



# Q4 FY2014 earnings investor/analyst call

August 4, 2014



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# Forward-looking statements and GAAP reconciliation

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# FY2014 financial accomplishments

- Revenue increased 8% excluding the impact of the Walgreens contract expiration
- Expanded gross and non-GAAP operating margin rates 80 bps and 32 bps, respectively
- Increased gross margin dollars by 5%
- Grew non-GAAP operating earnings by 4% to \$2.1B and non-GAAP EPS from continuing operations by 3%<sup>1</sup> to \$3.84<sup>1</sup>
  - Excluding tax adjustments in FY13 and FY14, non-GAAP EPS from continuing operations in FY14 grew nearly 8% vs. prior year
  - Growth despite ~\$17B revenue impact of Walgreens contract expiration
- Generated \$2.5B in operating cash flow
- Deployed \$1.1B in cash to drive shareholder return
  - Dividend increase of 13%, to an annual dividend per share rate of \$1.37
  - Repurchased \$673M in shares
- Generated market Total Shareholder Return of 46.7%

<sup>1</sup> Includes \$0.18 related to a favorable tax settlement in FY13 and a net \$0.02 favorable related to tax items in FY14.



# Q4 and FY2014 results

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Q4 FY2014

# Financial summary

	GAAP Basis (\$M)		Non-GAAP Basis (\$M)	
	Q4 FY14	Q4 FY13	Q4 FY14	Q4 FY13
Revenue	\$22,894	\$25,420		
% change	(10)%	(5)%		
Operating earnings/(loss)	\$387	(\$442)	\$461	\$472
% change	N.M.	N.M.	(2)%	11%
Ratio to revenue	1.69%	(1.74)%	2.01%	1.86%
Earnings/(loss) from continuing ops	\$234	(\$586)	\$284	\$274
% change	N.M.	N.M.	4%	7%
Ratio to revenue	1.02%	(2.30)%	1.24%	1.08%
Diluted EPS from continuing ops	\$0.68	(\$1.72)	\$0.83	\$0.79
% change	N.M.	N.M.	5%	8%

  

	Q4 FY14	Q4 FY13
Operating cash flow	\$716	\$300
Days sales outstanding	21.1	22.3
Days inventory on hand	27.7	26.5
Days payable outstanding	40.8	38.9
Net working capital days	8.1	9.9

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

Q4 FY2014

## Pharmaceutical segment business analysis

	Q4 FY14 (\$M)	Q4 FY13 (\$M)	% Change
Revenue	\$20,092	\$22,783	(12)%
Segment profit	\$377	\$395	(5)%
Segment profit margin	1.88%	1.73%	

### Highlights:

- Excluding the impact of the Walgreen's contract expiration, revenue grew 13%, driven by organic sales growth, growth in the company's Specialty Solutions division, and China.
- The impact of the Walgreens contract expiration on segment profit was partially offset by strong performance under generic programs.
- Expanded segment profit margin by 14bps.

# Medical segment business analysis

	Q4 FY14 (\$M)	Q4 FY13 (\$M)	% Change
Revenue	\$2,794	\$2,697	4%
Segment profit	\$96	\$104	(8)%
Segment profit margin	3.43%	3.86%	

## Highlights:

- Revenue increased 4%, primarily due to growth in existing customers, including growth in strategic hospital network accounts and acquisitions.
- Segment profit down 8%, driven by:
  - Year-over-year increase in incentive compensation, the majority of which is based on total company performance and then allocated to the segments.
  - Market pressures in Canada.
- Segment profit margin declined by 44bps.

Q4 FY2014

# GAAP to non-GAAP reconciliation

	Q4 FY 2014			Q4 FY 2013		
	Operating Earnings (\$M)	Earnings from Continuing Operations (\$M)	Diluted EPS from Continuing Operations	Operating Earnings / (Loss) (\$M)	Earnings / (Loss) from Continuing Operations (\$M)	Diluted EPS from Continuing Operations
<b>GAAP</b>	<b>\$387</b>	<b>\$234</b>	<b>\$0.68</b>	<b>(\$442)</b>	<b>(\$586)</b>	<b>(\$1.72)</b>
Restructuring and employee severance	\$6	\$4	\$0.01	\$32	\$20	\$0.06
Amortization and other acquisition-related costs <sup>1</sup>	\$63	\$41	\$0.12	\$52	\$39	\$0.11
Impairments and loss on disposal of assets	\$4	\$3	\$0.01	\$832	\$802	\$2.32
Litigation (recoveries)/charges, net	\$1	\$1	-	(\$2)	(\$1)	-
<b>Non-GAAP</b>	<b>\$461</b>	<b>\$284</b>	<b>\$0.83</b>	<b>\$472</b>	<b>\$274</b>	<b>\$0.79</b>

<sup>1</sup> Amortization of acquisition-related intangible assets included in Amortization and other acquisition-related costs are as follows:

Amortization of acquisition-related intangible assets	\$49	\$31	\$0.09	\$48	\$30	\$0.09
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*The sum of the components may not equal the total due to rounding*



Q4 FY2014

# FY2014 financial summary

	GAAP Basis (\$M)		Non-GAAP Basis (\$M)	
	FY14	FY13	FY14	FY13
Revenue	\$91,084	\$101,093		
% change	(10)%	(6)%		
Operating earnings	\$1,885	\$996	\$2,133	\$2,046
% change	89%	(44)%	4%	10%
Ratio to revenue	2.07%	0.99%	2.34%	2.02%
Earnings from continuing ops	\$1,163	\$335	\$1,324	\$1,284
% change	247%	(69)%	3%	15%
Ratio to revenue	1.28%	0.33%	1.45%	1.27%
Diluted EPS from continuing ops	\$3.37	\$0.97	\$3.84	\$3.73
% change	247%	(68)%	3%	16%
	FY14	FY13		
Operating cash flow	\$2,524	\$1,727		
Days sales outstanding	21.1	22.3		
Days inventory on hand	27.7	26.5		
Days payable outstanding	40.8	38.9		
Net working capital days	8.1	9.9		

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

Q4 FY2014

# FY2014 GAAP to non-GAAP reconciliation

	FY2014			FY2013		
	Operating Earnings (\$M)	Earnings from Continuing Operations (\$M)	Diluted EPS from Continuing Operations	Operating Earnings (\$M)	Earnings from Continuing Operations (\$M)	Diluted EPS from Continuing Operations
<b>GAAP</b>	<b>\$1,885</b>	<b>\$1,163</b>	<b>\$3.37</b>	<b>\$996</b>	<b>\$335</b>	<b>\$0.97</b>
Restructuring and employee severance	\$31	\$20	\$0.06	\$71	\$44	\$0.13
Amortization and other acquisition-related costs <sup>1</sup>	\$223	\$144	\$0.42	\$158	\$106	\$0.31
Impairments and loss on disposal of assets	\$15	\$10	\$0.03	\$859	\$822	\$2.39
Litigation (recoveries)/charges, net	(\$21)	(\$13)	(\$0.04)	(\$38)	(\$23)	(\$0.07)
<b>Non-GAAP</b>	<b>\$2,133</b>	<b>\$1,324</b>	<b>\$3.84</b>	<b>\$2,046</b>	<b>\$1,284</b>	<b>\$3.73</b>

<sup>1</sup> Amortization of acquisition-related intangible assets included in Amortization and other acquisition-related costs are as follows:

Amortization of acquisition-related intangible assets	\$187	\$119	\$0.34	\$118	\$75	\$0.22
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# FY2015 outlook

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## CAH FY2015 financial expectations

	FY2015 outlook	FY2014 actual
Revenue	Up modestly vs. PY	\$91.1B
Non-GAAP EPS	\$4.10 to \$4.30	\$3.84



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## FY15 corporate assumptions

	FY15 outlook	FY14 actual
Non-GAAP effective tax rate	36.0% - 37.0% <sup>1</sup>	35.3%
Diluted weighted average shares outstanding	337M - 338M	345.2M
Interest and other, net	\$140M - \$150M	\$86.8M
Capital expenditures	~\$350M	~\$249M
Acquisition-related intangible amortization	~\$177M or ~\$0.33 <sup>2</sup>	\$187M or \$0.34

<sup>1</sup>May fluctuate quarterly due to unique items affecting periods.

<sup>2</sup>Includes only acquisitions closed as of June 30, 2014.

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## Pharmaceutical Segment FY15 assumptions

- Modest increase in revenue vs. prior year, despite Q1 impact of Walgreens comparison
- Brand inflation similar to FY2014
- Positive Y-on-Y contribution from generics programs
  - Positive earnings contribution from Red Oak Sourcing, LLC joint venture, net of payment to CVS Caremark
  - Slight decline Y-on-Y in contribution from new generic launches
  - Moderated impact from generic price increases vs. FY2014
  - Slight overall generic deflation vs. FY2014
- Growth from Cardinal Health China and Specialty
- Increased investment in information systems
- No LIFO charge

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## Medical Segment FY15 assumptions

- Low- to mid-single digit revenue growth vs. prior year
- Solid segment profit growth and profit margin expansion, driven by growth in:
  - Preferred products
  - Strategic national accounts and services
  - Home health
- Net neutral impact from commodities and F/X, compared to FY2014
- Relatively flat utilization in acute care; growth in Home market



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# Q4 FY2014 trailing five quarters and GAAP to Non-GAAP reconciliation statements

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# Segment analysis

## Pharmaceutical segment

	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14
Revenue (\$M)	22,783	21,813	19,443	18,762	20,092
Segment Profit (\$M)	395	433	482	452	377

## Medical segment

	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14
Revenue (\$M)	2,697	2,711	2,799	2,657	2,794
Segment Profit (\$M)	104	106	131	111	96

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

Fourth Quarter 2014									
(in millions, except per common share amounts)	Operating Earnings / (Loss)	Operating Earnings Growth Rate	Earnings / (Loss) Before Income Taxes and Discontinued Operations	Provision for Income Taxes	Earnings / (Loss) from Continuing Operations	Earnings from Continuing Operations Growth Rate	Diluted EPS from Continuing Operations <sup>1,2</sup>	Diluted EPS from Continuing Operations Growth Rate	
<b>GAAP</b>	\$ 387	N.M.	\$ 357	\$ 123	\$ 234	N.M.	\$ 0.68	N.M.	
Restructuring and employee severance	6		6	2	4		0.01		
Amortization and other acquisition-related costs	63		63	22	41		0.12		
Impairments and loss on disposal of assets	4		4	1	3		0.01		
Litigation (recoveries)/charges, net	1		1	-	1		-		
<b>Non-GAAP</b>	\$ 461	(2)%	\$ 432	\$ 148	\$ 284	4 %	\$ 0.83	5 %	
Fourth Quarter 2013									
<b>GAAP</b>	\$ (442)	N.M.	\$ (480)	\$ 106	\$ (586)	N.M.	\$ (1.72)	N.M.	
Restructuring and employee severance	32		32	12	20		0.06		
Amortization and other acquisition-related costs	52		52	13	39		0.11		
Impairments and loss on disposal of assets <sup>3</sup>	832		832	30	802		2.32		
Litigation (recoveries)/charges, net	(2)		(2)	(1)	(1)		-		
<b>Non-GAAP</b>	\$ 472	11 %	\$ 434	\$ 160	\$ 274	7 %	\$ 0.79	8 %	
Fiscal Year 2014									
(in millions, except per common share amounts)	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes and Discontinued Operations	Provision for Income Taxes	Earnings from Continuing Operations	Earnings from Continuing Operations Growth Rate	Diluted EPS from Continuing Operations	Diluted EPS from Continuing Operations Growth Rate <sup>4</sup>	
<b>GAAP</b>	\$ 1,885	89 %	\$ 1,798	\$ 635	\$ 1,163	247 %	\$ 3.37	247 %	
Restructuring and employee severance	\$ 31		31	11	20		0.06		
Amortization and other acquisition-related costs	\$ 223		223	79	144		0.42		
Impairments and loss on disposal of assets	\$ 15		15	5	10		0.03		
Litigation (recoveries)/charges, net	\$ (21)		(21)	(8)	(13)		(0.04)		
<b>Non-GAAP</b>	\$ 2,133	4 %	\$ 2,047	\$ 722	\$ 1,324	3 %	\$ 3.84	3 %	
Fiscal Year 2013									
<b>GAAP</b>	\$ 996	(44)%	\$ 888	\$ 553	\$ 335	(69)%	\$ 0.97	(68)%	
Restructuring and employee severance	71		71	27	44		0.13		
Amortization and other acquisition-related costs	158		158	52	106		0.31		
Impairments and loss on disposal of assets <sup>3</sup>	859		859	37	822		2.39		
Litigation (recoveries)/charges, net	(38)		(38)	(15)	(23)		(0.07)		
<b>Non-GAAP</b>	\$ 2,046	10 %	\$ 1,938	\$ 654	\$ 1,284	15 %	\$ 3.73	16 %	

<sup>1</sup> During the fourth quarter of fiscal 2014, we recorded an out-of-period decrease in revenue of \$14 million related to pricing adjustments. The related tax benefit was \$5 million and both GAAP and Non-GAAP diluted EPS from continuing operations decreased \$0.02.

<sup>2</sup> For fiscal 2013, the weighted-average number of shares used in the non-GAAP calculation was 345 million shares, which includes 4 million dilutive potential common shares, as there was income from continuing operations on a non-GAAP basis.

<sup>3</sup> The fourth quarter of fiscal 2013 and fiscal 2013 both include an \$829 million goodwill impairment charge related to our Nuclear Pharmacy Services division. The related tax benefit was \$30 million and GAAP diluted EPS from continuing operations decreased \$2.32.

<sup>4</sup> Fiscal 2014 earnings from continuing operations includes a \$63 million benefit related to the settlement of federal and state tax controversies, partially offset by a \$56 million charge related to the remeasurement of unrecognized tax benefits, each of which contributed \$0.18 and (\$0.16), or \$0.02 net, to both diluted EPS from continuing operations and non-GAAP diluted EPS from continuing operations, respectively. Fiscal 2013 earnings from continuing operations includes a \$64 million benefit related to the revaluation of the deferred tax liability and related interest on unrepatriated foreign earnings as a result of an agreement with tax authorities, which contributed \$0.18 to both diluted EPS from continuing operations and non-GAAP diluted EPS from continuing operations. The fiscal 2014 growth rates for diluted EPS from continuing operations and non-GAAP diluted EPS from continuing operations, excluding the impact of the tax items in each fiscal year, would have been 32.4 percent and 8 percent, respectively.

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

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

Cardinal Health, Inc. and Subsidiaries  
Total Company Business Analysis

(in millions)	Fourth Quarter		Non-GAAP Fourth Quarter	
	2014	2013	2014	2013
<b>Revenue</b>				
Amount	\$ 22,894	\$ 25,420		
Growth rate <sup>1</sup>	(10)%	(5)%		
<b>Operating earnings(loss)</b>				
Amount	\$ 387	\$ (442)	\$ 461	\$ 472
Growth rate	N.M.	N.M.	(2)%	11 %
<b>Earnings(loss) from continuing operations</b>				
Amount	\$ 234	\$ (586)	\$ 284	\$ 274
Growth rate	N.M.	N.M.	4 %	7 %
Return on equity	14.5 %	(36.6)%	17.6 %	17.1 %
Effective tax rate from continuing operations <sup>2,3</sup>	34.4 %	(21.9)%	34.2 %	36.9 %
Debit to total capital	38 %	39 %	15 %	25 %
Net debt to capital				
(in millions)	Fiscal Year		Non-GAAP Fiscal Year	
	2014	2013	2014	2013
<b>Revenue</b>				
Amount	\$ 91,084	\$ 101,093		
Growth rate <sup>1</sup>	(10)%	(6)%		
<b>Operating earnings</b>				
Amount	\$ 1,885	\$ 996	\$ 2,133	\$ 2,046
Growth rate	89 %	(44)%	4 %	10 %
<b>Earnings from continuing operations</b>				
Amount	\$ 1,163	\$ 335	\$ 1,324	\$ 1,284
Growth rate	247 %	(69)%	3 %	15 %
Return on equity	18.3 %	5.2 %	20.9 %	20.1 %
Effective tax rate from continuing operations <sup>3,4</sup>	35.3 %	62.3 %	35.3 %	33.7 %

<sup>1</sup> Revenue from Walgreens was \$5.0 billion for the three months ended June 30, 2013. Revenue from Walgreens was \$3.3 billion and \$20.2 billion for the fiscal year ended June 30, 2014 and 2013, respectively. Excluding the impact of the Walgreens contract expiration, the fiscal 2014 fourth quarter and fiscal year revenue growth rate would have been 12 percent and 8 percent, respectively.

<sup>2</sup> For the fourth quarter of fiscal 2013, the goodwill impairment charge related to our Nuclear Pharmacy Services division favorably impacted the effective tax rate from continuing operations by 60.6 percentage points.

<sup>3</sup> Fiscal 2013 includes an out-of-period increase in income tax expense of \$14 million recorded during the fourth quarter, related to uncertain tax benefits.

<sup>4</sup> For fiscal 2013, the goodwill impairment charge related to our Nuclear Pharmacy Services division adversely impacted the effective tax rate from continuing operations by 28.3 percentage points. In addition, the revaluation of the deferred tax liability and related interest on unrepatriated foreign earnings as a result of an agreement with tax authorities reduced, for fiscal 2013, both the effective tax rate from continuing operations and non-GAAP effective tax rate from continuing operations by 7.2 and 3.3 percentage points, respectively. The fiscal 2013 non-GAAP effective tax rate from continuing operations, excluding the impact of the tax settlement, would have been 37.0 percent.

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

Refer to the GAAP/Non-GAAP reconciliation for definitions and calculations supporting the Non-GAAP balances.