 2, 2, 3, 3, 3 and then in the Message field type Cardinal and you should receive a response back confirming it. So I’m seeing a lot of heads nodding in the room. Okay, so with that, George?

George Barrett: So let me just, again, set this up. This is a great opportunity for us to hear just a little bit about what’s on your mind and I’m going to ask two questions. We’ll try to do -- I hope that we’ll touch on all this during the course of the day -- but we’ll try to do some course correction -- based a little bit on what you’re saying but this is a great opportunity to get a little bit of a read of the room so let’s give this a go.

So the first question, “Which of the following drivers will be the most important to Cardinal Health sustaining growth over the next five years?” Again, that’s “Which of the following drivers will be the most important to Cardinal Health sustaining growth over the next five years?”

A is Demographic Trends; B, Generics as in Generic Pharmaceuticals; C, Specialty; D, Preferred Medical Products; 4, Alternate Site and Home; and E and then F China. I almost said 5 -- E 5. Should I repeat them? Okay A, Demographic Trends; B, Generics; C, Specialty; D, Preferred Medical Products; E, Alternate Site and Home; and E, Home; and F, China.

And for those of you who are not in the room, what I’m looking at here is essentially a bar that tells me the percentage of people that pick their choice and I’ll give it a minute and then I’ll give you what - I’ll describe to you what I’m seeing. Now I’ll let you suggest to me when it’s time. Stop? Okay so let’s stop right here.

So here’s what we’re hearing but again, for those of you dialing in, Generics -- by a fair margin -- 47% of you listed Generics as the top driver of growth over the next 5 years. We were sort of neck in neck with
Specialty and Preferred Medical Products. Alternate Site and Home and Demographic Trends were another distant - sort of tied for the next spot and then China as the last of them.

So okay a couple comments from me and let’s sort of - we’re going to keep that in our minds during the course of the day. What we might do is sort of - we may not poll you at the end but I’d like to hear at the end a little bit of how whether or not any of this has shifted in any way.

We would share with you that Generics is incredibly important. We know the pressures occurring in this system that are necessary for us to really sustain our economic growth as a nation. Keeping medical costs under control is important.

Obviously generic drugs are an incredibly important tool in this arsenal. About 84% of all drugs today are filled generically so we understand that dynamic. We happen to also be very bullish on this. We like our positioning. I know that Mike will spend some time talking to you about this today.

I would answer -- by the way -- all of these are going to be important to our growth. They are different stages of development in our portfolio and probably at different scales so some, I think, will move the needle more than others. Every one of these subjects we’re going to talk about today -- and again I’ll be sort of curious to see at the end of the day whether or not any perspectives will change -- but again, this is an interesting observation.

I hope everybody on the phone was able to hear what we captured in the room which is again, the group said Generics -- probably most important -- followed by Specialty and Medical, followed by Demographic Trends, Alternate Site and Home and then finally, China.

Okay next question, those of you who know me know that I don’t like elephants in the room so I think we might as well put hard ones on the table. “Which of the following drivers are you most concerned about
related to Cardinal Health sustaining growth over the next five years?” So we’re sort of going to invert this, okay? It’s really helpful to us.

Again, “Which of the following drivers are you most concerned about related to Cardinal Health sustaining growth over the next five years?” And they are A, Industry Dynamics, and let’s bracket in that all the sort of movements that have occurred, all right? So that’s sort of what I was trying to get at here. Industry Dynamics; B, Sustaining Generics; C, Specialty Positioning; D, Medical Segment Overall Positioning; and E, Execution on Preferred Products.

So we’re going to let that play out for a minute. I’ll read them again. Industry Dynamics is A; B is Sustaining Generics; C is Specialty Positioning; D is Medical Segment Overall Position; and E is Execution on Preferred Products. All right and I’ll give it about 30 more seconds and I think we’re getting most of it. You can see these shifting. All right, what do you think? About stable? Good, we’ll go.

Okay again, those of you listening, what we’re looking at here is essentially with the two leading concerns being what we’ll call Industry Dynamics and Sustaining Generics -- and I guess it’s not a surprise that people have seen those in some connected way given all the events of the last year. Specialty Positioning was second, after that with Medical Segment Overall Position in the fourth spot in terms of most concern and Execution on Preferred Products was the smallest.

So interesting observation -- again, let’s sort of go back to some quick thoughts on this. Obviously, given what’s happened in the industry in the last few months and probably 18 months, it’s not surprising that these areas are linked in your head. We’ve obviously had these conversations together.

We continue to feel very good about what we’re doing in Generics and how we’re positioned in our industry. You will hear from a group of people that will all touch on those kinds of issues. We have had a very strong track record in Generics and a very strong track record in positioning ourselves in the context
of our competition and I think you’re going to see some of that. And as it relates to Generics, in spite of what has really been a rather lackluster, blockbuster launch environment.

So I think what I’d say to you as a starting point is our performance of today is really important and I think it’s a good barometer of our ability to compete in an environment that’s already changing quite a bit. So we’ll get a chance as the day unfolds to talk to you a little about this and about what we see in the industry dynamics.

Again, we’ll cover every one of these. My hope is that by the end of the day, areas of concern will be areas of enthusiasm. I understand that they can be both and that’s how we’ll cover the day so I look forward to following up on these and we’ve got these observations noted.

So I mentioned to you the changes in the marketplace -- and I’m not just talking about industry dynamics now -- inside pharmaceutical distribution or medical products. We’re talking about big, big changes occurring in our system and all of our strategic priorities are informed by our view on these powerful trends and I want to start with the one on the left.

Demographic and Public Health Issues Driving Demand -- it was interesting when we polled you that this was relatively unimportant in your perspective as it relates to growth. I actually think it’s really important and I understand it’s very hard to capture the direct impact but let me just offer this.

We have about 10,000 people a day entering the age of Medicare eligibility. We have 11 million people over the age of 80 today … 11 million people over the age of 80. That number is likely to double by 2025. This is in the United States -- 20 million people over the age of 80.

We know that on average, the population above 65 consumes a greater percentage of our health care -- on average, four to five drugs per patient. Again, I said this to a couple of you, with two parents in their
90’s. That number actually feels very low to me so we continue to believe that this is going to be a powerful force for driving demand but also a powerful force in forming some of the other trends to the right of this because economically as a nation, this is going to be an enormous challenge for us.

We believe -- and I’ve said this to you before -- that care has to be delivered in different settings. We built a lot around this, and I’ll come back to this in a moment, into a more cost-effective setting than has historically taken place.

We think the consumer is going to be a much more active participant in their own health care and this is being driven by a number of things, not the least of which is a generation of people that are beginning to access information about how to get treated, how much it costs to get treated, where to get treated. So I do think the consumer is becoming more involved partly just by the nature of consumerism. But there’s another powerful dynamic at work, which is those employers who are still covering most Americans are putting enormous pressure on themselves to create a different dynamic among their employees.

And that dynamic is to make them participants in their own health care. And that force -- when I talked to CEOs from other companies who are not involved in health care -- I’m always amazed at how much they know about health care. And part of the answer is it’s a cost for them that is very hard for them to navigate and so again, what you’ll see is employers being much more involved in helping their own employees, encouraging their own employees to take ownership of their own health.

Transition from Fee for Service to Payment for Outcome -- this has been talked about a lot -- as you know -- in public. It’s been talked about a lot in academic circles. It was discussed very heavily in the early stage of the Affordable Care Act discussions.

Here’s what I would say about this transition, it is already occurring. It will not occur nationally in a systematic way quickly. This is something that is happening in pockets around the country and in systems
around the country but there’s no question that this trend is one that is occurring. It is likely to pick up pace at some point and we’re very mindful of this trend.

And then, finally, an increased participation of our government both as payer and as regulator. If you look at where we are today, just combining Medicare and Medicaid -- just Medicare and Medicaid -- we’re probably about 37% of our medical spend. If you add all the other Federal programs, we’re right in and around 50% today.

Around 50% of health care is paid for by the government. We are going to see that continue. It’s not going to shrink. You all understand that some of the dynamics around the Affordable Care Act and the incentives to increase Medicaid -- but I think we’ll continue to see this as a powerful force and again, you’ll see all this woven throughout our business.

I want to sort of take a little bit of a step backwards for one moment to talk to you about this slide. When we launched the spinoff, one of our hypotheses right from the outset was we believe that care is not being delivered in the most effective setting, by the right caregiver, in the right sequence, and that this is likely to change. And at the heart of this, we need to recognize that care would be delivered in different settings.

And that our ability to touch and to serve across the entire continuum of care was going to be foundational in our strategic positioning and we’ve worked very hard at that. In surgery centers, in clinics, hospitals, physicians’ offices, imaging centers, labs, resale pharmacies and the home. I’m going to come back to this in a minute.

So again, if you go back five years, one of the things that we said to you all was, “We will serve the patient across the continuum of care and this will evolve over the coming years.” And it actually has evolved quite a bit -- even in the past five years -- so we’ll see continuous shifting here.
This slide, which talks about our strategic priorities, you can think of this as our agenda for the day. This is what you’re going to hear about so let me just, again, touch on these at a 30,000-foot level -- on all these subjects -- and then I’ll bring Don up.

So Generics, again, you guys highlighted how critically important this is to us. It is critically important to our nation. We will continue to build scale and our capabilities to deliver value in Generics. We’ve had really explosive growth in this part of our business and it hasn’t been an accident -- purposeful, systematic, disciplined approach to repositioning ourselves to build capability, a scale to navigate upstream and the ability to sort of micro segment downstream. To touch our customers where where they need value, to target our programs uniquely for them.

So we’ve built a lot of analytical tools to do this. I know that Mike will cover this. Meg is going to talk to you about Specialty and Biopharmaceutical. We are now seeing -- as you guys are well-aware -- sort of a bifurcated pharmaceutical system in which you have a heavy percentage of pharmaceutical utilization coming in generic, a relatively heavy part of the spend occurring in specialty. Further, what we’re seeing - - if you look at the clinical trial activities of virtually all research Phase 5 pharmaceutical companies -- an incredibly heavy emphasis on specialty.

So again, everyone acknowledges that we have patients with unique sets of needs. We’ve unique capabilities now to identify those who are likely to be the responders to our drug and this evolving change is powerful. It’s important to us and important to our positioning and Meg is going to spend some time talking to you about that.

Internationally, our goal has always been to take advantage of the skills that we have to bring those tools to markets where it can have impact. We’ve had a significant impact in China. By the way, we often talk about Puerto Rico even though it is a United States territory. We talk about it as an international market
because in many ways it behaves more like an international market so I will apologize to all my Puerto Rican colleagues here.

China will remain a really critical focus for us. One quick observation about China -- it’s projected that if you look at pharmaceutical growth over the next five years, IMS predicts that more than one-third of that is going to come in China. So for those of you who I know -- actually we go back to your responses -- said China, you thought, was going to be a relatively small growth driver. But we’re actually hopeful that it’s going to be a powerful source for us and we continue to be really excited about what’s happening in China. We’re growing our business well.

Eric Zwisler is in from China and both Eric and Jeff are going to talk to you about that and we’ll continue to look at other markets with a very disciplined eye. The eye is not just whether or not it’s an interesting market, but is it an interesting market in which we’ve got tools that we can bring to bear, where we can assert ourselves and be a leader. So we will continue to look very carefully at opportunities -- again, high priority today on our work in China.

Our Health Systems and Hospital Solutions area is a very broad basket of ideas but here’s the basic concept and Don and his team will talk to you about it, including their panel. They are facing unique challenges -- our health system and hospital customers. This has been true for many years but I think the acceleration of change has been noteworthy and they are really at a point where they are looking for partners who understand the nature of those problems and can find different kinds of solutions.

They understand that just squeezing unit cost is no longer the solution to actually competing more effectively in a world that’s changing, that you’ve got to change some behaviors and we are -- I think -- increasingly the “go-to” company in thinking about how we can help address some of the pain points that a hospital and now more integrated health system can look at. So you’ll hear a little bit about that.
We’ll talk about our physician preference items. We’re going to talk about medical consumables. We’re going to talk about our pharmacy solutions, our clinical work that we’re doing to support our hospital and IDN customers.

And finally, Alternate Sites of Care. This goes back to this notion of where will care be delivered? I had a conversation with a hospital CEO not that long ago and one of the things he said to me -- we were sitting in his office -- which was in the acute care building -- was, “My picture of this building is that it’s all intensive care beds, that this hospital will be for the sickest patients. We can serve many of these other patients more efficiently and probably more safely and with higher quality in another setting.”

And so we’ve made some important moves in this area and we’ll continue to do that. The most recent move, again, was the acquisition of AssuraMed this past year, giving us access to patients in the home and again, I’ll just bring you back to one more statistic as we think about the home. Think about 20 million Americans over the age of 80 and where - how are they going to be served and where are they going to be served?

And our hypothesis is that more patients will be served in the home. More patients will be served in the home and so you will hear from Michael Petras and from Don about the work that we’re doing in Alternate Sites and in the Home.

So that is sort of the general tee up to the day. Again, a few final comments before I turn it over to Don.

This is a really exciting time for us. It’s been a couple years since we’ve had a chance to do this so we want to use this day productively. We’ll have a number of settings where we can do Q and A. We’ll try to - - as always -- be as responsive as we can but my hope is that when you leave today you’ll take away a couple of things.
Cardinal Health is really well positioned. We are very committed and disciplined about what we do and we honor our promises and commitments and they've got incredibly talented people. And so I will leave you with this important notion. Our people are – in a business that’s heavily service-oriented – a distinctive characteristic is your ability to have the talent to drive your strategy, and I feel really good about our guys and proud of the work that they’ve done and the work that they are doing for you every day.

And so with that, I will pause and I’ll bring Don Casey, CEO of our Medical Segment, up to join us.

Don Casey: Thank you George. I wanted to judge by the very scientific polling that you have complete confidence in the M Segment and I will keep my remarks extraordinarily brief, but it’s going to be a long presentation if we don’t even get a smile on lines like that. [laughter]

So first I’d like to also talk about talent and I’m pleased to say we have most of our leadership team here and I just wanted to call out a few people. Mark -- and if you guys will just put your hands up -- Mark Rosenbaum, part of a key member of our M Team, our Chief Customer Officer. Lisa Ashby is President of our Medical Device and Diagnostics Group. Mike Duffy is President of Medical Consumables. Steve Inacker is President of our Hospital Services Group. I believe we have Tony Vahedian, who is Senior Vice President in charge of our Service Business. Dr. Shaden Marzouk is -- there’s Shaden -- and John Rademacher, who is President of our Am Care Group.

So it’s always dangerous to do that without a prompt. I hope I got everybody, but we’re extremely excited to talk about how we are repositioning our M Segment business to support an evolving health care system and I think George really set this up quite well.

I’d also leave you with a thought that if you’re going to take a couple things away from our M Presentations -- it’s that we are really excited about the opportunities. The pace of health care change is accelerating. You know, for those of us who have been doing this or following this for a long period of
time, I think it’s fair to say that we have never seen the level of change that we’ve seen in the last three years and as a matter of fact, unfortunately, I can say I’ve been doing this for close to 30 years.

The pace of change is accelerating almost on a weekly basis. Now in a lot of cases, this level of disruption in the base system would cause concern. We tend to look at this, though, as a real opportunity. This level of disruption is really an opportunity to really reset how health care is delivered, how health care is provided to patients and we think we’ve assembled a number of assets and solutions that really position us extraordinarily well for this future.

These solutions and services that we tend to talk about are one, products, and if you saw the products when you were walking in today, one of the solutions that hospitals are really looking for is how do I control costs across the broad array of areas? One of the critical things is that they literally look at us and say, “We buy a lot of stuff.”

And we’re proud to say at this point, we’re expanding the amount of stuff we are offering both in the medical consumables as well as the preferred products. And expanding in such a way that we become increasingly relevant in a number of different categories because we’re saving them money by providing great quality products at a dramatically lower price.

The other key area is solutions and service solutions. We’re going to talk about what a hospital P&L looks like. We’re getting increasingly relevant across a broader array of what’s important to the hospital. So again, not to reiterate everything that George has said, but reimbursement changes -- and I think everybody in the room is familiar with the transition that we’re seeing from fee for service for fee for value.

But the other thing is a significant change there, is the amount of reimbursement on an absolute basis going into the system. While that’s not expected to change, if you do anticipate at some point there’s going to be a significant influx of patients with insurance, you could sit there and say, “Okay on an
aggregate level there is going to probably be a fixed amount of money into the health care system and if there’s more patients on a per patient basis, that’s going to go down.” And hospitals are beginning to say, “How are we going to cope with a dramatically changing environment?”

The second issue is -- I think everybody shares this in common today -- we were actually a day older today when we woke up than we were yesterday. George talked about the fact that there are 10,000 people a day that are hitting the age of 65. And when we used to have *Newsweek* and *Time* magazine, you’d see a picture of Mick Jagger is now 65.

Well, the aging issue is you were to look at per capita spending on a 65-year-old, a 75-year-old and an 85-year-old. That’s dramatically different than what you see as a 20-year-old. So, you know if you were going to look at a positive headwind or, excuse me, tailwind over the course of the next couple years, you’d sit there and say, “Basic demographics as the society ages are going to be very favorable to our overall business.”

But the important thing -- if you’re a hospital -- all of a sudden you’re anticipating a ton of elderly patients that are going to come in that are going to demand a significant amount of health care. How are hospitals responding? They’re consolidating.

A day doesn’t go by where you don’t see an announcement that this hospital or that hospital system expanded and bought another hospital. And if you look at it, it’s expanding at an increasing rate. So in 2012 there were 105 significant transactions involving 1 hospital system buying another hospital system or significant large physician practice.

The other thing that’s beginning to change is the idea that physicians -- which used to be an independent group -- are now owned by the hospitals. At this point at the end of 2012, more than 50% of practices and upwards of 60% of physicians are now employed by the hospital. They’re doing this so they can go buy
up the referral sources and they’re also anticipating the day when the hospital has to move from a freestanding acute care entity into something that’s going to have to care for the patient over a broader continuum.

So you’re going to need to be able to serve them right starting from when they come into a physician. As they are also looking - is how are they going to spend not only in the acute care setting to the physician but how are they going to manage a patient post discharge? So the idea of this continuum of care that George set up is really, really important to us. Where if the patient comes in in an ambulatory setting, they’re going to be referred -- if they need -- to an acute care setting. They’re, you know, whether that’s an academic medical center or a specialty hospital, then we’re going to have to take care of them after they leave and that’s creating -- we think -- a significant opportunity but it represents an extraordinary challenge if you’re a hospital. Can you imagine if you were a hospital CEO five years ago that didn’t own any physicians? Now all of a sudden, you own acute care centers. You’re also trying to manage a SNF (Skilled Nursing Facility) and looking at a long-term care center because that’s where your patients are going to go.

So we think this is a significant change in how they are operating. And now they’re beginning to realize if you need to right site care -- which you’re going to provide great patient care at lower prices -- where are you going to go? The home -- which in a large way explains why we are so excited about a new platform for us where we can serve the patient across the entire care continuum.

This is -- in our mind -- our estimation of what we think a typical hospital or IDN spend looks like, so about 60% to 70% is spent on labor. We also look at services, representing close to 20%, medical devices and supplies around 15% and drugs that are administered within a hospital setting around 6%. It’s important to note that Cardinal Health now participates in all four of these segments and is extremely relevant today in the services, medical supply and devices. And we believe that the labor pool eventually gives us another significant opportunity to align with what our customers need to provide them with solutions.
George mentioned the fact that we believe we’re well positioned. And we have spent a lot of time making sure our business is aligned with our customers -- which we’re defining as the hospital and these new health care systems.

So five core things that we’re focused on are, first -- increasing the breadth of our consumable product portfolio and we’ve talked about this. We’ve had more launches in the first quarter than we had all of last year and I’ll talk a lot about this in a couple of minutes.

Launching solutions that offer physician preferred items in a whole new delivery system that will allow the hospital and these IDNs to access generic medical devices -- a term we use -- as well as the new delivery system that will result in great patient care at dramatically lower prices. We think services is a way of our future and we don’t necessarily break this out a whole lot. We’re going to show you today why we think the service businesses -- beyond logistic -- represents a really important growth opportunity for our business going forward.

AssuraMed -- I’m going to ask Michael Petras to join me in a couple minutes when we talk about AssuraMed. And again, why we believe that we bought a leadership platform in a fragmented segment that gives us a tremendous opportunity to serve these health care systems that are looking to manage a patient basically from the physician right to wellness.

And the last issue is that – and we’re not going to spend a heck of a lot of time on this -- about a year ago when you saw that we did a significant restructure within the medical segment where we spent a considerable amount of time making sure that our cost structure is aligned to what our customers need and we’re beginning to see positive results from that.
When we talk about preferred products, we want to make sure everyone has the same definition so basically these are products that we manufacture or source that we believe that will be preferred by our partners because they offer great quality at lower prices, right?

Two kinds – the first is consumables -- which I'll talk to about in a minute -- and the second is -- and this is a wonderful picture of the canulated screw -- where I’m often asked by you guys, “What is a canulated screw?” Well that’s a canulated screw.

Basically you don’t want to use any of the products that we manufacture -- just as a safety tip. When we talk about the increasing breadth of our consumable portfolio, George referenced the products out there so you can actually pick up and look at a lot of these different things, but if you think about there are 2,000 categories that represent the medical consumable and medical device categories that are purchased by IDNs.

We believe that by our expanding our presence and offering more cost-effective alternatives in a broader array of these categories, we become far more relevant to the hospital system because we’re saving them money. We’re delivering them great products and we believe this is absolutely essential for us to continue as a way we’re going to build our distribution partnerships with people.

All right the second issue -- if you saw -- there’s probably about 400 or 500 different SKUs out in our Continuum of Care Exhibit. We believe that we have a tremendous opportunity to expand the Cardinal Health brand name beyond where we are today.

Currently we tend to focus on what do we ship into the hospital? We believe that brand name -- which is extremely relevant to the patient of the hospital -- will now be something they would be willing to look for in the retail independent pharmacy and chain pharmacy, in the hospital, as well as in the home.
And as George referenced, we fully expect -- within a short period of time -- probably about a year -- that we will be able to rebrand this and make that relevant so that a patient of the hospital could now find those same great products in all of these channels and the more channels you get, the more scale you get and scale in this category is extremely important.

We’ve talked a lot about this and these are more products that hopefully you don’t need but these are - this is our trauma line, which is the first of our solutions that we focus on reducing the cost of physician preference item. Four basic things we’re looking for -- how do you find something that is a high physician preference with little clinical differentiation in a relatively high profit pool that is extremely relevant to a hospital or a surgery center?

We believe there’s been a large number of categories that have not seen innovation in a long period of time and like what we saw in the pharmaceutical industry, the industry is probably going to need to focus more and more of its R&D talent on innovative products. And the system is going to have to free up money by looking at changing the cost dynamics in some of these lower technology areas.

We believe that, not only can we offer great products like trauma, something like orthopedics, and certain cardiovascular categories, and certain wound treatment categories -- we think these represent a pretty significant opportunity for us to grow in the future. While we’re not going to be very specific about all the plans, I would tell you that over the course of the next two years, we expect this to become a very significant portion of our business.

Expanding our service offerings -- again, it is so important that everything we do starts with the important partnerships we have with these IDNs and a lot of our time is spent on how do we make sure our core bulk distribution business is in good shape? And as we have spent time in the last year-and-a-half focusing on getting our cost structure aligned and getting our operational efficiencies, we’ve seen good improvements in a number of key metrics there.
But we’ve also launched and updated things like ValueLink. For those familiar or not familiar with this, this is our non-inventory stocking position where we will actually deliver directly to the floor, individual items. This allows our customers to save a significant amount of money because they are not stocking the inventory and they don’t have to take up all the space and allows for considerable efficiencies there.

But as we look into the future, what is the supply chain of the future look like? We think the 3PL business represents a significant growth opportunity. It’s already a significant part of our business and we recently announced that a partnership with Federal Express that we think will get us into a new level of service where we’re talking to partners that we haven’t talked to before.

And about three months ago we purchased an RFID solution referred to as WaveMark and again, as we begin to look at the supply chain of the future, we think it’s going to be critical that you’re going to be able to offer our supplier partners something like an RFID solution that will not only identify the product or lot number, but it will be able to help them understand and manage inventory better as well as understand where all their products are.

Let me ask Michael Petras, why don’t you join me, Michael, right now?

We talk about serving the patient in the home and that continuum across the IDN space, but why do we really like the home? Well, the first -- I know George has mentioned a couple times where his parents are actually 90 -- and we’re talking about 11 million people are 80. Where is the best place to treat these people? We believe the home represents where that is going to be in the future. It’s a very cost-effective care setting and that combination of right care at a lower cost environment -- we think -- will create a very rapidly growing area for us.
We believe we -- with AssuraMed -- have purchased a leading platform in a very fragmented category, a category that’s so fragmented that over time we think partners are going to demand some level of consolidation. We also think it’s increasingly critical to our hospital customers. People who are now discharging people after something like congestive heart failure or a knee or a hip are acutely aware that there cannot be readmission. So they’re going to be very interested in how do we manage these patients post discharge?

And the last issue is - this is the first flush where we’re actually looking forward to tying directly to the patient and this direct-to-patient capability or direct-to-consumer capability -- we think -- will be an increasingly important part of our business in the future.

Michael Petras: Good morning. Thank you Don. I will give you a brief update of where Cardinal Health’s presence within the alternate site of care within the home -- as Don mentioned -- is a very important platform for us as we look to grow the business long-term. Cardinal Health is uniquely positioned in their ability to take care of patients not only in the hospital in the acute setting, but also in alternate sites of care. And you can see in this chart here the alternate sites of care and the presence that Cardinal Health has, if it’s a physician office, clinic, surgery center, long-term care or in home health.

Cardinal Health’s got a leadership position in the surgery centers and really we look for continued growth in those markets as we move forward in the future years. Also within the home -- I’ll talk to you briefly in a moment about AssuraMed and our platform in the home -- but again, we see growth coming in these alternate sites of care that’ll exceed the growth we see in acute settings.

Underlying all of these alternate sites of care are some core capabilities that we have within the business. Fundamentally, low unit of measure capability in a national distribution footprint -- which we have, and we are able to fulfill all of these different alternate sites of care but, in addition to that as Don
mentioned, the comprehensive product offering that we have in some of the consumable areas as we
look to build out the Cardinal Health brand over time.

Now transitioning for a moment and talking about AssuraMed, which is our platform in the home. Some
of you may have heard about the business that Cardinal Health purchased last year. As we look at it and
you start to build from the bottom up on this, you have a national platform that services the home. We can
hit anywhere in the United States -- patients in the home -- 72% of the homes are covered within 1 day or
99% of the homes covered within 2 days of transit time.

You’ve got a common platform of products of over 40,000 SKUs across many chronic conditions. Then
you take the business and you really break down the two elements. One is the Edgepark business and
one is the Independence Medical business.

The Edgepark business is a direct-to-patient business. We provide a service where we’re interacting with
the patient, the health care provider and the professional as well as the payer. We are very uniquely
positioned because we have over 1,200 payer contracts that we’re able to access on behalf of the
patients. We really provide a service for them to make it very easy for them to get their medical supplies
and we handle all the interfaces with the payers.

We talk to over 8,000 patients a day in this business. On the Independence Medical side of the business,
we’re a wholesale business. What’s unique about this business is focus on the 40,000 products that I
mentioned earlier but, in addition to that, almost 90% of this business - the product is directly distributed
to the patient’s home. Where on the Edgepark side of the business, 100% of it goes directly to the
patient’s home.
So we have a very unique platform. On the Edgepark side, we’re talking directly to patients on a day-in and day-out basis. On the Independence Medical side of the business, we have over 12,000 B-to-B customers that we interface with and we do fulfillment of these supplies -- these critical supplies -- to the patient’s home.

What’s really exciting about this business is the market is growing at 7% a year, so it provides growth for us in the long-term. As Don mentioned to you and George mentioned to you, the IDN -- the integrated delivery network -- are very critical for the long-term success of our business and they’re very important for us in our day-to-day interactions with them.

AssuraMed is uniquely positioned. Nobody else in the industry has the capability to cover this whole continuum within an IDN. So if an IDN owns their own DME, we’re able to do all of the fulfillments through our Independence Medical business directly to the patient’s home on behalf of that IDN-owned DME.

On the pharmacy side, we’re able to capture patients at the pharmacy within their Independence Medical business and help expand our offering of durable medical equipment and medical supplies. Again, think about these pharmacies within the hospital. They have very limited footprints as far as space day to day. We can offer them the 40,000 products that I referenced on the previous page. We can do all of the fulfillment to the patient’s home as they’re discharged.

Then you take a look at the hospital systems, the health systems, the home health agencies, the surgery centers, physician offices and payers. All of those are referral sources for Edgepark. So think about it, patients are coming to us as they’re getting discharged from any of those locations or any of those stakeholders, and Edgepark is able to take care of those patients in the home and handle all of the medical billing.
So, think of an example where a patient is leaving the hospital. Historically, the hospitals have given away a lot of supplies as they walk out of the hospital to these patients. We’re able to coordinate a discharge as that patient leaves the hospital and transitions in the home. Edgepark’s able to handle the medical benefit billing and get the supplies to those patients when they get at home and help save the costs for the hospital systems.

So hopefully you can understand that AssuraMed and Cardinal Health are very well positioned and uniquely positioned to service the IDNs across multiple needs within their portfolio.

What’s unique about Cardinal Health’s capability in alternate sites of care is their low unit of measure, their referral demand generation, the payer access and the billing capability. This is not like pharmacy benefit billing with instant adjudication. Medical benefit billing in the DME space is very complicated Part B billing. It’s a core competency we have within the business.

We have a very high-touch patient service model where we’re talking to 8,000 patients a day. These patients are chronically ill. The referral sources that provide the patients to us want to make sure these patients are cared for and taken care of, with the products that they know and trust and that the patients are not surprised on what their payments or fees are going to be associated with this service. That’s where we come in and really bring this value-added capability.

If you look at this piece, there are significant enablers for longer-term growth in the channel expansion product class expansion as well as service extensions, where we can get into different business models to help accelerate the growth within the home.

So how’s the integration going between Cardinal Health and AssuraMed? We’ve come together very nicely as an organization. We’ve been really focused on a couple of the areas around sales, product, cost and leveraging the platform.
From a sales perspective, Cardinal Health’s got a very significant presence within the retail independent pharmacies so we were able to help extend the endless aisle -- if you will -- within the retail independent pharmacies. And bring disposable medical supplies into that pharmacy and be able to fulfill into the home, as these pharmacies want to move and transition with their patients into the home.

With pharmacy benefit managers, we’ve been able to realize significant opportunities around not only the capabilities we have in medical supplies, but also OTC and other wellness products that Cardinal Health has a strong presence in already today within the retail pharmacy.

From a cost perspective, we’ve been able to realize synergies around freight and transportation and leveraging the overall spend within the corporation as well as to cross-product sourcing, and be able to leverage and understand all the spend going on across the enterprise in products like incontinence, ostomy and diabetes.

And lastly, from a platform perspective, as Don mentioned, this is a very fragmented industry. We continue to look for opportunities as strategic tuck-ins that will continue to enable the growth of the business long-term to capitalize on market that’s grown 7% a year.

With that, I’d like to turn it over to Don.

Don Casey: In FY2017 we believe that we’ll deliver 45% of our segment gross profit from preferred products and I offered that definition in the beginning. We believe that we have an opportunity to increase our income from the home platform by greater than 50% over this time horizon. And we believe that we can deliver greater than 70% of our segment gross profit from our preferred products, services, solutions as well as Alternate Site solutions.
So, as you look at it, just to make sure that we’re on the same page, so the segment gross profit from the preferred product sales, you know, this represents a consistent and steady increase and is a result of our emphasis in this space.

You can see that why we’re so excited about the home -- a rapidly growing area with, you know, it’s accretive from a growth perspective -- as well as we believe it continues to represent an opportunity for us to not only take advantage of our sourcing but also our relationships so we think we should be able to expand that. And when you really look at the whole thing when you put it all together, our preferred products are solutions that are an alternate sites of care platforms. We think this is a real opportunity to show that we are a very significant player in the acute care setting.

All right, I opened up the slide. We’re so excited. By the way, that slide is going to be posted so if you didn’t get it, I’m sure we can address it in questions but it will also be on the site.

We’re really excited. Look, we think the changes in the health care system are going to continue at a rapidly accelerating pace. We think we’re uniquely positioned to help our health care systems, due to both our breadth of what we see as well as our product and services offerings.

I’d also add that we just have an absolutely terrific talent pool that’s got a tremendous amount of experience and I’d take my team into the trenches almost any day. And you can see one of the reasons we are so excited - AssuraMed -- we got a great management team and Michael represents approximately thousands of absolutely terrific new additions to the Cardinal Health solution.

And look, we think these solutions are going to provide us both growth and margin expansion for Cardinal Health as we move forward, both because of our cost-effective product solutions are what this system is demanding today, as well as a growing set of increasingly relevant services that are going to allow these evolving health care systems to address an increasingly challenging environment going forward.
So with that, I’d like to bring Jeff up, and why don’t we have our panel come up and we can address some questions as we go forward?

Jeff Henderson: Good morning everyone, so happy to take questions from the crowd. I think we also are collecting index cards, which I’ll read from, interspersed with the questions from the crowd. I think just one point of clarification before I take your first question. Don did present some aspirations for fiscal 2017. I wanted to give you sort of the base point to refer those to. So for preferred products, the aspiration is for more than 45% of our segment gross profit to come from preferred products. That’s versus a number of mid-30ish today and more than 70% of our gross profit coming from the combination of preferred products, services and also net place solutions. That’s versus a low 60s today so again, just so you have a base point of comparison.

So with that, let me go ahead and open it up for questions. Marshall, you hand your hand...

Question: What’s the base for home income?

Jeff H.: We have not given that.

Audience: So you just answered my question so I have to be clever and think of another one on the spot.

Don C.: I could say, “What is Jeff’s - what birthday is Jeff going to experience this week?” This is the week of Jeff.

Jeff H.: Yes it’s my birthday.

Audience: I was going to ask about Ohio State but I won’t do that.
Question: At the same time you guys are focused on the home, the government is on a four-year mission to cut back home health reimbursement, you know, pretty dramatically. How much of your delivery -- if any -- is dependent upon a functional Medicare home health segment and have you had any conversations with policy makers on that disconnect? Thanks.

Jeff H.: Great question. Michael or Don, you want to take that?

Michael P.: Yes I'll take that. So, you know, direct reimbursement from Medicare is a very small portion of our business, you know, we did not win, for example, on diabetes competitive bids strategically. It was less than $5 million of business in our Edgepark business as it exists today, so we are heavily focused on the commercial payer marketplace.

On the Independence Medical side of the business, we do have some providers that are customers of ours that play the Medicare space but we really are focused in categories that really have not significantly been impacted by competitive bid.

Don C.: And just to build on that a little bit, I think it’s also important to differentiate. The government tends to focus a lot more on what home health agency fees are playing, more -- a little bit more on the service side of the business than on the product side of the business -- and I’d also point out that by virtue of the fact that we’re now in the space -- we do think there’s an opportunity at this too. And we spent a lot of time working on policy across a broad number of areas that kind of offer a leadership position within this industry that they have kind of a go to, reputable, well-established company like Cardinal Health to begin to talk to and work to and what is in the best interest of the system as well as the patients.

Michael P.: Well I think the data that we’ve given you before -- but I’ll repeat -- is the Edgepark side of the business was where we actually deal with the payers directly, less than 15% of the overall book of business is directly exposed to Medicaid.
Question: Just a couple quick questions. One, can you just remind us the difference in margin between your preferred product versus, you know, distributing somebody else’s product, just so we can get an idea of what the impact of this can be?

Jeff H.: Yes let me start -- and Don, you were going to add to this. What we disclosed before -- we haven’t given the specific margins on preferred products -- but what we have said before is that currently, preferred products make up about 20% of the revenue of the medical segment and they make up mid-30s – 35% to 36% -- of the gross profit of the medical segment. So it just gives you an idea of the relatively higher contribution that preferred products make to the overall profit scheme.

Question: The second question would be around preferred products and your relationship with the GPOs. Can you talk about how you’re driving that preferred product, especially into the hospital segment? Is it primarily through your GPO relationships or is it going directly to the relationships with the hospitals?

Jeff H.: That’s a good question. Don?

Don C.: Yes actually, Lisa, it’s a combination of both, you know, in categories where there’s well-established GPO relationships we tend to work with the GPOs, and one of the biggest evolutions we’ve seen in the last two or three years is the evolving regional purchasing coalition, where like a subset of the GPO, will get together and where that’s appropriate we’ll work through them.

It’s really at the customer’s request on which way we go through but we’ve had, you know, very positive interactions as we get into some of these new categories that, heretofore, we haven’t had some value-oriented solutions the GPOs are pretty excited about, and their response have been pretty good so far.
Question: Thanks, could you just elaborate a little bit more on the earlier question about the pressure we’re seeing in the home health space because obviously on the services side, this company’s, have been (inaudible) from CMS, from Medpac and all these other government agencies that have been calling for more cuts over the next few years. And I’m wondering, when you’re looking at the picture, you know, how are your economics insulated from that? And clearly as you move forward in this home health space if you theoretically are going to be dealing with some of those home health service companies that are getting pressured by cuts? Theoretically, they’re going to be trying to push back with the people they’re dealing with, like you. Talk a little bit more about how your economics -- you think -- are going to be insulated over the next few years with that backdrop.

Jeff H.: Great question. Given the news in this space, it’s one that we get a lot so let me start off and I’ll turn it to Michael and Don. You know, I think the simple answer is we’re not insulated, you know, we fully anticipate that in some of the categories that we play in there’s going to be price pressure over time. And, in fact, when we did the AssuraMed acquisition and modeled the future, we actually modeled in price compression in the categories that we knew were going to go through competitive bidding.

That schedule of competitive bidding is quite public. We had some data from historical competitive bids that we could use and we made some fairly conservative assumptions regarding price compression that we’ll see in the future. I would say in spite of that, just given the overall strength of the portfolio, given the overall market, that we felt very good about the financials associated with AssuraMed.

The second point I’ll make -- a number of the areas that have gone through the most intense competitive bidding so far -- diabetes, oxygen, durable medical equipment. Some of those places we don’t play at all -- oxygen, for example. Other such as diabetes strips -- we had a very small exposure to -- and durable medical equipment, again, a relatively small exposure to so thus far I’d say we’ve been a relatively lightly impacted from the impact of competitive bidding.
Again, we know that it’s going to continue going forward. We’re prepared for that. It’s built into our models. I will also say, though, as the market leader in this space as there is the inevitable price compression that happens over time, I think one of the advantages that we have being the market leader is that we do have the opportunity, with the scale that we have, to share some of that burden with our manufacturing partners. And I think that as the pressure on prices becomes more acute over time, really is going to very much advantage the scale players, which is why it is important to be the leader in this space.

Don C.: I was going to build, you know, four key points as we are getting comfortable looking at this properly. It is a fragmented category and I completely agree with what Jeff is saying. Scale is going to play a significant advantage when you’re dealing with, you know, manufacturing partners and others.

The second issue is, you know, I think Michael articulated pretty well. Our ratio of exposure to commercial pay versus strict reimbursement is probably something that, you know, people didn’t realize when we acquired it and Jeff offered the statistic, you know, 85% of our business is not exposed to direct government reimbursement.

And then why is that important? Well we’re offering beyond just products. One of the crucial elements that were excited about when we bought AssuraMed is -- it’s not about products. It’s about a large call center that builds a personal relationship with a lot of these patients or in the Independence Medical side, the durable medical equipment suppliers.

We provide billing services so it’s not a commodity. This is not about who can move a box with the cheapest product all the way to the home.
And the last issue is when we talk about preferred product and we talk about our ability to move preferred products across multiple channels, this is a channel that historically hasn’t benefitted from a scale player in the preferred product areas, so we think that represents a significant opportunity right now to begin to shift the mix towards something that’ll look a little bit more like our traditional channels do. And that’s -- today -- it’s an extremely, extremely under developed channel for us.

Michael P.: Yes just to build on that point, less than 10% of our business today in the AssuraMed platform is preferred products.

Jeff H.: I have a question that someone from the audience wrote. I’ll just throw it to the group and then I’ll turn it back to the audience. So someone asked the question, “Can you tell us a little bit about how the cross-unit collaboration is happening? Typically as you get into spaces like home that may transcend certain other areas, can you give us some examples of that collaboration?” Don, maybe you can start and then...

Michael P.: Yes, thanks Jeff. I’ll take that one. So let’s take an IDN. We go into an IDN and have a discussion with them around one of the charts that I showed earlier, you know, do they have a DME? And if they have their own DME in-house, you know they may or may not have access to all the insurances that they need, so in that instance, they would turn the patient over to Edgepark so we can get the billing coverage for that.

In addition to what that DME within the IDN, we would provide them a whole host of products in the neighborhood of the 40,000 products that we currently offer. That’s one example. They may have their own home health agency and we’re able to help them transition and cover not only when they’re under a Medicare episode, but also if the patient is being reimbursed by commercial payer. We can cover the medical supplies for them on discharge into the home through the home health agency.
On the retail pharmacy side, we can help transition some of the medical supplies into the homes -- is another one. Another example is that if an IDN has their own payers, their own health plan so think of the breadth and scale of Cardinal Health not only if you have the pharmacy, the DME, the home health piece, but also now if they have their own - their self, their payer, and we can bring Edgepark as a provider within their payer network and have that entire scale across the whole continuum with Cardinal Health.

That’s one example and we go in and have these discussions with the IDNs and understand what their needs are. We don’t have one size fits all. Depending if they own their DME, if they don’t own the DME, if they have a partnership with the DME, they have their own home health agency, if they have their own payer, we have a solution across the board for them.

Don C: And that’s an example of how we’re making IDNs and home work, but the cross group collaboration is probably changing more dramatically than it has in the last ten years because the environment’s changing so while, you know, traditionally you might have looked at Cardinal Health as an “M and P [segments]”, we don’t look at it that way anymore.

Our strategic priorities show that there’s a tremendous intermingling of how we do things across the line so if you take looking how do we manage the care continuum, that’s something where somebody like Jon Giacomin and Michael Petras who, you know, Jon handles a tremendous amount of our retail independent pharmacies. How do we make coordination work there?

George mentioned up front, perhaps the biggest opportunity we have as Cardinal Health is how do we begin to act cohesively in the marketplace in both a branding perspective as well as a sourcing perspective? So, you know, the same gloves that are needed in a retail independent or a chain pharmacy are also needed at the home and needed in the hospitals so the opportunity is something we’ve been doing a lot better, is acting with scale across all of Cardinal Health.
And we think that’s something that differentiates us. We have, you know, multiple products and multiple channels now and, you know, under George’s leadership we’ve spent a lot of time making sure that we are acting as one Cardinal Health and we learn the more scale we get it sets off a very virtuous cycle.

Question: Maybe a follow-up question on the same topic -- what’s your thinking about leveraging the AssuraMed distribution network across other products? I’m thinking about specifically the physician office.

Don C.: Yes it’s a great question. You know, the interesting point is that as you look at the physician offices, we see that market bifurcating in two ways and if you get a chance, John Rademacher, who heads up our AmCare [Ambulatory Care] business, is a great person to follow up with.

But, you know, look the IDN-oriented physicians we see, increasingly, somebody like a large health care system is going to start asking their physicians to act off one formulary and now we have that capability of doing that but we have lacked, historically, the low unit of measure, you know, basically small items -- one or two lines. How do we get there?

With AssuraMed, one of the things that we were extremely attracted to was this low unit of measure capability that when you combine it with, you know, whether the IDN wants everything coming out of their central formulary and they’re going to manage it to a, you know, kind of a smaller physician office. We now have that capability of serving them on a cost-effective basis on how they want to do that, so that was absolutely one of the synergies we looked at when we were acquiring this asset.

Michael P: And when we have significant scale in that area - so just yesterday, for example, we shipped out 26,000 packages, average 2 lines per orders, you know, directly into the home. I mean that’s significant scale. That’s not just a couple orders a day. We do this across a broad range of 40,000 SKUs. We’re servicing over 1.4 million patients throughout the AssuraMed platform as well and we’re in the process of doing
that. Some of the home health business we have generated at Cardinal Health has now been moved - is in the process of moving on to AssuraMed platform.

Don C: And it’s really interesting if you were to look at the distribution centers that AssuraMed, you know, Michael’s DCs look considerably different than Steve Inacker’s DCs, you know, you can probably fit four or five of Michael’s DCs inside one of Steve’s.

Jeff H.: A question here about our generic medical device strategy and Lisa [Ashby], maybe I’ll direct it to you. “What have we learned from the orthopedic trauma lines that we’ve launched already and what is it going to take for us to move up the technology curve?”

Lisa A.: I think everyone’s aware last year we entered the orthopedic space with this trauma portfolio out there today. I think the big learning that we’ve had over the last year is that the demand from customers is accelerating so the interest in what we would historically call PPI -- or physician preference items -- continues to accelerate.

And our customer base continues to ask, “How do you go bigger? What are those other areas that you can participate in?” And Don outlined kind of those four key criteria that we look at, across any of these categories as we look at what are some of those new categories that we should get into.

So we’re actively now looking at expanding our trauma portfolio as well. As Don referenced, we continue to actively pursue expanding those platforms both across orthopedics as well as cardiovascular and wound management -- as we look at those things. So I think the big learning as we look at that is one, customers are asking us for more so the market is moving towards us -- I think -- at the end of the day.

The other thing -- from a pure learning standpoint -- is it’s not just about a product. You guys have heard us talk a lot about this is about a solution and this is where we think we’re unique. It’s not just about a
product but how are we enabling change at the customer site. Because it’s a very complex system and business model that’s in place today and we’re going to have to bring to market -- Tony Vahedian’s Wavemark -- that we are moving into the market. And we just did an acquisition recently as a key part of that service element and how do we change the business system associate with that device market.

Don C.: I think it’s a great answer. I mean look, we’re going to have to offer solutions. It’s really interesting. We’ve always said that if we make this a race to the bottom on price at the end of the day, you know, that’s not necessarily creating sustaining value for our shareholders so it’s how do we create an integrated delivery system? And, you know, the response, you know -- obviously these are categories with long entrenched competitors, and you have to offer a complete solution. But when we’ve offered the solution, the response so far has been very, very positive.

Jeff H.: I’d like to ask Dr. Shaden Marzouk, who’s our VP of Clinic Affairs. Since you’re very much involved in a lot of the work related to our medical device strategy, what are you hearing from doctors? What are they looking for? What are they excited about? What are they concerned about?

Shaden Marzouk: Thank you very much Jeff. You know, we’re hearing a couple things from doctors. Number one, their concern is obviously patient safety and the quality of the implant and that’s something that we take very seriously. Patient safety and high quality products come first for us. Secondly, what we’re also seeing is that doctors are beginning to think economically. They’re thinking about the choices that they’re making and while keeping patient safety at the forefront, what is the cost of the decisions that they make for treatment?

Don C.: And we referenced in the beginning that the fact that we’ve seen a dramatic shift in, you know, probably 10 years ago you were talking between 35% and 40% of physicians were employed by IDNs. In this point, we think well over 50% of practices and approximately 60% of the physicians are now employed by the
hospital and these hospitals are looking at bundled payments and other things. They’re beginning to look at economic assessments that give high -- as Shaden said -- very high patient care – high-quality patient care -- because they have to be much more economically conscious in the future.

Question: So as you assemble this integrated care system, who do you think your biggest competitors are and what are the gaps that you see that you need to fill in that you don’t have currently, looking forward to the next three, four years?

Jeff H.: The second one is a great question. Don, do you want to take it?

Don C.: Yes, it’s interesting. Five years ago everyone would have drawn a conventional set of competitors that would have localized a lot like traditional distribution plays, and today we don’t look at that at all. If you look at a blended set of competitors right now where some of them are products, you know, some of them tend to be more traditional product players, some tend to be solutions, you know, service offerings.

We, in some of our 3 PL businesses, we’re bumping into people that would be a traditional, you know, third-party logistic player and then as we get in more complicated services, there’d be names that will be very, very familiar with you. But, you know, on the day-to-day basis George challenges us almost every day on if an IDN had three phone calls to make to solve a big problem, would Cardinal Health be one of them?

We think we’re quickly evolving into that space and we would probably look at probably a big product player as one and a big consultant would be another. If you look at that, who would be the three people that the IDN would call? But it’s changing very fast and, you know, we get the question a lot -- like how are national branded manufacturers reacting to the fact that you’re moving into some categories? And I just want to remind people that we’ve been doing this for a long time.
I mean if you go all the way back to the Allegiance days -- which is the forerunner name of the M Segment today, you know we deal with some of these manufacturers as partners. We deal with them as distributors and sometimes we deal with them as manufacturers and sometimes we now deal with them as suppliers so it certainly keeps us on our toes.

**Jeff H.:** Now the second part of that question was, “What are some of the gaps that we need to fill in?” I think particularly as it relates to sort of moving up the technology curve, we know there’s things we’re going to have to do.

**Don C.:** Yes, that’s a great question. There are two things that we’re going to need to get better at that we’re not at today, is as we get into more sophisticated clinical selling, it’s great that if you can offer these solutions but at the end of the day, even in something well-established like trauma, you are going to have to prove that there’s clinical equivalence. And it’s different than the pharmaceutical space where there’s, you know, load stat is load stat so we’re going to have to get better at clinical selling than we are today. It’s a gap that we don’t have.

You know, the second issue, excuse me, we don’t have an international network for a lot of, you know, the stuff that Mike builds on -- the medical consumables and some of the stuff Lisa’s doing. So, over the long-term, we think we’re going to need a fair amount of scale to be competitive and we’re actively out looking for partners when we do something like trauma. How does that - how to succeed not only in the U.S. but how does that succeed around the world?

**Jeff H.:** Mike [Duffy], since Don referenced you there for a second, maybe you could talk a little bit about the launches that we had in the first quarter that Don referenced, that we launched more in Q1 than all of last year. Why the big increase and what’s your biggest obstacle even moving more quickly?
Mike Duffy: Thanks Jeff. Just for point of reference, we launched over 500 SKUs last quarter in product lines that are used by nurses to deliver patient care as well as for use in non-acute channels so Michael and Don both talked - and you talked about the cross-units so as we go to the home and in retail, a lot of these products travel across into multi channels. Why the increases? Our customers are asking for it. They’re asking for alternatives to the national brand where we can provide savings but quality products.

The biggest obstacle right now -- quite frankly -- is us, you know, as we mobilize our resources. Don references this is a 3X increase in all of last year in terms of the number of SKUs we’ve launched so as we train and execute across our organization, we want to make sure we execute with excellence so we’re the limiting factor but the team’s doing a tremendous job getting after it. And as you can see, the 500 SKUs is doing a nice job.

Question: This morning you guys talked a fair amount about the favorable demographic shift, the potential impact that would ultimately have on utilization, and while it seems like the medical segment has evolved a fair amount in terms of the product offering, utilization trends still remain somewhat anemic through the division. And I’m kind of curious, you know, what’s your assessment of that? I mean, I think most would conclude it’s a function of benefit plan design changes that are impacting utilization throughout the industry, so maybe if you and some of the panel could give us your thoughts on how benefit plan design changes may be impacting utilization. And as we look forward to 2014, what’s your outlook with respect to utilization particularly maybe influenced by the Affordable Care Act as well?

Jeff H.: Yes, I'll start and then I'll turn it to Don. Whether it’s benefit plan design or still sluggish economy or other factors. Yes, I would say AssuraMed's utilization, particularly acute care procedures -- both in-patient and outpatient -- have remained somewhat sluggish. But with respect to the design of the business, and Don has very much designed a business that we expect to grow from a bottom line standpoint even in that environment. And one of the reasons some of these higher margin areas like preferred products and services and the home are so important is that, as we change our mix both from a product standpoint and
customer standpoint over to those higher margin areas, it allows us to grow the bottom line as a good clip even in a sluggish topline environment.

Now I think we also have to be careful when we talk about sluggish. That may be true for hospital inpatient, outpatient. It may also be true off and on for physician’s office but that outlook at the home -- which is growing at a 7% to 8% clip -- and there are pockets within our business that are growing at a much higher rate. And again, one of the reasons the home was attractive to us is we saw that was a high growth area not only today but for the foreseeable future.

So we have built a business on a strategy that will allow us to grow really independent of that sort of topline utilization. That all said, when the inevitable turn comes -- and we do believe at some point some of the changes we’re seeing with the Affordable Care Act, etc. will drive increased overall utilization -- we’ll benefit from it. But we’re not trying to bake that into a plan right now. Don?

Don C.: Yes, and for perspective, we didn’t make any increase associated with the Affordable Care Act into our base utilization numbers. And just to amplify two points, starting with the last one first, you know, there's ample capacity in our system if the inevitable, change in demographics begin to hit us. It’s something we can manage relatively straight forward, and I think when Jeff talks about the fact that we think we are able to grow independent of whether a procedure volume is going up or down, when you get into new categories, you know, things that Mike is talking about. Medical consumables are some of these, you know, physician preferred areas, they’re new to us so, you know, last year we had zero sales in trauma and, you know, now we’re in the trauma business. So we think it gives us an opportunity to show total growth across the portfolio because you’re of category expansion so even if the category is now growing, the fact that it’s new to us and growing gives us an opportunity. And again, one of the internal things that we have been seeing all the time when we looked at alternate sites of care, if you look at surgery centers, you know, that business has been, you know, growing whereas you see hospitals not growing as fast.
So we do think we’re seeing a shift in where care is delivered and sometimes it’s hard to track that, but when you look at places like the home, to Jeff’s point, we think that is probably going to track most consistently with the demographics. Because obviously as you’re looking at caring for 80-year-olds, 90-year-olds, they’re going to be looking increasingly to how do you manage them in a site that’s a little bit more cost effective and comfortable.

George B.: Jeff, if I can add something from utilization because it’s an interesting one. I think what we’re seeing -- actually is the first over these last couple years -- pressure on per capita utilization, so I think what we’ve got is two forces at work. One is pressure to reduce per capita utilization, which is done primarily through benefit design shifting, but you can’t escape the capitas.

I think from a long-term perspective, our modeling has been very conservative and we’ve sort of said, “Look this is a relatively soft utilization dynamic today.” But over the long haul, it’s harder to escape the reality of this aging population and so while even though we’re doing some work and we’ve done some modeling on this with some of the experts, as you put pressure on per capita utilization you still have this growing population.

And so I think that’s going to be -- by the way, that’s, as a nation, one of our challenges -- because this bolus of a patient is going to age and they’re going to need care and they’re going to need hips and they’re going to need pharmaceutical products and I think that’s a reality that we’ll face. But I do think part of it is, you know, per capita versus the total system wide. And the system is influenced by this, this dynamic and demographic change.

Jeff H.: We talked a lot about product mix shift and the importance of launching more consumable products, preferred products and moving up the technology curve in Lisa’s area, but ultimately none of that matters unless your sales organization can actually sell it to our customers. So maybe you could tell us a little bit
about how we’re doing that and maybe a little bit about the Signature Savings Program that we’ve been embarking on?

Steve Inacker: Sure, thanks Jeff. The Signature Savings Program is a tool that we developed about two years ago and it’s really built around driving the mix of our preferred products into our customers. You heard Lisa mention earlier that many of our customers are coming to us and asking us for low cost alternative products to the national brand products that they utilize today.

What this tool does is basically analyzes everything that that customer utilizes today then provides the output that shows what the alternative would be for that particular product with a low cost alternative of our preferred products. And then it also does the math to show for them -- based on their annualized utilization -- what the savings for it would be if they migrated from their current utilization of national brand product over to the preferred product. It provides a report for them. Then we also map for them what a transition plan looks like so that we can phase in products over time and make it manageable for them.

Adoption of the tool has been great. We’ve gotten great customer response from it and it’s really helping to bring the preferred products to the forefront with our customers in a very simple and easy way for them to manage.

Jeff H.: So we’ll bring this particular part of the segment to an end. Do we have one more question?

Question: One quick one. Jeff, can you talk about growth in China and discussions you’ve been having with your manufacturer customers and why China, why not Europe? And then also with the changes in your relationships with Walgreens, has that opened up any potential opportunities for you with other retailers? Thanks.

Jeff H.: Are you referring to the sourcing side of things with your first question?
Audience: Yes.

Jeff H.: Okay Mike, do you want to talk to this?

Mike Duffy: Yes, we have an office in Shanghai. We have an extensive network of suppliers throughout all of Southeast Asia -- obviously China being the biggest -- and that’s, you know, as we look for the lowest delivered cost in terms of bringing our products to market, China continues to be a very attractive market for us despite the wage inflation and some of the FX challenges. But that market, as a sourcing -- as a source of supplies -- is as robust as ever.

Jeff H: To the second part of your question, as Don mentioned, the key to success in this part of the business is really scale, right, continuing to source at scale and then sell into as broad a market as possible. Don referenced the need to continue to sell overseas from the products that we source and we’ll also look for opportunities to go through as many channels as we can in the U.S. market as well. But ultimately driving volume is going to be critical as we continue to expand the portfolio and maximize the offering that we provide to that.

So I’ll bring this segment to a close. I put the slide, the money slide that Don showed you earlier, really outlining the financial aspirations that the Medical segment has. Which really relates to the priorities that we discussed today, getting the 45% of segment gross profit from our preferred product sales, increasing our income from the home platform by greater than 50%, then delivering greater than 70% of our segment gross profit from preferred products, services and alternate site solutions. And really, as we talk over the next three years, we’ll continue to give you updates on these and drive aggressively to achieve and exceed them.
So with that, I'll excuse our panel. Thank you very much ladies and gentlemen, and we have the International and China section to go through and then we'll take a break.

Jeff H.: So I got on my Blackberry -- and by the way, this is what a Blackberry looks like for most of you -- but my youngest daughter sent me a text just before I got up on stage that said, “Good luck, you’ve got this. You know why? Because you’re Canadian.” I don’t think I could have said it better myself.

So I’m going to ask Eric to join me on stage in a few moments and I just really want to kick off this section by giving an overview of our international strategy and then, as I said, Eric will do a bit of a deep dive into our China business where there’s some very, very exciting things going on.

I’m going to start with our strategy and I’ll start off by saying that our strategy really hasn’t changed a whole lot in the last couple years with respect to international. First and foremost perhaps -- at least in the near term -- our priority really is to continue to invest in our Chinese platform.

As you know, we purchased Yong Yu really almost three years ago to the day, and the three years since we’ve had a tremendous platform that’s built up -- both in terms of geographic expansion in terms of the product lines that we offer -- the competitive position we’ve been able to establish and last but not least, really the establishment of the Cardinal Health brand -- which is a brand of compliance and integrity.

And it is our intent to continue to invest over time to build up that platform to continue to leverage what we have there and we’re very excited about the opportunities there. And again, Eric will talk to that in a few moments.

Second, we have market-leading positions in both Canada and Puerto Rico. In Canada, it’s primarily a Med-Surg business that delivers to hospitals, long-term care facilities and other sites of care. And Puerto Rico, our business there is really a microcosm of all of Cardinal Health -- pharma distribution, Med-Surg,
nuclear pharmacy. And again, we’ll take advantage of the platforms that we have in both of these geographic locations to continue to build on it and as appropriate, add product lines.

Then we’ll continue to evaluate opportunities in select new markets. One example of that will be continuing to look at specific countries where we can establish a platform and add value, and China’s the best example of that. We saw an opportunity three years ago. We sought assets that allowed entry with the support of the government and we made the decision to enter that market.

We’ll continue to look at other geographies using that same lens and as a reminder, the filter that we sort of put our international locations through is looking at things like, what’s the size of the market? What’s the growth potential? What’s the government and regulatory situation like? How easy is it for us to enter? And last but definitely not least, what specific value-add can Cardinal Health bring?

So again, we’ll look at specific countries. We’ll also look at regional plays where perhaps certain business lines make sense to put in a certain region of the world.

The last point on this -- I’m sure some of you will ask the question -- it’s about Europe. I think it’s particularly relevant given some of the market dynamics we’ve seen recently. We’ll continue to assess options in Europe and we’ll put it through the same financial lens that we put all of our international reviews through. Does the financial return justify the risk? Is there a specific value-add that we can bring? What is the business regulatory environment look like and is there an entry point that makes sense? That’s something we’ll continue to assess over time and obviously keep you updated.

I want to review with you what our current global presence is. We have major commercial operations in three countries outside of the U.S. -- Puerto Rico, Canada and China -- as we referenced. We also have manufacturing and sourcing locations in cost and tax-advantaged locations around the world.
In particular, I want to highlight China and Singapore because as we continue to increase our medical consumables portfolio that Mike Duffy referenced earlier, we will continue to invest and build up resources in those critical areas to ensure that we have the sourcing, quality and regulatory flow that we need to source world-class products that we bring back to the U.S. and our other markets.

I’d also mention -- although not specifically listed on here -- we do sell our preferred product lineup into Asia and Europe through third-party distributors and again, as part of our goal to increase scale over time, we’ll continue to look for opportunities to increase the ability to sell our entire preferred product lineup not only in the countries where we have a specific commercial presence, but through third parties in other locations as well.

A snapshot of the trend in segment profit from our international businesses over time -- you can see it’s on a very nice upward trajectory. Although I will say most of this growth actually has come from our Chinese operations over this time.

Okay before I turn it over to Eric, I just want to remind you of something we said again, almost three years ago to the day when we did our Investor Day with many of you, we had just completed the Yong Yu acquisition. And I actually had put this slide up, which basically laid out our objectives for the Chinese business as we looked forward. We knew we had this wonderful new platform and we were deciding, what are we going to focus on? What will it look like as we go forward to the near and medium term?

If you fast-forward three years, we sort have done a bit of a report card here on what we accomplished. And I am proud to say that we’ve largely accomplished everything we set out to do and more. Now granted, we did not end up pursuing the nuclear pharmacy business in China and that was based on a really economic analysis of the return on investment we could expect and ultimately made the decision that that particular product line didn’t make sense for us right now.
But we did end up launching all the other product lines that we had anticipated and much more. I’m going to give you one example here of our ability to really think creatively and act with flexibility. Based on input that we got from our manufacturing partners and patients a couple years ago, we realized that setting up direct-to-patient pharmacies was a very, very important part of our brand in China of being a supply chain company that promised compliance and integrity.

So we embarked on that initiative a couple years ago and we now have over 25 direct-to-patient specialty pharmacy stores in the country. And again, I think it’s a testament to the team that we were able to listen to our customers and our partners, act with speed and flexibility and quickly set up these very effective stores that really extended our reach in the Chinese supply chain all the way to the patient. And Eric will tell you a little bit more about that.

With that, I’m going to invite Eric Zwisler up. He is our President of Cardinal Health China, has been living in China for 23 plus years now, Eric?

Eric Zwisler: Close enough and long enough.

Jeff H.: And has done a fantastic job of really leading us through the accomplishments that you’re going to see in a few moments.

Eric Z.: Good, good so let’s take a quick ten-minute tour through China. It’s a little far away but as Jeff keeps telling me, you know, China is just like Canada so it’s really, really quite interesting or quite easy.

It’s almost three years to the day when it was a week after the acquisition of Yong Yu by Cardinal Health that I landed the night before, jet lagged and stood before you and talked about the opportunity in China, so it was a relatively large deer-in-the-headlights moment.
So I’m really happy today -- three years later -- that I can talk to you not only about the opportunity in China but really to share with you how we’re delivering on that opportunity. And I must tell you, three years on and facing the future, the same level of opportunity and success that we saw in the past.

Let me just remind you a little bit about the opportunity. Look, these numbers, when you talk about China, these get to be substantially larger than the numbers in your ordinary life. About 1.5 billion people, and it’s aging but take a look at some of these numbers. Over 100 million diabetics in China, over 100 million diabetics and many of those have no access to care right now so access to treatment is very important.

Three hundred and fifty million smokers, three hundred and fifty million smokers -- probably the more troubling statistic is that 60% of the male doctors are also heavy smokers so it doesn’t look like it’s going to improve quickly.

Obesity, obesity approaching 20% in the major urban areas so you can see that this is a -- I hate to say it -- a bottomless pit of need in China. I know we’ve seen some moderation of growth lately, which is probably a good thing. It’s hyper growth but a little bit of a moderation of growth.

We’re still at 7% range but in terms of health care, a continuing ramp-up and a balance where health care has grown continuously at rates much higher than GDP growth because of the need, the social need for it. Policy reform, constantly turning, heavily regulated. But what’s important is that we have been in China – this is our 20th year, 20th anniversary in China. And we’ve always worked with the government to help design and to bring services, polices into China. And to be that bridge so that what we do is closely aligned with issues of access and affordability in China.

And certainly government policies - I wanted to take a couple minutes just to comment on some of the compliance issues that you’ve heard and have been highly publicized in the Western media. Look, one of
the core value propositions in our business is our compliant approach to the business and we’re very proud of it.

We certainly believe that the Western company operating in a foreign environment that compliance as part of our core values operating in a more transparent and regular market is certainly very closely aligned with the growth of our business.

And so while we’ve seen some moderation of growth in China because of these moves, we still expect there to be healthy growth not only in pharma but other health care products in the future. Being in China for 26 years, I’ve seen it several times. We go through these dips, it comes back, go through these dips and I expect we’ll continue to see that.

We started 3 years ago -- well we started 17 years ago or 20 years ago -- but 3 years ago with 3 pillars -- support the existing business, continue to expand the local distribution network and then what was tremendous about joining the Cardinal Health operation is being able to layer on Cardinal Health specific services, product lines. And really that continuum of care that we talk about, to implement that idea in a fresh market. And certainly to build the Cardinal Health brand, the Cardinal Health brand for all our stakeholders. That means quality. That means compliance. It means security and efficiency.

How did we do? Look, we’ve more than -- in three years now -- we’ve more than doubled our distribution business. This is the distribution or the invoice sales of the business. We have a very, very large 3PL logistics business in medical device, which is a multi-million dollar business as well, on invoiced service fees.

More than doubled our workforce and expanded our coverage in the country from five to 10 local direct distribution operations. This team -- a team I’m very proud of -- has successfully acquired 12 companies in China without a stumble and that, given the issues of acquisition in China -- is quite an exceptional
track record. As Jeff just talked about, I’ll speak more in a few moments about a specialty retail initiative and business that we’ve set up.

So really quite an expansion of the business from a numbers point of view, but almost as important is the way in which we’ve layered capabilities and we layer product and that continuum in China. So if you take a look at capabilities from our essentially very simple pharma distribution platform, we’ve moved on to retail capabilities, our specialty retail, the e-commerce platforms, the actual product promotion and forward facing into hospitals, retail pharmacies and platforms to deal directly with customers.

And we can start to see some of these platforms developing some of the capabilities we can draw on in the U.S. For example, AssuraMed and our interactions with direct-to-patient but even as important are the products that we can build onto that platform, meaning you see quite a shift and then expansion to other areas including the medical products, laboratory products, the surgical theatres, the vaccines, biologicals.

Nothing says it better than taking a look at a map. Five original companies, now we always had a business across China selling to every corner of China but five owned companies. We’ve added five companies now including coverage of the South, expanded up in the North most recently with Shenyang - the fourth largest economic area -- and then Dalian will be up in the North. These are very large economic areas in China.

But as well, to have layered on the specialty retail pharmacy network handling non-reimbursable, high-value products sold directly to patients and, of course, our existing and expanded commercial network across the country. So you can see there is a vast area. There’s a vast area that’s covered but there’s also a vast area that can be covered and as we work from Tier 1, Tier 2 into Tier 3, 4 cities and many of these Tier 4 cities are over one million people. We have quite a depth of business to develop as we go forward.
Specialty pharmacy services -- this is one of the areas in which we brought together quite a number of capabilities. The base of this is not traditional retailing, but it’s selling high value, non-reimbursed pharmaceutical and medical products directly to patients for use in the hospital setting -- obviously completely compliantly with prescription.

We have established this network and just accelerated the growth in this area by acquiring a specialty pharmacy company on October 1, which brought to us a full Internet capability information portal and B-to-C capabilities, when appropriate, for whatever product lines there are. So we’re quite excited about this investment, about this business. We see it as a platform -- a new platform -- a platform that doesn’t exist at the level in which we can implement it at direct-to-patient or at direct-to-consumer levels.

So it’s a very exciting development. It’s one in which we’re going to continue to invest in quite substantially. And certainly what we like here is being able to take the Cardinal Health brand before the patient or in front of the patient and establish that belief.

When we take a look at the strategy going forward in the future, this is just a much more granular statement of the original three pillars that I showed you that we put in place three years ago. That’s great. I mean we’ve been on a good course. We have a business that’s on the front of its feet and moving very quickly.

We will continue to expand our geographic reach by developing and acquiring other local direct distribution companies to sell directly to hospitals and retail pharmacies. We will continue to expand our reach of direct-to-patient pharmacies from our current 28 up to over 50 as we expand.

Now this business is not one about thousands of retail pharmacies. It’s about being able to supply into major urban areas and, for example, in Shanghai having one or two pharmacies is certainly enough with
these kinds of product lines. And to build on top of that some of the innovative health care services that enable not only our relationships with patients to the centric support, diabetes-related care, but also working with our downstream stakeholders, hospitals, retail pharmacies to help them improve their operations.

In a country like China there is again, a bottomless pit of need for just about everything we can bring and a lot of our job is to make sure that what we’re doing is properly timed and economical as we go forward. Absolutely key to what we do is establishing the Cardinal Health brand, the Cardinal Health brand in a market – an unorganized market like China -- is incredibly important. And to build that brand so it has those core value statements that we believe in, that means the quality, compliance, transparency, and cost-assurance to a consumer, to a hospital pharmacist, to a lab technician, to a nurse, is incredibly important for us.

And I’m happy to say one of the very nice surprises for me starting and establishing a business called Yong Yu, and a brand that I believed in, is how quickly and how resonate the Cardinal Health brand was in China. And how important it is to -- not only with the companies we acquire and the beliefs that they have in it -- but I believe for the future growth of our business there.

So these are the pillars of our growth going forward. As I said, we’re very excited about the future. Three years ago we were excited about the opportunity. We’ve done a lot of delivering on that opportunity and we’ve set ourselves up again -- I hope not in three years -- maybe in a couple years -- where we can come back to you and also share how we delivered on the platform today. Thank you.

Jeff H.: And Eric will be joining us on the panel later on that we’ll be doing after the break. Just one point of clarification and then one comment before I send you all on your break. Eric referenced making 12 acquisitions and you might ask, “How does that compare to the 7 that you often talk about?” Five of those were done before we acquired Yong Yu. Seven of them have been done after we acquired Yong Yu.
And a final comment I want to make as I go back here, I showed you this financial slide, and we’re going to spend a lot of time today talking about the commitments that we’ve made in the past and how we’re performing against them. And as you’ll see, we’re understandably proud about our ability to deliver on commitments but part of that’s also telling you when we fell short.

And I will say about three years ago we had given the Street a goal in terms of percent of our overall operating earnings that would come from International by a certain date. I will say that the actual dollars that we’ve delivered over that timeframe have actually been pretty much consistent with what we expected at the time. However, our domestic business has actually grown much more quickly than we anticipated at that point, so our international mix has actually fallen short but I guess if we have to miss a target, that’s a good reason to miss it.

With that, I’m going to ask everyone to please take break, grab a coffee, whatever. We’re going to come back here at 10:10 am and start up with the Pharmaceutical Segment and Specialty. Thanks.

BREAK

Sally C.: Everyone, if we could take our seats, we’re ready to get started. Welcome back from the Webcast and from the break and for those live on the Webcast as well as in the room, I just want to remind you that the Safe Harbor is in place. So without further ado, I do want to introduce our CEO of the Pharmaceutical Segment, Mike Kaufmann. Mike?

Mike Kaufmann: Thanks Sally. Oh boy, good morning everybody. I’m really glad to get a chance to talk with you today.

Before I start let me introduce a couple of people on my team that aren’t going to actually get a chance to make it up on stage but are here. First of all over here is Jon Giacomin. Jon is the president of our U.S.
pharmaceutical distribution business, which is a business that’s just been doing incredibly well, and he’s been the guy behind some of the things I’m going to talk about.

And also very new to the business -- been with us just about six months -- is Tiffany Olson and Tiffany is the president of our nuclear pharmacy business. And as you know, this is a business going through a lot of changes and I’m really glad to have been able to bring Tiffany in at the beginning of our fiscal year. She’s really taken a look at that business and doing some great things with that.

So, let me jump into it. I have been with Cardinal Health 23 years now -- a little over 23 years now -- and I could not be more excited. I really enjoy what I’m doing, and I really enjoy who I work with. Don has just been an incredible teammate on the medical side. I love working with the team. The fact that we share talent across three sources and ideas, because our teams work together great. I love the team that I have put together right now -- we’re working real well. So it’s really, really exciting.

And, you know, backing up to when we first launched the segment like it is today we set really interesting goals at the time, that we thought were going to be tough to hit. We said we were going to hit about $1.4 billion in earnings. We said we were going to have a margin rate of 1.43%. And you’re going to see that we’ve exceeded both of these tremendously.

And the bottom line is we’ve really performed well over the last four years and I’m excited about where we’re going to be able to head going forward. Well, first thing I would mention is, like I just said, if you take a look, we’ve set that FY13 ball high. We thought that $1.4 billion was a target for us and you should see that we’ve exceeded $1.7 billion. So blew our number way over $300 million. And it was just a lot of hard work -- a lot of focus on a lot of things.

Also if you take a look at our segment profit percentage, we again surpassed our goal of 1.43%. And we hit 1.90% as of FY13. A little bit of that just happens to be with the last of the Express Scripts business,
as this changed our mix a little bit and helped juice it a little bit. But you can see the steady growth up through there. And really the real driver behind those numbers has been our really relentless focus on four things and I’m going to talk about these.

The first one is that we are really focusing on executing with relentless discipline and excellence. We are doing some great things in our distribution centers and throughout our business, so I’m going to talk about a little bit later. We really have focused on diversifying our customer base, which I’ll talk about. Growing generics -- volumes and margins -- that is going to be a big portion of my presentation. And in which, I guess, is a good thing since you said, it was something you were both interested in and had some concerns about. So we will definitely talk about that.

And then lastly -- investing and growing in specialties. And we’re going to give this one a little bit more emphasis right now because I’m going to bring up Meg Fitzgerald. Now Meg has been with us about three years. She is the president of our Specialty business. She has, prior to coming to Cardinal Health, spent time with some great companies like Medco and Pfizer. She recently finished her doctorate in health policy, and she’s a Professor at Columbia University. And she has just brought so much enthusiasm, knowledge about health care and health policy to the business. It’s my pleasure to have her come up on stage and talk about what’s going on in Specialty before I come back.

Meg Fitzgerald: Everyone, nice to see you. Hopefully you are happy to see me? Thanks, I got this - I’m Irish. So I am excited today to share this and I’ve seen many of you, I think, three years ago and intermittently over the last three years. But today we’re going to share some quick highlights on our business. The performance, how we continue to grow, as well as to show what we see in the new world of specialty medicine and that’s a bit of a nuance because it’s not just about specialty drugs.
The field of specialty medicine has evolved quite a bit and I want to share some stats and some trends to kind of let you know how we’re looking at this market place. I think for many -- specialty -- this just means a premium and everyone has to be in it. So it’s a bit of word that needs a description and how we see it and also our differentiation and strategy to win.

So the most important thing - the money slide. We’ll start with a quick overview of our performance. Overall, we experienced year over year of growth of 44% since our inception three years ago we’ve experienced triple digit growth in our distribution business as well as our specialty pharmacy business.

Our track record really has been driven by revenue in both the acute setting and the physician office setting and distribution as well as our specialty pharmacy. Our specialty pharmacy -- which is called OncoSource -- that’s the brand name, we’ve been able to capitalize on our nimble nature. Many products in specialty go through a specialty pharmacy and we expect more will do so because of the high touch need that’s required for patients that take specialty medicine.

We can deliver on-demand programs. We deliver compliance rates north of 95%, and it’s very meaningful to patients, very meaningful to biopharma, and has really been a bright light in our portfolio. And we also target to serve patients throughout their life cycle or disease course.

And I think a lot of what you heard and what you know -- because you follow us and a lot of other companies -- is that it’s really becoming a binary world of specialty medicine and generics. And it’s hard to believe that ten years ago specialty represented less than 10% of the pharmaceutical spend and here we are a decade later and the pipeline will have about 60% representation of specialty on a go-forward basis. And most of that pipeline will be in oncology. And this really is the mega trend that will drive our business -- that taking caring of these patients has become extremely complex and very important for biopharma.
Most of the major biopharma companies have scaled down divisions with specialty being one of them, consumer being another and then some add a third depending on what they’re going after. But it really puts a bright light on the focus that biopharma has to get there. And what we find is most of the innovations happening at significantly smaller biotechs.

And they also need a lot help and support because they want to offset as much commercial expense as they can until they can be acquired or until they know they definitely have a viable compound with the FDA that they can then sell to either a larger pharma company or get enough revenue and profit to buy another drug. So we’re finding a new set of customers coming to us with trends around, you know, requests for our capabilities and what we can do.

We put the slide together because, I think, it brings together how much the landscape has evolved and this really is a big trend for us since these medicines are so important to biopharma and patients. We’re really entering an era what we call patient-centered care - that’s really where we focus our positioning and our effort.

The services around the medicine have become just as important as the medicine itself -- equal to that. So in addition to clinical complexities, payors, biopharma, patients and physicians are now dealing with financial complexity head on and not just clinical complexity, but who pays for these medicines and how do they get reimbursed.

Populations in drug discovery are significantly smaller, so populations that used to look like they were orphan drugs under 200 thousand have now become the normal market into which these drugs get launched. Some populations are as small as ten thousand. So finding these patients and getting them on therapy as soon as possible is really an unmet need.
And, I think, higher-skilled partners like Cardinal Health and the team we put together, and the focus we’ve had complements the medical innovation with business innovation around the patient. And again, we see that’s just as important in itself -- a big trend that we’re capitalizing on.

As many of you know under the Affordable Care Act, no one with a preexisting condition can be turned down for care. And that’s really important when you think of cancer and that 11 of the last 12 oncology drugs approved by the FDA -- costing more than $100 thousand -- 11 out of 12 have annual costs of over $100,000. This innovation is important to patients, but also brings a lot financial complexity to those that have to manage these patients.

And so thinking about it, in addition to the biggest risk of getting cancer being your age, you now have a skewed older population with very expensive care and all the other co-morbidities that go along with being an elderly patient. So aside from a lot of the discussions today about site of care, it’s also important to think about the financial piece of this equation as you’re dealing with very expensive drugs.

And what we have said to our customers and what really resonates with them is that, regardless of who is paying – and that could be a full-day presentation in and of itself – these medicines are analogous to somebody buying a home in terms of complexity where ancillary support services like insurance, maintenance, financing are all part of the package. And all the stakeholders we deal with -- no one can afford to have a specialty drug delivered to a patient that doesn’t need it and can’t pay for it.

When you think of all our positioning and where we see the market, managing a specialty patient is now a 24/7 job. The services consist of patient-assistance programs, 24-hour hotlines, pharmacy hotlines. Mostly patients forget what was told to them at the time of diagnosis because it is extremely severe. So oftentimes they go home and get to process what happened and that’s really where a lot of the care kicks in. And this demand has really opened up a new sector of specialty services with the focus on technology,
pharmacy, clinical care and now financial care. And that’s pretty new in the last two years, to bring some of the financial management to the physician, to the bedside.

Many of them have told us, we don’t have time to do this, we’re not paid to do this. We want to work to the full extent of our license and there is a shortage of us. So in order to spend an extra day a week on financial management is not where we want to be. So as we think about our vision, success requires managing a portfolio of patients where oftentimes the individual patient is different from the general population. All stakeholders want to manage patients, want to get them on therapy as soon as possible within the doctor’s orders. And dose one is as important as dose number five. Keeping the patient on therapy is really the challenge we get asked about.

It is important because you guys raised it in the polling -- about our positioning and what is unique about our positioning. And we feel we can capitalize on the growth of where the market is going because it feels as though some of the market is coming to us. And we have two key tenants about our positioning.

The first is – it’s patient-centered. Doing well by doing good is really at the heart of what we do with all stakeholders: payers, providers and biopharma. Many in specialty have picked one stakeholder. We did not. We believe that you can work with all three. That’s where healthcare 2015 has placed an emphasis and that picking sides is not really going to benefit the patient or benefit the innovation, or really help physicians manage the financial complexity in specialty medicine.

So we bring these three groups together to collaborate and find common ground. It’s also a unique single point of contact that Cardinal Health has with all three stakeholders which brings a host of benefits to our positioning and the efforts and the support that we can bring. Our ability to focus on the needs of the patient and assisting biopharma with getting closer to the patient, having more intimacy. Most in biopharma have one chance to launch really well, because many of you track them. And getting single patients -- all 10,000 patients -- not only on a trial, but then getting them on therapy is really the question
that biopharma is answering. And ensuring that there is the required support to stay on therapy, that they
don’t take just one dose as I mentioned.

The second part of our positioning is having an agile enterprise and a focus on what we call stakeholder-
connecting technology. A lot of people talk about technology in this space and it is probably a mile long
and an inch thick. So the one message we want to give you today is that any technology that is
launched, if it doesn’t connect all three stakeholders together then there will be a gap. There will be less
likelihood that it’ll be used and if it doesn’t work easy for physicians and it can’t be loaded very fast and
they can’t get to it from being on an iPad and to some people being on a Commodore, it’s not going to be
used by physicians.

So, and it’s not a joke -- some are on Commodores and are happy to stay that way. So when they
approach us they don’t want anything terribly confusing and they want it easy, and they want it to be able
to connect to clinical information they need as well as financial and reimbursement information. There is
nothing worse than saying, this is the best clinical decision for you, but I’m really sorry it’s not going to be
reimbursed or your copay is $10,000.

We have to somewhat be at the central command of helping them navigate all these decisions. So
technology that helps promote value, transparency and collaboration is really the new, new. And in
everything that we launched this year, we’ve launched seven products, they all were focused on being
able to do this.

So our products today, just to take you through what we do today and then where you should expect to
see that we’re going or hear more from me, our offerings today already serve a robust set of patient and
stakeholder needs in our model. And we have scale to allow flexibility in our model as well as grow at any
given time.
So when you think about today -- think about when a drug is launched -- the first few things that go on in Phase 2 and Phase 3. We get in early and strong with manufacturers and a lot of intimacy around their trial data. And you’re dealing with very, very complex medicines. So to be able to advise them in Phase 2 or 3, “you should add a health outcomes endpoint – you should add this to your trial given what we’re hearing upstream from payers” -- is very important to biopharma. We have a scientific regulatory consulting business that has many master accounts with some of the top biopharmas in the industry with a large team of Ph.D.’s -- true subject matter experts -- that understand safety, regulatory compliance and are very intimate with what goes on at the FDA.

And we have a wonderful reputation with clients, we’re very well known for what we do in the early stages of development. And then as you think of that drug move, the healthcare marketing analytics team that we have further positions us as a real thought and execution partner as they go to market. Again, we’re highly regarded and we know so much about your product having worked early on, that it’s a very easy transition to start to use our division for launch.

And then we kick in with our distribution business, group purchasing, all things Cardinal Health does really well. That’s the legacy of our company. We should expect to be really good there and we have been. And then we have the associated tools to help with providers, as I mentioned, in the office, around technology and all the things you would expect serving this group.

And we serve beyond oncologists, we also serve rheumatologists, gastroenterologists, HEP C - all the top areas. We really made a focus in our positioning to also be about specialty, not just one therapeutic area, although most of the business is in oncology.

And then the final vertical today, and what gets me most excited when I talk about the market playing to us, is the proprietary software we have with Pathware. And we do a lot of press on that because we’re
always at ASCO (American Society of Clinical Oncology). We’re always publishing, which is expected of our payer group and also expected of our biopharma group.

So this provides healthcare professionals with real-time, point-of-care, decision-support at the bedside. And it benefits all stakeholders by decreased treatment variability, enhanced operational effectiveness, reduced ER visits, reduced hospital stays. Our program to date has a few accolades: we’re the first in oncology, rheumatology and GI; we were the first to deploy the real-time decision-support software; we were the first and only to be validated by third parties, which is very important to payors; we’re first to be deployed across an entire provider network. So it’s important that you have Pathware coming from physicians as well as coming from payors because there is a need to work together.

And we’ve also had an average of 15% savings while decreasing hospitalizations by 7%. And this was despite higher reimbursement for physicians, which is somewhat counterintuitive. But, paying physicians to do work that they fairly want to do and that is in alignment with patient care, and most appropriate in terms of use of specialty medicines, is something that the payors want to reimburse.

So having patients with better outcomes, having payors save 15% and having physicians see their revenue going up is a win, win, win. And I think most of healthcare is after that, whether it’s an ACO (Accountable Care Organization) or medical home. And we’re most excited about where to take this model because it really is to help people manage and underwrite financial risk. And it really works in specialty because some of the costs are so high, but we see this as being applicable across other product lines.

As we look to the near future to gain scale with Pathware, the Affordable Care Act -- even though maybe it didn’t bring as many patients as we all had anticipated -- it did bring a momentous change in how people think about cost and how they think about managing expensive diseases. I think that trend will play to our favor as those new folks coming into the system that take risk. It’s no longer just the traditional
payors that are taking risk. IDN's are taking risk, physicians are wanting to take risk, everyone is wanting to say, if I can control the patient and everything about them, then I should take on some of the financial risk.

The challenge is they’re not always the most sophisticated to do that, so our positioning and our partnership allows them to do that -- it de-risks it for them really. So the future for our division will count on us expanding in three areas that you should look to hear from.

Commercialization consulting. While we have a strong position in our cradle-to-grave product line, customers have asked for more around health outcomes and reimbursement. So given our connectivity to payors we anticipate that we’ll invest more heavily in this space and look at commercialization consulting as it will be increasingly important for biopharma and patients to understand and plan for how payors will respond to new drug launches and how they will be reimbursed and what will be required in clinical trials.

This is especially true as we think about biosimilars where this model will work as well. We believe that biosimilars will behave more like a brand, and so there will be some differentiation in data that will be accounted for even though the pathway from the FDA is not totally clear.

Second, patient-centered support services. We will remain with a patient-centered position. As more costs shift around, even a 10% co-pay on something that is $50,000 or $100,000 could limit patient uptake of therapy. So we will be able to complement our specialty pharmacy OncoSource with the next generation of electronic hub -- which is a bit of a buzzword -- which is really a command service center to take care of the patient holistically, 365, 24/7.

And that will ensure patient access -- they get the drugs they need. Biopharma gets the benefit from bringing their new innovation and payors feel like they have some sense of control about ensuring it’s the
right drug, the right patient at the right time. We can also facilitate co-pay assistance, which is very, very common nowadays, as well as providing clinical programs to ensure the patient stays on drug therapy.

And then finally -- enhanced data analytics. As you can think about when we go deeper with payers, providers and biopharmas, we are left with an ecosystem of data -- very, very, very valuable data. Many on our tech team will call this exhaust. And so the exhaust will help us track, predict, confirm how, when, where and what outcome some of these treatments are being utilized. And extremely powerful to a product manager who wants to know within 30 days -- not retrospectively, but how am I doing right now with the drug -- are we running into any reimbursement hurdles? Same for the physician -- it is to remove all the burden of obstacles for physicians and patients and biopharma.

And we're keen to broaden our data reach, which is already at 3,600 -- we carry and manage 3,600 oncologists who touch our system. Two point three million cancer patients, nearly 100 million payor lives, over 6.5 billion medical records which include Medicare and commercial patients. So expanding this offering is really important.

In closing - we believe our model and positioning continues to serve us well. A patient-centered positioning focusing on all three stakeholders. We have gained scale and enhanced our capabilities across each of our services. We remain with a diversified set of assets and businesses that serve all of healthcare and we have attracted and developed strong talent not just for today, but for what healthcare looks like in 2015, which is rapidly changing.

And we’re poised to invest. We’re careful about that and we’re opportunistic. And I don’t think there’s been a deal or an asset in specialty or even a few degrees of freedom to the right or left that we haven’t looked at. So I look forward to updating you well before the next analyst day on some progress in this space and I thank you for the time.
Jeff H.: Okay, thanks Meg. We’re going to move into our second Q&A panel of the day. I’m going to ask Eric to come back up and Dr. Scott Howell who is our SVP of Clinical Solutions and works with Meg in the Specialty and Biopharma group. We’re going to focus the Q&A on the last two strategic priorities we just covered – International/China and Specialty and Biopharma. So with that, we’re open for questions.

Question: Thanks for the overview. Just curious how you would describe the competitive landscape and how Cardinal Health competes in that landscape in some of the other presentations we’ve heard about scale being a factor. Obviously not as big as some of the other players in this particular niche. So any color you can offer there would be great. Thank you.

Meg: Thank you for the question. I think that first and foremost, scale is one benefit for sure, but what we found is relevance in getting paid for services and value that you bring is equally important. So you could look at us from a standpoint of distribution scale, GPO scale, specialty pharmacy scale, payor lives, how many oncologists under management. And what we’re finding is to be relevant in this system and to be able to get paid fairly for doing work and doing high-value service, it’s really about having relevance with patients, providers and payers. Not just one audience.

We have grown, I think, to a level that we feel comfortable with and have been happy with our growth in distribution. We’re, of course, significantly smaller than our competition, but I think our relevance has increased significantly in terms of what we can bring to biopharma and what we can bring to payers and the help that we have with providers. So covering 3,600 oncologists that would be 8,000 or 9,000 that are in the field -- we feel very good about it. And whether they’re in their community or they’re in the hospital - we are able to provide them coverage. So I hope that answers what you were looking for.

Question: Going back to China, you mentioned 12 acquisitions there in a very fragmented market, with the lines blurred across channels, but maybe you could give us some sense of where you think you are as far as market share. I guess more importantly as we look out longer term, maybe give us a sense of what the
goals are and what the timelines might be about where you want to be in China over some three- or five-year time horizon.

Jeff H.: I’ll start and then ask Eric to chime in. We currently believe -- it’s always hard to get totally accurate data -- but we believe we are in the top ten in terms of pharmaceutical distributors in China. We expect over time to move up that ranking. Our goal isn’t necessarily to be the top one or two pharma distributors in China. That may be difficult given the size of the local players, etc., and the fact that there’s certain products and regions that we don’t anticipate ever playing in.

That all said, if we can continue to increase our share in the pharma distribution area, continue to ramp up our med supply distribution and med device distribution, continue to expand in our specialty pharmacy, then we believe that overall footprint can give us a pretty significant portion of the healthcare flow in China.

And importantly, drive profitability. There’s lots of ways of driving revenue in the Chinese market that don’t necessarily correlate to profits or good return on capital. Our focus has been on highest value-add. Particularly focusing on multi-national products from multinational manufacturers, where we think we can provide the greatest value-add and generate the best return on investment.

In terms of our longer-term goals, Eric laid out a few of those today. Continuing to expand geographic reach, we currently have ten local distribution operations - we would like to get that closer to 25 over time. We are off to a great start. We would like continue to build out our med-surg, lab and retail pharmacy product lines and we would like to get our direct-to-patient specialty pharmacies to at least 50 in the next couple of years. And then we will assess, you know, what the ultimate right number is whether it’s 100, 200 – it really depends on the need and the profitability of those pharmacies. So that’s really it in a nutshell. Eric do you want to add to that?
Eric Z.: Yes, when you think about market share in a foreign country and a China context compared to a U.S. context, there are some significant differences, and so it’s very clear we’re one of the top ten, but we punch way above our weight. And we punch above our weight because of what we can bring to lead the industry and development. And so it’s very clear that there are less than five national players of which we’re considered one of those players. And the -- I would say -- leading foreign of player in China distribution and so that’s key.

What we want to do is have a scale so that we have economies of scale and cost and relevance in the market to compete with bigger players. We don’t need to be an instrument of government policy, which means a lot of distribution at the state level where you see bigger numbers and bigger market shares because these are policy decisions in support of public healthcare and not necessarily profitable. But I believe we are clearly a national player. We’re considered a national player. We have the scale and the scope and the value-add to maintain that. And as we continue to build out that position will only strengthen.

Question: On the specialty drugs, there’s been news in the exchanges where people are signing up for plans and they don’t realize that their plan does not cover the drug and they end up with gigantic copays. With exchanges possibly being pushed down to 50 million more people in the small group market, is that on a scale of one to ten a concern for you? And, if it is, are you taking any incremental steps in terms of educating patients on the front end with plans and drug coverage and that sort of thing?

Scott Howell: Yes, of course, we’re concerned about access to these medicines. It is a difficult business model - the biotech specialty model as Meg described, they’re targeting very small populations - these companies. But they have all the same costs and all the same risks so we see much higher prices spread over the smaller populations. And when you combine that with a skinning down of the benefits and insurance, it’s happening some with the exchanges. But really it’s happening kind of more broadly as we all understand, it creates a tension there obviously.
You know at the time, I think, most of that gap is, frankly, being filled in by manufacturers and by their agents and that would include companies like us who are working to help stand up reimbursement support services, copay assistance programs, free drug programs and the like. And, I think, for the foreseeable future that is likely going to continue to be the solution that we have.

Question: The specialty business - you typically need scale or relevance in one of the major sleeves: that payor sleeve, provider sleeve or that manufacturer sleeve, to drive relevance and to drive some type of excess margin. I guess if you think about pharmacy on one side, medical on the other side, the provider market share, there are two pretty dominant players. There seem to be opportunities on the payor side and the manufacturer side, I guess. Could you talk about a strategy there and which one is more attractive to you as you think about the rest of Cardinal Health’s business?

Meg F.: Yes, well we always say, you know, it’s a great question when you get this stuff from George, and we get this all the time. You need a certain level of share touching physicians. Thirty-six hundred is a great level of share. Two point two million cancer patients given that 1.5 that get diagnosed almost every year, we probably touched 25% of all the cancer diagnosis – either incidence or prevalence. So right then and there that’s enough scale for payers and biopharma to stay relevant. Now if you only had 500 physicians or not as many patients, there is a number of which are not relevant. So totally get the point, we’re at a point now we’re extremely relevant and have not been an issue.

I think on a go-forward basis and this gets to something we say in terms of one differentiation I made earlier when the question was asked, about relevance to us also means profit and where are you going to get paid. Access to these medicines and getting them to patients is so important to biopharma that they will pay for the support. We’re entering an era where the services around the medicine are just as important as the medicine -- they’re equal -- or the patient doesn’t take it.
So there are stakeholders willing to pay to ensure these patients get this medicine and it is also relevant to the physician because they don’t want to worry about that at midnight. They want to know that there is a partner that can take care of this, and on the other side you have a new group of payors if you will or risk-bearers that also want to pay for performance and ensure an outcome was given to them that they signed up for with the cost of medicine.

They’re also willing to pay for a shared outcome. So I think all three pools are very relevant. Some are more profitable, some are significantly more important but maybe not as profitable. I think we all know distribution hasn’t been as profitable and you guys know the numbers and report on them. We’ve limited exposure there, so we’re not coming down necessarily and we’re able to grow in the areas where we can bring relevance.

But, I think having market share in all three is important. And I think for the last ten years the market share was always talked about in terms of, what’s the share in distribution? I think now entering a new era of healthcare, many want to know how many patients under management, how many lives, what specialties do you touch aside from oncology and what is your relationship with IDNs? This is in a lot of what goes on in the Cardinal Health ecosystem that benefits. So it’s a great question. I couldn’t pick one, but they’re all equally important. It would be hard not to have one now a days.

Jeff H.: Buried in there was a comment that we need to continue to increase our relevance to the manufacturers or pharma companies...

Meg F.: Yes.

Jeff H.: ...as they look to get these increasingly smaller volume products to the right patients. Tell me a little bit more what we’re doing either organically or inorganically to accelerate that relevance.
Meg F.: Yes. So organically we feel as though we have the right team in place, the right experiences over the last three years and we’ve grown profitably. And the revenues we’ve grown in the triple digit growth have enabled us to invest in the business. So organically we feel like we’re in a good spot. There are some things we can build and some things we can’t. And we’ve done numerous small tuck-in acquisitions over the last three years to kind of build the scale. I will tell you on the M&A side we’re extremely active and very opportunistic and we’re looking every single day. You should expect to hear that there will be more M&A modestly in this space. And we feel that some modest investments will actually only increase our relevance and what we’re able to deliver.

Jeff H.: Yes, I just want to echo that. As Meg has built her team and did all of her strategy, our level of comfort with where that strategy is going and the focus of it has increased immeasurably. Along with that comes the propensity to want to make something of a modest investment in select areas. And we will continue to look for those. We’ve made some, we’ll look for others and we’re ready to make them if the strategy and financial returns make sense.

Meg F.: And just to give an example of some of the investment, you know, we brought Scott Howell over from Genentech where he ran reimbursement and access services for Genentech, and we know that that is really the heart of the new model. So it’s also an investment in talent to bring people in the market that are best in class in some of these areas and put them on the team. Same with payors, most of our team has read the Affordable Care Act, understands all the rules, has worked in that space and is very intimate in managing what’s at risk. So, we are adding to our bench to make sure so as we take on assets, we have the right team to deploy them and make profit.

Question: Meg, just another question. Can you follow up a little bit more on your relevance to payors? I know there are a lot of concerns about the high rates of inflation for some of these new specialty meds as you mentioned. What can you guys bring to the table to really get that under control for payors?
Scott H.: Okay. Yes, as Meg mentioned in her presentation we really do have what we view as a leading position in the marketplace with our clinical pathways program and with the tool that goes along with that -- the software tool clinical Pathware. And as she also mentioned we’ve got some demonstrated success there. It’s been studied by some outside parties, it’s been published. Results have been published in peer-reviewed journals where in the context of programs that actually are reimbursing physicians on a per activity or per drug use basis somewhat higher net costs coming down, and care improving in terms of reduced variability, reduced emergency room visits, reduced hospitalizations and so on. So there’s better reimbursement for physicians at the core of it, and so they’re happy with that and at the same time, you know, very substantial improvement for the payors. And the publications, if you look those up you’ll see on the order of 15% reductions in their year-over-year costs in those populations.

Meg F.: I will tell you what they tell us is, you know, a real conundrum for payors for sure. You’re dealing with people with very serious illness and, in some cases, some of the drugs that were launched and including -- look what happened this week with HEP C. You’re looking at words like cure or cure rate for extending survival and so it’s very difficult to turn that down and most of the patients in cancer would fall under Medicare and it gets picked up.

So what they want to know is that that outcome is appropriate for the patient. And as Scott always reminds me, you know, 50% of the cancer compounds in development right now are coming to market with a diagnostic test so, again, to validate that the product will actually work in a certain micro population. So what payors ask of us is -- Is this clinically the best way to go? And if it is, is this patient going to respond because 25, 50, 100 thousand dollars absolutely cannot be wasted and, if they’re on it - are they going to stay on it?

So we’re finding that there are two models out there. You can either take, you know, a more strong-handed approach with physicians or you can work with the physician and say, listen, if the right care is done, we will share some of the benefit with you which has been our model. Because they also know that
if a physician defects to the hospital and gives an infusion that’s $4,000 that in the community setting they could have given for $400 that’s also a conundrum. So that’s why we feel as though these parties, now more than ever, are working together because they want to influence the appropriate set of care along with the appropriate drug being used.

Question: I have a question back here. Can you just help me to better understand the actual financial model either Jeff or Meg? I mean, obviously we all understand distribution and how you would make money on distribution. But when you have the relationship with the payers it sounds like you’re talking a lot about taking risk. Are there certain risk corridors, are you only sharing on the risks to the upside? What happens to the downside? And then are you being paid service fees, consulting fees from the biopharma manufacturers? I mean, how do we think about how this all fits together both from a revenue and a profit perspective? Are there certain areas that are more profitable for you than others?

Meg F.: Yes, sure. Thank you. So we get paid three to four or five different ways so thanks for the question. On the manufacturer’s side we absolutely get paid a service and a consulting fee, which is pretty common. And the more that a biopharma off-loads their commercial expense to you, you can start out-sourcing the entire commercial entity. So if you’re a biotech and you’re primarily focused on R&D, and suddenly you get a positive signal and you want to start to hire a regulatory team, market researchers, pricing consultants, health economists – that is not something you can afford when you’re down to eight month’s worth of cash. So they’ll outsource a lot of those fees to us. Most of the time we take a straight consulting fee. There are some that approached us and said, can we do a shared risk? You will have some upside if we launch this and we do well. We have lots of flexibility in terms of working with biopharma and it is actually pretty straightforward.

When you get to the payors, most of the time it’s under a shared-risk model. You can get a per member per month or you could also get paid based on how much you saved. So, if you saved 10 million dollars some would go the physician, some would go to us as the intermediary and some would obviously go to
the payor. But again, when you’re saving 10 million dollars, a lot of it is upside that wasn’t planned for, so it comes to us. And we see, you know more than anyone, with distribution revenue and the GPO, how that works.

I’d say that’s the sliding scale of profit and that’s why we feel pretty good. We’ve got a very diversified, well-rounded set of assets that give us different levels of profitability, but hang together. And then the data’s is valuable for all these stakeholders as well. They know where the product is, where all the health economics are being recorded around the product and how it’s being used. And that’s also an opportunity for us to grow and make more money there.

Jeff H.: Thanks Meg. With that I’ll bring this section to a close. Thanks to our panelist and I’m going to bring Mike Kaufmann back on stage. He’s going to talk about our last strategic priority - generics. Mike?

Mike K.: All right. Well, first I want to thank Jeff for leading that panel with Meg, Eric, and Scott. There are a lot of exciting things going on in Specialty, but what really excites me the most that Meg said – I want to make sure it registers with you guys -- we have really invested in talent and it’s just not from Meg but across her team with Scott and so many others on her team.

This market is really changing, and what we’ve realized is that clinical capabilities are important part of the specialty market and if you are going to be successful in specialty you’ve got to invest in those types of talent -- which we done. And we’ve gotten people, again like Scott, who have experienced working with one of the leading specialty companies like Genentech, and you will see folks throughout our team that have that type of experience.

I think that’s incredibly important, so while this business is relatively small compared to all the other things in my segment. It’s growing incredibly fast and I get a lot of really positive feedback from manufacturers and from customers that we’re trying to look at things differently. We’re just not doing it the same old way
like others are doing it. We’re willing to be different, we’re willing to try new things. I think that is what’s going to be our differentiator as we continue to grow this business.

So we talked about investing and growing in Specialty. And I told you I would come back and talk about the other three key priorities for us. Again, we’re going to talk about our execution, our diversification and then, most importantly, based earlier on your comments, we’re going to talk about what we’re doing in generics.

Let me jump into these. We’ve got a lot real good things going on and I would tell you particularly as it comes to the pharmaceutical distribution businesses we have really done a lot of things. If you look at these, we’ve really focused on our customers -- like I said in diversification. We really focused on our execution and our expenses and we’ve also really focused also on our balance sheet. We’ll talk about a little bit about each one of these points.

So we said when we got started back in FY10, we were really going to focus on diversification and as you can imagine we’ve done that in a lot of different areas. We’ve grown our acute business, our chain business, but we’ve also really focused on independents. And we’ve more than doubled or almost doubled the number of retail independents that we serve. If you remember we acquired both Kinray and Dik Drug during this time period. We retained essentially a 100% of both of those businesses’ customers. And not only did we retain 100%, we’ve actually grown both of those businesses.

So if you look at the number of customers we’re serving by those, it’s actually more than when we bought the business. And not only did we retain the business but we were also able to increase the profitability of both those businesses nicely. So I’m really excited about how the hard work that Jon [Giacomin] and his team did around customer retention.
Adjusted service levels have been over 99%. So we have really gotten after making sure the quality of what we deliver every day to our customers has been at outstanding levels. I think if you surveyed customers throughout the country and say, who’s really doing well and taking care of business with their customers -- delivering an order on time, accurate with great services? I feel really confident that you’re going to hear a lot of great things about what we’re doing.

We also have really gotten after our expenses. We obviously focus a lot on our warehouses, and it’s not just about expenses, it’s also about accuracy and what we’re able to do. And so we’ve really seen some tremendous gains in efficiencies in our warehouses. We have many of our warehouses that have reduced their costs to pick a line by over 10%. And we’ve been able to reduce our errors by over 30% over just the last couple of years.

So our warehouses have really taken to heart and emphasize our lean six sigma and our operational excellence culture that we’ve built throughout the company. And we’ve been able to take this to our distribution centers and if you look at the way Jon and team have been able to take those folks who are running those buildings and put them through our operational excellence programs. To put them out there with black belts, get them experience, bring them back to start running these distribution centers. The level at which we get after things and deliver quality has been very, very good.

All that together, not only folks from the buildings, but our back office -- gaining efficiencies across the entire segment. We’ve been able to reduce our SG&A as a percentage of our gross margin by eight percentage points over this time, which is significant on a business like the size of ours.

We are always thinking two places to the right of the decimal point. I think that’s what makes us good as a business. We don’t think in percentage points. We think in basis points not only when it comes to maximizing our margins but also taking a focus on our expenses.
And lastly we’ve also focused on our balance sheet. We’ve focused on our days in inventory, our accounts payable, all the components of that and our returns on tangible capital. If you exclude the China business, that has more than doubled over the last four years.

So I talked about how I really believe that we’ve done a great job of diversifying our base. How have we done that? Well I’m going to talk about retail here and specifically a lot of things. I’ll just give you a few highlights because we have a lot going on.

First of all, I’m real confident that we do have the leading generic program - not only in terms of breadth, but in terms of service levels, how we communicate with our customers. We have experts in the field that are working with customers, explaining things like why prices are going up, how reimbursements are being impacted, etc., etc. Customers really, really value what we’re doing out in the marketplace.

We have best-in-class inventory management software also. This is an area we call Cardinal Inventory Manager or CIM, where we have invested a lot of time in this area and we have customers that have increased their cash flow by $100,000 and reduced their error rates and their pharmacy inventories by over 40%.

We’ve got comprehensive offerings in our DME and consumer health areas. We’ve been able to work with AssuraMed. We’ve added talent from companies like Wal-Mart and Big Lots into our consumer health team. And this is an exciting area.

And lastly, people were talking about a lot pharmacy transition services team and we’ve invested in this for years and we have a group of people with over 65 years’ experience that have closed over 600 deals and we’ve retained worldwide, over $700 million in new business. So here is just a lot of the other programs that we have. Like I said, I just wanted to give you a few highlights. I could have done the same thing on the acute space, where we have leading share in this space and so I want to make sure
that you understand that there is so much going on with our offerings that I feel incredibly good about, but I want to take now a minute to talk about generics.

The first thing I want to talk about is our history in generics. As you can see, we have done a great job with expanding our generic sales. So our SOURCE business is a business where we control the actual product going to the actual stores, and this is a business that we’ve been known to grow our sales over 20%. Not only have we grown our sales by 20%, we’ve actually been able to expand our margins even more. So we’ve done some great work in this area.

So what do I think about going forward? Well, we believe even though the launch schedule is going forward as George mentioned early on, they are not going to be quite the same as they were in the past. Won’t be quite as many blockbusters. We still believe between all of the launches that are going to happen and all the other activities we have around pricing, analytics and our activities around gaining more share of wallet with the acute customers as well as with our retail customers, we expect we will continue to grow at least 10% on our margin rate.

So last I will talk about generics. You can talk about a lot of things in generics, but there’s really three important things that have to happen. The first thing you have to do, is you got to be always focused on your scale. And then you have to be able to take that scale, and you’ve got to turn it around and utilize it to lower your cost. And then optimize both sides of that equation. That’s something that we’ve been able to do, and this wheel continuously works to drive us to get better margins and better performances in our generics.

I could talk about a lot of things going on. We have something real important we have to talk to you about in our area of increasing scale. So I want to bring George Barrett back on stage to talk about some exciting news.
George B.: Those of you that have been not paying attention, because I know you are supposed to be glued to our every word, you may have seen that we temporarily halted trading on our shares. We’ve done that so we could make a couple of announcements here. And so I’m going to start and then I’m going to turn this to Mike. So let me sort of shape this for you.

We have announced that we’ve signed an agreement to form a 50/50 joint venture with CVS Caremark focused on the sourcing of generic drugs. This is something we have been working on for some time and interestingly this morning -- by the way those of you who are on the phone I think there may be something posted now on the website to give you a quick overview of this. You told us this morning that this is an area of great opportunity, which we agree with and, on some level, an area of concern which is how do you keep the ball rolling?

So we have said to you -- and I have spoken to probably every single one of you some point -- that we think scale matters. But we also think it matters in the right places, and so we are really excited about this partnership. This is an agreement with a partner we know and trust with teams that know how to work together and have done so for many years in what we think is the most important generic market in the world, right here in the U.S. We bring together some tremendous talent and know-how with deep manufacturer relationships. I have seen this from, frankly, many angles over my years. It is a design that makes us a 50/50 partner with equitable value sharing in a very capital-efficient approach. For us – a very important issue – and one that we could operationalize in a straightforward way and relatively rapidly. I guess I will conclude by saying that this is really important. These are two businesses that respect one another and we designed a system that essentially respects our independent business models.

This is a program focused on one issue, which is the sourcing of generic pharmaceutical products. And essentially liberating us, again, to continue to pursue our individual business strategies and we’ll continue to do so and serve all of our customers. This will only enable us to serve our customers in the most cost-efficient fashion and we’re really excited about this. So, I hope in some ways these conversations will
help address some of your questions from the morning. And Mike, I will turn it over to you for a couple of minutes. And by the way, Jeff is going to follow up with some structural comments.

Mike K.: So many of you are now reading the announcement. One of the other exciting components of this is we have extended our distribution agreement with CVS for an additional three years onto our old deal, so we will be servicing our distribution business with them through June 30th of 2019. And as George mentioned, we have been working with CVS over a lot of years. I personally began working with CVS in the mid-nineties when I was a VP-GM of our repackaging business, and had the great honor of being able to take over their repackaging business back then. I served as head of sales when we were able to bring that business onboard, and put a lot of unique deals over the late nineties and two thousands and all the way through. So I have had a lot of experience and opportunity to work with them.

They’re a great group of people. I think the success of any joint venture is really about the people and their ability to work together in the design, and to make sure that it’s designed in the right way for success. And what I like about this, is that it is a 50/50 joint venture. We are going to be sharing the best of the best talent into the organization and we are committed to working together and having a lot of discussions on how we can do this. Also, I like the way that we’ve built this is in a simple manner.

This is going to be based here in the United States. We don’t have time zone differences when some generic launches falling at ten o’clock at night. And we’re not going to be on six- or seven-hour time differences. We’re going to be right here. We’re going to be where the manufacturers can work with us, spend time with us, understand our strategies and plans, work with them collaboratively, work together collaboratively.

And so I’m very excited about what this is going to do for us as a business. And so, I appreciate your time and hope you see there are a lot great things going on in the pharmaceutical segment. Not only this
[announcement], but a lot of other things we are executing well. I'm now going to turn it over to Jeff to talk more about the joint venture.

Jeff H.: Thanks George, thanks Mike. That was exciting. George and Mike will be back up here for a last Q&A panel and I'm sure there will be a few questions about this that you might want to ask them. Before I get to my main financial presentation I did want to spend a few minutes giving you a little more detail on this exciting new partnership with CVS.

The venture itself is a 50/50 JV which will be backed with expertise and personnel drawn from both companies, CVS and Cardinal Health. It will be responsible for sourcing the vast majority of generics for both CVS and Cardinal Health with really a very limited set of exceptions. Those exceptions are really hospital-based injectables and nuclear products, because those products are really exclusive to Cardinal Health. I should mention that the JV will consist mostly of people actually, who will perform the sourcing services and the supply contract negotiations on behalf of both companies. This primarily will be a cost-center, so its expenses will get billed back to CVS and Cardinal Health over time. As such, there will be relatively minimal funding upfront required to capitalize the JV itself.

This venture will function solely as a sourcing services operation on behalf of the two companies. Both CVS and Cardinal Health will continue to manage their product orders and logistic processes as they do today. So in our case, that means that the contracts -- product flows, financial flows -- will still be executed directly by Cardinal Health with the manufacturers based on the pricing negotiated by the venture.

Due to the larger volumes that CVS is bringing in initially into the venture on day one, we have agreed on a fixed quarterly payment of $25 million that'll be paid from Cardinal Health to CVS over the life of the agreement. The payment was designed really to ensure equitable value-sharing and alignment of our strategic mission around the 50/50 partnership. The JV is expected to commence operations as early as July 1st of 2014, which will be the start of our next fiscal year.
From a financial perspective, and I’ll just comment from the Cardinal Health perspective. For the remainder of this fiscal year -- so our fiscal 2014 which ends June 30th -- we do expect for there to be some modest related costs which will appear in our income statement during the second half of our fiscal year. Any amount though is encompassed within our October Non-GAAP EPS guidance of $3.62 to $3.72 per share, which we’re affirming here today.

Afterward we expect this deal to be accretive in year one, which would be our fiscal 2015, and accretive in year two and beyond as the benefits ramp up.

Let me review some of the key accounting and reporting reconsiderations of the deal. And I’m not going to go through this in detail -- we have that posted on our website -- and are happy to answer questions. But really from an accounting standpoint, the most important thing is really what I’m going to say now. That the key financial flows related to the venture will appear in our financial statement, in a pretty straightforward way. Both the amortization of the quarterly payment from us to CVS, and the benefits we get from any sourcing costs over time will flow directly through our income statement through our cost of goods. So it will appear in our Pharma gross margin numbers and ultimately in segment profit for Pharma.

There are some other reporting and disclosure items that I listed on the slide and again, happy to answer questions, but I think the key point is that the major flows will appear in a pretty straightforward way in our cost of goods line in the Pharma segment. Okay, again we’ll come back to this when we do the Q&A, but obviously we’re very excited about today’s announcement.

Jeff H.: With that I wanted to give the final presentation of today, and really it’s a financial overview which is an attempt to wrap-up everything you saw today. Talking a little bit about our performance track record,
because I think history is always a good indicator of the future hopefully, and talk about what our aspirations look like in the context of these strategic priorities.

So let me start with a review of what we told you three years ago when we stood here and provided some performance goals. We told you that our long term non-GAAP EPS goal was to grow at least 10% annually. To date over that time frame, we’ve delivered 18.5% CAGR. We set a goal of modified TSR or total shareholder return to be at least 11% annually and that metric is really a combination of annual EPS growth and dividend yield. To date we delivered 21.1% annually.

We said we were going to focus on substantial margin expansion - gross margin has gone up 113 basis points over that time. And our non-GAAP operating margin rate has gone up as well and that’s up an equally impressive 64 basis points. And last but not least, we laid out our expectation to grow dividends at least in line with long-term earnings. We did, in fact, do more than that, resulting in a 5.1 percentage point payout increase with a payout ratio that’s now in excess of 30% of our non-GAAP earnings. Hopefully, that track record speaks for itself.

I will go through these next slides relatively quickly because they’re meant to underscore the performance comments I’ve already made. But, I think they really demonstrate the continuous improvements we’ve made across the business in all the key metric areas, that we believe drive bottom-line performance and ultimately shareholder value.

Clearly our focus on customer and product mix has paid dividends as we’ve shown strong gross margin expansion. We’ve combined that with the relentless focus on efficiency -- driving our SG&A as a percent of gross margin down 433 basis points over the time frame.

And as we’ve pursued these productivity initiatives, we’ve done so in a very thoughtful manner. Rather than just take a blunt force approach to cost containment, we’ve utilized our expertise and operational
excellence to drive a lean approach to everything we do from our distributions operations to manufacturing to our accounting operations.

And this slide you see here is really just an example of the manner in which we track the benefits we’re driving from our operational excellence initiatives over time. This is something that is closely monitored by the entire team. When we combine all that together, the result is the consistent operating margin expansion up 64 basis points over the three years -- an outstanding non-GAAP operating CAGR of 14% since 2010.

Which we’ve levered into 19% annual non-GAAP EPS growth through a fairly steady reduction in our diluted shares outstanding over that period. I should point out that this 19% CAGR does include 18 cents of favorable tax settlements that we called out last year in our non-GAAP results. But even if you exclude that one-time tax benefit, our annualized non-GAAP EPS growth was still a robust upper teens.

For a combination of that strong earnings performance and some really outstanding capital management by our operating teams, we had very strong operating cash flow for that period as well. When you combine it with our strong balance sheet it’s really given us ample flexibility to deploy capital in a balanced, flexible, and thoughtful approach.

Clearly the largest portion of that deployment has gone to acquisition and those acquisitions are equally distributed across all five of the strategic priorities that we have discussed today. Besides, the boxes on this page -- by the way -- are meant to roughly correlate to the size of the deal, although it’s really for illustrative purposes only.

These deals have ranged from, what I would describe as larger transactions such as AssuraMed and Kinray, to the more mid-sized deals such as P4 Healthcare and Yong Yu, and then a host of smaller tuck-in that have complemented our existing platforms. As you would expect and hope, I imagine, we monitor,
retrospectively, the performance of each and every one of these deals -- large and small -- against both
our financial and operating metrics that we establish at the time of the approval. I am proud to say that
with only relatively few exceptions, we've met or exceeded our expectations on all of these transactions
that you see here. In several notable cases, and Kinray is probably the best example, and Mike referred
to that a little bit earlier, we far surpassed our original assumptions on that deal.

Over this timeframe we also committed to returning a sizeable portion of our cash to shareholders in the
form of both share repurchases and dividends -- the full amount returned 66% from fiscal 2010. On the
dividend side, we did commit over three years ago to a differentiated dividend and have taken that
promise very seriously. We have consistently grown the dividend over this period, as I said earlier,
increasing more than our earnings growth rate and this resulted in a payout well above 30% of our non-
GAAP earnings.

So let’s try and wrap everything together today and talk a little bit about what this focus on our strategic
priority is, and what the overall direction of the company means for our financial future. We do spend a lot
of time on strategy and our outlook for the future. Taking into consideration both the evolving health care
environment and also the key role we play in it, and our ability to maximize our role in that environment as
it continues to evolve and take shape going forward.

When we do that and look into fiscal 2017, and what we think we will look like in fiscal 2017, and taking
into consideration the strategic growth drivers that you heard about today, as well as the resources -- both
human and capital available to us -- we have arrived at the following set of financial aspirations. So first,
we continue to expect to drive our relentless focus on margins in all parts of the business. In fiscal 2017
we expect our consolidated non-GAAP operating margins to be above 3%. Within the Pharma segment
we aspire to be greater than 2.5%, and in the Medical segment above 5.75%. Again, reflecting the
various growth and margin initiatives that you heard about today.
Off of our FY 2014 base, we aspire to a three-year, non-GAAP EPS CAGR of 10% to 15%. Our 10% aspiration at the one end of the range would require strong performance against strategic priorities that you saw today. Modest incremental capital deployments for tuck-in acquisitions related to those priorities and share repurchase that gradually brings down our diluted share count over time.

Finally, I would expect our dividend payout to stay in the range of 30% to 35% of non-GAAP earnings. Before I leave the slide I want to answer a question you may have on your minds: I will also say that our financial aspirations outlined here do reflect consideration of the CVS sourcing partnership that we announced earlier today.

As I said multiple times, and hopefully you've picked up from today's presentations, what is critical to achieving these aspirations is this portfolio of strategic drivers that we believe complements the changing landscape of healthcare. It is a portfolio that layers in very nicely over different periods of time as well, and we have every intent of continuing to invest resources to drive optimization of this portfolio both now and in the future. Meanwhile this, as I said earlier, is having the rock-solid balance sheet and capital access to pursue our strategic growth and drive returns for you, our shareholders.

We remain confident that we have the flexibility to do so while maintaining our commitment to investment grade [credit] ratings. Let me leave you with this last slide. Hopefully, you agree that our track record of outstanding financial growth and delivering on our commitments is based on a combination of strong execution and focus on the right strategic priorities -- that’s the track record that we are very proud of. Along the way, we have thoughtfully deployed capital, returning cash to shareholders and delivering outstanding market returns, and will remain very well positioned for strong future growth. And we are really excited about what the future holds for Cardinal Health and our shareholders.

So with that I thank you for your attention and we’re going to go to our final Q&A panel. George, Mike, Don and myself will be in the panel and Sally is going to come up to moderate and we’ll be happy to
answer any questions about the CVS partnership we just announced, the financial aspirations or anything else that was presented over the course of today. With that Sally, I will turn it over to you.

Sally C.: It will just take a moment we’re going to bring everybody up here on stools. We’ll do a little bit of an unplugged MTV, unplugged acoustic set up here. Okay for those of you on the webcast, again we have George, Jeff, Don and Mike.

Jeff, we’re going to start with you, and then we’ll go to the audience for questions. It is a question that we get often when we give long-term guidance. Will EPS growth be relatively even over the FY15 to FY17 period?

Jeff H.: Yes, well I wish life was that simple. We had a great smooth growth rate over last period, but I think the reality is there will be volatility in the growth rate year by year. You know we believe over that three-year period we’ll deliver non-GAAP EPS growth in the 10% to 15% range, but I’m sure that there will be years at the lower end of that range or at the top of the range, and maybe a year outside the range. But overall we do feel comfortable that we’ll deliver 10% to 15% over that period.

You know, I don’t want to get into giving specific guidance for the individual years, but I’ll make a couple of comments about at least what we do know about FY15, just as your thinking about it. You know, we do know of one headwind that we have heading into FY15 and that is the fact that we’ve got one more quarter of comparison to the Walgreens contract loss. So we had basically a full quarter of earnings related to Walgreens in Q1 of our FY14, so we’ll have that to compare in Q1 of FY15.

I will also reiterate what I said about the CVS partnership. We do expect it to start as early as July 1, but the benefit will ramp up over time. Although we do expect it to be accretive in year one, clearly we expect those benefits to accelerate in year two and beyond. Hopefully that answered the question. Given all that, you know, all that’s baked into our 10% to 15% CAGR assumption.
Sally C.: Question from the audience?

Question: Good morning. I was going ask a lot about private label and med surg but I think you guys kind of took that away from me. Don, I’m sorry. There are just a couple of things noticeably absent from the CVS announcement. Number one, can you tell us if anything functionally changes with the announcement? Will you guys be distributing generics to CVS or anything changed there? Specific accretion figures are noticeably absent. Is there any more color that you can provide around that? And I will let you guys take it from there.

Sally C.: Maybe Mike?

George B: Yes why doesn’t Mike start with the first part of that and then we’ll turn it to Jeff.

Mike K.: Essentially the way it is going to work is we’re going to contribute talent to the JV and they are going to contribute talent to the JV. We’re not going to be purchasing generics as separate entities any more. Call it whatever you want – SourceCo -- will be the entity. The talent will be in there and they will negotiate the pricing and the terms and conditions for both entities, but we, on the flip side, will still receive our product directly and our National Logistic Center distributes to our forward distribution centers. They’re still going to receive product directly into their distribution centers just as they do today. They’re going to manage their inventory levels, their service level to the stores. We’re going to do all of that on our end so really our relationship with CVS in terms of our day-to-day relationship today does not change operationally for either company. This is really about bringing talent and scale together to be able to work in collaborative ways with manufacturers to provide benefit for both companies.

Sally Curley: Jeff?
Jeff H.: Yes on the accretion question, you’re right we did not get specific numbers. I know that that wasn’t the answer you were looking for, but here’s the reality. First of all, we expect both companies to benefit from this, right? We structured it in a way that there is equitable value sharing and, you know, at least speaking for Cardinal Health, we expect this to be accretive in our FY15 and to be accretive thereafter. In reality we still have a lot work to do, to put together the JV to look at our respective purchasing costs, etc., and to figure out exactly what this means going forward. We know enough to be able to say what I just said here today, but still a lot of work to do to finalize exactly how this is going to play out. By the way, I expect going forward -- not just back -- I know going forward that we’re not going to update you as a collective entity. Any updates that we give will be done respectively by CVS or Cardinal Health. And, you know, as I said today there are assumptions we have currently that are reflected in the guidance we’ve given for the long-term, but the affirmed guidance for FY14 reflects the small dilution we expect as well as the upside in our future aspiration numbers.

George B.: One thing I might add is the simplicity, the simple cleanliness of it, having a fixed fee payment. Each year trying for us to model what the benefit is going to be could be quite transparent for us as we go. And that’s a huge benefit and it’s really helpful. So we like this sort of clean nature and the fact we’re going to be running our independent businesses - serving our customers - operationally serving...

Jeff H.: Just one other thing I want to point out that we mentioned this previously. We view this as a very capital-efficient venture as well. Yes, the fixed payment that we have -- just to give an idea and it’s in the press release -- but the after-tax present value of those payments is $435 million, so we view that as a pretty efficient way to use our capital to really create the largest U.S. sourcing entity, and that’s pretty exciting.

Sally C.: Another question?

Question: First of all congratulations on the announcement. Secondly, there are still some pretty large purchasers in the U.S. market today - they bypass the distributors for the purchasing of generics. Do you think that the
joint venture that you have with CVS could change these dynamics and effectively increase your addressable market opportunity?

George B.: Very good, very fair question. Here’s what I am going to say for the moment. We are very much focused right now on operationalizing this relationship with CVS Caremark and that will be our focus. And I think the value from doing that is very meaningful. We tried to create a model that has some flexibility, but I don’t want to go too far into thinking about all their market dynamics associated with that but really focus on the fact right now that we think there is substantial opportunity in this venture, focused on sourcing generics in this market that CVS is our primary focus right now.

Sally C.: Another question?

Question: Just for a point of clarification, Jeff. If you look at the accretion does that include the rough $100 million a year you’re going to be paying to CVS as part of this deal?

Jeff H.: Yes. All the accretion numbers I gave were net of the $100 million we are paying to them.

Question: And then secondly as we think about the JV, will there be others that you’ll sell product to or will they be parties to this JV or will it only be CVS and Cardinal Health?

George B.: Let me take that and it sort of relates to the other question. And again, I think what we ought to assume for now and I think this is the right way to go is to focus all of our work operationalizing this. It is very important to get this moving which we will right away, and to focus on leveraging the scale of the two companies put together. We continue to have all kinds of customers and our hope is that we -- through improving our own competitiveness in generics – that we’ll be able to serve any type of customer and we’ll continue to grow our business.
Question: Yes, thanks. George I think in the past when some of your competitors enter into these larger global platforms you've had some comments about your thoughts on global sourcing, global platforms. Can you talk about how this is different from that, and how this will operate differently maybe from some of the other competitors?

George B.: Well, I try to do this without trying to poke anybody in the eye because that's not my goal here. I think this is very different in a number of ways. So let me focus on one. One way is that I think it is an incredibly efficient deployment of capital. The complexity of doing global work -- we will by the way continue to source globally -- and I said this before. Cardinal Health sources globally and no doubt CVS Caremark today sources globally.

So I think the U.S. market is unique. It is the most trafficked market for any generic company in the world - an incredibly dynamic market for virtually any manufacturer. So we felt that this is really the place to start -- right here at home where we know our market -- where we know the company’s strategies about trying to enter this market, and how we can create value from doing that. And knowing the focus is on the JV and how we could do that together.

We will continue to evaluate whether or not we think opportunities outside the U.S. are attractive. We've said this all along, and we've not changed our perspective. But I think the level of complexity for the JV here is quite manageable and so we know how to execute -- and our ability to operationalize quickly with a clear sense of how the money flows -- it's just enormously important.

So again, it's not to knock anybody else's strategy -- they've got their own game plan. I think we know the global generic market not just from a pyramid standpoint but something about how it flows in different markets. And the reality is that there are many, many markets. So our perspective is the most attractive, big move right now to change the game for us was joint venture sourcing in the U.S. market. And I think...
that’s the key. So a clean system, capital efficient, in a market we know, with a partner we worked with
and trust – it’s just a very, very attractive model.

Question: George just, you know, you see a number of these deals announced obviously - a lot of savings being
had, you know, across the supply chain. I would imagine that the expense to some degree of the generic
manufacturers, you know, maybe you given your background are the appropriate person to answer this
question. What’s the value proposition to the generic manufacturer and clearly there’s a lot of savings
being extracted somewhere. So that would be one. And I guess, Jeff, just on the structure of it some of
the other arrangements that we’ve seen involved more of a variable fee based on savings. Maybe just
some thought around why structure this as a set fee every quarter, every year?

George B.: So let me start, one of the things that I characterize, again, I have some advantages of some historical
perspective and experience about the Cardinal Health folks and the CVS Caremark folks. On both sides
we have really intimate relationships with manufacturers that run very, very deep, with an understanding
of everybody’s needs. You are in these businesses and you’re really looking as often as possible for a
win-win situation.

Now there are moments where it doesn’t work that way and I’ve worked on both sides of that. But our
ability to understand what any given manufacture is thinking strategically, literally from the standpoint of
market strategy, is important for us. This allows us to work with them, with one point of contact with a real
meaningful share position, here.

And so, I think while there is some stress that this creates and there’s no doubt from manufacturers when
they see consolidating customers. We have the same experience, of course. There is opportunity for
them and we will work very carefully with them. And again, a lot of us bring a lot of perspective to this
and one of the things that we agreed upon, as a group, when we were negotiating this, on both sides, and
I think Mike would echo this is, we want all manufactures to see some opportunity. Again, understanding that there are some challenges when your customers get bigger.

Mike K: I think they will be very relieved by the fact that we’re still purchasing -- we’re not trying to buy all this product at a price and then run it to our distribution centers and sell it in making the fee structure complicated. I think manufacturers will appreciate the cleanliness of this because we’ll be important to them. We have got to share opportunities and those types of things.

Sally C.: Jeff, do you want to take the second part?

Jeff H.: Yes. So the question was, I think, why a fixed fee vs a variable? You know, it kind of goes back to a basic tenant we had going into this. Let’s try to keep this as simple as possible. I know the operating folks have to operationalize it. The question is whether we achieved that -- and I think if you look at the structure and the way we set it up and the fact that it’s U.S.-based and the simplicity of the JV, you know, again our goal was to just keep it simple. Let’s have equitable value sharing, focus on speed and getting this up and running as quickly as possible.

When it comes down to the fee payment, quite frankly, you know we probably could of come up with some very complex, very low payment and it would have been very difficult to calculate after year one. And probably it would have caused a lot of internal strife as, you know, arguing over our savings exactly this versus that. Ultimately, we decided let’s keep it simple, let’s agree on a fee that’s fixed for the whole life of the payment so we don’t have that angst going forward. And from day one, let’s treat both partners in an equitable way in a 50/50 JV, and I think we achieved that.

Mike K.: I was going to say too, if you think about it, if you have to do it on a percentage of savings, what is the tone of when you would go and see the comparison let’s say, on a product that’s sourced, if you set some type of sharing percentage? It just changes the tone, and from the very beginning we said we want the
tone in this partnership to be incredibly collaborative. How do we say that to our partners? How do we work together? From our side the other thing was too, we don’t want any of our current customers or future customers to believe that when they buy generics from us that some percentage of that is going to go to CVS. In this case with a fixed payment it doesn’t change, so we can stand in front of customers and explain, what we did here was basically buy out in order of, you know, compared to the size difference. And now ours is ours -- you’re working with us as your partner, and they don’t have to worry about that. And, I think, that’s a really important component to this that is going to be important to our customers as we go forward.

George B.: I want to add to this. You guys know ventures are always hard, and so the most important thing up front is to establish a line and system of incentive to make everybody all in. And they’ve been terrific in that regard and I think we all felt that. I think it was a really important piece to it.

We keep talking about simple structure. None of this is easy stuff, right? There are a lot of moving parts to get this operational. It actually goes back to another question. During this one market, two companies that have known each other for decades, you think about how complicated it is to do it in other ways. I don’t want to trivialize operationalizing these things. It’s got a lot of work and a lot of people are working their tails off to get it up and running. I think the design was straightforward and we started this, by the way, with a bunch of working principles, which was also respecting each other’s businesses. This is a great place to start. So it’s been great.

Sally C.: Another question?

Question: I’m not optimistic about getting an answer from Jeff but, you know, it is his birthday. Could you give us at least some idea… I have two questions, one dumb question and hopefully one not so dumb. Just an idea of what the quantity is of dollar generics that you represent in this JV versus CVS? I know Walgreens and
ABC provided a disclosure that was helpful. And secondly, the dumb question is, why are you paying them as opposed to vice versa? Thanks.

Jeff H.: So let me answer those in reverse order. While I’m answering the second one you maybe think about whether you want to disclose the first one. Why are we paying them? Because it’s based on the principle that they are bringing considerably more scale to the joint venture initially. This means that they can buy materially better than we can and, if you think about it, initially we both went to the venture and we’re buying at the same price from the venture. We stand to benefit more initially because they’re considerably bigger and likely buying better.

So in order to equalize that and ensure there’s some value that goes back to CVS initially and over time, we agreed on what we thought was a fair payment from Cardinal Health to CVS.

George B.: So I hope that answers the question. It’s important by the way. I think it’s very important. So I am not going to give you an exact answer on the second one. There are a lot of numbers out there, and I struggle with some of them, by the way. I know everybody’s working hard - it’s hard to get these numbers as you guys know. Let me say the following. We, in terms of practical influence on the product lines, we’re going to be right up there with anybody.

Mike K.: By ourselves, we would be a top five purchaser in the U.S. market.

George B.: So some folks who had the list in order, didn’t have them right. We are larger than people think. CVS Caremark is a good size purchaser of generic drugs, you guys know that. So, you should assume this as a venture with considerable purchasing weight and we think we compare favorably to anyone in a market again, full stop, the largest generic market in the world.
Question: You know it's interesting you sort of came into today and you said the big question was sort of the strategic overhangs, and you sort of refocus everyone on growth. I guess as we think about the fact that you're able to honestly address this bigger question, right, which now just came from the investment community but probably from customers or suppliers, how Cardinal Health would be positioned in generic sourcing in longer terms so to be able to do this relatively quickly and in an eloquent way, how important was that to sort of setting the rest of the strategic plan? Because you laid out a lot of ambitious goals in specialty and medical and there's a lot going on at Cardinal Health. Did you feel like you needed to get the base settled so you had the cash flow to fund a lot of these other endeavors and make sure that the ship was in the space onto the right path?

George B: Great question. I have always said and I think I've said this four or five years ago that having a commitment to your core activity - to being great at those things and making sure you invest in - has been important to us. And I think actually part of our progress over these past couple of years has been all these folks just putting their nose to it and being great at things we need to be great at -- that and our core business.

Having said that, you know, first of all we've been working on this for quite some time and we've known that we have had multiple strategies for improving our generic business. This was the most attractive. So I don't think I'd say we were dependent on this for our growth. We have felt -- if you asked me a year ago I would have said we're going to continue to grow at a very high clip.

I've seen our team at work and I know what we're devoting our energies to. I know how to measure performance against strategic priorities. But what this does, I think it's incredibly important -- highlighting generics. It does secure a part of our business that is a really important underpinning. And it's really important to our customers.
George B.: So I don’t know how to answer it, this was not thrown together. This is something we’ve been working on for quite some time, but you never know whether you’re going to finish. These things are always complicated. So we feel good about the balance of our businesses. And when I wrap up today I’ll try to think about what I want to say but I also think about what you guys have been asking during the course of the day and I will try and make sure I’m addressing that. I like the balance of our business and it’s a very reassuring thing to know that this part feels like it has long legs - strong legs - long and strong.

Mike K: It’s important for me to mention too that we didn’t answer this from a point of view of any weakness. I couldn’t have been more comfortable, more excited about what we’re doing in generics with the team. The strategies we have, the employees, with our success, with our customer relationships. So we didn’t enter this with, you know, a point of weakness. This is just an opportunity as you’re looking at everything. We’re very good, we’re going from very good to great in our opinion. It’s just a great partner to be able to partner with and take an opportunity to have both entities leverage the talent that we have, and a lot of ideas we both have to drive profitability in generics. I think this is just going from good to great.

Sally C.: Jeff or Don any comments given that Ross asked about the five strategic priorities?

Don C.: I think that we as the leadership team have gone through this strategic plan of where the market is going. There are two to three big trends - how are you going to manage their costs and how you going to deal with the acute space? I think we’ve tried to balance a pretty balanced portfolio, and I think we used the words two or three different times, that we’re trying to create business systems that are not necessarily dependent on procedure buy-in or specific tactical trends that might seem generic. So we tend to paint it a little bit more broadly about we’ve got to shore up the base, and then go the second and third course.

George B.: Yes. Just want to add to this, in a way. In all of our businesses, I think, there is a constant fight for relevance, making sure that you are relevant in light of the systems changing around you. We all see businesses who, in a way, they stay great at something that doesn’t matter anymore. That’s never where
we want to be, so our focus on studying our ecosystems and what’s happening around us really is critical to our strategy. Because we want to make sure as the market is changing, we continue to be that “go-to company”, that relevant company that when an IDN is saying, “we’re really looking at some big changes, what do you guys offer?”

You got to be able to offer more than another basis point, price reduction. You’ve got to be able to offer something that changes the game. Something that changes behavior and we’re working real hard at that and we challenge our team a lot on it.

Jeff H.: But just one final comment on answering your question, and at the risk of repeating myself. What I particularly loved about this partnership is that it allows us to accelerate growth in a key strategic area like generics without using very much of our balance sheet. So it leaves us to drive higher to continue in other strategic priorities going forward. To me it’s sort of the best of all worlds.

Sally C.: Any questions from the audience?

Question: Yes. Curious about this arrangement. Who initiated the conversation with the idea? Did this come from you or was it initially brought forth by CVS? And also any thought around potential competitive implications with other partners, other customers? I was thinking specifically around the PBM’s -- other PBM’s - any concerns if there will be any reluctance of them to, you know, doing more business with you – given that you’re now closely linked with CVS Caremark which is essentially a competitor of theirs?

George B.: So I will not answer the first. Then I’ll to Mike to answer the second. I'm not even sure I could tell you actually who started the conversation. You can imagine our relationship is deep, long and we've talked often and have for quite some time. So I don't know if I would even be able to say who initiated the conversation. As you can imagine at the strategic level this is the kind of discussion that we've had. And so it's partly ducking the question, partly I don't know how to answer the question because I don't know
how exactly it started but it started quite some time ago. And, Mike, I don't know if you want to just touch on the market dynamics issue.

Mike K.: Sure. Look, generics are the most important thing to any of our customers on the retail side so the acute space isn't going to have any issue with this. I think it's a non-event from their point of view. But on the retail space you have customers that are going to ask our sales reps some questions about what does this mean? And, again, if you go back to the design of this by having a, you know, a fixed fee, we can clearly look at the customer and say, "Nothing that you do with us is going to benefit CVS." It's not like we're transferring. So I think we can get them over that hump.

They're looking to us to say how are you going to stay competitive in generics? As the market declines can we stay market competitive to help keep them in business? Can we have breadth of lines? This partnership is only going to be able to help us do that, so I think we can clearly stand in front of customers and say we've now positioned ourselves to be able to buy generics better so that we can stay competitive in the marketplace, which is what they need us to be.

We can access supplies differently probably than anybody else potentially in the world, to be able to work with partners going forward. We can have the breadth of lines that you need to be able to take care of it both in terms of number of items and backup positions on various items in case there's market disruption.

And I think that whether you're a retail independent or a chain, again, there's no ownership or anything like that in here as far as with each other. This is just purely investment in a joint venture. So my team that has been involved in this -- a few individuals, not many but the ones we've talked to like the benefits a lot and we feel really comfortable that our customers are actually going to be very excited about this.

Sally C.: Any other questions from the audience? I'm going to turn it over to George for closing remarks. Thank you all. Thank you, panel.
George B.: Guys, thanks. So I'm going to try to be conscious of, as I said, getting you guys out of here. And so let me just finish with a couple of concluding observations. And I tried to sort of take some notes as we left. We started the day asking you some questions. And it was meant quite genuinely. You often say to us, “What are the people asking about?” And I think in a way it gives us the chance to say what are people thinking about. What are we feeling pretty good about in terms of the future, what worries us. And we've hopefully been somewhat transparent about saying we're okay talking about this.

I'm really excited about where we are. I think, obviously starting with this discussion on generics securing this, stabilizing that business, putting us in a position to compete effectively, sustaining the length of our position in generics -- we love. We're really excited about it. I think Meg's work and her team’s work in specialty is really where the puck is going. I have no doubt about that.

And I think we've started to build some extraordinary capabilities there. I think China is an extraordinary opportunity for us. And, again, and I hope you got a chance to see that and I know for some of you it still feels pretty mysterious. My guess is five years looking back on this you're going to say, "Hey, it turned out to be bigger than I thought."

I'm really excited about where we are in Med. I think Don made a really interesting point. But even in an environment where utilization is somewhat subdued, and I think that's a short-term environment, the work that we're doing actually is a solution-provider to customers under pressure. And it's a margin expander for us -- preferred products, service solutions – all important.

The home. There is no doubt -- no doubt -- that more care will be delivered in the home. And I think we're going to see a lot of creative things happening around this system with patients who are now going to be cared for in the home.
So I want to just cover one or two quick observations then I'll say thank you and goodbye. Our team works like a team. That sounds trivial and sort of warm and fuzzy. Trust me, it is not. I've run many organizations. Organizations are healthy or they are not healthy. And ours is healthy.

We have high expectations of one another. We hold each other accountable. We have each other's backs. We like working together. And our whole organization behaves this way. And the more that we model it, the more the organization behaves this way.

And I just want to highlight two examples. We see this. We see this at moments where we're not giving direction. A tornado in Joplin, Missouri; a flood in Houston; an awful crisis around a marathon in Boston. We don't have to direct our people on what to do. They know what to do in those moments.

And I think that comes from a perspective on what we're all about and what we're trying to do and how we work together. So I think that matters. Our growth that you've seen in recent years reflects not just discipline and talent but it reflects something else, which I think is probably worth highlighting.

And I wanted to actually put a chart on this and everybody choked me and said, "No, you can't do that because it's not very precise." And they're right. But one of the interesting things the chart would have been saying is that we make money differently than we used to. Right?

And I think that's part of what's been happening. As you look at the shift of our margin rate, it's just that I think we're becoming increasingly relevant to critical things to the market. And we make money in some different ways than we used to.

And even if you look at our talent base, we will always build off our capabilities and supply chain excellence and logistics. It's part of our DNA. What is building though is our clinical jobs, our clinical
capabilities. And so if I take, for example, the number of people that work on -- directly on -- clinical activities, it's tripled over five years.

So the distribution part of our business is still critical to us. We'll invest in it. It's very important connecting tissue for us. But we're adding muscle to the connecting tissue. We're adding muscle to it.

So we're really excited about where we are. We think we're poised for growth. We have the people to do it. We very much appreciate your support and your attention here today. And we look forward to seeing you in the coming days and coming weeks. Thank you.

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