Q4 FY15 Cardinal Health, Inc. Earnings Conference Call

July 30, 2015 8:30AM Eastern

Operator: Ladies and gentlemen, please standby. We are about to begin. Good day and welcome to the Cardinal Health fourth quarter fiscal year 2015 earnings conference call. Today's conference is being recorded. And now, your host for today's call, Ms. Sally Curley. Ms. Curley, please go ahead now.

Sally Curley: Thank you, Rufus, and welcome to Cardinal Health's fourth quarter fiscal 2015 earnings and fiscal 2016 guidance call.

Today, we will be making forward-looking statements. The matters addressed in these statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected or implied.

Please refer to the SEC filings and the forward-looking statements slide at the beginning of the presentation found on the Investor page of our website for a description of risks and uncertainties.

In addition, we will reference non-GAAP financial measures. Information about these measures and reconciliations to GAAP are included at the end of the slides. I'd also like to remind you of a few upcoming investment conferences and events.

We will be webcasting our presentations at the FBR Second Annual Health Conference on September 9 at 12:00 p m noon in Boston, Baird's 2015 Healthcare Conference on September 10 at 7:50 am Eastern in New York and at the Morgan Stanley Global Healthcare Conference on September 16 at 8:45 a m Eastern in New York.

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Today's press release and details for any webcasted events are or will be posted on the IR section of our website at cardinalhealth.com. So, please make sure to visit the site often for updated information. We hope to see many of you at an upcoming event.

Now, I'd like to turn the call over to our Chairman and CEO, George Barrett. George?

George Barrett: Thanks, Sally. Good morning, everyone. And thanks to all of you for joining us for this morning's call. I know it's an incredibly busy morning for all of you, so please allow me to start by being direct. Cardinal Health had a hell of a year in fiscal 2015. Here are the facts.

First, revenues climbed back over the $100 billion mark, growing 13% year-over-year. Second, we delivered the largest non-GAAP operating earnings in the 44-year history of Cardinal Health growing 16% year-over-year.

Third, we generated $2.5 billion in operating cash flow. And fourth, we returned $1.5 billion to shareholders through expanded dividends and share repurchases.

And I'm proud that our organization was able to generate this financial performance while making sound and strategic moves in drug distribution, generics, specialty, small office practices, consumables, and physician preference items, all putting us in a forward position to sustain meaningful and measurable growth into the future. So, again, a hell of a year.

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Of course, the year was not without its challenges. Year-over-year, our medical segment was essentially flat, adjusting for some non-operating compensation push downs.

But we have been disciplined and determined in modernizing the portfolio of drivers in our medical segment building off of our expansive footprint, our deep customer relationships, our global manufacturing and sourcing experience and the extensive cross learnings from our work in pharmaceuticals.

To be clear, every component of this new portfolio drives growth while leveraging the strong legacy and platform of our medical surgical distribution. This has been a multi-year process but we expect to largely come through this transition as we exit fiscal 2016.

We've crafted a strategy which allows us to serve the needs of the market today, but positions us to address the ongoing needs of patients, medical providers, hospitals, retail outlets and all of our partners in a system undergoing change.

Long-term value creation is our true north. Our healthcare system is at a key inflection point and with the ongoing convergence of historically disconnected players, customers increasingly see Cardinal Health as an integrated and effective healthcare organization -- not a collection of individual business units.

The strong performance of the enterprise wasn't the product of a single business unit or function. It was rather the collective energy and dedication of 35,000 people who are extraordinarily committed to their customers, to patients, to our business partners, and to the performance on which they know investors have come to depend.

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We will not rest on our progress. As we begin our fiscal 2016, we expect to continue our track record of growth and value creation. So, let me make a couple of quick comments about the fourth quarter, which Mike will cover in more detail, and describe specifically how we see our positioning in the market and why we expect to continue our growth trajectory.

We finished fiscal 2015 with a very strong fourth quarter. Revenues increased 20%, non-GAAP operating earnings increased 33%, and we reported non-GAAP earnings per share of $1.00, an increase of 20% over the prior year.

Also, during the quarter, we entered into an agreement to acquire Harvard Drug, which strengthens our capabilities in generics, broadens our telemarketing reach, and of course, adds scale to our Red Oak joint venture with CVS Health.

Of particular note, our pharmaceutical segment had an exceptional quarter, which you've seen in our press release and which Mike will cover in a few minutes.

This is truly a remarkable time in healthcare and Cardinal Health is poised to excel while the industry evolves. We're now beginning to see a clearer picture of how newer industry dynamics might affect the future.

Let me describe some of these forces and link them directly to the work that we're doing and how we've positioned our business portfolio, our product lines, and our capabilities to grow in alignment with these dynamics.

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First, there's a noteworthy and increasing bifurcation in the pharmaceutical world. We see continued growth in the utilization of generic drugs and a new era of innovation in specialty pharmaceuticals addressing the needs of unique patient populations that require a very integrated approach to patient management.

Recognizing this, we expanded and continue to grow and diversify our customer base. In particular, we are broadening the number of customers who source generics from us.

And of course, we established Red Oak Sourcing, our joint venture with CVS Health, which was fully operationalized this fiscal year. This is an effective, productive and profitable partnership, and we see this as as a long-term driver of value for us, CVS Health, our manufacturing partners and of course, our customers.

We've significantly grown our specialty business and completed the acquisition of Metro Medical, enhancing our reach and expanding the therapeutic areas we serve.

And we continue to deepen our relationships with biopharmaceutical manufacturers with valuable offerings in regulatory sciences, patient access and support, and health economics outcomes research.

Second, we are seeing retailers, big and small, continue to expand their offerings and enhance their role in healthcare. Increasingly, they have become places where care is actually delivered and where healthcare counsel is provided.

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These retail pharmacies need to operate at significant scale or leverage the scale of a partner to ensure efficiency and access. With the proven strength of our brand and generic programs, Cardinal Health offers the opportunity to aggregate demand for our customers.

We provide access to innovative tools, technologies, specialized services and solutions, including network inclusion. We now have nearly 6,000 customers in our Pharmacy Services Administrative Organization, our PSAO, where we contract on their behalf for network inclusion.

Without question, Red Oak Sourcing provides tremendous support enabling a world-class generics program for our customers. Third, we are seeing hospitals and health systems becoming increasingly complex, multi-site and multi-provider.

This creates new challenges for them and puts a priority on coordination, efficiency, and standardization around various needs, including pharmaceuticals, consumables, physician preference items, and the accompanying services around these products. This creates unique opportunities for us.

Partners like Cardinal Health who can serve these needs across a highly distributed system and who can help ensure the right care in the right part of the system - will be highly valuable to our manufacturer partners and providers alike.

Our integrated delivery solutions group works across health systems to build formulary capabilities and offer medication therapy management to ensure that each patient starts and stays on the right medicine.

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Our consumables portfolio addresses the need for efficiency and standardization, and our Cardinal Health branded products continue to grow. Our acquisitions of AccessClosure, Innovative Therapies, and, of course, the planned acquisition of Cordis offer real solutions around efficiency and standardization, combining products and innovative services and technologies.

Simply put, we can eliminate waste and improve outcomes in the physician preference item areas. And we are very excited to have joined forces with Henry Schein to more efficiently and effectively serve small physician practices, many of whom are now affiliated with IDNs.

Combining our tools with Schein's world-class capabilities in serving office-based practices makes us a stronger partner for integrated systems and allows us to move more of our Cardinal Health branded products through any channel.

Fourth, as the baby boom population moves into their 60s and now their 70s, many are living with multiple chronic diseases and therefore, need new and different forms of care.

These patients are being treated in different, and what we internally refer to as peri-acute, settings. The moment of discharge is a unique moment in our health care system and transitions to post-acute settings are extremely important.

We know that many of these patients are best cared for in their own homes where they can have the dignity and support they deserve. The strength of our Cardinal Health at Home platform continues to grow, bolstered by increased penetration of Cardinal Health branded products.

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And we are in the process of launching our “Hospital Quality at Home” initiative, which allows consumers the opportunity to purchase the products they've used in clinical settings from retail outlets.

And finally, we are seeing payment models changing, shifting the focus to outcomes rather than activity; results, not effort. In January, the department of Health and Human Services set clear goals and timelines to shift Medicare to value-based models. In recent weeks, CMS announced their first mandatory targets for bundled payments starting with lower extremity procedures.

The moves to expand our position in cardiology with products offered by Cordis and AccessClosure; in wound management with Innovative Therapies, and in trauma with Emerge all align perfectly with these developments.

Our ability to serve these bundles with products and innovative services now across multiple therapeutic areas is a key differentiator, highly valuable to our provider partners and will be key driver of growth for us.

With a strategic eye on the future, identifying and embracing evolving industry dynamics, Cardinal Health is uniquely positioned to create value in this new environment.

We are an integrated healthcare company delivering solutions to our customers across the entire continuum of care, addressing critical challenges around efficiency, cost, quality, access and outcomes.

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So, what do we expect going forward? This morning we provided FY16 guidance of $4.85 to $5.05 which represents an 11% to 15% growth rate. We expect to see growth along multiple dimensions.

Without question, generics remain an important strategic focus for us, and we expect that Red Oak will continue to generate meaningful value for us and for our customers. As I mentioned before, we closed the acquisition of Harvard Drug in early July. This will further fuel our growth in generics.

Our specialty business continues its strong growth, and we expect that Specialty Solutions will finish fiscal 2016 with revenues in excess of $8 billion. We expect our Medical segment to grow at mid-single digit rates and finish the year with momentum.

Of note, the Medical segment will have a challenging first quarter as a result of some discrete items, the largest being the wind-down of a post-spin CareFusion contract in Canada which Mike will cover.

Nevertheless, we continue to expect higher than market growth in our strategic accounts and double-digit growth in our Cardinal Health branded Medical products. We anticipate outgrowing the market in Cardinal Health at Home and look with enthusiasm to closing the acquisition of Cordis likely in our fiscal Q2.

China continues to represent a significant opportunity. The healthcare market in China is still in its early phases of growth and our large and expanding footprint will be increasingly valuable to us and our global pharma and med-tech partners.

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Finally, having made some important moves in these last 18 to 24 months, we will prioritize and focus on execution and performance management around these strategic priorities.

And because of this, expect that our capital deployment approach in the near term will be weighted toward reinvesting in our existing businesses and enhancing enterprise capabilities to ensure that we maintain the kind of impressive earnings growth we've experienced over the last one, two, and five years.

We come out of fiscal 2015 with a strong track record of financial performance and a balanced, well-positioned portfolio. We have high expectations and I'm confident in our ability to continue to deliver robust growth demonstrated by real and measurable results.

Let me finish by thanking all of you for your support, all of our customers and business partners for their trust, and all of our employees who work incredibly hard day-in and day-out to set the industry standard of excellence.

Great people make for great companies, and great companies make for great communities and in that regard, our people set a high standard. With that, I'll turn the call over to Mike for a detailed review of the financials. Mike?

Michael Kaufmann: Thanks, George. I'm extremely pleased to report such an outstanding quarter and a terrific fiscal 2015. The financial performance of the enterprise along multiple dimensions: revenue, operating earnings, cost control and EPS growth all point to tremendous attention to high performance by our team.

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At the same time, we continued a disciplined and balanced approach to capital deployment which served us well this year and in the years to come. Now, let me review our strong fiscal 2015 results.

I'll focus on our Q4 performance and provide select full-year highlights. Then, I'll offer our fiscal 2016 outlook including some of the underlying assumptions. You can refer to the slide presentation on our website as a guide to this discussion.

Starting with the consolidated company financials, Cardinal Health had a strong finish to an excellent year. For the fourth quarter, non-GAAP diluted earnings per share from continuing operations were $1, a 20% growth versus the prior-year quarter. This contributed to full-year, non-GAAP EPS of $4.38, a year-over-year growth of 14%.

Fourth quarter revenues came in at $27.5 billion, or a growth of 20%, and full-year revenue grew 13% to $102.5 billion. Gross margin dollars were up over 16% in the fourth quarter and increased 11% versus the prior full year.

Gross margin rate in the quarter compressed slightly due to the Pharmaceutical segment growing at a faster rate than the Medical segment. SG&A expenses in the quarter and year increased, largely as a result of acquisitions.

We drove strong growth in consolidated non-GAAP operating earnings, up 33% in the quarter and 16% during the year. Non-GAAP operating margin rates expanded 20 basis points in the quarter and 7 basis points for the full year.

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Net Interest and Other Expense increased as anticipated versus the prior year's quarter, primarily due to the new debt issuance to fund the Cordis and Harvard Drug acquisitions.

As we expected, the non-GAAP effective tax rate for the quarter was unusually high, at 42.2%, due to certain federal and state tax matters. The full year tax rate was 37.2%.

Our fourth quarter diluted weighted-average shares outstanding were 333 million. Full-year diluted weighted-average shares were 335 million, nearly 10 million lower than the last year.

During the fourth quarter, we took the opportunity to pull forward fiscal 2016 share repurchases and bought $350 million worth of shares. This brought our fiscal 2015 share repurchases to over $1 billion. At fiscal 2015 year-end, we had about $700 million remaining on our board authorized share repurchase program.

Moving on to consolidated cash flows, we generated $868 million in operating cash flow during the quarter. This brought the full-year cash from operations to over $2.5 billion, a result of strong contributions from both segments.

Overall, we ended June 30th with a strong balance sheet, including a cash balance of $4.6 billion, of which $423 million were held internationally. As a reminder, our cash balance included $1.5 billion in proceeds from our recent debt issuance, which in combination with an additional $1.5 billion of cash on hand, will be used to fund Cordis and has been used to fund the Harvard acquisition which closed in early July.

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In addition, remember that we like to keep $1 billion to $1.5 billion of cash on-hand as the scale of our business can require large daily fluctuations in cash needs.

Now, let's move to the Pharmaceutical segment performance for the fourth quarter and fiscal year. The segment had outstanding performance in the quarter and the year.

Revenue in the fourth quarter grew 23% to $24.7 billion driven by growth in our existing and new customers. Full year Pharmaceutical segment revenues were $91.1 billion, an increase of nearly 14% versus the prior year.

Segment profit increased by 42% in the fourth quarter to $535 million. This performance was driven by our generics program, which included volume growth in our customer base, as well as excellent execution by our colleagues at Red Oak. On the year, segment profit rate expanded 12 basis points to 2.3% driven by our generics program and continued focus on expense management.

Moving to our Medical segment. This quarter, revenues grew 2% to $2.9 billion due to contributions from acquisitions and growth in our Cardinal Health at Home platform. This was partially offset by declines experienced in Canada. On the year, revenues grew 4% to $11.4 billion.

Fourth quarter Medical segment profit increased 7% to $103 million. This growth came from the expansion of our Cardinal Health brand products and services through a combination of acquisitions and organic efforts, coupled with targeted cost reductions.

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For the year, segment profit dollars decreased 2.6%, and the rate compressed to 3.8% due to the portfolio mix George discussed earlier as well as the impact of the Canada business.

Let me share a quick note on Cardinal Health China, which spans both of our reporting segments. Our business in China generated over $3 billion in revenue for the year, resulting in strong double-digit top and bottom line growth.

The team there continues to execute well, through a combination of organic and inorganic moves, and we continue to gain share in our ranking among the top 10 healthcare distributors in China.

If you review the GAAP to non-GAAP reconciliations on slide number eight, you'll see our consolidated GAAP results for the quarter. The 12 cent variance to non-GAAP results was primarily driven by amortization and other acquisition-related costs which reduced our GAAP results by18 cents per share.

We also had proceeds of $56 million in pre-tax anti-trust settlements that are included in the 8 cent net litigation recoveries line. These were excluded from non-GAAP results.

With a strong fiscal 2015 behind us, let's turn to our fiscal 2016 outlook. In early June, we provided you with our preliminary fiscal 2016 guidance range. I'll now go through our refined outlook including our current expectations and relevant, underlying assumptions. We expect consolidated company revenues to grow in the low-double digits and as George stated, we expect our non-GAAP EPS to be in the range of $4.85 to $5.05.

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While we don't provide quarterly guidance, we do expect our earnings to be more back-half weighted in fiscal 2016. This will become clearer as I walk through the segments. Let me first start by providing Pharmaceutical segment specific expectations and assumptions.

We expect robust revenue growth in the low double-digits versus the prior year. The anticipated drivers of revenue include Branded manufacturer drug price increases similar to what we experienced in fiscal 2015, the incremental increase related to new customer wins and healthy growth from both specialty and the China Pharmaceutical business.

For our generics program, overall we expect a positive year-over-year earnings contribution. This growth will be driven by several factors such as current customer penetration, new customer wins, execution of new launches, the manufacturer pricing environment, and of course, execution at Red Oak.

Speaking of Red Oak, it has been a great success. As we've mentioned, the achievement of certain milestones would trigger predetermined payments beginning in fiscal 2016.

Because of excellent performance, Red Oak achieved these milestones and we will be making our first $10 million-additional payment to CVS Health in this first quarter of fiscal 2016, for a new total quarterly payment of $35.6 million.

Our fiscal 2016 outlook also assumes overall generic unit growth versus the prior year as a result of growth in existing customers as well as the incremental impact of new customers that we on-boarded in fiscal 2015. In

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addition, we are assuming a lower year-over-year contribution from new item launches as well as some moderating generic manufacturer drug pricing from what we observed in fiscal 2015.

Again, we feel very positive about our outlook for our generics program and expect the second half to be stronger based on the way we see the various components of our program shaping up.

Fiscal 2016 will also include a full year of the Harvard acquisition, which closed in early July. We expect this to ramp through fiscal 2016 resulting in non-GAAP EPS accretion of greater than 15 cents per share, net of the 3 to 4 cents of interest expense for the related debt financing.

As I just mentioned, we expect Cardinal Health Specialty Solutions to be a solid contributor to performance in fiscal 2016. Last year, we told you that Specialty was on a trajectory to exceed $5 billion in revenues in fiscal 2015. The business surpassed that goal and we continue to expect robust organic growth.

Along with the acquisition of Metro Medical, we now expect to end fiscal 2016 well in excess of $8 billion in revenues. Rounding out our Pharmaceutical segment assumptions, we are also planning for double-digit growth in our China business.

Now, let's talk about expectations and assumptions around our Medical segment for fiscal 2016. We expect revenues to grow mid- to high-single digits, driven by Cardinal Health brand product growth which includes Cordis, our China Medical business, and Cardinal Health at Home. For the full year, we expect mid-single digit segment profit growth due to the same drivers.

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Now let me give you some additional insight into the cadence of the Medical segment performance as we work through a year with multiple moving parts. The segment profit growth I just mentioned is significantly back-half weighted due to anticipated timing of the close of Cordis, lapping of the previously-mentioned contract losses in Canada, and the timing of the continued ramp of Cardinal Health brand products which includes the launch of both new products and expansion of existing product lines midway through our fiscal year. Let me expand a little bit on these items.

First, regarding Canada, for the first quarter we expect a $10 million discrete year-over-year headwind related to the winding down of the CareFusion contract that George mentioned earlier.

Also, there are other smaller puts and takes that, combined with the wind down, will result in a first quarter year-over-year decline in the high-teens for the segment.

Even with these factors, the Medical segment will grow segment profit by mid-single digits. So while the first quarter and half will be down, our strong second half will result in full-year growth.

Since Cordis is an important contributor to our stronger second half, I'll provide the assumptions included in our fiscal 2016 guidance. We expect to close the Cordis acquisition before the end of the first half of fiscal 2016.

And we expect an inventory fair value step-up of 13 to 15 cents that will reduce non-GAAP EPS in the second and third quarter of fiscal 2016 and be substantially complete by the fourth quarter. Based on this timing, we would expect meaningful contribution from Cordis in the fourth quarter.

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Let me finish by highlighting a few key Corporate assumptions for the year. We expect Net Interest and Other Expense of $195 million to $210 million which reflects the mid-June debt issuance related to the funding of the Cordis and Harvard acquisitions. We are projecting an overall non-GAAP tax rate in the range of 35.5% to 37%.

As a reminder, we only provide full-year guidance on tax rates as they can have natural quarter-to-quarter fluctuations resulting from discussions with state, federal, and international authorities.

We also expect amortization of intangible-related assets from acquisitions closed as of June 30th, 2015 to be approximately $194 million or about 36 cents per share. This does not include amortization for Harvard or Cordis. We will update this assumption throughout the year as that information becomes available.

Moving on to capital deployment, for FY16 our strategy remains consistent with recent years. As we have stated, we view reinvestment in the business as a priority.

During the year, we expect capital investment to increase to the range of $510 million to $540 million. This is higher than our historical run rate as this year we have identified opportunities to invest in strategic priorities, refresh our information systems in our Pharmaceutical segment and support our recent acquisitions.

While we regularly evaluate opportunities to redeploy capital into the business, longer-term we expect capital expenditures to return to historical levels. We also remain committed to growing our differentiated dividend in line with our long-term, non-GAAP EPS growth rate.

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We will also continue to explore opportunities to pursue strategic M&A, with a bias towards executing on the integration of recent acquisitions. And as always, we will continually evaluate opportunistic share repurchases as part of our balanced capital deployment approach.

For fiscal 2016, we are assuming diluted weighted average shares outstanding between 334 million and 336 million. As I mentioned, this reflects a pull forward of approximately 350 million of share repurchases that were just completed during the fourth quarter of fiscal 2015.

I know we just provided a lot of information for you around our assumptions, so please feel free to ask any clarifying questions. In sum, fiscal 2015 was an excellent year for Cardinal Health and I'd like to acknowledge our team for the work they've done and continue to do to make us successful. I feel confident with our plan for fiscal 2016 and look forward to the year ahead.

I'll now turn it over to the operator to start Q&A.

Operator: Thank you, sir. And for our first question we go to Bob Jones with Goldman Sachs.

Robert Jones: Great. Thanks for the questions. I guess I'll start with the obligatory generic inflation question. I know your directional assumption around generic drug manufacturer pricing to moderate versus fiscal 2015 is in line with what you guys have been saying, but I guess I am curious just around order of magnitude.

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Have you guys seen anything change in the marketplace more recently that would've made you think of this as less of a tailwind for your fiscal 2016 than what you guys had been kind of signaling to us over the last couple of quarters?

George Barrett: Good morning, Bob. It's George. I think, why don't I let Mike start with that and then maybe I'll follow up with a little bit of color. But Mike, you want to just start with it?

Michael Kaufmann: Yes, absolutely. Hey thanks, Bob, and good morning. As we said in the past, generic inflation can be incredibly lumpy. It's not very consistent month-to-month or quarter-to-quarter. So while we are telling you that we believe that it will moderate for our fiscal 2016 versus fiscal 2015, we're not really seeing anything in large changes in the environment.

All the things that we've seen in the past, such as the launch schedule not being where it was in the later 2000s, delays for product introductions, we're not seeing lots of new competitors necessarily in the marketplace.

All those types of things that we've talked about in the past, we're not really seeing any changes, we're just trying to probably be a little bit conservative to let folks know that we do expect it to moderate a little bit over the next year.

George Barrett: Yes, let me just echo a little bit of this. I don't know that I'd be able to describe, Bob, a meaningful change since we last reported, other than of course some very large announcements of transactions among the manufacturers.

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I'm always reminding people on this question that you have to remember each product is sort of its own market with its own characteristics. How complex is the drug that's being manufactured? Is there plenty of raw material? Where is the drug used? How many players? What's happening for their overall business?

So, there are a lot of moving parts in this but I think our general perspective is, and I think we've said this last quarter, was just to moderate our assumption going forward.

Robert Jones: No. I think that's fair. And I guess just my follow up on the cash balance, Mike, I appreciate the breakdown you gave of where you guys are and what's earmarked for what.

But I guess if I go through some of the adjustments and then factor in the CapEx guidance you gave, it doesn't really look like you have too much flexibility for deployment.

Anything you can share on cash flow generation expectations and I guess if my math is right, when do you guys feel like you'd be back in a position to either pursue meaningful deals again or meaningful buybacks?

George Barrett: Yes, really fair question. As we take a look at it, a couple of things. I would say that I'm very comfortable with our ability to continue to do acquisitions even today if we needed to.

We have access to a lot of different sources of funding; I wouldn't be uncomfortable with putting more debt on the balance sheet if we needed to, if we found the right strategic opportunity.

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Again, that all being said, we're going to really be focused on execution this year. We've really set the table well, I believe, this past year with some really key acquisitions; particularly Harvard already and Cordis to close. We're going to focus on that execution and we're going to be really balanced again in our approach with capital.

And so, I know, George, you'd probably like to say a couple...

George Barrett: Yes, just really quickly. Bob, I think we've done, generally over the last years pretty well in terms of our ability to generate cash, and our team is incredibly good at managing working capital.

So, I think we feel confident about the way that we'll generate cash and, of course we'll think carefully and opportunistically about ways of deploying that capital should that occur.

I also just want to finish that last part just to remind you that we recognize how hard it is for you all to model generics. And so I know it's frustrating, we've tried to do as best we can to get some general color, but I just want to acknowledge that.

But again, I feel our general strategy on capital deployment has not changed. We feel very good about the way we'll be able to generate cash and to the extent that we're generating more cash, we'll be thoughtful and creative and certainly opportunistic.

Robert Jones: I appreciate all the comments. Thanks.

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Sally Curley: Thanks Bob. Operator, next question?

Operator: And for our next question, we go to Glen Santangelo with Credit Suisse.

Glen Santangelo: Thanks and good morning. Hey, George, I just wanted to follow up on some comments you made in your prepared remarks. I think you seem to suggest that your capital deployment would be weighted towards your existing businesses and I just want to be clear on exactly what you're seeing.

Do you believe it's just going to be CapEx, internal CapEx, towards the businesses that you've already bought or are you somewhat suggesting that you'll also consider doing acquisitions that may complement some of the existing businesses that you have internally?

George Barrett: Yes. Good morning, Glen. Thanks. Yes, so a couple of things. One is we want to make sure that you all know that we've got a very high priority on executing the business, particularly on some of the moves that we've made.

So, we want to make sure we're all over those and that we're doing the things that we need to do to make sure that those things happen the way we want. We will, of course, continue to look for opportunities that we think drives strength in the businesses that we have. So, that's largely what we're saying.

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Again, number one, a high priority on execution. We've deployed some capital; we want to make sure that we do that very efficiently. And second, of course we're always looking for those opportunities to sort of double down and get stronger in areas. But I hope that answers the question.

Glen Santangelo: Okay. Maybe if I just follow up with a question for Mike on the guidance. Mike, it kind of sounds like listening to the way you characterize it, there is no capital deployment really built into your new guidance assumptions.

If we're not going to model acquisitions and it seems like based on the share count that you're providing you're assuming no share repurchase as well. Is it a fair characterization to assume that the guidance includes no capital deployment?

Michael Kaufmann: Yes, it's a fair question. When you take a look at the assumptions, obviously, you can take a look at the fact that I mentioned that we were planning to do about $350 million of capital deployment this year in FY 2016, but we decided to go ahead and pull that forward opportunistically into the fourth quarter.

So it is a fair assumption as you take a look at the metrics that we've put out and assumptions that we would have obviously a limited amount of capital or stock buyback this year.

But again, you have to remember that's very early in the year. We're going to generate strong cash flows this year and we're going to take a look at all of our capital deployment policies and if there are opportunities in the year to buy back stock opportunistically we won't hesitate to do that.

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Operator: Our next question, we go to Ricky Goldwasser with Morgan Stanley.

Ricky Goldwasser: Yes. Hi. Good morning, and congrats on the quarter. So, my first question is around kind of the generic programs. In the prepared remarks, you emphasized kind of like the growth and momentum that you're seeing there.

So, can you quantify for us how fast is your generics program growing and how it compares to what you're seeing market growth is? And how does Harvard fit in?

So, when you think about fiscal year 2016, do you separate the - is the Harvard accretion includes also the contribution to generics or do you think about it as kind of like supporting your growth of your generic program separately?

Michael Kaufmann: Yes, Ricky. I would say Harvard's really both. I mean, Harvard brings to us generic scale, which is always important particularly with the excellent performance we're seeing from the Red Oak team. It also brings to us new telemarketing skills and teammates. It also had some private label brands that we're going to take a look at how we can continue to leverage those in the acute space.

So Harvard brings several different capabilities to us that we're excited about and we've had an excellent team in the telemarketing, in that packaging area, over the last couple years that have executed incredibly well.

So, I would say it brings both capabilities as well as generic scale to us.

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George Barrett: Yes. Broadly, Ricky, good morning it's George. Our generic program is doing very well, and I think we can safely say we're outgrowing the market. There are a lot of components to that.

I think we've gotten a broader base of customers who see us as a primary source for generics. And I think we're doing well with them getting better share of wallet, meaning I think we're creating value for a very, very broad percentage of their overall mix.

We've had a little bit of customer growth. The overall picture has been very encouraging and, as Mike said, I think Harvard will just add to that. One other thing to add on Harvard, we do really have some interesting synergies because we're very, very good at this today and so this sort of goes right into our sweet spot where we can leverage capabilities that we have in telephony and salesforce productivity in that - in our telemarketing group.

So, we're really excited to sort of bolt that into the system. But it'll very much fold in. But we are calling out a specific accretion that we see from that acquisition.

Ricky Goldwasser: Okay. And then my follow up will be on the Specialty side again. Seems like a pretty impressive step-up in revenue contribution right from $5 billion to $8 billion.

So, can you maybe share some more detail on what you're doing, kind of like what's the revenue model, how are you working with manufacturers, are you also kind of like earning fees from manufacturers for the support services or is it just kind of like for the distribution?

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So, as much color as possible would be great given that significant step up that we've seen in the contribution.

George Barrett: Sure. Ricky, let me start with more general comments then, but I'll let Mike give a little more detail. Specialty has been a really good growth story and much of that organically. Now Metro Medical, as Mike said, will contribute a lot to those increased revenue numbers as we go from $5 billion to $8 billion, but a lot of this has been organic.

Most of the revenue growth has come from the provider side, just growing the number of customers that we supply across therapeutic areas. That's been the primary driver over these the last couple of years.

I do think that we've increased the capabilities that we have to serve pharma and biotech and those tend to be less impactful on the top line but more impactful in terms of margin rates to different kinds of services and more consulting kind of revenues.

So, I think it's been a good mix of components, but I would say a lot of the revenue has come from expanding our provider base. Mike, what else?

Michael Kaufmann: I'd absolutely agree with that. And I think that's really coming from our service offerings in that space. I think that the team over the last several years has done an excellent job of creating offers that we think are best-in-class for either the oncologist, rheumatologist and nephrologists that we're serving and we have a lot of participation with them where they come here, often to Columbus, work with us to help us develop our products and services.

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I think we're doing an excellent job of listening to what they need and delivering the types of services that they need to get them comfortable to turn over their distribution to us.

Operator: For our next question, we go to Charles Rhyee with Cowen & Company.

Charles Rhyee: Oh, yes, thanks for taking questions. First, just had a quick clarification; I know you said that in the reconciliation of the non-GAAP, you backed out the litigation recovery. Is that the same when I look at the presentation for the pharma segment that excludes also the gain there as well?

And then my follow-up question really is more about China actually. When you talk about the China Medical, just curious what's in that part of your business? What do you do on the Medical side in China?

Mostly, we've talked about the pharma distribution there, just curious, and Specialty in China. Just interested in what's there and what percent of the mix in China that kind of represents? Thanks.

Michael Kaufmann: Yes, great. I'll start on the settlements and then turn it over to George for a little discussion on China. Yes, that $56 million of funds that we received in the antitrust settlement have been excluded throughout all the numbers that I talked about.

They're not in our overall non-GAAP numbers, nor are they in any of the results of the pharmaceutical segment. We see these as generally non-recurring hard-to-predict type of items and we have carved these out for years.

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They have always been carved out of our numbers historically and it's just a consistent pattern that we've had over the past.

George Barrett: Great. Charles, I'm sorry, did that get what you needed from...

Charles Rhyee: Yes, absolutely.

George Barrett: Good.

Charles Rhyee: That helps.

George Barrett: On China, just a couple of quick observations. We started in China acquiring a business that was roughly $1 billion and growing to nearly $3 billion at the end of FY 2015. It's really been growth along multiple dimensions. Certainly, our pharmaceutical distribution is the biggest generator of revenue for us in China.

We're doing - increasing med tech work and sometimes just as a 3PL player for medical device companies. I think increasingly people see us as a broad-based healthcare partner in China. And you've seen that in specialty where we've set up some pharmacies to actually deliver specialty products direct to patients.

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We now have 30 of those direct-to-patient pharmacies in China. So the growth has been along multiple dimensions. But again, I'd say probably in terms of revenue, the primary revenue growth driver is still in the pharma segment.

Charles Rhyee: Okay, great. Thank you.

George Barrett: You're welcome.

Operator: For our next question we go to Garen Sarafian with Citigroup.

Garen Sarafian: Good morning, guys. Hey, George, a high level question for you. In the past, you haven't been too enthusiastic about entering the distribution space in some parts of the world as others, but how does the ongoing consolidation among pharma manufacturers impact your view? And if it's not in M&A, how does the manufacturer consolidation influence your thinking in any other meaningful way?

George Barrett: Good morning, Garen. Manufacturer consolidation is not really a new story. It's certainly accelerated a lot in the last couple of years both on the branded side and on the generic side. It probably has not changed our view about the opportunities that we have to grow our business both in the US and globally.

We look very carefully and I think we got pretty good experience, line of sight, and discipline around how we see the opportunities of our markets. And our relationships with our pharma and biotech partners are very deep; like we're talking regularly about opportunities.

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So we'll continue to look at opportunities around the world, but we'll do it with a very disciplined eye to make sure that we really believe that there's value creation there that we bring something to the table and that it's a necessary growth driver for us.

China's been a great opportunity. We now have a platform with Cordis to grow certainly on the Medical side in a number of markets and we'll continue to look to see whether or not there are opportunities ex-US that are attractive to us.

But I do think when we look at service businesses in multiple markets, you need to do that with a very, very disciplined eye. For example, Europe is not Europe, it's probably got four different kinds of markets inside that broad economy. And so we'll look very carefully at those and with I think a very experienced set of eyes.

Garen Sarafian: Got it. So, it sounds like more of a status quo. And then secondly if can you elaborate a little bit on the Red Oak milestone payment? The $10 million that you mentioned, you guys mentioned that based on the savings that there'll be additional milestone payments.

But is this something that is a quarterly payment and is it more of an automatic payment for this amount once the savings have been captured or is it as a percent of savings where this amount could fluctuate from quarter-to-quarter?

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Michael Kaufmann: Yes, that's a great question. Let me give you some color and transparency on this arrangement with CVS Health. So the way the deal is structured so that at the beginning of FY 2016 there was a milestone where we would do a measurement.

If we were able to exceed that milestone, then a $10 million per quarter payment would kick in to CVS. It's a very binary event. It's either past its milestone, pay $10 million or you don't and you pay $0. So, there's no proration or anything about it, it's just either pay the $10 million or you don't.

This milestone is tracked each quarter. It's run every quarter and it could, theoretically, we could pay one quarter and not pay the next. But our anticipation is that we will pay the $10 million per quarter each quarter this year. So our payments, to be very clear, are $35.6 million per quarter for FY 2016.

For FY 2017, then there's another calculation at the beginning of FY 2017. It is also another binary event. If we pass that additional milestone, we would pay another $10 million per quarter.

And so now it's too early to talk about that milestone, we'll wait until the beginning of 2017. We'll measure it at that time but if it's surpassed, again, it's a binary event, it would either be $0 or $10 million per quarter for additional for 2017.

So, our payment could go as high as $45.6 million per quarter starting in FY 2017 and then that would be the maximum for the life of the deal. There's no other milestones. There's no other additional payments. And just also to emphasize, there is no adjustments for volume up or down, whether CVS wins or brings in more business or Cardinal wins or loses business; it is a fixed payment for the rest of the life of the deal.

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George Barrett: And I'd probably just add to that. The good news is that both of us have been actually contributing nicely to the capacity and the volume going through Red Oak. So, it's been hopefully a rewarding deal for both of us and, of course, for our customers.

Garen Sarafian: Got it. And a quick follow-up on that milestone though. Does that milestone - does it become a more difficult milestone per year or does it become an easier bogey to hit just because maybe the low-hanging fruit was captured first so the milestone just becomes easier for - just easier overall?

Michael Kaufmann: Yes, I mean, just think about it this way. It's just, again, a level of savings and we build it such that you would want us to pay the additional $10 million milestone next year.

And we're, again, very confident in the execution of Red Oak and we'll get back to you in 2017 as we do the calculation and when we set guidance for 2017 and discuss it. We'll let you know whether that milestone was achieved.

Operator: We go next to Lisa Gill with JPMorgan.

Lisa Gill: Hi. Thanks very much. I just had a couple of follow-up questions, Mike, on the guidance as we think about the two different components. First, on the distribution side of the business can you maybe just talk about what you assumptions are around the underlying organic growth?

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And then secondly, I didn't hear you discuss at all margins and how to think about margins in that business as we move towards 2016?

Michael Kaufmann: So are you talking specifically about the pharma segment, the Medical segment?

Lisa Gill: Yes. Let's start with the - like, I just want to understand the organic component on each so what are your assumptions for each of them for the underlying organic and then more specifically to the pharma.

Do you have anything built in to your anticipation based on some of the announcements that CVS has made around acquisitions that they're contemplating in your guidance for 2016?

Michael Kaufmann: Yes, I guess...

George Barrett: Go ahead, Mike.

Michael Kaufmann: So I guess first of all, we would not comment on any acquisitions related to CVS other than what comments they've made which is that they fully expect the acquisitions that they do, the generics there, to be sourced to Red Oak in the future. But other than that, I can't speak to that component of it.

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As far as revenue assumptions for the segments, on the pharma side, we did talk about really - first of all, we expect branded inflation which is a key driver of revenue on the pharma segment to continue to be similar to what we saw in FY 2015.

We expect to see double digit growth from China and specialty in the pharmaceutical segments and we expect to see growth from our existing customers as well as we'll have full-year on boarding of some of the new customers that we won last year.

So those will be the big drivers on the revenue side and we don't guide to margin or margin necessarily rates on the pharma side but that from a revenue perspective, those will be the key drivers for Pharma.

On Medical, we're also, as we mentioned, we're going to see mid to high single digit percentage revenue growth versus the prior year. And that's going to be driven by growth created from the Cordis acquisition as well as growth in our branded products through some of the internal efforts that we've had to grow those lines, launch new products as well as some of the efforts we've had around acquisitions.

Lisa Gill: All right. Sorry - what I'm really trying to get at is - so first on the pharma side, what's your expectation in your existing book of business maybe around utilization?

So I understand all the components that you talked about with brand and new wins, Specialty, et cetera, but I'm just trying to understand like the core underlying business. What's your expectations as to where that's growing right now?

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George Barrett: Lisa, let me start, first of all, good morning. It's hard to sort of break out underlying business. Let me give you some general broad perspectives on what we see in the market. Pharmaceutical utilization continues to go up, so prescriptions are going up.

At the moment, it appears that we have been outgrowing the market a bit. That's probably a little bit of increased customers. It has to do with the way our existing customers are doing in the market. So, the underlying health of that actually looks quite positive.

On the medical side, we're continuing to see a little bit of a trend of movement of care from acute care to ambulatory settings. So, we're not projecting a lot of increased utilization in the acute care setting; although actually if you talk to some hospital systems versus other, they're seeing it.

So again, it is choppy and it varies from system to system. But we are seeing a general movement of care into the more ambulatory setting. So, our general position, our strategic accounts, for example, we continue to do very well.

We did well this past year, our expectations for the year going forward are positive on that. So, the underlying characteristics of how we're doing in our market to me all sort of go green, they look pretty good.

Lisa Gill: Okay. And then I think the reason I was asking about the margin expectations are - just is there anything unusual or anything we should be thinking about differently between the two segments because you're not giving guidance around it? Just as we're modeling going into 2016. So if there's anything you want to call out, great. If it's just kind of what we've seen historically, that's fine, too.

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George Barrett: I'll let Mike start and then I might...

Michael Kaufmann: Yes. I mean a couple of things, I think first of all, we'll continue to see growth in the specialty space like the Hep C drugs, which we said have been margin dilutive. So, we would expect to see some continued growth there. Most of the customer wins that we talked about last year that were margin dilutive are generally being lapped this year.

So, we don't have as many - those types of wins like the Catamaran and some of the other business we mentioned last year. So, I wouldn't say there's anything generally different on the pharma side for the environment.

And then obviously, on the Medical side, Cordis will have a very positive impact on our margin rates after we get through the 13 cents to 15 cents of inventory fair value step-up, Cordis is going to have a significant impact on our margin rates. But again, you're not going to see that until fourth quarter because it will be masked by the step-up.

George Barrett: Exactly. Let me just again, I want to be very specific. The second part I think that Mike said, obviously, Cordis has this - once we get to the step-up, this impact.

I want to just make sure on the first part of what Mike said, what's happening is the revenue growth that's coming from certain kinds of branded products tend to be margin dilutive on a rate basis.

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So, I just want to make sure - that's the dynamic that I think all of us are dealing with which is when you see the revenue growth from some of these products, they can be dilutive to overall segment margins and because of the size of the total margin rate. But that's just a by-product of mix.

Michael Kaufmann: Yes. And remember this growth is very capital efficient for us too and while it might be low margin rates, it does produce dollars very capital efficiently for us.

Sally Curley: Thanks. Operator, next question. We're going to try to keep going to be efficient in the call.

Operator: Again, ladies and gentlemen, we do ask that you limit yourselves to one question and one follow-up question. We go next to George Hill with Deutsche Bank.

George Hill: Hey. Good morning, guys. Thanks for taking the question. Mike, I just want to follow up on Lisa's question pretty succinctly just to be clear. For fiscal 2016, there's no inclusion from servicing Target or servicing Omnicare in the guidance.

Michael Kaufmann: Right.

George Hill: Okay.

Michael Kaufmann: There is no assumptions for that. No distribution assumptions for us in our guidance.

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George Hill: Okay. And then, George, kind of a crystal ball question for you. In the last 90 days, we've seen a ton of moves on manufacturer consolidation and payer consolidation in the drug supply chain. If you look forward, what do you see around retailer consolidation?

You're obviously well positioned with your partnership with CVS, maybe outside of the CVS kind of tell us what do you think happens and how do you see Cardinal positioned? Thanks.

George Barrett: That is a great question. Obviously, we've seen extraordinary consolidation in multiple segments across healthcare. Retailers are pretty consolidated today. Now, again, there are going to be areas and again there are others that are probably far more qualified retailers to comment on this.

So, there are probably some areas where you could see some. You might see some, for example, among mass merchants or grocery combo, grocery pharmacy companies. So, I think it's an environment in which we should expect we'll continue to see some movement here.

Again, regulatory constraints are always ones that everybody needs to consider in terms of what kind of can't be done here. But I think we're really well positioned.

Our value proposition to small customers is really strong, but our value proposition to these big customers is also actually really good. And so, we fell pretty well positioned.

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Operator: For our next question we go to David Larsen with Leerink.

David Larsen: Yes, congratulations on showing growth in the Medical division's operating income on a year-over-year basis. Can you maybe just talk about Cordis like maybe the types of products that Cordis sells and how you expect to continue to grow Medical's operating income really sort of in 2H 2016 and then into 2017? And what's sort of most exciting about that asset as it rolls onto your books? Thanks.

George Barrett: Well, listen, the exciting part about this is really thinking about the evolution of the system. We've seen and as I highlighted in my comments some really shifting sand in the way procedures are done the way they're compensated, the way the reimbursement systems work.

We believe that in a couple of areas, cardiovascular being one, orthopedics being one, wound management being one, that there's real efficiency that can be brought to the system.

And that's not just about the products, although obviously the acquisition of Cordis really enhances the strength of our product line. But it's also around the service components that are combined with this.

And so, if I'm a provider, and I'm now being compensated at a set price for a given procedure and I'm going to be penalized, for example, for someone returning to the hospital with a complication, I'm going to be very conscious of the most efficient way to do that.

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How do I bring value, how do I make sure that the entire procedure is done in the most efficient way, in the best way with the best outcome with the least likelihood of a return visit? So, I think Cordis represents a really unique opportunity. It has represented a real opportunity to take a major step forward in this.

I'll just add a couple of pieces. The integration work, thus far is going really well and they're recognizing that we're two separate companies still. And there are certain guard rails that are required. We've got very strong dedicated integration teams.

They've been fully deployed and the preparation work that we're doing is great. I would also highlight a really critical factor, which is at this point, we feel that we basically have the entire management team filled on a global basis. And this is a group with extremely deep immersion in med tech around specific procedures and real great knowledge of their local markets.

So, I think strategically it's a very good fit particularly given some of the trends. I think our integration work is going well. And just a reminder, which we often have to tell people, remember we've been a player in Medical activity in global manufacturing for many years. And so, we have some natural capabilities in this space that I think we'll be able to bring to bear.

David Larsen: Great. And then just one quick follow up. With your relationship with CVS, I mean, is there any ability to grow there especially with Cardinal Home Health now that Walgreens is obviously being serviced by a competitor of yours? Thanks.

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George Barrett: So, again, I have to do this carefully. Our relationship with CVS is great. We really do believe that we're creating value from one another and we'll continue to look for ways to do that and beyond that it'll be hard to give any more information.

Operator: We go next to Eric Percher with Barclays.

Eric Percher: Thank you. So, maybe just two quick mechanics relative to Cordis and the Medical strategy. I guess one of those is we had some view that you would look to launch some new areas in ortho and cardio prior to Cordis later this year.

Now, with Cordis expected to close in the first quarter do you expect that there'll be a joint launch of a more full bag? Do you wait until Cordis is online for that?

George Barrett: I'm not sure what you mean joint launch, I'm sorry. First of all, good morning.

Eric Percher: Of course. So, as you think about bringing more products to market, you talked about having 70% of the ortho bag, I believe, by the end of the year. Do you now launch toward the end of the year? Do you wait until Cordis has closed? And do these become Cordis branded products in the future?

George Barrett: Yes. No, we're moving forward. Again, think of these a little bit as two separate things. We've been moving forward on the ortho line. And I would say in the fall, in the trauma specifically we're going to be starting to

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roll out more effectively. Cordis, we expect to close in Q2, and then that will, again, that will be its own sort of line of activity.

So, I think you can think of them as conceptually they're in the same idea around helping our healthcare partners do this more effectively. But they really are two distinct lines and they've got their own timelines associated with that.

Michael Kaufmann: The only thing I would add to that is you mentioned about the bag and the full bag is that the team has done such an excellent job of launching products organically of where we are - have teams that are launching products.

As I mentioned, it's going to be a growth factor for us in the Medical segment. So, we have a very complete bag as it is and continue to grow that bag outside of the just the Cordis acquisition with all the efforts we have going on internally.

Eric Percher: All right. And then the follow-up is relative to getting Cordis stood up outside the US, how much of that will be as an independent Cardinal entity? Will there be much support ongoing from J&J?

George Barrett: Yes. Good question, Eric. So, some of this - it's going to vary by market. So, in some markets we will have a transition services agreement that facilitates the handoff from one to the other.

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In other markets, we've got some capabilities that are ready and we'll actually be able to fold it in. And then in some markets we're standing up some activity where that part would've been - J&J needs to keep their existing organization. We'll do some essentially stand up of, let's say, an order to cash capability in certain markets.

So, think of it as three kinds of buckets: one where we just have transition activities, one where we stand up some activities where we have existing operations.

Good news is that we have shared goals which is that we want to make sure that we have a common customer who's well-served. So I think we're well aligned I think with J&J on this.

Sally Curley: Operator, next question?

Operator: We go next to Dave Francis with RBC Capital Markets.

David Francis: Hi. Good morning, guys. Just one real quick one. George, as it relates to China and some of the turmoil that we've seen over there, both capital markets and liquidity wise, do you guys see any specific risks to the business given some of the economic activity over there in the short term?

And conversely does the turmoil create potentially some opportunities that you might not have had otherwise to grow the business through capital deployment? Thanks.

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George Barrett: Yes, it's an interesting question and I know we're running late, so I'm going to go as quickly as I can. We really don't see much change in the healthcare market as result of this. Remember, the Chinese government is really committed to getting more of its people access to healthcare and I think that drive continues to be there. So, we continue to feel very optimistic.

As to whether or not this creates new opportunities, it's an interesting question and certainly one we're thinking a lot about. I think we're well-positioned there and healthcare is in a little bit of a different place than what people are seeing in the overall industrial economic conditions.

Sally Curley: Operator?

Operator: We go next to John Ransom with Raymond James.

John Ransom: Hi. Can you hear me?

George Barrett: We hear you, John.

John Ransom: It looks at this point like specialty is about, what, 8% of your revenue. I know that was a big focus of yours, George, when you started with the company a few years ago. Is that number in line with your goals? Do you think there is a capital efficient way to move the needle up? And I'd just appreciate any other thoughts on that topic. Thanks.

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George Barrett: Yes. Hey, John. Well, I'd say this, we're really encouraged by the rate of growth, particularly in the last two years, I would say, that the first year or two were a little slower than, as we told you, than we'd like. But it's begun to ramp pretty nicely.

We will always look for opportunities to strengthen our positions and activities where we think we have a real right to play and win. Again, that doesn't mean you always find those right opportunities, but we're growing organically. We certainly will be open to opportunities that exist in the market to strengthen our position, but nothing specific to point to.

John Ransom: All right. Thank you.

George Barrett: Yes.

Operator: And we go next to Bob Willoughby with Bank of America.

Robert Willoughby: Quick one. What's left on the payables and receivables front? You've had some success managing those line items. And what can you get out of Harvard from a working capital standpoint?

Michael Kaufmann: Yes. I would tell you it was an excellent year on working capital across all of them. We actually performed well on essentially really every lever: DSO, accounts payable, receivables, inventory, et cetera and delivered well on all of those.

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And now, having said that, I still think there's always opportunity in the future for us to do that. So, those will continue to be focus areas for us. You know that we've always been incredibly attentive to working capital and our balance sheet and that's not going to change. We're going to continue to have a focus in all those areas.

Robert Willoughby: Can you size the Harvard opportunity though inventory-wise?

Michael Kaufmann: I mean, it wouldn't be material in the sense of inventory dollars to the overall organization. So, really can't size it, but there's nothing there that I would point to that would be a driver.

Robert Willoughby: All right. Thank you.

Michael Kaufmann: Thanks.

Sally Curley: Thank, Bob. Next question?

Operator: And we go next to John Kreger with William Blair.

John Kreger: Hi. Thanks very much. I had a follow-up question on the Medical business. If you look at your branded products portfolio as it exists now, what sort of organic growth are you getting?

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George Barrett: So again, this varies period to period. We continue to grow this and I'm not sure that we've given specific rates. I will share with you that we're outgrowing the market and I would expect that over these coming years, those numbers are going to continue to increase.

John Kreger: Thanks, George. And maybe along the same lines, so once you get through the noise of the first half of fiscal 2016 and Cordis drops in, what sort of normalized growth do you think you can get out of the Medical segment on the bottom line longer term? What sort of objectives do you have?

George Barrett: Yes, again, we're not providing any new long-term guidance, John. Here's what I would say, we've got - I've told you last quarter and as we highlighted a little bit of this upcoming first quarter. We had to get sort of a couple of lumpy things here.

The general characteristics of the growth drivers in that Medical business feel really right. Like we feel like we've got the talent, we've got very clear goals internally and how we're going to go after those. We think we're aligned with trends in the market.

So as we start to come to the year-end fiscal 2016, I start to feel sort of a more normalized rate of progress there. And as I said, I like that portfolio and how it's shaping up. And I really do think we can leverage the strength that we've had historically in Med Surge by driving these lines of business and products.

John Kreger: Okay, great. Thanks.

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George Barrett: You're welcome.

Operator: And for our final question, we go to Steven Valiquette with UBS.

Steven Valiquette: All right. Thanks. Good morning, George and Mike.

George Barrett: Good morning.

Steven Valiquette: So just a few kind of quick rapid fire questions. First on the Red Oak, I just want to confirm that the JV should be accretive to your earnings every quarter within FY 2016 relative to the size of the payments, hopefully there's no annual resets or on the mechanics or something that would cause them to have big seasonal fluctuation, just want to confirm that first.

Michael Kaufmann: Yes. There's still no issue related to that.

Steven Valiquette: Okay. And then quickly on medical, I'm not sure if you hit this or not, but one of your peers earlier this week disclosed a meaningfully-sized contract loss for later this year. Just curious if you guys were maybe on the winning end of that or if that maybe went to another competitor?

George Barrett: Yes. It's improper for us to comment on someone else's call here. So for, yes, hard to comment on this. Certainly, if we had something that we need to say that's material to us, we'll try to make sure that we highlight it. But again I probably can't comment beyond that.

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Steven Valiquette: Okay. And finally a real quick one, for the 15 cents Harvard accretion, can you remind us just roughly how much of that again is just financially driven purely on your financing costs versus the EBITDA you're bringing in the door versus how much is more synergy-driven? Just a rough approximation on the breakdown of that through this upcoming fiscal year. Thanks.

Michael Kaufmann: Sure. So again, the accretion we expect to be at least 15 cents, there's 3 cents to 4 cents of interest expense against that. And we expect the synergies to not only come from the sourcing side, but also we think we have some real efficiencies in the way we run the business.

There are some cost synergies between the various telemarketing businesses we have. We have some incredibly good metrics and analytics around our calls, and pricing in those types of things. So, it comes from several different areas where we just have a team that has a great history of execution in this area.

Steven Valiquette: Okay. Got it. Okay. Thanks.

George Barrett: Thanks, Steve.

Sally Curley: Thank you. I think...

Operator: And with that, ladies and gentlemen, we have no further questions on our roster. Therefore I would like to turn the conference over to Mr. George Barrett for closing remarks.

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George Barrett: Hey, folks, I know it's been a long call. So, we'll conclude by thanking all of you for joining us this morning.

We look forward to seeing all of you in the very near future. Thanks again.

Operator: And again, ladies and gentlemen, this will conclude today's conference. Thank you for your participation.

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