Cardinal Health, Inc. Investor & Analyst Meeting

November 19, 2015 8:30AM Eastern

Sally Curley: Thank you. Good morning everyone. Welcome to Cardinal Health's Investor and Analyst Meeting. I'm Sally Curley, the Senior Vice President, Investor Relations, and on behalf of the Cardinal Health team we just wanted to welcome you all here today.

For those here in the room, hopefully you've had a chance to experience our Customer Experience modules in the back. If you haven't, I would encourage you to do it again during the mid-morning break which you'll see come up.

We do have our business leaders on-hand ready to show you the solutions we offer to our customers. You also would have seen some information scrolling on the screen behind, before we played the video, as to how to view our slide presentation and how to submit questions. We have two Q&A audience interactive panels coming up during the morning. The question submission is only for those attending the meeting here in the room. As you will see in front of you, there's an iPad so if you have any questions there are actually two gentlemen in the back from the event app. Please raise your hand and they can help you with that.

If you haven't already, you can log in to the events app using the registration, using the email you used to register for the meeting, along with the password cardinal2015, and that's all one word, lower case c. Once you're logged in, you will find the home page containing many different sections of the agenda, resources and presentations which will populate as we move throughout the morning.

You can submit a question by clicking the question mark on the right-hand corner at the top of the screen and then just type in your question. Again, it's a little icon question mark icon and if you have an issue at any point in time, please just raise your hand and somebody will be to your table.

Following today's meeting you can access the content through a link that will be sent to the email that you used to register. Because of time constraints, if we aren't able to answer any questions or all of the questions today, you can either actually find somebody, find one of the members of the IR team at the back during the mid-morning break, or you can contact us next week and we'd be more than happy to assist you.

Please note that our expert physician panel, which will be during the second half of the morning, will be a moderated session only.

So, now on to today's agenda. This morning you'll actually hear from many of our business leaders. We've structured the meeting to provide you with a perspective on the company's position in healthcare and its future growth prospects, and we've done this from two viewpoints: from the one that's most familiar to you, which is as our financial reporting segments, Medical and Pharmaceutical, as well as from an enterprise viewpoint which is how we market to our customers. And to that end, this morning you will see on the agenda behind me is actually bifurcated. The first half will cover healthcare strategies, financial performance and outlook, followed by an audience interactive Q&A. In the second half, we'll cover the Pharmaceutical and Medical segments and then we'll provide you with an enterprise perspective of how we go to market to our customers.

You'll hear from renowned specialists in the areas of wound treatment, orthopedic trauma and interventional cardiology, and then we'll actually finish with, again, an audience participation Q&A.

I also need to remind you that we're going to be making forward-looking statements this morning. Our actual results could differ materially from those projected here today. For information about factors that could cause actual results to differ from today's projections, please refer to our SEC filings which you can find on the Investor page of our website at cardinalhealth.com.

Finally, before I turn the meeting over to George, we will be starting with a polling questions. So if you can please take out your phones and text 22333, and again, that's only for those in the audience. If you take out your phone

and text 22333, and then you need in response to text cardinal2015 - all one word, lower case c – and you'll be joined to our investor polling. So I'll just give you a minute to do that.

Without further ado, I'd like to turn the meeting over to George Barrett, our Chairman and CEO. George?

George Barrett: Thanks Sally. Good morning everyone. Good to see everybody. I actually have an easy job today which is to largely introduce you to a lot of talented folks, but first let me welcome you to our 2015 Analyst and Investor Day. We're going to start, if we could, with a question that I'm going to ask you. Also, let me welcome those of you who are not actually here in person. For those of you in person, we thought we might start with a question and that's why we've asked you to take out your phones. Then, of course, I know because this will be riveting, you'll put them away.

So here's what I'd like you to do. If you could, in one word, answer the following question: What is the biggest healthcare trend which we'll face in the next five years? So the most important trend shaping the healthcare industry in 2020, five years out. So for those of you who have not seen this app, it's sort of fun, which is that as you type in, if a word is repeated it will enlarge on the screen, and we'll start to see a picture shaping as you type. We'll just give it a minute here.

Okay. Are we about stable? We're about stable. Okay. So obviously cost is highlighted here, value, pricing, aging, consumer. So if you take a look, reimbursement, consolidation, I suspect that pretty much we are pretty well aligned here on what are important trends. Meg, obviously when she comes in she's going to do this in some detail, but I think during the course of the day you're going to hear this woven through our discussion. Probably every large, bolded item on this screen will be covered.

So we really are – and part of what we're seeing reflected on this screen -- we really are a system in transition and in a system where priorities are going to be placed on system coordination, integration, the alignment of systems, cost effectiveness – you mentioned costs – patient outcomes or value, depending on how you describe that, and what we like to refer to as 'right care, right setting, right sequence' which is incredibly important, and if

you think about the history of healthcare, that notion of right care, right setting, right sequence has not really been the history of healthcare in the U.S., and I think we're moving in that direction. Given those characteristics we really feel like we're in prime position to help change healthcare, and so let me move forward.

Over these past—I'm going to say my tenure now is seven years so I'm just going to use that time period. If we think back for us as a team over these past seven years, we've really committed ourselves to a couple of things: high financial and operational performance. And I don't want to diminish the notion of operational performance. We are in a business that is incredibly sensitive to the details of execution. Disciplined capital deployment; attracting, retaining, developing top talent; and thoughtful portfolio and customer balance. This has been extremely important for us and we've talked about this really over the last years. I think all of this in many ways, those characteristics have allowed us to absorb what I'm going to describe as the occasional disturbances in any particular part of healthcare, and I do think we're in a system in which there will be those disturbances. They're going to happen in various lines of businesses. Some have happened, some are still happening, this is part of the nature of I think the world we're in.

So let me just take us back, and maybe this is just a reflection on absorbing those; it's less than three years ago that we -- through what I would describe as some relatively early to mid-stages of this industry realignment -- we had to absorb the loss of nearly $30 billion in sales. Those were not easy calls. Nearly $30 billion of sales. Today, our earnings are at all-time highs. This year as we forecast for 2016, our revenues will hit an all-time high. We're generating more cash, returning more value to shareholders. So it's really I think for us an important lesson as an organization to think about how do you navigate through these, and I think to some extent we weren't blindsided by those events. As I said, they're not happy to have to go through those moments, but I think our organization was very disciplined, both in terms of executing on its business of the day and on thinking about how do we navigate through that?

So given the context of that—and by the way I would add this: we're off to a good start to the year, a good start to 2016.

I get asked often by you guys what are the things that keep you up at night – it's a classic question you ask. Or what are the big challenges of leading a healthcare company today? I just wanted to take a minute or two to talk about that. It really is—I've been doing this now for 30-plus years. I'm not sure there's ever been a more exciting time to lead a company in healthcare, very much because the dynamics around us are really dramatic and they're really exciting and they're inspiring in some ways and they require us to face challenges. One of those is sort of navigating what I think of as the natural tensions that organizations feel, and I want to describe those to you and just sort of highlight something that I share with our organization all the time. People say, "Look, is this about short term or long term?" Right? , "Are we creating value now or in the long term? Which is it?" "Is it about global scale and size, or is it about customer intimacy and sort of customization to that customer?" "Is it about the system we have today, sort of fee-for-service model that's going through changes, or is it about a system of the future? Pay for value or pay for performance or pay for outcomes?"

What I like to tell our organization and I'll tell you, is that it's both. It's not really optional to say we are simply going to worry about today, head to the ground, focused on the execution of the moment and ignore what we think are powerful forces going forward. Nor is it acceptable for us to say we are completely clear in our minds as to what's going to happen in the future. We're going to place all our bets, all of our attention on that future and we're going to get over our skis and on a day-to-day basis we're not going to be competing and paying attention to the details of our operating business the way we need to. So in some ways, the great challenge is reminding you and us that you actually have to do both, and I give our organization a lot of credit for being able to do that, to really be aware of the fact that we are in an environment in which we have to do both. Our group is really attentive to the day-to-day details of today's business. At the same time, starting to think carefully about what bets we place and how do we position ourselves for some things, and some of these forces that you described are going on?

Let me just sort of give examples, okay? I think our operating businesses, our service levels, our management of costs, our attention to things like generics and medical/surgical supply systems, we are as effective as we've ever been in those areas, and at the same time we're defining a physician preference strategy. We are developing and building some capabilities through the acquisition of a company called naviHealth, which we announced

recently. We are innovating in our own innovation center called Fuse. Some of you may have seen it this week and I think it was in The Times a big article about IBM and talking about their internal innovation system. We've been at this now for four years probably, inside our own system. Now, not at the same scale as IBM's, but a similar concept which is how do you build innovation in a system that is a relatively large one? Again, another dilemma: how do you stay agile, fast, flexible, adaptable and do so in a large organization? These are the things that we talk about all the time in our organization, and my hope is that you see in us a company that can navigate those what I would call natural tensions.

So over the course of the day I am confident that we will demonstrate a few things to you. One, that we'll continue our track record of high performance; we're deeply committed to it. You'll hear it throughout the conversation. Two, we are a robust company, a balanced company, and as we like to say, we can sort of take a punch. Because as I said, I do believe that every part of healthcare is going to have its disturbances. It may just be a line of business but you have to be able to navigate through that. Three, we are really deeply immersed in the details of our business, and we're deeply knowledgeable about healthcare on a global basis, and I don't think today you can effectively compete and position for tomorrow without really a deep knowledge of the system around you, and hopefully you'll hear that from us during the course of the day. Four, we're on the right side of healthcare trends. We like to use this expression on the right side of the angels, which may be a little bit hokey expression but it really is about being on the right side of where care is going, recognizing that we're still in transition. We're very much an industry that is in two places. And I think as you listen to our people hopefully you will walk away saying, "This organization has the talent to do it. This has the depth and the talent to make these things happen."

So we're going to start the day with Meg FitzGerald. Many of you know Meg from her time running our specialty business. Before I bring Meg up on stage I just want to very quickly acknowledge our Board of Directors. It is a talented, diverse group with experiences both outside of healthcare and inside of healthcare. This is a group that has really been challenging, but supportive. We've got two of our Board members here today: Greg Kenney and Dave Anderson. We appreciate their joining us, and I guess from your standpoint deeply committed to really best practices and governance, but I'm thrilled to be connected to them.

So, with that—oh, and also I want to introduce you to our talent but also we're going to have some guests with us today who are just really fantastic advisors and challenge us as Cardinal Health on some of the strategies that we've got, so you'll get a chance to hear from them as well. I hope you will get a chance to enjoy the exhibits out there; both this morning I know you were out there and then we'll have a break and we'll do it again. So I'm going to let Meg come on out now. Meg FitzGerald, come join me.

Meghan FitzGerald: Thank you. Good morning. I'm going to start with a question, not that I'm going to have you poll it but think about your most memorable exposure or first experience with the US healthcare system. Maybe it was the chicken pox, stitches on your chin, the birth of a sibling, or the aggravation of spending the entire night in an emergency room. Sometimes to understand the future and trends, it's important to look through the lens of a patient.

So, this is Kathleen. She was my first patient: 89 years of age in this photo. She lived alone as most women do. They still do. Women in 80s are often on their own. Her hands were so crippled she could no longer do what she loved the most and that was the Sunday New York Times crossword puzzle, which now today we know is good for her mind and there's actually an app and a technology company dedicated to it. I was 15. I was in high school and I would go to her house three nights a week after track practice – I was part of her care team – and like many she eventually had to liquidate her savings to go into a nursing home. Today, 50 to 60% of people that go in a nursing home die there within the first two years, and she was one of them. So if you're wondering who the little chubby baby is, that's actually me. So that was my Oma or my Grandmom, and I think as we muse about the future here today and talk about Cardinal's role in it, it's important to note how far we've come, but yet how much further we have to go. At the time I could have never imagined there would be specialty medicines for her Alzheimer's or her arthritis and today she'd have Cardinal at Home to look after her; she'd have one of our hubs to take care of her medication and she'd certainly have some Cardinal products to look after her feet and her body. I know many of you have similar stories but it's our collective experience with the US healthcare system that enables us to predict where the trends are going and how we're going to respond to them. Cardinal Health is helping to shape this new world.

The simple truth is that we are experiencing the most dynamic and fast-paced period in the history of healthcare. While this presents challenges for all stakeholders, we here at Cardinal Health see this as opportunity: opportunity to improve cost, quality and efficiency.

So it's no secret – because you report on all of this – we're seeing an unprecedented demographic shift aided by innovations that have allowed the world's population to live longer. In fact in the US, the life expectancy of an American has increased 10 years since the signing of Medicare. The world's best minds, innovators, scientists and business people are continuing to push the boundaries of medical innovation. Together we're uncovering new treatments that prevent, fight and increasingly cure disease. While advancements from pharmaceutical to medical are exciting and enable people to live longer, they're also increasing demand and this has its own economic byproduct, as we saw from the first slide when you all highlighted cost as an issue. As demand increases, it will be necessary that the system find ways to prevent the spending from increasing.

Despite healthcare inflation hitting a six-decade low this month, many economists believe that spending 20% on GDP, on healthcare is not a sustainable model. This dynamic has been catalyzing some profound changes in healthcare, including efforts to increase access, changes in site of care and the biggest change is how healthcare is financed.

For many of you it's been an intense period of M&A. Our leadership team has been relentless in understanding these dynamics, and while it's enormously difficult to predict the pace of change, certain forces here are just hard to ignore. We have been shaping our strategic priorities to be on the right side of healthcare. This slide captures a number of the trends that we see as an organization: patients as consumers, the government no longer as regulator but as the largest payer, all the way to the surge in mobile connectivity.

I'm going to devote most of my time to four trends that have the most direct impact on the Cardinal business: increasing global demand, the power of two pharmaceutical models – both specialty and generics, the shift of care moving to more efficient setting, and the advent of value-based care.

Demographics are inescapable and there's a huge surge in the demand for healthcare. It's obvious the world's population is aging, but what is striking with this trend is the pace and this pace is around the world. In the US, for example, the elderly population is growing twice as fast as the younger population and for most nations, regardless of their geographic location or developmental stage, the 80-year-old-plus group is the fastest growing group, and financing this super-aged is a growing concern. The number of workers per retiree is not just a US challenge. And our aging population wants to be active. They want new knees, new hips. Meanwhile, more people are living longer with chronic disease, consuming 86% of the US healthcare spend. The top 10 causes of death in the US are chronic disease. The two top chronic diseases are heart disease and cancer, both a focus point for Cardinal Health and together they account for 48% of all death. The size of our aging and increasingly sick population will stretch our system beyond anything we know today and drive utilization even higher.

It's interesting to note all healthcare business models are evolving. The $10 billion pill. I was in Big Pharma during the era of primary care drug launches; blockbuster drugs took the industry by storm and transformed our ability to manage chronic disease, particularly arthritis and cardiovascular. The industry was amazed we could reach so many primary care physicians and hit $10 billion in sales, powered by 13,000 sales representatives. Today, companies are thinking very differently about accessing patient populations through data, genomics and services, where 13,000 today could actually represent the size of a population that will respond to a specialty medicine, not a sales force. Think about that for a moment.

The striking change I just described on the prior slide highlights the dual trend that we see in pharmaceuticals. On one hand we have high-volume generics that make up 88% of the volume, but important to note that they drove $254 billion of savings in 2014. In fact, they're expected over a 10-year period to drive $1.7 trillion in savings. On the other hand, we have innovative specialty medicines. These account for 33% of the value today but will climb to 50% of the value by 2018.

Advances in biopharma combined with Big Data are pushing the boundaries of precision medicine. For example, the five-year survival rate for all cancers are up 39%. We're making it a chronic disease. Despite the growth in

specialty medicines, it's important to note that overall drug spend is 10% of our healthcare spend; it's been that way since 1960. Pharmaceutical care remains the most effective care and a powerful tool to manage disease.

We are strategically positioned at Cardinal with our generic capabilities and our leading asset with Red Oak, and our Specialty division which continues its robust growth and its new frontiers and new therapeutic areas.

This leads to another trend. Care is shifting. In the 1950s, healthcare was mostly delivered inside the home. Over the last few decades, care moved to the hospital. Today with the call to deliver care more efficiently and cost-effectively, we are seeing care shift to alternative sites, including the home. This realignment of where care is delivered requires two things: a mix of human-to-human touch and technology, while at the same time allowing all practitioners to perform to the top of their license. We are increasingly providing solutions along this continuum of high-quality care. However, supporting the entire continuum requires a myopic focus on coordination, a more distributed system: multiple sites of care requiring multiple tools to connect the dots. Cardinal Health strives to connect these dots. Cardinal goes from hospital to surgery, post-discharge, retail and back home. We've added capabilities such as the services and medical products of Cardinal At Home – we dedicated a division to it; medication therapy management for medication compliance through our product line OutcomesMTM, as well as naviHealth, a new acquisition we made in the discharge space to get patients to the right care. These capabilities allow us to follow patients along their journey with the same value and quality that we have long provided in acute care settings.

On this slide, can you spot all the Cardinal products? If you add services, there's actually five.

Inescapable demographics, population health challenges, increased utilization, the call for effective solutions, all of these forces put a focus on the last trend I'll cover today: value-based care. A system based strictly on fee-for-service, which is very much still here today, will continue to be challenged in search of one that is more quality and outcome-centered. Various forms of performance-based care have been around for a long time, including Europe and here in the United States with dialysis and even childbirth. But today, alternative payment models are going to be increasingly prevalent as healthcare systems search to manage pressure for cost containment.

By 2018, 60% of payers and providers believe their payments will come from various value-based, fair initiatives. The dynamic is creating new relationships between payers and providers, and blurring the two lines. Providers are taking risk and payers are delivering care, and this is unfolding for both the government and private side. CMS wants 50% of its Medicare payments to be based on alternative models by 2018 and this week announced its final plans for bundled payments in the hip and knee space. On April 1, 2016, this new bundled payment in hips and knees with start in 67 MSAs, and just last month the government put a focus on discharge planning requirements in post-acute care. On the private side, two large payers followed suit. One said they'd tie $65 billion in payments to value-based models by 2018, and another already has $145 billion – a third of its medical claims – dedicated to value-based care.

So to bring this to life and put it in perspective, here is an example of value-based care in action within a therapeutic area and IDN space we know very well. When the physicians and nurses on the Cardiology team at Tufts Medical Center noticed a 40% increase in costs per case for congestive heart failure due to longer length of stay and medication use, they created a plan to address costs while maintaining high quality of care. Their solution is very familiar to us at Cardinal Health: protocols, pathways, standardization, focus on medication and discharge, not to mention a focus on the patient. Their economic results are compelling, but it's their ability to do this while exceeding survival rates above the national average that is remarkable.

The policy call to action from this work is for all 50—all hospitals to perform like the Top 50 in this space. Through the coming five years we'll see everyone in healthcare strive to balance utilization with the realities of cost containment, and then the special few will be able to obtain higher levels of quality.

At Cardinal Health, while we don't touch every aspect of CHS, we can help hospitals connect the dots: the use of predictive analytics and our services run across this entire case study. We anticipated some of these trends and had an appreciation for which therapeutic areas might be obvious points, like cardiovascular.

So in closing, specifically, if anyone is going to deliver value in a new system, three things have to be done around quality, cost and efficiency. One, tackling chronic disease through the lens of an ageing patient by delivering the right care, the right time and the right setting. Two, improve care and manage costs with both products and services that standardize meaningful and measurable outcomes. Finally, implement new models and partnerships to experience and share the risk across the continuum.

So this next era of healthcare won't be easy. It will require systemic knowledge, reach and capability, and that's why Cardinal Health is so well positioned for the future. We are where people need us most.

It's now my pleasure to introduce our CFO Mike Kaufmann.

Michael Kaufmann: Thanks Meg. Hello everyone. I am really excited to be here and I want to really thank Meg for her portion of the talk. I want to just think back to what they were just talking about and I want to emphasize that Cardinal is at the right place in the right time, right now with where we are today in healthcare. So let me start out with a little bit around what we're going to talk about today. So I'm going to first talk about our five key strategic priorities, then I'm going to review our historical performance and then I'm going to finish how we are positioned for long term, sustainable growth.

So as I step back first and look at the four key strategic priorities that Meg talked about earlier, I believe our businesses and the strategic priorities that we have are really well aligned with these trends. The other thing I really like is that they are on the right side of healthcare. As George said, we feel like we're on the side of the angels. So let me briefly go through our strategic priorities.

As you've seen in the past, we are focusing on strategic priorities that are aligned with both organic and inorganic growth opportunities. Our five key strategic priorities are generics, specialty and biopharma, alternate sites of care, health systems and hospital solutions, and finally, international. Let me briefly cover them as both Jon Giacomin and Don Casey are going to go into more detail how each one of these affect their own individual segments.

Generics are extremely important to the overall healthcare system. For us to be successful, we needed to earn new customers and we needed to expand and enhance our relationships with our current customers. Our success with growing our customer base as well as our long and excellent relationship with CVS Health allowed us to form Red Oak, which, as based on our analysis, is not only the largest generic buying entity in the United States, but also the largest globally. In addition to our focus on customers and our successful execution at Red Oak, we have created a market leadership position in data and analytics that we believe we are leveraging to our strategic advantage.

Specialty drugs. Specialty drugs are critical to consumers, providers and to biopharma. Our focus on both the upstream customers as well as the downstream customers over the last four years has allowed us to grow this business from about $1 billion in sales four years ago to what we expect will be $8 billion in sales for FY16. Some of this growth has been through acquisition, but the vast majority of this growth has been because of our relentless focus on the customers. Both biopharma and physicians were looking for a new player, someone that could bring creative and valuable solutions to them and we have filled that need for them. We've not only filled it in oncology, but we've been able to fill that need in nephrology, rheumatology and urology.

Cardinal Health has had a very, very strong history and a leader in surgery centers, nursing home providers and other alternate sites of care. However, we recognized two things. First of all, care was shifting to the home and we really felt that we needed to establish a leadership position in the home and we did that with our acquisition a few years ago of AssuraMed. Second, we knew we were subscale in office-based physician offices. So we entered into our creative partnership with Henry Schein. Both moves have created exciting growth opportunities for us. Also, with the recent acquisition of naviHealth, we have a comprehensive set of solutions that now we can bring not only the right care at the right time and the right place, we bring the right products. We wrap it all together.

We are also making solid progress on selling a comprehensive portfolio of products and services that connects through our world-class medical and pharmaceutical distribution networks. We have built an industry-leading

portfolio of Cardinal Health branded products from our significantly, significantly expanded consumables line through all of the physician preference items that we have been able to both acquire and develop internally. We then roll all of this together and we can go to market as one company. No one else can do it like we can.

We also knew that expanding outside of the United States in certain markets, in certain markets would help us continue to drive growth. This global reach will also help us be successful in our Cardinal Health branded products strategy. We will leverage our 1200, 1200 quality, global regulatory supply chain folks that we have as well as our 10,000 manufacturing employees and our decades of experience to be successful here.

In terms of commercial operations, we're the largest provider of medical surgical products in Canada. We have grown significantly in China. We serve hundreds of cities. We're the number one foreign-owned distributor in China and we've now grown to be number eight overall in China. With Cordis, we're now going to have a presence in over 70 countries and this is something that we will leverage going forward.

So now let's talk about historical performance. Has the focus on these strategic priorities that I just reviewed actually paid off? Let me make a few comparisons. First, if you look at the market performance since the time of our spin-off, you can see it here. Now, here is how the healthcare sector performed during that same time period. Now, if you see how Cardinal Health's stock performed, more than twice the market and significantly more than the healthcare sector. Finally, if you assume that you reinvested our dividends, this would result in a cumulative TSR of 282% during this time period, which is in the top one-third of the S&P 500.

Now, if you wanted to look at a shorter period of time, let's say since the beginning of say fiscal 2013, roughly three years. We also show outstanding performance relative to the comparators. Now let me just step back and let's look at it from a different angle. George mentioned earlier that we saw some significantly – significant – industry realignment back in 2013 and 2014. We shed in excess of 25% of our sales in that time period, but we were prepared. We were prepared to seize new opportunities and we knew what we had to do. We focused our people on the right things. We adjusted our costs aggressively. We transformed our customer mix and then even, just as important or more importantly, we took our expertise and our significant cash flow and we invested

in things like Red Oak Sourcing, as well as the acquisitions of AssuraMed, Cordis, Harvard and others. So despite a 25% swing in our revenues, we were still able to grow our non-GAAP earnings per share every single year during this time period. George said it well: we can take a punch and then we can come back stronger than ever.

Another way to evaluate our performance is to just simply see if we do what we say we're going to do. In December 2010, our first Investor Day after our spin-off, we said we would grow non-GAAP EPS earnings by at least 10%. At the end of FY15, we delivered a five-year CAGR of 14.4%. We said we would deliver a modified TSR of at least 11%; we delivered 16%. We said we would expand and grow gross margins. We expanded them 152 basis points. We said non-GAAP operating margin would expand; it expanded by 81 basis points. And finally, we said we would increase our dividend payout ratio. It has increased by more than 3 percentage points to over 31%. The bottom line is that we more than delivered what we said we would do.

The last area I want to talk about is capital deployment. We strive to have a balanced capital approach. First, we are focused on investing in our business to sustain growth. Then, we look to maintain our differentiated dividend. In addition, we're going to look for strategic acquisitions that create future growth and we're always, always going to keep open the option to opportunistically repurchase shares. Our commitment has been and will be to be excellent stewards of capital.

Now let me talk a little bit more detail about two of these, acquisitions and dividends. During fiscal '11 through fiscal '15, we spent $5.7 billion on acquisitions. Now if you add in Harvard and Cordis, the number is roughly $9 billion. But any company can grow through acquiring assets. What I like is that we had the discipline to buy the assets that we knew fit strategically within our five strategic priorities and ones that we could take advantage of with our talent and technology to deliver results. All of these have fit squarely into our strategic initiatives that I have been discussing, and I also will tell you that all of them are making important contributions today, but also are growth engines for tomorrow.

I also like that we have returned cash to shareholders through our differentiated dividend. Our dividend per share has increased at a compounded annual growth rate of 15%.

In summary, our historical performance has been strong. Our stock has performed in the top one-third of the market. We can face adversity and we can still grow, and we have been thoughtful about our capital deployment.

Now that I have reviewed our strategic priorities and our achievements, let me finish up with talking about how we plan to sustain our growth. As I review our drivers of strong growth, you'll note many of these have been driven by organic initiatives. First, at the time of the spin-off, we really committed ourselves to a relentless focus on the customers and our efficiency. We listened. We listen to our customers and we connect with them. The next thing we did, we expanded into China and we have grown double digits every year since we've entered China.

In generics, we first changed the way we approached the suppliers very successfully, and then we reinvented ourselves again in FY14 with the formation of Red Oak Sourcing. In FY13, we acquired AssuraMed and became the leader in delivery of medical supplies to the home. And while we've had a long history of Cardinal Health branded products, in FY14 we put a large effort around expanding aggressively our consumables portfolio and we continued to acquire differentiated physician preference items.

In specialty, through organic growth we reached scale and then we expanded further with our acquisition of Metro Medical.

Finally, in the post-acute settings, we expanded our capabilities with the recent acquisition of naviHealth.

All of these drivers are integrated into our business and will contribute to our momentum going forward.

Since Jon Giacomin will be covering Pharma in more detail, I just want to briefly cover what I see as the key profit drivers for Pharma going forward. First, we're going to continue to have a relentless focus on the customers.

Second of all, generics has been and will be, continue to be a focus for us. There are many levers that we can pull in generics and we'll continue to be good at all of those.

While we have grown significantly, we will continue to ramp up specialty and we're also going to make sure we deliver on all of our acquisitions.

Finally, besides acquisitions, we're going to continue to develop internal initiatives. George mentioned one of them: Fuse. We're going to continue to leverage our innovation center at Fuse and we're going to continue to leverage our long history of excellence and operational excellence to make sure that we're efficient.

Looking ahead to Medical, you're going to hear Don Casey talk about Medical in a little bit, but I would emphasize Medical is just as focused as Pharma on the customer; relentlessly focused on the customer and because of that, that's why we've developed enterprise-wide sales teams to work with the customers because that's what they're asking for. We are committed to growing our Cardinal Health branded products through expansion and penetration of our current accounts.

In post-acute, we're going to continue to leverage our Cardinal Health brand products to the home as well as customer pain points in the post-acute settings.

Finally, we're going to make sure that we look for efficiencies. We're going to focus on our deep expertise in global sourcing, manufacturing, operational excellence to constantly and continually improve our businesses.

Next, I wanted to remind you about the aspirational targets that we set in our 2013 Investor Day. Our commitment to hit these aspirational targets has not changed, but we are always going to be grounded, grounded in what's right for the long term health of our shareholders and our customers. There are many times when we will make positive business decisions for the business that may affect some of these targets. Let me help give you a little bit of color on some of the things that may impact our path to these aspirational targets; specifically, I'm going to focus on margin rates.

First, our strong historical performance, our aligned strategic priorities and our robust cash flow, we believe that we will be able to continue to have long-term goal over any multiple year time period of a 10 to 15% non-GAAP EPS growth, and we also will continue to target a 30 to 35% annual dividend payout ratio.

Now as it relates to Pharma rates, rates in the Pharma business, there are drivers that are very positive to our bottom line that may have various impacts on our margin rates. For example, our periodic need to renew customer contracts and partner with pharma manufacturers to launch new branded drugs, like Sovaldi, when we do these, they will typically be dilutive to margin rates. The addition of new customers will always be beneficial to the growth of Cardinal Health, but certain customers may change our mix and may cause us to have the dilution to our margin rates.

Acquisitions could go either way on the Pharma side. They could be accretive to rates or dilutive to rates.

Things like expanding our generics program and selling more services will almost always be positive to the rates in Pharma.

On the Medical side, while positive over the long term, periodic contract renewals and the continued growth of national brands will probably be margin-dilutive to the Medical segment.

Customer mix and acquisitions, while they could go either way, I would tell you in Medical they would tend to be more positive to margin rates.

Finally, the more Cardinal Health brand products that we sell and Cardinal Health services that we sell, those are typically always going to be accretive to margin rates in the medical segment.

Supporting all of this, all of this, will be our strong and flexible capital base. We continue to expect to have strong cash generation and we plan to maintain a healthy balance sheet. All of this will create flexible—financial flexibility for us. We are going to be able to pursue our strategic initiatives and deliver strong performance.

So, what do I really like about Cardinal Health? First, I think we have set the table really well for the future. We have strong, growing businesses. We are a leader in medical and pharmaceutical distribution. We are also a global manufacturer and sourcer. We're a leader in the home. We have a scaled specialty offering. And all of these businesses are aligned with our strategic priorities. We know how to create great partnerships as evidenced by our partnership with Henry Schein and with CVS Health. Between FY11 and FY15, we returned $4.7 billion to shareholders and we've invested $7 billion in long-term, sustainable growth of our business.

Finally, for me, for me what stands out the most is that in my 25 years now with Cardinal Health, this is absolutely one of the strongest teams I have ever worked with. We are all deeply committed to delivering outstanding results.

So with that, I'm going to ask George and Meg and Sally to come up—and Sally is here—and we're going to open it up for some Q&A.

Sally Curley: Just as a reminder, I can see some of you have already submitted questions, which is wonderful. Just as a reminder, on your iPads in front of you, just go ahead and click icon that says questions. They will scroll through and we will try to get through as many of these questions as we possibly can in the time frame that we have. If we don't for some reason, if we aren't able to answer your question in the time frame then just please find one of us during the mid-morning break which will follow this discussion for the next half hour or so.

Welcome everyone. Meg, I'm actually going to start with you because we have a two-part question here on value-based care, so I'm going to give you part one first. So part one is value-based care, will Cardinal be taking risk?

Meghan FitzGerald: So I think the most important thing is to probably just define this idea of value-based care, which is really population health management and risk is a component. So I think there's a small part of getting this done that requires people to take risk but at the end of the day it's quality over cost over time and I think that's why we feel like we're in a good position to help, because you're going to need tools along the continuum to follow these patients from a population health perspective. They're going to have to predict risk in the population. They're going to need services and tools to lower cost and be more efficient, and I think we both believe—now George, you chime in—there will be some shift to risk. We do some of it today. naviHealth as a convenor does some risk, but I think we feel like there's a big job to help people and enable them to take risk, and a lot of our partners are on the front line of having to take risk and we're in a good spot to help them.

George Barrett: Maybe I'll add to that. I do think there are two components to think about how we participate in risk. One is directly taking risk on any line of business, and the other is to enable one of these players who's going to be taking risk to reduce their costs or improve their quality or improve predictability. So I think we already in various parts of our business do some risk models and there are places today where partners of ours are absorbing risk and if we can help them manage an environment where they're absorbing risks that they might not have had historically then we're really a preferred partner. So we have sort of these two dimensions: one is a direct and one is the indirect aspect of the risk management.

Sally Curley: I think you probably preemptively answered the second part of the question.

George Barrett: Oh.

Sally Curley: No, it's good. It's all good. We'll move on. So a question I'll toss out to actually all three of you: have your recent moves with Harvard and Cordis changed your outlook on capital deployment?

Michael Kaufmann: I can start. No, I don't think it's changed our outlook on capital deployment at all. I think it's going to continue to be the same. As I've said, we're always going to focus on investing in the business for long-term sustainable growth and, again, live up to our commitment on our dividends. But we have plenty of flexibility on our balance sheet that if we wanted to do another large move, we could do that now if we felt we had the right

strategic fit, the right culture. Would not be afraid if we needed to take on some more debt. Not currently our plan but for the right move and the right strategic fit we absolutely have the financial flexibility to do more.

George Barrett: I would just add those are actually two very interesting examples because they're really very different kinds of acquisitions, if you think about my description of sort of the shorter term and the long term. We felt very confident that Harvard was sort of a natural lay-in to an existing business model that we have just really honed. Cordis was the expansion of a capability that we have been building with a perspective towards some shifting dynamics in the environment. So they're actually very good examples of our approach, but I'm with Mike. We have not changed our thinking at all around deployment and we'll continue to be very opportunistic as we see opportunities to create what I would say is sort of enduring growth. That's what we're looking for; sustained enduring growth that fits with our business model.

Sally Curley: We've got a question and I'm going to ask Meg to start and then maybe, George, if you can chime in. You talked at length regarding cost pressures on healthcare. Can you discuss examples of how you have overcome tension when introducing new and disruptive strategies to tackle costs?

Meghan FitzGerald: So the first example I think that comes to mind is probably some of the work that we've done in oncology where a lot of the new drugs have forced the need to introduce services and have a relationship between oncologists and payers. So if you tried to do this 10 years ago it probably would have been very difficult if you didn't have both the payers onboard to work with physicians to actually meet in the middle and do the best for the patient. So I think we've run into, in the beginning, that was a C change, but now given where healthcare has gone it's amazing to look back five years and now see that most of the specialists in the United States want to work with payers to be in a better spot to take care of patients.

Sally Curley: And George?

George Barrett: Yes, maybe another example that's very concrete, if you think about historically the typical hospital and the way they might procure products, even consumables, throughout the hospital, throughout the surgical suite. There was a lot of latitude inside the hospitals for those decisions to be made in the departments. And we talked about this. If you think about most industries, and some of you have covered others, a few of our Board members

have come from other industries, we find that you standardize certain things and customize certain things. Historically in healthcare we've actually had it almost inverted. So what we've done in many cases in the US is we've customized things that should be standardized. Standardization brings higher quality and lower cost, and in some ways we've standardized things that should be customized, and the examples would be our consumables products. So when a hospital has throughout its system sort duplication of products and supplies, not only is it inefficient, it probably actually impairs the quality. The routines of standardization are beneficial and we know this from the industrial world. But if you think what's happening with drugs, it's actually the opposite, as Meg's highlighted. Instead of developing drugs for a giant population where you have a limited number of responders, it was sort of standardized but actually we're able to—more customized drugs for populations that are going to be responders. So actually I think one of the changes that's going to happen in healthcare is actually something that's happened in other industries, which is, we'll get the standardization/customization equation right, and so part of what we're doing in a lot of our work is say, "Guys, we can help you improve outcomes, lower costs, better quality if you standardize around these consumables." So that's just another just very basic example.

Sally Curley: Hmm, that's good. Mike, this one's for you and it's sort of a two-part question. So the first part is your guidance implies a pretty weak EPS growth rate for fiscal '17. Why would that be? Then the second part was, you mentioned a multiyear timeframe when you were talking about the aspirational goals of 10 to 15. So what—define those years.

Michael Kaufmann: I'm sorry, Sally, I didn't hear the first piece so can you...

Sally Curley: The first piece was your guidance implies a pretty weak EPS growth rate for fiscal '17. Why would that be?

Michael Kaufmann: Pretty...?

Sally Curley: Weak.

Michael Kaufmann: Weak. I just couldn't hear the word. Okay.

Sally Curley: Then the second piece, was define multiyear. Basically you mentioned multiyear.

Michael Kaufmann: I'll just answer the second one first. First of all, multiyear would be roughly three years. So in any three-year period we would expect 10 to 15% EPS growth. So I guess I don't define 10 to 15% EPS growth as weak, so that's probably why the question surprised me a little bit - I couldn't quite get the word - but compared to maybe where we're looking at this year with our EPS growth, maybe folks will look at it that way, but I think that continuing to grow at our size and continuing to deliver 10 to 15% EPS growth will continue to put us in the at least top half if not top third of all companies. You've got to combine for that our commitment to the dividend too that we continue to have a commitment to the 30-35% payout. So I wouldn't define it as weak.

Sally Curley: Okay. Then this one is kind of a land grab. So there's a couple of questions about the Medical segment margins so I'm just going to summarize a few of them, which is essentially give us the growth drivers again to get to the fiscal '17 aspirational goals that you laid out from a margin perspective, both on the Pharma side, but particularly on the medical side. So George, Mike.

George Barrett: Do you want to take it? Do you? So let me start. So, if you look at—let's go through sort of visually the slide that Mike had up there with sort of the puts and takes on margin rate. We'll start with Medical, and I think we'll probably come back to this a little bit when we're talking about—when Don and Jon are talking about it. Medical rates are really being influenced as much as anything by mix, both of customer and of product, and so what we are largely saying if you look at our drivers of growth - and I think Don is going to be talking about them - they are largely margin accretive, particularly as it relates to the product side. Now we've talked about historically what's been happening in the traditional branded Med/Surg side that those have been coming down and we've sort of been layering in a new set of growth drivers - and I think Don may actually give you a little bit of a visual on this as we go. So in some ways we'll answer this probably more fully later, but we see really good signs at that product strategy and the service strategy is creating accretion to margin rates. Now again, during the course of this fiscal year remember that the inventory write-up on the Cordis line is going to temporarily mask that, but coming out of that I think you're going to see some good stuff. On the Pharma side, as Mike said, virtually everything we're doing is creating value.

Margin rates, however, margin rates can be influenced by mix. So for example, if another generation of new specialty products comes out and they're $10 billion, let's call it as an industry, and those tend to be lower margin

rate launches, they're very specialized drugs, that will be dilutive to our margin rate. It will be good for us and good for you. If we pick up a new piece of business as we have in some segments that have typically lower margin rates, that has helped each of our product mix, our product portfolio and our overall margin and the contribution to our shareholders. That could be dilutive to rates. That's why we said there's always this mix. Something like an acquisition of Harvard is accretive to our margin rates.

So you just have to think of this as these moving parts. What will not waiver is our attention to cost and efficiency and operational excellence and the way we drive our business. We're incredibly attentive. Our monthly meetings, our operating meetings on a monthly basis are all about the components inside the business that improve efficiency. So hopefully that's helpful.

Sally Curley: Yes. Thank you.

George Barrett: We'll see a little more of this...

Michael Kaufmann: The only thing I would add to that is, I want to really emphasize that we are completely focused on delivering that 10 to 15% EPS growth. That is going to be really important to us as well as the 30 to 35% payout ratio. On the margin rate, as George said, these are aspirational. We absolutely want to hit these, but we're not going to make bad decisions over the long term just to hit margin rates. If winning a new customer, like a large mail order we customer recently won, is a little bit margin dilutive, or launching a branded product is going to be margin dilutive, we're not going to not do those because we want to worry about missing those margin rates. We're going to focus on doing the right things over the long term for our business.

Sally Curley: Meg, this one's for you. Why are you so confident that drug costs won't be under pressure while only 10% of total cost today it has been as low as 5% and has aggressively reversed course? This is during a period where devices have been halved and maybe...

Meghan FitzGerald: Yes, fair enough. So I wasn't overly confident on this being an issue because it's obviously an issue everyday, but what I think is interesting is the dynamic to adapt and how pharma has adapted its model. Just recently last week there was a drug in the cardiovascular space that struck a deal on what would be perceived to

be a pay-for-performance. They put their rebates at risk in the cardiovascular space. So I think as we get better at precision medicine and we drive towards a cure I think we're seeing a world where maybe there is some resistance to pay for incremental innovation, but if there's real innovation and you're moving towards increasing survival or a cure or you know the target population, there's a willingness for payers to reimburse that, and where there's a challenge to reimburse I think you're seeing pharma move to be more agile and think differently about their models as well. So I'm sure I'm incredibly bullish that there's not going to be pressure, but I think pound for pound pharmaceutical care is still incredibly valued in the big scheme of healthcare spend.

George Barrett: I think Meg touched on an important point. I think for all of us, it's not just in pharmaceutical, it's in our medical spend throughout the system which is I think the system will pay for real value but incrementalism is going to be hard, I think. So we're getting that premium that once existed on incremental change is probably going to come under pressure. You're going to really have to create true value and measurable to get the kind of value. I think that's going to be across healthcare. It's not just pharmaceutical products, it's medical services and procedures. I think there's going to be real attention to incrementalism versus real innovation.

Sally Curley: This one's for Mike. Mike, what is your long-term leverage target and how high are you comfortable taking leverage for acquisitions?

Michael Kaufmann: I don't think our leverage target has changed. We still would like to be in that 1.5 to 1.75 range. But again for the right strategic fit, right cultural fit, the right growth pattern type of acquisition, we're comfortable to go over that. We're over that today and we're not uncomfortable to be able to stay above that for a period of time. But our goal would be always to work it back down into that range.

Sally Curley: A question—I mean as just a follow up, a separate topic, but a question more for Mike and George and maybe we can touch on this too when Jon comes up for the panel later on. But can you talk about where Cardinal is in the generic business lifecycle given high penetration rates and how should we think about generic profit growth over a multiyear period?

George Barrett: Let me start just generally, Mike...

Michael Kaufmann: Yes, sure.

George Barrett: ... if that's okay, about where we are. Obviously penetration rates in the entire system, whether it's 88 or, there are different numbers, but it's obviously high. It's between 85 and 90, probably in that midpoint. So those are pretty high numbers. Having said that, I do think what we have to just remind ourselves is that the pie, Meg talked about those high consumers of healthcare, that demographic wave is extraordinary. We've never seen anything like it and it's not just here in the United States. So I do think what we tend to forget as we look at the penetration rate of existing, but we forget that the pie is expanding. That's number one. Number two, I think our position in generics is such that we're growing our position in the market. I'm thrilled about the partnership we have with CVS Health. I think our team in their own right has done an amazing job of sort of repositioning us with our customer base and really thinking carefully about how that fine-tuning of the analytics in the market. So, I still think there's plenty of runway on generics. Just remember, just even the capacity, the capacity of Red Oak's purchasing, how much that has grown since the day we signed that deal. Think of the changes. Some announced by our partner and some announced by us, both organic and inorganic. So I would just sort of remind you that there are a couple of dynamics at work. But yes, 80% is high—penetration rate.

Mike, do you want to add to that?

Michael Kaufmann: The only thing I'd add is just remember there are a lot more levers to generics than just Red Oak. There's also more than—we talk about sometimes this means usually generic inflation comes up and we've told folks that we do expect it to moderate this year, we saw that in the first quarter, it did moderate as we expected and we still had a very solid quarter and as you know we raised guidance for the year. So even though it's moderating we still believe we have enough other levers there that we can grow. We don't expect launches to be quite as good this year as they were last year. Again, as George mentioned, between Red Oak, our ability to penetrate current customers, our ability for the demographics to grow, win new customers, our ability to price and manage share of wallet effectively, all of those things are causing generics to continue to be a net positive for us in the year and we would expect that going forward.

Sally Curley: So I have a follow-up for that since you're talking about Red Oak. The question is Red Oak now that it's up and running what new projects are they now able to take on and how long in duration are these projects in terms of seeing results? So probably George I think.

Michael Kaufmann: Yes, I don't think it'd be appropriate to talk specifically about what projects we will be working on because that's something that we're in partnership with CVS Health on, but I would tell you that I'm on the Board of Red Oak, I go up there quarterly, I speak to the guys almost on a weekly basis either there or at CVS Health and we have a lot—several different things on the list of things we want to do together. Red Oak is going incredibly well and one of the reasons it's going really well is because of the talent we have there. I think it started with the fact that we did all the hard work upfront. We took that six months to get everything figured out so we understood down to the detail of how CVS Health made money, how we made money, how we could blend it together in a way that would be very effective together. So we set it up right with this amazing talent up there and we've all decided that not leveraging that talent to do other things together would be a waste, but it's a little too early for me to describe what we would do next.

Sally Curley: George, did you want to follow-up?

George Barrett: No, that probably covers it.

Sally Curley: Okay. Meg, so there's kind of a two-part question here. So, first of all, within the healthcare sector there's been a lot of consolidation in all different channels, so do you want to comment on that, what you see for the future, what might — how it might impact Cardinal Health?

Meghan FitzGerald: Sure. So every quarter we talk about M&A, so that's another epic period where I'm wondering who's left over a $10 billion dollar market cap and we're constantly looking at the chessboard. So I was glad to hear Mike says that M&A remains part of our capital deployment priority because we've been pretty busy. I think how it affects us is we have five very focused strategic priorities and everything we do in M&A we try to treat them equally. So we mentioned Cordis for medical and Harvard Drug for the pharmaceutical segment, but also Metro Medical for specialty and naviHealth for post-acute. But one big trend that this consolidation has led us to and we talk about it all the time as a Leadership Team is that the ability to do partnerships is becoming just as important to things that you can buy. So Red Oak with CVS has been incredibly successful and positive for us; our ambulatory care deal with Henry Schein is really important to us. So as you look at this chessboard changing all the time, it's important to know that we're someone that folks want to partner with and that makes us feel as though we have a lot of optionality in that regard, and we've also been really busy in China. I don't want to leave

our colleagues out there, that's an incredibly busy place for us. So I think to answer the question directly, I think we're lucky that we're really deliberate in five areas, but we also know now, given our connectivity throughout the system, it also is bringing new partners to the table.

Does that...

George Barrett: Yes, I think—I'll finish up on—the partnership point is a really important one. If you think about some of the trends that you guys highlighted and that we've talked about, the convergence of so many different players is creating a different looking system. I mean it really does look—we're trying the white space between what we used to think of as sectors or segments. It's really hard. Defining a company is really hard. It probably drives you guys crazy because we've historically operated in these sectors and the sectors are becoming blurred. I do think that the ability to work with other companies is important and it's a skill set. You can't just say I'm going to partner with someone and make it work. It's just not the way it happens in real life. It is a skill set and it's an attitude and it's a cultural thing. So we do believe that there are going to be opportunities to deploy capital. We believe consolidation will likely continue. By the way, some of which we may think is a head-scratcher, but that doesn't really matter. All that matters is that it happened, right, so we just—this is part of our system, it's part of the chessboard.

One of the things that we think about—and I'll just share this with you as we—when we look at acquisitions and I've shared this with some of you when we've talked. Doing an acquisition really has different dimensions and the first of which is, is this a growth opportunity? Is it a business in the right part of the industry that will have a future growth potential? That's sort of an intellectual process. Most companies don't know how to do that. If you can't do that you can hire somebody to help you with the intellectual process, right. There are plenty of consultants that'll tell you, “This is a growth opportunity." There are two other parts that are really hard to get right. So most companies probably get that right. It's not that hard to do. The two other parts are pace and sequence. Like when, like what's the right moment? And are you as a company - this is the self-awareness part - qualified to actually create more value than the prior owner? Those are really important aspects as we think about acquisition strategy. We devote a lot of energy to those second two components and we would do the same partnerships, actually. I think that's where often companies that struggle with acquisitions sort of get the first part right, but the

second and third are harder. So we try to devote as much energy to two and three as we do in one. But I'm going to highlight that back to Meg: we'll look at opportunities, we'll see more consolidation, although there are going to be areas where consolidation is probably as deep as it can get and I think there are probably parts of healthcare that look that way already.

Michael Kaufmann: In partnerships too are going to be a great way to create growth opportunities and be capital efficient. When you go back to Henry Schein, we knew we needed to be bigger in the office-based physician offices. There was a lot of opportunity if we want to acquire a bunch of little distribution companies and try to roll that up, or we could do a partnership. With Red Oak there was other opportunities and we chose to do something. So to me, partnerships and being good at them, and George said it's incredibly critical because to me it increases our capital in a way because we could use less of it to gain growth opportunities and I think we've been successful with that and I know we're going to continue to be good at that.

Sally Curley: So there are a few questions that are actually very specific about naviHealth and specialty, so if the audience doesn't mind what I'm going to do is actually leave those for the panel coming up. We'll make sure we keep them in here and we'll queue them up for the panel in the second half of the morning. There is one though, Mike, I'm actually going to direct to you and then I want Meg and George to chime in as well because this was, while not your brain child you were certainly very, very supportive of it. Talk about Fuse and some of the initiatives that Cardinal's working on.

Michael Kaufmann: Sure, sure. So...

Sally Curley: Maybe explain it first for those that aren't as familiar with it.

Michael Kaufmann: Yes. So for those that don't know what Fuse is, a couple of years back we came to a conclusion as we were looking at the way our innovation and in particular our IT group was organized and we looked at that all IT was under one group. And as I started looking at it, spending time, meeting with a lot of folks from the outside, talking internally with folks like George, Patty and many others, we realized that customer-facing technology is very different than internal-facing technology and that the needs of a group that is going to be working with the customers, figuring out the next version, the skill sets around that, where you should house them, how they want to work, all of those things were very different than the folks that work on your internal systems, such as you're

managing your inventory and all the things that just hopefully you do very efficiently and drive out cost. So we made a decision, initially the Pharma segment, to split our IT under a CIO and a CTO. And so that way we could take advantage of having the CIO group be focused on taking cost out, being very efficient, getting after what we need to do to run our businesses and we could have another group that we would combine with marketing and innovation to be able to listen to the customer, how to operate quickly, how to get the next versions out, have a price in market some of our technology.

So that's how we created Fuse is when we separated the two. Part of that was separating it physically into an off-site and naming it differently in order to attract very different talent that likes to do those types of things and knows how to work with marketing folks and customers. It's been outstanding. One of the things I've seen that really excites me most about Fuse is not only the creativity internally of some of the ideas that we're working on, but also how often our customers want to come and visit. We have had more customers visit Fuse than probably any other location that we have at Cardinal, honestly, from local customers to people that fly in that want to have their meetings there, that want to spend time, that want to take one of our products and talk about how we can make it better and how they can work with us together. So our working with customers has been outstanding, as well as some of the creative ideas.

George Barrett: Let me just add something about this, and this is for those of you guys who are involved in start-ups. As you know they often morph, right? You start with an idea, you start with something and it evolves. This started inside the pharma segment related more to information technology and the use of creating clinical software for example to help oncologists started that way. What it's evolved into is one of our innovation centers for the enterprise. So let me just sort of talk to you about innovation for a second. We look at it along three dimensions and we've realized that we have to do all three.

One is, how do you inspire innovation in a good-sized company? We have about 36,500, 37,000 people. It's hard to do that, right? So how do you do that and you know that that requires sort of the right sauce to create innovation. Some tolerance for risk, the right reward systems, the right recognition systems, the right talents, etc. But inside a big system, innovation can often get choked off. It's sort of a force of gravity. It happens. Sometimes it'll happen if it's too small it doesn't move the needle and so it gets marginalized. So sometimes

inside the system it doesn't work, but we keep pushing on that. We've done some work externally with external partners and say, “Look, we're going to fund someone to do some innovation work for us externally.” Another model and it had some benefits to us.

The third model is the sort of this hybrid, basically, which we said, “We're going to create our own start-up innovation model." The average age in there is probably decades younger than—to say the least—the music in there is totally different than the music I listen to, the work that they're doing though is no longer just about the pharmaceutical segment and clinical software for a clinician. It's about innovation. So as Mike said it becomes for us sort of an entry point for a lot of customers that have ideas and they say—they'll come to us and say, “We have a problem we'd like to share with you. Do you have any solutions?" And we will—that team will literally get together and say, “In three weeks we'll have some ideas back to you.” Or “in two weeks we'll have ideas back to you." So it's just a tool for us to create and inspire some innovation in the organization and it's now being used as an enterprise asset rather than as something specific to a business unit.

Sally Curley: This next one's for Meg. Can you talk about what other assets you're looking at long term and in what area? Then there's actually kind of a follow-on which is sort of related because one of our strategic priorities is international. What are your thoughts on international expansion, especially with the recent closing of Cordis?

Meghan FitzGerald: Well I would love to poll everyone and talk about what we're buying next, but I'm not able to. So I think the best way to think of what we're looking at next is what I had mentioned earlier in the five strategic priorities. We're pretty good stewards, I think, of trying to be balanced as we spend capital, and I think to George's point we're really cognizant of what do we bring to the table, what would we be good at. So, we're always going to look in medical and now more than ever given Cordis and we're in over 70 countries, we've gotten a lot of inbound phone calls about that asset. Now, as we think about it and of course we're focused on execution, we're always looking in specialty, so obviously a personal favorite area. The hospital and IDNs seems to be epicenter of a lot of energy particularly around discharge and the acquisition in naviHealth. Then China we've been very disciplined. We knew what that game plan was four years ago and we've been following it pretty methodically.

So, we're opportunistic, but really deliberate. There's some assets we know we want and we're patient to get them. There's a few you could probably think of that we had to stay around the net and we were really relentless in making sure we were able to bring those assets into Cardinal. We just get phone calls everyday. I think we've been a good place for businesses to grow and scale and it's a team that people want to be a part of. So in a world of scarce assets, the team and where people work matters and a lot of the recent, I'll speak to naviHealth, if you ask the team at naviHealth, they very much wanted to be part of Cardinal. They subscribed to the vision and where we're going and they saw that this model would be better realized if they were with Cardinal Health. So, I think we're going to continue to be opportunistic. I wish I could say what I'm hunting next, but unfortunately I can't.

George Barrett: Let me add something to the international question.

Meghan FitzGerald: Yes.

George Barrett: But first—by the way, I think Patty Morrison is here, our CIO, and so when I was talking about Fuse earlier, I just want to acknowledge Patty's been recognized like in the last 12 months as one of the top CIOs in the world and we're thrilled to have her. So she's been really a great partner to Jon and Mike in getting Fuse launched.

On international, I think I've said this to a number of you, we tend to think along two dimensions. On the product side, on the product side we're now - with Cordis - we're now in 70 markets. So just very basically, we produce surgeon's gloves. I want surgeon's gloves in every market. Those products transfer more easily than service models do. So what we've tried to do is to be very disciplined about how we think about the service models. I was at a meeting last night for a non-profit and they were talking about launching into Africa and what they're talking about was we can't impose our system on them; what we do is we find an indigenous partner and we find a way to sort of enable them. I think service models have unique characteristics in certain markets: regulatory systems, culture, habit, local law. And so what we've tried to do—this goes back to when you think of acquisitions the second and third dimensions, like what do you bring to it—we've tried to be very careful about making sure that if we're going to enter a market the things that we bring are valuable in that market as opposed to trying to impose something in a market where the local characteristics are not really going to enable the growth or the

benefit of that scale or that new capability. China enabled that. Other markets that we've looked at, question mark. So we'll try to be, I think the word is disciplined, cautious, opportunistic, but we do use a little bit of two different lenses when we think of service lines versus product lines. Okay? I hope that's helpful.

Sally Curley: So we only—actually we're coming up on the break right now, but I'm going to ask this one question because I think it's a question that's important. As drug price inflation moderates, how much of an impact would it have on the top line growth and margin expansion? Then I think we always get asked the question about generic new item launches, so maybe for Mike to start and George you to jump in.

Michael Kaufmann: Sure, sure. Look, we talk about this a lot and I think you need to think about drug price inflation in two different buckets. Let's talk briefly about brand. So on the brand side, remember that more than 80% of our brand revenues from manufacturers is coming from our fee-for-service model. And what that means is inflation could be zero, it could be 15 and we're going to make the same amount of money because we have negotiated a fee-for-service with that manufacturer. On the less than 20% that's still based on inflation, almost all of that, over 90% of that is a negotiated amount of days typically. So if there is and when there is inflation we get to keep a certain number of days of inflation. So there's a formula that we've agreed upon, and that formula is based on historical inflation. We have that agreement with the manufacturer. So, if these things change and inflation starts to go down, it will not be a problem for us to go sit back down with the branded manufacturers and say, “Hey, we agree that we would get 30 days. Your inflation was roughly 10, now it's 5. We need to get more days or we need higher fees," and we would be able to do that.

Could we have a quarter or two where there's a little choppiness, because all of a sudden if it changes overnight, a government law passes or something, it says, “No more than 5% price increases" and boom, it changes overnight, kind of like fee-for-service when it came into effect in the mid-2000s? Sure, you can have a little choppiness over a quarter or two, but I have no concerns that we would not be able to sit down with our branded manufacturers, put together the right type of agreement that delivers the type of fees that we need in order to be successful. They know how valuable we are. There's no way they're going to want to go around us to customers and deal with charge-backs, six, seven day a week delivery, dealing with returns and all the other things that we

do for branded pharma. They understand the value of it and I think that's why you've seen it be so steady and consistent over the last eight to nine years that it's been in place.

On the generic side, I will tell you that is something—you have to remember, back before really three or four years ago, generic inflation was low and we were an industry that was successful in lower generic inflation environments. So we can continue to be successful. We said it would moderate in '15 over '14, it did, and we delivered solid numbers. We said it would moderate in '16 versus '15. We've told you what we believe what we can do with that moderation. It's still important numbers. So we have a lot of other levers that we can pull to offset that declining generic inflation. Again, if it went to zero overnight we could have a little bit of choppiness, but we have a lot of other levers that we would work through with both the manufacturers and the customers to be able to deliver the long-term performance we talked about.

Sally Curley: George, do you have anything to add?

George Barrett: No, I think that covers it.

Sally Curley: Okay. All right, great. We're going to go ahead and break now. So I would invite everybody in the room to please, please visit our Customer Experience modules. I just want to introduce the people that actually are manning them for those that came in late. So Michael Petras is actually at our Patient Solutions module. Christi Pedra is actually at our Business Solutions module. Dr. Shaden Marzouk and Kathryne Reeves are at our Product Solutions module and Tony Vahedian is at our Logistics Solutions module.

So with that, we will be back, and for those on the webcast, we'll be back at 10:25. Right now we'll break. Thank you very much.

George Barrett: See you in a bit.

Sally Curley: See you in a bit.

(BREAK)

Sally Curley: Okay, everybody. Hopefully the podium mic works. There we go. So welcome back, and welcome back from the webcast. Hope you enjoyed the Customer Experience modules. I just wanted to remind you that forward-looking statements, the Safe Harbor, is still in place.

Then without further ado, I will bring up George who will introduce the next section, and also I think make a clarifying comment. George?

George Barrett: So a good break and you had a chance to see some of this and meet some of our people. One of the advantages of having a break is that I get to hear any places where we've confused folks. So let's see if we can un-confuse.

Our description of the 10 to 15% CAGR that we're looking at is on basically saying on average that's how we expect to grow. It wasn't a guidance for '17. It wasn't a way of saying we're going to take you down because '16 is X and '17 is... so please do not infer that this is some indication that '17 is going to drop. This is really a description of our aspirational goals to grow on average at the 10 to 15% rate. So hopefully that addresses that, Mike. Yes.

So let me tell you what we're going to do now. We're going to talk a little bit here from Don Casey and Jon Giacomin who run our two reporting segments. What we'll do is first have them talk a little bit about the segments in the way that you're used to hearing us talk about them, which is the way we report by segment and their various lines of business inside those segments—excuse me, I'm becoming more and more like Barry White as this morning goes on with my voice, which I think would be pretty cool—and then what we'll do is we'll ask them to talk a little bit about the business actually the way we go-to-market and what you might think of is more the way the customer might see us, that lens that the customer might use in seeing Cardinal Health as opposed to a segment. We don't go to the customer as a segment or as a line of business. So I hope you'll get sort of two dimensions in thinking about this.

I'll very quickly just remind you that Don Casey has been with us three years, brings an incredible history in medical devices, pharmaceuticals, OTCs and you guys have had a chance to meet Don in this setting. Jon Giacomin, for some of you who have not been to Dublin Days, is going to be a new face. So I just want to tell you

real quickly about Jon. Jon has been with Cardinal for 14 years. He has been a star throughout his time with us. Sadly, like Don, he is another Notre Dame guy so we have to always have to break up the secret handshake that they use. Did his—went off and served in the Navy, came back and got an MBA. He has been a guy whose track record consistently—including his last role running our largest business, our pharmaceutical distribution business—track record has been impeccable. So, I'm going to bring Jon out first and then Jon will bring Don out and then I'll do a little bit of a tag team. So, please welcome Jon Giacomin and we'll catch up in a bit.

Jon Giacomin: George, thank you. Really appreciate it. I don't know about the 'sadly being from Notre Dame,' and I'm sure Don takes some offense to that as well.

Listen, it's great to be with all of you and great to have an opportunity to really talk to you about how we've transformed the Pharmaceutical segment over the last several years. Since FY11 we've really been focused on our strategic priorities and execution thereof. While everything has been swirling around relative to transformational change, realignment, we have continued to focus on what we think matters, and that is our strategic priorities.

At the same time, we've built a balanced mix of customers while developing solutions that really add value to our customers. So today we are serving more customers in the acute space, the long-term care space, specialty, international, and retail independents, and that continues to grow. So it's been through focus and resiliency that we've transformed into a healthier segment positioned for growth.

So let me talk to you a little bit about—or give you a little bit more color on our customers. As I said, we have a balanced mix of customers, and what this shows you is a little bit of the relative size of those customers and then how our mix has shifted. As a data point, since 2009 we have increased the number of retail independent customers we have by roughly 60%. With this balanced mix, we believe we're very well-positioned for continued growth.

Speaking of growth and results, let's take a look at our results from the last quarter. We grew revenues by roughly 19%, increased our segment operating profit by roughly 46%, and expanded our profit margin rate by 49

basis points. All of that, an indication of excellent execution across the entire segment in areas like our generic programs, net customer growth, as well as our recent acquisitions.

So Mike mentioned our profit drivers within the Pharmaceutical segment, and rightfully so, we've got customers at the top of the list. We work really hard every single day to continue to make connections with our customers and increase our service levels to those customers, both with respect to products, as well as services. At the same time, we have relationships with greater than 4,000 manufacturers, more than 3,500 acute facilities, around 15,000 retail independents, and another 10,000 retail chain locations. So we have some pretty big touch into our customer base.

The other drivers of our profit are executing on our generics programs, driving growth in specialty, delivering on our recent acquisitions, and, of course, organic initiatives, some of which were talked about here earlier this morning.

So let's go deeper on this. Our customers look to us for more than logistics and supply chain solutions. They actually ask us to help them navigate an ever-increasing complicated and challenging healthcare environment, and what's top of mind for many of them right now is patient access because if you don't have patient access, it's really hard to dispense drugs. That's where our managed care programs come into play. We work with our customers and support their business. So our PSAO, which is Pharmacy Services Administration Organization, or third-party contracting, ensures that our customers have competitive rates and at the same time access to patients. So, today our customers have access to roughly 3.9 million preferred Medicare patients. Through our analytics tools and other tools that we have, we are able to show them performance on key attributes, like generic dispense rate and adherence, which are becoming more and more critical as focus now shifts within health systems to cost and outcomes.

Let's look at another key driver. As Mike said, one of our most important drivers within the Pharmaceutical segment of profit is generics. There's no question we buy generics effeciently, but since FY11 we've actually grown our generics units sold by roughly 47%, a 10% CAGR. Red Oak, as Mike said, is delivering, but we're also executing on other elements of our Generics program. For instance, we've added new customers; we further

penetrated existing customers; we've really become good at generic launches—I would actually say best-in-class; and lastly, we've continued to refine our commercial and go-to-market strategies around generics, and as you can see, we're having some success.

Specialty, another area of growth, we're incredibly pleased with the ramp up in specialty over the last number of years, going from $1 billion to now a projected $8 billion here in FY16, and we've done that through strategic acquisitions: Novis Pharmaceuticals, Sonexus, and most recently, Metro Medical. We've also, and through some of those acquisitions, expanded our therapeutic areas and therapeutic reach. We've expanded beyond hematology, urology, and oncology and now we've added nephrology and rheumatology with Metro Medical.

We're also adding new customers. We're attracting new customers. Some of that we talked a little bit about with respect to Fuse, but our customers are coming because we have products and services that they value; and in particular, advanced practice management, dispensing, inventory management, and clinical decision-making tools that they find incredibly valuable. At the same time, we've continued to infuse talent within Specialty Solutions. We were sad to see Meg go, but we've brought in her replacement, Joe DePinto and we continue to see and seed more talent into our Specialty Solutions business. You're going to get an opportunity to meet Joe here shortly.

Then we look at our continued performance in and around acquisitions. After some very thoughtful considerations, we're very pleased with the performance in some of our recent acquisitions. The Harvard Drug, Outcomes MTM, and Metro Medical are all performing very well; and I might add, in some cases, we're ahead of our integration plans.

Then, of course, we have our organic initiatives which we're very, very focused on. Those things would be pricing and analytics. We've established centers of excellence around that. We've also scaled up our MTM solutions with Outcomes MTM, and operational excellence really is about a core to our business. It's our culture: continuous improvement. How do we reduce waste and reduce cost in doing so?

Then lastly, as Mike pointed out, Fuse. Fuse is our innovation lab. It's where we ask customers to come with their pain points and work with us on developing innovative technologies and commercial technologies that will help alleviate those pain points.

So what I'd like to leave you all with is that in the Pharmaceutical segment we have multiple levers, both organic and inorganic. We have great relationships up and down the value chain, from the providers, all the way to the manufacturers, and we have a culture and a history of very strong execution. That's why we believe we're well-positioned for sustainable growth within the Pharma segment.

So with that, I'm going to turn it over to my partner in crime, as George said, Don Casey. Don?

Don Casey: Thank you. You know, you never know if you want to be introduced as somebody's partner in crime, but we'll just go with that, I guess. You know, a lot of the discussion this morning is about transformation and it's about the fact that the healthcare environment is transforming on a daily basis, whether it's large chains coming together, whether it's seeing this site of care move, and whether you begin to sit there and say how are patients going to be managed in fee-for-value environment?

Well, that's created a tremendous amount of change that's impacted our unit, and it's really interesting. I'm going to talk about the transformation and talk about where we're going. It's actually the—I'll start off with the quarter that we just talked about, and it—look, on the surface we are very disappointed on the fact that we saw profits decline 11%. But, if you begin to peel the onion back a little bit, the first thing you notice is sales are going up. The second thing is basically this is the last quarter we will see an unwinding of a long-term relationship we have had in Canada, as that will continue to impact the business. When you take that out, you begin to see that we're actually posting growth there.

As we begin to look forward, we see a segment that's really been transformed; one that is basically starting with the customer and what does the customer need. Today, the customer needs scaled solutions in areas ranging from how are they going to manage the continuum care; how are they going to begin to manage successfully in a fee-for-value environment. What that means is we basically think that we have to start with the customer, basically look at where they're going to be over the next two to three years, and then build-out; and we think we've done that.

We start with the fact that we are a world-class distribution company. What does that mean? We touch, we believe, 80% of US hospitals on a daily basis with either our products or services. We touch more than 50% of

ambulatory surgery centers, and with our partnership with Henry Schein, there's virtually not a physician that we can't get to. Then we begin to say, what service offerings can we do, and let's peel that back. When we say service, what does it mean? We have a robust and growing logistics operation where we actually help our acute customers with a company called OptiFreight begin to manage how things come into their institution, and we have a growing and thriving third-party logistics company in ILS.

We've also done a lot of work overtime to begin to build on the base of what we think was a successful consumable business and begin to say, okay, where else can that be applied. Last, as we begin to function or help our customers function in a fee-for-value environment means they're going to have to be able to manage their patients well beyond the four walls of a hospital and that's why post-acute discharge has become so important to us.

This is the graphic that talks to this transformation. If you look at fiscal '12, this is a rough representation of the relative sizes of the different segments over the business, and let's talk about it. In fiscal 12 we were very reliant on national brand distribution, and you can see in the current fiscal year projection, that has become a much smaller part of our business. At the same time, we've begun to really ramp up our services activity, expand our product activity, and create a whole new segment and growth platform for us, which is the home area, as well as post-acute discharge. So you can see between the two, fiscal '12 and fiscal '16, you can see a very, very significant change in what we are.

Let's talk about that. Look, if you look at services, our service businesses in these three years have grown 72% and when you begin to look at why we believe that these are margin accretive, services tend to be a very accretive area for us to—and it's a growing part of our business. If you begin to look at the next slide—there we go—in '12, we did not have AssuraMed, which we—by the way, we always say we bought AssuraMed. That we've now re-branded that to Cardinal Health at Home, and Michael Petras, who you had a chance to meet, has done a great job really embracing becoming part of Cardinal. But this has become not only a fast-growing section, but it's also a segment that is accretive to our overall margins on a significant basis.

The last issue is we talk about products a tremendous amount. George mentioned this in a couple of different ways. While some of this has been organic and some of this has been inorganic, we have really worked very

hard to expand the number of categories that we compete in the consumable area. Indeed, in fiscal '12 we were in about 450, 460 categories. Today we're in closer to 850, if you look at how GHX measures those different categories, and you begin to see that we've been—the amount of margin that's been contributed to our overall segment has increased by 88% in those three years. As we look forward into '17, which will be the first year you'll get a clean look at what Cordis can do when you don't have the mark-to-market, again, you can see the role that products plays is very, very important in our overall growth strategy.

So as we go forward, look, we believe that our legacy is incredibly important. It gives us huge touch points. If we can reach 80% of the healthcare system on a given day, that gives us an opportunity to establish the relationship and then bring in products and services behind it. That legacy, which is often overlooked, has always included manufacturing, and we're going to talk a lot about that in the future. But we have had as part of our business for over 25 years at least 10 manufacturing facilities. We believe that we're aligned with future trends. So what are the future trends that we think are most important? Look, we're going to have to manage in a fee-for-value arena. That means our customers are going to have to be able to take a patient from prehab to rehab. That means there's going to be different sites of care. That's going to mean a number of different items that they are now going to have to do that they've never done before. It used to be fun being in a hospital business, right? Patient came in, operated on him, fee-for-service, and then they went. We believe that we are aligning to provide the ability to not only meet their product needs, but we're going to help them manage that patient as it moves through the entire continuum care.

I'm particularly proud that you got to meet some of our talent today; some of the booths out there—Tony Vahedian and Michael Petras, Shaden Marzouk, and Kathryne Reeves. Examples of what we think we've really upgraded our talent as we changed our business around. Again, we've had a number of really, really terrific people that have helped us continue to be a world-class distribution company, but as we begin to approach a multibillion dollar product company as we become global with Cordis, we believe that we've been able to attract and really deploy great, great talent.

So that's kind of how we had talked about the segments and that's how we financially report. But interestingly, in today's environment—I think Meg and George set this up really, really well today—is our customers don't view us

as AssuraMed or they don't view us as M or P. They want solutions across the entire enterprise and we think we are unique in the whole healthcare environment in the fact that we can combine pharmaceutical, medical; we can take specialty, we can talk manufacturing. Then we bring a true perspective, and ultimately we believe our value proposition, whether it's in the retail space to patients or in the acute space, that we bring scaled solutions that are going to help our customers not only survive this incredibly chaotic market, but we think they're going to thrive.

So, as we go forward, we believe that there's a couple of things that do make us unique. If you listen to the statistics Jon talks about, 20,000 pharmacies, 80% of hospitals, we can reach virtually any doctor in the US on a given day, we're in almost every acute lab, we have an unparalleled reach and it gives us a very broad perspective on the healthcare system. All right. It gives us a deep understanding of what our customer needs are, and those customer needs have changed dramatically. I've been part of Cardinal for 3.5 years and the conversations we were having 3.5 years ago is, gee, what are you including in distribution. Today, holy smoke, CCJR—recently they changed the name last week; it's now CJR—how is that going to impact us? Very, very different conversations, and the fact that we exist in the middle of all that, we believe gives us a unique perspective. It also shows us how we're going to have to combine different things to provide a solution. So, Meg gave an example with congestive heart failure, and everyone said, oh, well, Cordis doesn't do anything for congestive heart failure. No. That wasn't the point. The point is we are going to help an acute customer as total Cardinal in a number of different ways, whether we're providing their lab supplies, whether we're providing medication therapy management, whether we're going to deliver their supplies home. We believe that we're offering scaled solution across the entire continuum of care.

So, I'm going to bring Jon back out to describe. If you really begin to look at how customers are segmented out, we believe that we have six core customers.

Jon Giacomin: We service a variety of customers, but if you think about them in six general categories, we have: acute, which is large IDNs, all the way down to smaller hospitals; retail, which goes from our retail independent customers all the way up to large national chains; and then consumer/patient, these are individuals who are actually consuming care. Maybe they've had an episode and they have follow-on care that's even needed, but they're in the process of consuming care. Then we have our manufacturer partners and suppliers; we have

payers; and then the last grouping is our physician office, which as you know, we entered into an agreement with Henry Schein and so they're serving our physician office space, but our specialty solutions business serves specialty practices. So, the point of all this really is that we really touch the entire continuum of care.

When we think about this, we look at certain customers and think just about how we can bring scaled solutions to them. So what I'd like to focus on today really are two, and those are going to be in the acute space and retail. So, let's talk about the scale we bring in acute. My comments are really going to be about the scale we bring in the US market. So as we think about acute—to some of the points Don made a little earlier—we're servicing 4,000 hospitals. Roughly 75% of hospitals use our products and services and we bring a complete portfolio of products, everything from pharmaceuticals, which includes specialty products, OTC, private label, the full complement of med surg, but then also durable medical equipment and home healthcare products. We bring it all and it's almost like one-stop shopping, if you will.

If you think about our footprint in retail, we have relationships with 25,000 retail pharmacies which could be retail independents or large chains. We bring a full complement of pharmaceuticals, OTC products, as well as HBA, as well as, home healthcare and durable medical equipment. So we provide a full complement of products to those.

With all of this activity – the transactions, the deliveries, the individual points of contact we have with customers through our sales people, through telemarketing, through customer service, the good news for us is we sit in a very good position to understand what customers are thinking about. So we bring that information into how we think about our solutions. So what I'd like to do is pass it off to Don who's going to tell us what's on the minds of our customers.

Don Casey: Yes. Just so we get a little bit of structure, so we're going to literally begin to talk about our customers and we're going to dive down to acute and dive down to retail. So if you were to talk to customers in general right now in today's healthcare environment—and we saw it in the really cool app— what was one of the big things that came up? Cost. How are we going to manage cost, which is the middle of our bull's-eye? More importantly over time, I don't think all these institutions, whether it's an independent or a retail pharmacy, all the way into an acute care setting, understand how are we going to care for 80 year olds. Then ultimately how can they improve their effectiveness? How are they going to improve efficiency? How are they going to get their star ratings up from a

quality perspective? So we continue to see across all our customers three groups of questions: how am I going to deliver better care; how am I going to deliver that at a better cost point; and how am I going to get the efficiencies that is going to allow me to begin to manage patients across a broad, broad variety?

Jon Giacomin: So, we deliver solutions across four areas predominantly. The first one up there is logistic solutions, and overarching, we deliver products safely, securely, and compliantly with high service levels to providers. Believe it or not, we manage somewhere around the order of 15 million shipments, both inbound and outbound, through 100-plus of our distribution centers on an annual basis, and in some cases we deliver seven days a week, 365 days a year. It's quite a network actually of logistics. When we think about our business solutions, it's really about improving their business and looking for ways to increase revenue, lower cost, and reduce working capital, and we do that with a number of different—or in a number of different ways: supply chain optimization, looking at workflow optimization, commercialization services, reimbursement services, and we also offer analytics and regulatory services as well.

Don, you want to touch on the last two there?

Don Casey: Yes, absolutely, Jon. So it's interesting. When you begin to just divide Cardinal into there's M&P, you really overlook the fact that not only we're a world-class logistics and business solution company, but we also offer a very broad variety of patient solutions, which is increasingly important. So if you want to go to a retail pharmacy, how are we going to help them become part of a broader network? How are we going to help them do medication therapy management? How are we going to help them with any kind of adherence program? Then in product solutions, again, you'd sit there and say, “Boy, what does Red Oak have to do with manufacturing high-tech medical commodity products?” You sit there and say, “Well, actually, if you look across our ability to create a market through sourcing, whether it's over-the-counter or generics, we're spec’ing out and sourcing medical commodities, we're getting into the manufacturing business across a variety of medical device areas,” and really at its core is very, very similar, and the breadth that we begin to bring to our customers across all of this—Mike mentioned the fact that we've got a huge quality and regulatory organization—allows us to become very efficient providers of product solutions across a broad continuum.

Jon Giacomin: So the foundation for all of these capabilities really exists within the wide array of centers of excellence we have across our enterprise, whether it's global sourcing, strategic account teams, enterprise marketing, operational excellence, pricing and analytics. Then Don's going to talk a little bit about the 360 program, but all of these centers of excellence we believe give us an edge in the market.

Don Casey: Absolutely, Jon. Let's start with the 360 program. It's a unique example of enterprise solution. It's basically a program where we are allowed to rebate customers based on the volume that they purchase from Cardinal. So the more Cardinal products and services they buy, the more that they have an opportunity to save across the broader range of products. So, as we begin to add more and more, again, the absolute scale that we provide across a broader range of products and services becomes more important because the more they can buy, the more that they can save.

So we talked broadly, okay. We had solutions across logistics, business solutions, patient solutions, and product solutions. What does that actually mean in an acute care customer? So let's just start with what's on their mind. I'll go right back to how am I going to deliver great care; how am I going to do that at a cost that is going to have to be lower in the future; and how am I going to deliver the efficiency that's going to do not only great care, but we're going to be able to deliver higher quality? So that's kind of what's on the minds, and basically we need to start thinking about solutions that go specifically to the acute care environment.

Jon Giacomin: So, let's look at our specific logistic solutions for acute care customers. As I said earlier, we deliver a full complement of pharmaceuticals while specialty brand, generic, as well as a full complement of med search products to include DME and home healthcare products. We also, through our 3PL services can actually manage products for customers that typically don't flow through our channel, and take some of the burden off of having to manage different manufacturers and vendors and also different inbound shipments. All of this, as we think about it, really does enable us to drive a lot of efficiency for these different facilities, especially the fact that we're delivering at a very high service level, both on the Pharmaceutical side as well as Cardinal Health branded products. Then when you think about the logistics opportunities that we have in consolidation opportunities, we can actually take cost out through some of our solutions like an OptiFreight.

Our business solutions really are around optimizing the supply chain. So as we think about what goes on within optimizing the supply chain, it's really about how do you optimize the inbound process; how do you optimize the receiving process; how do you optimize put away, and even all the way and up to including dispensing. All of that tends to take cost out of the system as well as reduce the need for working capital.

As we think about our pharmacy solutions component of that, it actually takes it to the next level. With our pharmacy solutions component, we have tools that optimize workflow and increase productivity. We also have tools that focuses on analytics, particularly in the pharmacy and how we manage formularies. So there's a set of clinical tools, there's a set of formulary management tools that really look to eliminate the variation in dispensing. So when you eliminate the variation in dispensing, you improve compliance, lower cost, and improve patient care all at the same time.

Then lastly, we have a set of clinical and operational excellence resources that when deployed can go on site and conduct assessments. They can actually do gap analysis based on that assessment, identify opportunities, and then even engage in building the plans and executing the plans to drive improvement.

So with that, I'm going to have this to Don and Don's going to take us then through…

Don Casey: Right to the panel. Good. Thanks, Jon. So, look, we can be very competitive when we go in as M or P into a large acute care institution, but what we're trying to communicate here is when we begin to go in as a total enterprise, we are a differentiated offer that is really going to help them survive and navigate in a very changing and challenging environment. So, if you think about logistic solutions and business solutions, we also can help them manage patients through the entire process. Our Outcomes MTM, a recent acquisition that we mentioned, really help us deliver against the promise of how are we going to help an acute care institution manage medication not only within the institution but without. With naviHealth—and we're going to talk a little bit more specifically about this in a minute—how are we going to help our acute customers manage post-acute discharge? With Cardinal at Home is how are we going to help them get the products that they were using and need—using in the hospital and now need at home—how are we going to get it there? Then how are we going to provide new products ranging from medical commodities to sophisticated specialty pharmaceutical products? We have a very large ability to do that.

All right, and one of those areas that we want to talk about is our PPI strategy. What does PPI mean and what are we doing? Our definition is how do you take a physician preference item—and let's define that. It's an area that's very common in surgical procedures that have historically had a physician preference that may have been built up over years, but there has not been a tremendous amount of innovation in that category, so really the procedure hasn't changed all that much. There's low IP barriers, and ultimately this has become a pain point for the hospital. So when you find that, there's a physician preference on somewhat of a commodity-oriented area that's a pain point to the customers where there's a little barrier to entry and a very expensive area for them. There's a tremendous amount of interest in coming up with new solutions and we believe we can provide that solution, and it's not just about product. It's about products, services, and analytics.

Why don't we talk about the categories we're going to go in and why we're optimistic about this? Cardiovascular with Cordis, people don't understand that we have a large and significant wound care business now anchored with ITI, which is a negative pressure wound therapy company, and we believe—and orthopedics is ultimately a category that's going to see a tremendous amount of transition over the next couple of years.

Let's talk about what the Cardinal solution and this PPI looks like, and we'll start with the Cordis as an example. We believe with Cordis we got a large bag of very respected products that are essential into most interventional cardiology, as well as endovascular procedures. It's going to benefit from global scale that can make sure that we're cost competitive from a manufacturing standpoint, but then we start adding in what does Cardinal do well? We have a very efficient manufacturing base, which we can now add to. We could begin to move that across our shared distribution network. As many of you know, physician preference items have historically run through a very narrow direct, like a Medtronic or Johnson & Johnson, directly to the hospital, not taking advantage of the scale that distribution adds.

Then, as I think you saw in one of the patient solutions out there, Tony Vahedian was talking about our WaveMark or CIMS solution, which is attaching RFID. Not only is this going to change the game from our ability to manage lost products and dated products, it's going to provide the analytics people need to begin to understand how we can do a much better job of managing inventory.

The last issue is we bring all this in our custom procedure trays, which can, again, really help with efficiencies. So we look at Cordis as a great product that's going to benefit immediately from shared distribution, becoming part of our 360 program, and then begins to ride on a smart distribution system around CIMS that's going to be a differentiated advantage and will allow us to deliver value.

Last point, as you begin to look at these categories, increasingly they're going to have a post acute discharge component and that's why we acquired naviHealth. What is naviHealth? It is an analytics program that really looks at a large amount of data that helps define how patients should be best managed post acute discharge from a perspective of what's the right care? What's the right place, and what's the length of time? Based on a tremendous amount of data, we believe we can help our partner institutions not only deliver a better outcome, we can also help them manage their expenses to do that. So, again, we believe this is another example as we talk about products, services, and analytics, we're putting together a very integrated solution that's going to be very meaningful to the acute care customers.

So ultimately, when we talk about acute, we believe Cardinal's extremely competitive because we've such a broad offering between pharmaceutical and medical devices, and when we take an enterprise approach, when you go into an institution and we can say we can bring you everything from medication management all the way out to sophisticated medical devices, it's really going to help differentiate us over the long term, and that's the reason we're optimistic not only we're going to be able to grow, but we're going to continue to have sustainable growth because we are far more relevant to our customers.

So, it's one thing for us to say that but we thought it might be an interesting opportunity to bring some of our physician advisors up and have a conversation. I just want to read one quick thing from a disclosure standpoint just to make sure we're on the same page. So we brought you some key physicians. Why don't you guys come out and take your chair? These are members of our Expert Advisory Panel and they are tremendous allies for the perspective that they challenge our thinking. But we want to make sure that you understand they are not necessarily speaking on behalf of Cardinal Health and some of their views may not be representative of Cardinal Health's views. So with that ground rule, I'm going to turn it over to Shaden Marzouk who is a neurosurgeon—

and I learned when we start dealing with this, the neurosurgeon—you know, Shaden describes herself as the apex surgeon, but—I'm just trying to create a little stuff going on here before, but anyway, Shaden, thank you.

Dr. Shaden Marzouk: All right. Thank you, Don. Well, good morning everyone. We've got an expert panel ahead of us, so we're going to go ahead and jump right in. Dr. Jaff, would you please introduce yourself and let us know what are the biggest issues facing the treatment of vascular patients today?

Dr. Michael Jaff: Morning. Sorry about my voice. I could use a good doctor. My name is Michael Jaff. I'm the Chair of the Fireman Vascular Center and the Director of Care Redesign at the Massachusetts General Hospital in Boston. Shaden, I would have to tell you that the number one thing that we're thinking about is being able to provide comprehensive vascular care that really makes a difference to patients, but it's done in an efficient, responsible, and value-based way.

Dr. Shaden Marzouk: Thank you. Dr. Marston, would you go ahead and introduce yourself and let us know what are the biggest issues facing the treatment of wound patients today?

Dr. William Marston: Thank you, Shaden. I'm Bill Marston. I'm the Chief of Vascular Surgery at University of North Carolina. When I started there about 20 years ago, I was forced, signed on to start a wound care clinic, which nobody really wants to do in medicine, but it's been a very timely thing and it's grown into a full-time wound healing and limb preservation center. With the growth in diabetes, obesity and cardiovascular disease, this is going to continue to be a big problem facing our healthcare system. So the challenge to us is like the challenge to all of us: how do we get better patient-centered outcomes at a cost effective price point? So we need to train physicians better and that's a real difficulty in this area because we don't learn about wound healing in residency or in medical school. We all come from a variety of backgrounds—surgery, dermatology, podiatry, and on and on, and so that makes it difficult to standardize care.

So we need better protocols to improve the quality of care and we need better devices and therapies for our patients. Then the biggest challenge, as well as that is that our patients exist across the spectrum of venues. They may be in the home, they may be in the long-term care facility, in my clinic or the hospital, and we can't get

some of these therapies to them in all of these venues right now. So these are big challenges that we have to solve if we're going to be more cost-effective and provide better outcomes in the future.

Dr. Shaden Marzouk: Thank you. Dr. Zura, would you introduce yourself and let us know what are the biggest issues facing the treatment of orthopedic patients?

Dr. Robert Zura: Good morning and thank you for having me. My name is Bob Zura. I'm the Chief of Orthopedic Trauma at Duke University, but Bill and I are good, so no UNC/Duke issue here. I'm actually in a transition point in my career and beginning in January I'm going to be moving down to New Orleans where I'm taking over as Chairman at Louisiana State University Orthopedics in New Orleans, actually, the Katrina Hospital that just opened.

Orthopedics has a number of issues—and I apologize if I'm a little redundant with some of the issues we'll discuss later. I think first and foremost—and this came up earlier this morning—we have some demographic issues in orthopedics that are critical. One, we have an aging population and part and parcel to the pharmaceutical advances in other medical advancements, they're living longer and more active and having higher demand. We also have a younger, more active and a higher demand young population that's wanting treatments earlier than we use to defer to get better outcomes, and they want those treatments earlier and they expect greater results and better outcomes. Because of those, both doing things earlier and doing things later, we're seeing higher risk patients, so higher complications and concerns with that.

Additionally, we're also continuing to have to treat chronic diseases, and in orthopedics we see that particularly in patients with diabetes, obesity and osteoarthritis. We were actually sort of surprised as we prepared for this, how many similar issues we face in our fields.

A few other quick issues: one, orthopedic trauma being my subspecialty, access to care for poorly funded and unfunded patients continues to be a huge issue and as I transition to New Orleans I can tell you that problem actually is going to be larger there than it is Durham. That's an issue we need to address. Then issues that are facing our patients and us—and we'll talk about this more as the fiscal issues—is these bundled care and this value care that actually does have a patient impact.

Dr. Shaden Marzouk: Well, some big issues; what solutions are you working on?

Dr. Robert Zura: So outside of the fiscal issues, in particular we're trying to—I may use the term bundledness and I apologize if I confuse you. When I talk about bundled care I don't mean bundled payment. I'll try to use coordinating care when I talk about this. But we're trying to coordinate our care and we do this by disease stages because that's how we think of these issues. In my subspecialty in particular, in fracture care, we're seeing this on multiple different levels, from a national and international level. Groups like the AAAOS, the AOA are coordinating care for hip fracture patients, some that may be called Own the Bone. I don't know if you're familiar with that or heard of that. What we do with that is we try to provide total care for patients with these issues. On a local level, I actually run that effort at Duke where we're coordinating the hip fracture care amongst all subspecialists, the medicine doctors, the orthopedic doctors and their surgery and the anesthesia team, the pain team, and their post-acute care team as well. So we're trying to focus on care for these patients.

Part of this, both for our own benefit and for our patients' benefit, we've shifted our focus in how we both do research and think about our outcomes and towards patient-related outcomes, you may have heard of the PROMIS scores and things like that. Traditionally physicians, we were looking at how we thought the patient did on physician boards. We were focusing more on patient-related and I think this may help us as we go forward with some of the bundled care and the payment issues.

We also are doing big research and it's the responsibility of some of these large academic centers to do the big research to address the big health issues I talked about—obesity, diabetes and osteoarthritis, I think are some of the main ones in orthopedics.

Finally—and this came up this morning—we're trying to define the landscape we're working with. The population's aging; there's no question about that. So we're trying to prepare for that. We're training more orthopedics surgeons. We're trying to prepare for the number of hip fractures. We expected the number of hip fractures to double by 2020, but in fact, they're declining. Perhaps some of the medications are having effect. So it's a moving landscape for us and we continue to watch that. Do we need more join replacement surgeons and less fracture surgeons, and such, we're working on that.

Dr. Shaden Marzouk: Great. So Dr. Marston, you mentioned variability among other items. What solutions are you working on?

Dr. William Marston: Yes, there's some good news. So in the last few years some of the important relevant medical societies, such as the Society for Vascular Surgery and The Wound Healing Society have labored to produce guidelines of care to start to bring the evidence and really standardize therapy across the board. Having been on some of these guideline panels, it's a thankless job and we really work hard to get evidence into the system. But these are coming out now and now we're popularizing use of those. I think that's going to make an impact.

The second thing that's really exciting and its American College of Wound Healing and Tissue Repair has started the initial first fellowships in wound healing, so these are dedicated training pathways to train the physicians of the future who are going to work in this area. We do have some exciting novel therapies that are in clinical trials now that I think may be game changers, but what we haven't made as much progress on is how we're going to get these therapies to patients across the whole spectrum of where they exist.

Dr. Shaden Marzouk: Thank you. Dr. Jaff, you mentioned value among other items. What solutions are you working on?

Dr. Michael Jaff: In the vascular space I'm happy to say that there's been some much better clinical signs, helping us think about what technologies work best for specific patients with various vascular diseases. The challenge we have is that there are such an explosive number of new technologies that are hitting us and we don't actually know which ones work better in a large patient population over time. So it leads to this whole concept of managing a population with a certain concept and then seeing how we can be responsive to their needs and their values.

So I mentioned that in my other role in care redesign across the entire MGH we've taken large patient populations that are often managed by multiple difference specialties in which historically they've been somewhat competitive; looked at ways that we can improve the efficiency and value that we can offer to patients that mean something to patients; and then follow our outcomes going forward so that we can make decisions for individual patient groups—claudication, critical limb ischemia below-the-knee disease, carotid artery diseases, etc.—and offer those therapies going forward. We're really excited about this.

Dr. Shaden Marzouk: It seems like some of these solutions might actually help with dealing with bundled payments, so what are you and your institutions doing to deal with bundled payments?

Dr. Michael Jaff: So I must've drawn the short straw in my hospital because I also got asked over the past year-and-a-half to help us prepare for bundled payments not only at our hospitals, but across partners healthcare. This is not easy. I would say that there's a difference between what we're now talking about, which is really providing pathway-based, evidence-based care that is based on quality compared to what it was back in the early 1990s where it was basically just save money and quality was kind of an afterthought of. People mention that they think about later. So that's the good part of this.

The hard part about this is several things. There are so many different sources of data. We figured this out as we were talking beforehand that we all have to look at and put together to make decisions about what patients are included in a bundle or episode of care. How do you get those data solutions to come together so that we can make those decisions? That's one. Number two, let's face it, guys, doctors are not actually trained to be team players. We've been taught to be captains of a ship and now there are lots of captains of the ship that have to sit down together and realize that in order to be successful not only in our local environments but across our entire spectrum of care, we've got to work together. That's a big cultural change. So I think it's the data, I think it's the cultural change, and I think it's being able to in real time follow how you're doing and make appropriate adjustments on-the-fly.

Dr. Shaden Marzouk: Absolutely. It makes a lot of sense. Dr. Zura, what are you working on to address bundled payments?

Dr. Robert Zura: We're doing this on a couple of different levels. I'm perhaps a little embarrassed. Maybe orthopedics isn't as advanced as vascular surgery in that our academy actually has a physician statement on bundled care for hip and knees, which is coming very, very soon and they instruct us that we should collaborate. We need to work on this and they're in favor of it and support of it, but we need to be the captain of the ship they say; we need to run that bundle. So, I think they're trying to just get us invested. So that is where—you know, so we're in it. We're acting in hip and knee as if we're in bundled care at this point and Raleigh-Durham and actually New Orleans and Metairie were both chosen to be in those groups as well, so I'll continue with that.

So what we're able to do is we're trying to maintain a patient focus. We're trying to maintain a quality focus, but to collaborate work with these groups for the entire pathway of that care. The things that we specifically outside of

working with everyone else can control in orthopedics is we can control our implant costs, we can work on length of stay for patients, and we need to work on collaborating with our hospital to achieve this. I think one of the points that Dr. Jaff brought up is probably most critical and that's that it is a changing landscape and this is pay-for-value or pay-for-quality, and we're focusing a lot on a number of us trying to provide quality care for our patients. That hasn't changed at any point in and of anywhere practices, but what is quality and how are you defining that; what is the data that is feeding you. So we're trying to both create new data, not de novo but do new studies to identify what we're doing that is effective and what isn't. But also is try to impact CMS and other payers on helping them to decide what value metric should be used and if it's good to have it or not.

Dr. Shaden Marzouk: A lot of shared themes. Dr. Marston, what are you working on to address bundled payments in your healthcare system?

Dr. William Marston: Yes, and I will echo what Mike and Bob have said in the same conditions are affecting us all, but specific to the wound world, I mean, we don't have a blueprint of what that looks like. We only hear that 30% to 50% of the reimbursements in three to five years are going to be bundled type list sharing models, but that doesn't give us a RFP. I mean, does that just mean the clinic care? Is it the hospital admissions, and all those things? So we are working on, “bundles." If you look at, say, a diabetic foot ulcer, there are 10 to 20 different therapies and products we use in the spectrum of care for that patient, so it's a very complicated bundle and it really leads to challenges in putting those together. But I think we feel like we want to be early to the party because if you're late, you're going to be in trouble.

Dr. Shaden Marzouk: Well we've been talking about current state. Let's switch gears and talk about future state. So, Dr. Marston, what is the biggest health economic challenge you think you'll face over the next three to five years?

Dr. William Marston: Yes, I can't overstate the fundamental change that we're going to be asked to work in as we move ahead. You know, right now that the way that the whole model goes is we look for new therapies. So we, in a perfect world, document those with well-designed studies. Then once they're approved by the FDA we go to the reimbursers and get reimbursed then, and if they're reimbursed, then we use them because that's what we think is best for the patient. We have concern for cost but it's not a fundamental concern. Let's be frank, there's a lot of profitability that goes into there if it's a well-reimbursed procedure or product. So that's how we work now. We're

going to be turned totally around to where if the FDA approves the product, the discussion is no longer going to be between us and the insurers. It's going to be between us and ourselves and our patients what's the most cost effective strategy to get a high quality outcome at a reasonable price because that's going to support our profitability. This is totally fundamental and I think a lot of physicians and healthcare systems are not going to do well if they're not already working on it.

Dr. Shaden Marzouk: Dr. Zura, what do you think is going to be the most health economic issue that you're facing over the next three to five years, the biggest health economic issues?

Dr. Robert Zura: Yes. I'm glad you picked a short-term timeline and I think we've touched on it. I mean, we're going to see the implementation of bundled care. Part and parcel to that is this is value-based pay. It's not pay for performance any longer. So, once again, to identify how to keep costs down and continue to provide quality care and to be sure that it is quality care, and our own reimbursement. If you're individual quality is not up to par, you'll actually be paid less as an individual physician and your partner may have higher quality. Maybe perhaps this isn't an economic issue, but I think it is. That actually is going to be an access issue for patients. If you're a Medicaid patient or a poorly insured patient, there are studies that suggest those patient populations don't do as well with total hips and total knees, for instance. So providers don't want to see those patients. So it's going to be—because their quality metrics may go down because they're taking on more challenging patients. As a trauma surgeon at Duke, I get some of the more difficult referral as my colleagues do in their area. If you have a more difficult patient population, you're more likely going to have less ideal outcomes and you're going to be rated as a less quality and a less value doctor. That's a real problem, so we need to make sure that whoever's making these decisions is taking in comorbidities and assessing this appropriately.

Along those lines with access, I continue to think and not totally understand that poorly insured, poorly funded and uninsured patients and their access, especially in trauma for me, continues to be a huge issue, and as the rollout of Obama Care and switching to states, I don't know that I fully understand what that impact will be but I'm confident that we're going to continue to have an issue of patients not having adequate funding or ideal funding in their access to quality care.

Dr. Shaden Marzouk: Do you think certain hospitals will shift away from certain procedures and simply send them on up the chain?

Dr. Robert Zura: I don't know if it'll be procedure-based, but I anticipate it will be procedure-based on patient population. So where I'm going in New Orleans there are hospitals where there's not a single physician that sees Medicaid. There's an entire hospital system. So those patients are being shipped to our system and that's a real challenge. So, yes, there are now—so certain groups of people are not being offered procedures in certain hospitals.

Dr. Shaden Marzouk: Well, Dr. Jaff, what is the biggest health economic issue that you'll face over the next three to five years?

Dr. Michael Jaff: It all comes down to efficiency of delivery of care. That's what I think it is. If you look at what your own experience would be today if you came to any large metropolitan medical center in any of the places we live, or you're going to live, the fact is it's your job to find your way from the front door to wherever you have to go for your visit and you get sent to three consultants, two CAT scans, a lab, and then you hope that everybody's talking to each other, all looking at the same data, synthesizing a plan, and then the first person you saw will come back to you say this is what we're doing. It's a little crazy for the patient to have to do all that running around and hoping. We need to be good at making this so that the patient is in one place and we use information technology, data, collaboration, team-based care, quality and understanding what matters to the patient from the value standpoint. This is economically challenging. It is different than how we work today.

You saw an earlier slide that showed that in the 1950s healthcare was offered in the home. How weird is it, now the hottest thing is offering healthcare in the home. It's crazy. So I think this is the challenge we're facing economically.

Dr. Shaden Marzouk: When you talk about data and information and patients choosing site of care and really coordinating all of this, how long do you think it will take for this to become standard of practice?

Dr. Michael Jaff: I mean, it's standard of practice in every meeting I go to that this is the topic of conversation. So at least from on the docket first on the agenda item, that's what it is. What progress have we made since last week in

making this real? When do I think we'll actually be able to pull this off? With a little bit of bright sunshine, a little bit of luck, maybe a little break from the governments, we might be able to pull this off in three to five years.

Dr. Shaden Marzouk: Well cost, quality, variability, underinsured—we certainly haven't shied away from the big issues. But we do have some time for concluding remarks. So let me ask you, Dr. Jaff, how do you think Cardinal Health will fit into this new healthcare paradigm?

Dr. Michael Jaff: So, Bill and I came this morning from a large internationally renowned vascular surgery meeting. People come from all over the world to attend this every year. We were both commenting about the number of companies that are doing their stuff at that meeting. So Cardinal Health actually has the opportunity to do something that I don't actually think I know of another company that can do in my space. So right now, these companies that go to these large meetings are playing to me or to Bill, right? I mean, that's what they want, us to like their products, use their products.

Cardinal Health has the opportunity not only to do that, but you already have relationships with the other important components of the healthcare delivery system, those who purchase, those who run the financial bottom line, those who are operationally skilled, and I think that is a very unique opportunity for Cardinal Health to play to the strengths across the entire healthcare delivery system, particularly in a place where I work.

Dr. Shaden Marzouk: Dr. Marston, how do you think Cardinal Health will fit into this new healthcare paradigm?

Dr. William Marston: Well, when I think of who we're going to need to partner with to be effective at the things we've talked about, in the next three to five or 10 years, I go back to the bundle issues. So treat a patient with diabetic foot ulcer, I've got, has several different primary dressing products, I've got to have orthotics, I've got to have biologics, pharmaceuticals. All those are part of our guidelines to have effective care, so if I'm going to start to try to partner with companies, and each of them provides one or two of those products and I've got to negotiate this deal out, it's going to take me forever. Am I going to get as good a price as if one or two companies can provide the majority of things in that bundle? Then the other issue is can they deliver that product, whether my patient's at home or in the LTAC or in the hospital, or wherever? So, I'll let you decide if you think Cardinal will be effective with that or not.

Dr. Shaden Marzouk: Dr. Zura, a final word?

Dr. Robert Zura: Yes, sorry, I feel like I'm venturing into telling you guys sort of your business. Listen, my brother's six-foot, eight and weighs over 300 pounds and went to Harvard Business School and he reminds me, frequently, both gently and not gently, that my opinion on business is worthless. So, take it at that. With that being said, I'm—very similar to what Dr. Jaff said, I'm unfamiliar with any other company that can provide me and my patients in my hospital system, the ability to help us take care of the person from the very first step, all the way through. Again, looking at it from a hip patient or knee patient, from their in-hospital care, their laboratory care, to the gloves that the nurse is wearing, to in the operating room. As Cardinal gets deeper into implants, certainly be able to affect implant costs, and that's one of the big cost drivers in orthopedics. They can help us with our supply chain and then all the way to the outpatient care. I think that post-acute phase is actually where the most movement is going to happen. We don't think about that as much, unless you're post-acute doctor, but I think that's really where the greatest opportunity is and where Cardinal has a unique ability to help my patients and my system.

I'll end on one final thought, again, we tend to be very myopic in leading our own world, and I had the opportunity to bring a company in for an implant in orthopedic trauma and that would greatly reduce costs, for specific implants, but my system was unwilling to even talk to that company because they were so narrow and potentially deep, but at this point our health system, and our university is only negotiating with people that they can work with on all phases of care. So I found that to be very interesting thing. We want to, our systems want to partner with companies that can help us at all stages of the care, and that's a change.

Dr. Shaden Marzouk: Well, thank you all very much. Thank you. I'll hand things over to Jon next.

Jon Giacomin: Great, thanks Shaden, and thank you to the members of the panel, very insightful. Now that you've heard about the solutions we bring for our acute customers, want to spend a little bit of time and talk about the scaled solutions we bring for our retail customers. Before I dive into this, it's probably important to differentiate among our retail customers. So as you think about our large national chains, they predominantly rely on us for supply chain and logistics solutions, everything direct, store-to-door, to ultimately the backup for their warehouse.

Our retail independent customers, along with our regional chain customers rely on us for not only logistics and supply chain services, but they look to us for our business solutions and our product and patient solutions, as well. Just as you heard in the discussion, we had a little earlier on the acute space, our retail customers are asking a lot of the same questions, or have a lot of the same concerns around care, cost, and efficiency.

They ask us routinely, how might I know that I'm going to have product available to me? How do I ensure that I remain competitive in sourcing? How do I grow my front-end sales? Reimbursement is becoming ever challenging, how do I ensure that I can navigate that reimbursement process? How do I think serving my patients more differently, improving their outcomes, but at the same time, lowering my cost? What can you do to help me improve my working capital position?

So when we think about the solutions that we have for our retail customers, again, it follows along the same four areas. Obviously, within the logistics space, we deliver a full complement of products to them: pharmaceuticals, both brand, generic, and their specialty, OTC products, private label products, DME, home healthcare, and we do so with an incredible order-to-delivery cycle; roughly from 12 to 18-hours, we receive your order, you receive the product. What does that do? It really reduces the—it's just-in-time inventory for them then, it reduces the amount of inventory they have to maintain, to serve their customers.

The other thing that we can do through our independents medical offering is, in fact, we can ship home healthcare products, and durable medical equipment directly to the patient's home on behalf of the retailer. It's a more efficient process and, oh by the way, it gets the patients the products they need, when they need them.

If you think about our business solutions, really it's about helping them run their day-to-day business, and addressing some of the ongoing needs they have within their businesses. First and foremost, we think about our inventory management solution; making sure that they optimize the inventory they have on the shelf, to drive the highest service for the lowest working capital investment. We think about and we've already talked about our reimbursement management services and that's helping customers continue to remain competitive on reimbursement rates, while at the same time, continuing to have access to patients.

The last one that we provide is around advertising and this is really leveraging our broad marketing and advertising capabilities, to promote their business. Promoting it where it really and truly matters, which is in their local communities. Helping them to strengthen their brand and grow their businesses. So, I'm going to ask Don to run through the product and patients component here.

Don Casey: Again, just like when we were talking about in the acute space, we believe that we're bringing a number of solutions that we think are really relevant to our retail customers. Whether that's how do we help them move from just a retailer into somebody that provide some kind of healthcare services. They're increasingly looking at how are they going to increase their CMS Star Ratings and we can provide services that do that. As we begin to look, in terms of our overall solutions, you know for the patient solutions going into the retail space, we believe medication therapy management is absolutely essential to what we're doing.

Ultimately, we've talked about the fourth pillar being the product solutions, and at this point, we've really talked a lot about our ability to source generics very efficiently, which is the lifeblood. But, now we can offer a variety of front-end services, ranging from over-the-counter products, to we're now bringing a Cardinal branded sequence of products that are available, the hospital-oriented products that you used to only be able to get in the hospital, you can now get in a retail environment.

Jon Giacomin: So, when we think about the solutions we're providing, we're developing new solutions that will allow our customers to grow their business. As importantly, solutions that will allow them to follow the patient down the continuum of care. We're leveraging a lot of the expertise that we have internal, through our Centers of Excellence, and other areas around Global Sourcing operational excellence, marketing and pricing, and analytics.

Then, just to wrap this all up, there's no question that healthcare is changing and transforming right before our eyes. Our customers are having to deal with that transformation and they're looking to us for these solutions. As they become more and more aware of the need to drive outcomes, reduce costs in those outcomes, and increase productivity. They look to Cardinal Health for our logistics solutions, our business solutions, our product and our patient solutions because they need to reduce their costs, they need to improve their working capital, they need to get more productive, and they need to be able to spend more time with patients.

We have market-leading capabilities, I'm convinced, and we also have the best talent. We come from a culture of execution, as I said earlier, and we also have great insights into our customer's needs. Not only the needs they have today, but the needs that they're going to have into the future. So, as we think about this, we are incredibly well positioned to be their partner into the future, and provide those solutions that they're going to need, in a very changing healthcare environment. It's what we do at Cardinal Health and it's why we're essential to care.

So, with that, I would like to invite Mike Kaufmann onto the stage, who's going to facilitate the panel. Then ask Mike to also introduce the panelists. So, Mike?

Michael Kaufmann: We've got Don and Jon, who are going to serve us on the panel; I also want to bring out Michael Petras. Michael is in charge of our At-Home business, as well as the naviHealth business, as well as our Enterprise Solutions Team. I'll bring out our last panelist here, Craig Cowman; Craig is in charge of sourcing across the entire Company, so he's grown up typically, in the pharma world doing sourcing, but recently, he took over sourcing for all of Medical also, and so he is the Global Head of Sourcing for us.

Great—oh, and Joe. Yes, I didn't want you Joe, that's why I didn't introduce you. Joe, as Jon mentioned earlier, Joe is the new President of our Specialty Division. He took over for Meg, who as you know moved into the strategy role, and Joe has many years of pharma experience, has been with a lot of the biotech companies, that he's servicing everyday and it's been great to have his knowledge and expertise in the space.

But, let me jump into it. I'm going to start out with—we'll go with Don first. Of the 4,000 hospitals that you serve, how many buy the full suite of products, and what is the, "white space" that is available?

Don Casey: It's interesting. If you look at the percent that buy a hundred percent of what we offer, I'd say it's probably very, very small because the, "white space" corresponding would be very big. But, if you broke out the 4,000, I would say, you know almost all of them would buy some product category, now whether they buy all product categories or not, is another question. Some of them would buy—let's put—I'm not going to put a huge number of numbers out that we're going to have to walk back at some point, but if you look at the 4,000 hospitals, I would say 100% of them buy at least one product. If you were to look at the percent of the 4,000 pharmacies that buy,

not only medical supplies, as well as pharma products or pharmaceutical distribution, I mean we say that's probably about half.

If you look at the, "white space" as we define it, there's never—I don't believe that we're ever going to be satisfied until we sit there, and look at those 4,000 hospitals buying at least some service, some product, and some pharmaceutical for us. We believe the, "white space" is very, very significant.

Michael Kaufmann: Don, wouldn't you also agree that some of the big, "white spaces," actually the products that don't currently go through us right now, that with our expanding capabilities, I think there's a lot of folks that they want to utilize us even more.

Don Casey: Yes and as I was talking about some of the solutions we offer, particularly in the PPI area. PPI has historically not gone through the distribution channel and as we begin to look at stuff like Cardinal Health Inventory Management systems and other ways that we can bring significant economies, and efficiencies; we believe that ultimately they're going to realize that this is a better way to do business. We think that's a significant growth opportunity, Mike.

Michael Kaufmann: I'm going to come to the other end, to the man that I forgot, and go with Joe first. This is a multi-part question, so instead of you having to remember every part, I'll just kind of go along each one. Can you discuss the impact of biosimilars on the specialty business?

Joe DePinto: Yes, sure. Craig and I talked about this and we thought we'd split it. So, biosimilars, as they continue to enter the market, it's really interesting to see as they evolve. When you've seen one biosimilar, I think you've seen one biosimilar, and they all act a bit differently. From a services-side, that's the point I'll address here; some of those biosimilars, depending on the competitive space they enter in, will need some of the Hub services that typically branded products have used in the past, and we're well positioned to help our manufacturer/customers with biosimilars to support them in that need with the Sonexus Hub. Depending on what channel they use, we certainly will be able to help them from patient program, to adherence and compliance programs.

Craig Cowman: I think that's well said. I think we're early innings on biosimilars and as Joe said, I think if you've seen one, you've seen one, and they vary by type of product, class of trade that they compete in, how they're sold. I

think it's really about having the services and being positioned to assist manufacturers in the commercial strategy on those products, and I think Joe did a nice job about outlining the things that we do to be well positioned, to help our customers, and help manufacturers.

Michael Kaufmann: Joe, you mentioned the hub a couple of times in your answers, Sonexus, the hub we purchased awhile back. Can you talk a little bit about that, in specifically, as it relates to Cardinal Health and drive adherence rates?

Joe DePinto: Yes. So we're excited about our upstream services in which, we call it sort of upstream services or manufacturer services, part of the specialty business. It really services manufacturer/customers and there's been some interesting trends in outsourcing of a lot of these services by manufacturers in recent years. The Hub that we acquired in 2014 was Sonexus, a best-in-class hub services program. They have programs that work on adherence, they have programs that work on reimbursement and payment for patient care. So it's a very comprehensive hub for high-touch, high-value products. The Sonexus Hub has had a lot of attention, we've gotten attention from big and small customers, they've been impressed with the facility, and what we've been able to do there. As more and more products come out, that are high-touch, that hub service will be a critical component of care.

Michael Kaufmann: Great. I'm going to go to Michael Petras now. Michael, can you discuss how data solutions are impacting your post-acute discharges, and how much has local quality and readmissions data surprised you?

Michael Petras: So, in particular, Mike, I'll address it from the perspective of naviHealth. You know we've got a very extensive database of episode data, across the country, on a national basis. So, the navi business has got a platform that's been in existence from an IT perspective, and gather what we call Live Safe, been gathering this information since 1999. So it's very broad in nature, it's across many episode groups. We use that data to help us and help health systems start to think about the right site of care, for patients at discharge, as well as the right length of stay, and the right level of therapy.

We have worked in close connection, we have teams on the ground that actually help coordinate the care from a transition from the acute into one of the post-acute settings, if it may be an IRF, an inpatient rehabilitation facility,

long-term acute care facility, skilled nursing facility or the home. But we have local teams, on the ground, that actually help coordinate that care, and we take into consideration data on an actual basis, as well as on a local basis, depending on that particular patient and that facility we're involved with.

Michael Kaufmann: Jon, you mentioned a couple of times in your presentation, you talked about MTM, our outcomes business, as well as all the organic growth that we did, building up that internally, that skill set. Can you talk a little bit about what MTM is, what are the types of service this is, and is it formulary management?

Jon Giacomin: Yes. So let me—I'll back up and maybe do a little bit of a definition around MTM, medication therapy management. These services are performed by pharmacists, they can be performed face-to-face, or they can be performed telephonically. A lot of this is with respect to managing a patient around understanding where they have gaps in care, understanding med reconciliation, poly-pharmacy events, and those sorts of things.

So what has happened is CMS has authorized certain disease states to be eligible to have MTM performed on them. Those disease states then, based on where the patient presents itself, the case either gets done by the pharmacist locally or it doesn't get done. If it doesn't get done, what ends up happening is it impacts the pharmacy's performance ratings. Why that's important is the performance ratings, actually, drive the Star Ratings, and those Star Ratings determine whether or not your pharmacy is ultimately eligible to be in Preferred Networks.

So the landscape around MTM is actually growing, more disease states are becoming eligible, there's more legislation out there that would suggest that it's going to continue. Pharmacies really have to get these cases done and that's where we, as Cardinal Health, enter as a trusted partner and advisor. We're able to take on some of that caseload and then, ensure that our customers get credit for those cases, and their performance ratings reflect it.

Now, to the last question, which I think is a pretty easy one. The answer is no, it's not really formulary management. It's really about trying to drive the best outcomes for the patient, through this intervention of a pharmacist.

Michael Kaufmann: Yes. I think the best way to think about it, right Jon, is if you had an aging parent, and you know how many medications they're on, you want them to have some pharmacist do an MTM episode with them because it's likely to catch some things.

Jon Giacomin: I think that's absolutely right and I think this is just another example of how outcomes is becoming more and more prevalent, greater and greater focus on it, and that the pharmacist is becoming a bigger and bigger part of the healthcare system. Not just dispensing anymore, they're actually going to be involved in care.

Michael Kaufmann: Yes and on the MTM side, we wouldn't look at that just as a retail solution. Obviously, we also think it's on the acute side and I know, Don and Jon and Michael, who have all been talking about can we take the skills we have there and take a look at them in the post-acute setting, if one of you would like to chime in on that.

Michael Petras: We've had lots of conversations to-date, around MTM and services that come along with that. Today, it's not reimbursed as part of the bundle, but if we can actually show the performance that we see in helping reduce readmissions, there's an opportunity there to bring another service of Cardinal into that bundle, and get reimbursed for it, help reduce readmissions, which is clearly part of the bundle. That's one area worth exploring.

Michael Kaufmann: I'll go back to Joe on this one. Joe, of the $8 billion of specialty sales, how much of that is product versus services? What are your biggest products? Do you go directly to the patient?

Joe DePinto: So, we have two parts of our business in Specialty, as I stated before; we have an upstream business, which is manufacturer services. Where our customers are the manufacturers and we have a downstream business, which the customers are the providers. When you look at our growth rate and where we're getting our business from, clearly there's a mix of the two. When you look—and we also have had acquisition of Metro Medical that has expanded our footprint on the provider side.

So on the provider side, we focus in distribution, and GPO activity. We focus in the specialties, as stated previously here, hematology, oncology, urology, and now with Metro Medical, two very big specialties of rheumatology and nephrology. So that drives a lot of volume from a drug distribution, as well as GPO activity.

The other side of our business is service oriented and it's everything that we touch on the manufacturer/services side, from the beginning of their regulatory work in filing their regs, all the way to genericism and looking at how to

optimize their commercial launch and the lifecycle of their product. Through services, through consulting, through products; so we have a mix of both of those that feed through there. Our growth, we anticipate, to still be strong in FY '16; we're excited about, and we think we're going to get contributions from both sides of the business.

Michael Kaufmann: I think it's important to note too, that our growth in specialty has largely been from internal growth. While there have been some nice acquisitions that have complimented our skill sets with P4 and Metro Medical, the vast majority of this has really come from organic growth of our—customer's really looking for another provider in this space that differentiates themselves.

Joe DePinto: Absolutely and having that provider strength of business helps us on the upstream business, as well, because that gives us the scale to have the manufacturers wanting to work with us.

Michael Kaufmann: Yes, absolutely. Craig Cowman, the next question to you. As it relates to Red Oak and Craig is also on the Board of Red Oak with myself, and Craig and other individuals from Cardinal, and our three representatives. Does the scale across geographies make a big difference to the manufacturer, i.e. US scale, versus US/EU? Does class of trade play a big role in the price negotiations to the manufacturer?

Craig Cowman: Yes. So, a couple of thoughts, I guess I would share on that. That is something that gets a lot of discussion. I can probably speak best from our perspective and looking at the global generics market, we've evaluated this over a long time. I think that the United States market works in a very synergistic and harmonious way; it's easy to understand. I think when you start moving outside the United States, particularly into Europe, you run into a lot of different payer markets and ways in which products, generics in particular, are reimbursed.

So, I think there's always something to be said from a scale standpoint, I think though that, what our belief is and what we have found is that scale in the United States, which is still the largest, most important generic market in the world, pharmaceutical market in the world, is a priority. So that's where we are focused and as we've partnered with CVS Health and created Red Oak and had some nice expansion here, both from a Cardinal standpoint, and from a CVS Health perspective over the last six-months or so. I think we remain still very bullish on this model being very powerful and has a lot of room to grow.

I think from a classic trade perspective, there has been talk over time about how different classes of trade, and what pricing or costing they get materializes. I think from our standpoint, again, thinking more Cardinal oriented or Red Oak oriented, we look at that, we pay attention to it, I think that when you look at the value that we offer, the scale, the efficiencies that we create for manufacturers, we believe we're in a great position to get a very efficient cost.

Michael Kaufmann: Yes, I think too what's good is we've left our options open. It's not like, if we do think there's value in global expansion, there's not options out there. But, without that, setting aside our data would show, again, I had mentioned this earlier that we're by far the largest purchaser in the United States. If you even look globally, we believe that we're the largest global purchaser of generics, so we already believe we have that.

Craig Cowman: Yes, one other thing I guess I would point out too, Mike. When we think about classes of trades, so I think Cardinal, when you look at Cardinal, Jon talked about retail and the impact of retail. But, through Don and Jon both, we talked about the acute care space. So when we think about the Managed Generics program, what we call our Source program, there are already many classes of trade. We service customers in the hospital space and the long-term care space, alternate care space, retail independents, retail chains, food mass. So we have already quite a wide array of classes of trade that are participating in our program.

Michael Kaufmann: Don, can you review the key pain points for the medical segment revenue and profits in recent years? Where do you stand with these issues and when, if ever, do these improve or normalize?

Don Casey: Wow, if ever. I think we've been pretty consistent in how we describe the headwinds and tailwinds that have been hitting the business. You know if you look at the headwinds over time, that national branded distribution is probably been facing more pressure over the last 10-years, I don't think this is a recent phenomenon, I think this is something that's been going on for a while. It's a basic function of the manufacturers looking to economize on what they're paying distributors, as well as within the market place, the hospitals are also looking at a variety of ways of how do we economize on our national brands. That's the first point and I think that's probably been the biggest single one.

The second, if you want to look at how the headwinds—Canada, if you look, Canada's been kind of impacting us and we had a—when we did the spinout, we had a relationship that took us a couple of years to unwind and that hit this year. Basically, and I think George described this extremely well, is over time, is how do the growth engines that we have built, and really invested a lot of time, as well as capital in. How fast do those grow?

I think the quarter we just talked about is very emblematic of that, on the surface you say, okay, Canada was a very, very big headwind. But, once you really look under the hood, the fact that we now, we have a terrific business in post-acute discharge, whether that's at home or whether that's now with naviHealth. We believe that is a growth accretive and its margin accretive.

Our products business, whether it's the commodity expansion, which is an organic activity where we've increased the number of SKUs that we offer, by over a 100% within three-years, that bundle now makes us much more relevant. How quickly do those products begin to move and now we're adding PPI, which is a real differentiator, when you look at it. With the fact that our 360 program now includes everything from interventional cardiology, down to shoe covers is a big differentiator.

The last thing that we think is a real good tailwind is our services business, and Jon mentioned it, OptiFreight, which is a business that we've been seeing consistent growth and is very margin accretive, as well as our ILS, third-party logistic work that we do with some large customers. So you know when you look at the headwinds, it's when does national brand normalize? Well, I'm not sure it's ever going to normalize, I think we're going to see what we've seen over the last 10-years. The reason we're very optimistic that we will be a consistent grower, going forward, is we think we've got three diversified growth engines in services, products, and at the continuum of care, the at-home space. We believe all of those will grow very, very quickly as the market transforms from fee-for-service to fee-for-value. They're all, interestingly, margin accretive.

So we feel pretty good that that is when you're going to see significant growth and as you look at '17, when you see the impact of Cordis being added, and without the mark-to-market activity, masking what that does, you begin to see significant growth across the franchise.

Michael Kaufmann: You mentioned naviHealth earlier, so I'll go to Michael. One of the questions is here, why is Cardinal a good acquirer? Why was Cardinal a good acquirer for naviHealth?

Michael Petras: Yes. I think if you reflect on the previous panel we just had here and they talk about hospitals consolidating and the people they deal with, they talked about the challenges they had in managing post-acute spend, they talked about bundles. We see Cardinal Health as very well situated to be able to help health systems, IDNs, and payers deal with the challenges around post-acute. If we look at where it sits today, some of the capabilities is very unique, but then you start to think about some of the other services that we have between that home business, some of the product solutions we brought together with physician preference items in bundles that could eventually evolve, as well as MTM.

It puts Cardinal in a very unique position. I mean when you look at our competitive landscape, there are very few companies that can do the breadth and depth that we have between retail pharmacies, all the services we offer in acute, and as well then into the post-acute space. There's no other player in this space that can bring this level of services and capability to the market place, like Cardinal Health can, and that's why it makes a lot of sense. You heard the panel before, talk about the challenges they're having and needing somebody to pull that together for them.

Michael Kaufmann: Yes. We're going to go back to specialty, so I'll ask Jon and Joe to maybe, you know tag-team this one a little bit. First question and it's kind of a two-part question. Why did pharma need a new specialty model and what was neededthat others can't provide? What are you doing now that you can provide?

Jon Giacomin: Maybe, I'll take it first. As you think about the new drugs that are being launched, clearly a lot of the growth is happening in the specialty space. Those are incredibly expensive drugs and in many cases, have a small population of patients. So ensuring that the patient, who is actually eligible for the drug, gets on the drug, stays on the drug, and then all the necessary support work is done, relative to monitoring, analytics, and other things. So that the manufacturer has insight into how they're performing and remaining compliant, is critical. Honestly, as we reflected on some of the gaps and needs that we had within the specialty business, particularly, on the biopharma side, we thought that Sonexus would help fill that gap with our Hub services. All the patient

support services, the 24/7 clinical support services, etc., we felt like we needed that, and we felt like Sonexus really answered the bell for us on that.

Joe DePinto: No, I think you summarized it well, but the one addition I'll add is that you know what we try to do is work with the manufacturers, ultimately will point us in the direction of where they'd like their drug distributed through. But, especially, as these new drugs come out with very high-touch activity like Jon said, the adherence, the compliance programs, making sure that Sonexus hub services utilizes their phone services, to make sure. Sometimes these drugs have a higher bit of handling, different type of handling than typically is needed. So we're well positioned at Cardinal to handle all aspects of that, which is great for a manufacturer.

Michael Kaufmann: Yes, you guys commented—just my thought, is when we're deciding to get into this and go big. We currently have two very large established competitors, and it was really apparent to me that our focus on the customer and listening, with demonstrated with what we're seeing at Fuse stories of what you're seeing, bringing in folks to Fuse. How I think customers are seeing us differently than the competitors is that we're really listening to them. We're willing to try things differently. We don't have old established ways of doing business that needed updating, and we weren't stuck in our past. I don't know if maybe you emphasize that.

Jon Giacomin: Yes. I'll start Joe, maybe you chime in. So, as I mentioned earlier when I was talking about specialty, one of the things that we're really excited about is we've been able to attract customers. I think we've done so because we've had some different product and services that today, aren't necessarily available out there. They go to practice management services, they go to dispensing, they go to inventory management, they go to clinical decision making, for sure. Sure, a lot of that is out there, but this is where Fuse then enters the equation.

Because Fuse in our innovation lab and we've understood by listening to our customers, as Mike suggested, that they were having pain points. Because we have this technology innovation center, we're able to invite customers in, we're able to discuss those pain points, and guess what? One practice's pain point is probably another practice's pain point. So from that we're able to do development and working with the customers and then, push out enhancements for the customers, that really will benefit them, and benefit them in managing their practice. I think Fuse has really helped us in that attraction of new customers, particularly, on the distribution side. Joe?

Joe DePinto: I've had the benefit of being on many of those visits at Fuse with customers and technology's great, but what Fuse does is it melds the technology to the patient, well, and it's patient centric. So it listens to our customers and the challenges they're having in their practices, and with patients, and puts that combination of technology and medical practice together, to help them be more efficient in delivering care. That's where you see the light bulb go up on those visits.

Michael Kaufmann: That's great. Jon, I'm going to ask you to tag-team again, but this time with Don. Can you guys talk a little bit about some real-life examples of where coming together as M&P and where we've delivered value to customers?

Jon Giacomin: So one of the things you saw on the slides that we presented today, relative to Centers of Excellence is our strategic account teams. As we've sort of evaluated the landscape and are thinking about who is some of the influencers, who some of the leaders are going to be, within the acute space, we've recognized a need to change the way in which we go to-market. A lot of that, hopefully, you've gleaned from the presentation that Don and I did, tag-team here. But, the idea really is to go to-market, with some of those, "winners"; the ones we believe will be winners with an enterprise solution.

Thinking more broadly across Cardinal Health, thinking more broadly about all of the solutions that we shared with you today. So we put a strategic accounts team together and that strategic accounts team, or the individual who manages those customers, works then across the entire enterprise. First goes in and talks about Mr. Customer / Mrs. Customer, what are some of the pain that you're experiencing? Tell us what some of your needs are?

Then we try to look at our solutions sets and figure out which solutions we can directly apply, or which solutions maybe we somewhat customize for the particular need. I think we've had success in pretty much all of our accounts that we're managing that way, to a lesser degree, one way, or the other. I do think it continues to be and the question that Don answered earlier, a lot of, "white space" and a lot of runway, relative to this. Especially when you think about it through the lens of consolidation and systems getting bigger. So.

Don Casey: I'd offer too, Jon, a great example is we sell a lot of commodity-oriented products to the hospitals, that we believe would have applicability at the retail level. So we've now introduced a line of hospital quality at home, that

we've pushed in retail. Well, that's hospital products that are now sold through the retail channel as a great example, and its how do we look at something that would typically be a key play and actually push it out to a retail play. I think you'll—I think Michael touched on it very well, the example Mike Kaufmann gave, that somebody leaves a hospital, I think Meg set it up, you know an 80-year old that is leaving the hospital where they have been given a pharmaceutical therapy, that was specific to that hospital situation.

Well, now they're home. Well, they had 11 drugs that they were taking at home and now they've got the drugs here. That's something like a medication therapy management would come in, that's an example of where we're going to have post-acute discharge management that'll go through navi. But, then we're going to need to really help manage that patient and that becomes extremely relevant to these large hospital chains where we sit there and say, hey, have you thought through when you're going to discharge a patient, how are you going to care for that patient afterwards? That's not an M or P, that's a Cardinal solution.

Michael Kaufmann: Speaking of working together, now, Craig, that you have all of the sourcing for both medical and pharma, can you talk about, in particularly, you know where that has been productive to Cardinal? What are you seeing? What's your thoughts around combining that?

Craig Cowman: Yes, sure. You know I think that from our perspective, it really starts with the customer, and how do we create value for the customer. So, scaled solutions is one of the ways that we do that and through my history at Cardinal, over the last 20-plus years, I think we've prided ourselves as an organization in our ability to set a strategy on how we acquire product, and create value for customers. Whether that was traditionally in the Medical segment or in the Pharmaceutical segment, I think we have a good track record there.

I think though, the recognition of creating a global sourcing team and bringing our resources together is really unlocking scale of ideas, scale of people, capabilities, and volume. So I think that we have a lot of things being done, historically, within business units or not capitalizing fully on the complete scale, either of volume or ideas we have as an organization. So we've spent a good bit of time setting a roadmap that capitalizes on best practices, looking in categories where we think we can create more value by acting as one, rather than as individual business units. We are very optimistic about our ability to create value, whether its Cardinal branded products, or

the national brand products, either in Pharmaceutical or Medical, with very strong partnerships and relationships with manufacturers.

Michael Kaufmann: Yes, there's some things where customers were wanting the same product in Medical and Pharma, two different prices, we're not even talking and now, all that's being focused on. So focusing on where we have stuff in common, on products, but even when we don't have products in common, as you said, leveraging the best and the best ideas to get after.

Craig Cowman: Yes, exactly.

Michael Kaufmann: Perfect, great. Michael, do you look to grow through acquisitions, product growth, or both? Are there particular product areas that you would see as growth areas in the post-acute space?

Michael Petras: We look at our post-acute space, thinking about it in the home or some of the other assets that we've discussed today, we see an opportunity to continue to expand our product portfolio, and other reimbursement products that the payers want and need their members to get and we actually do utilization management to help control that. So we've seen a lot more opportunities evolving there. When we think of home health and home health agency market place and some of the challenges that they have with reimbursement, we're able to bring a lot of different capabilities to product/services to help them manage that spend and manage their resources effectively. So we see that continuing to grow.

You know we'll do tuck-in acquisitions that are very synergistic to us that are aligned with our product strategies that we have today, but we'll also take on new products. I think as you start to look more broadly at post-acute and start to think about discharge management in the broader sense, we've made some significant strides in being more relevant to health systems and help them with the challenges of discharge management. They still have very significant challenges in that area and if you talk to the hospitals, they'll tell you this on a consistent basis — I was with a leader of a health system earlier this week, and they're really struggling with how to manage that discharge process. I think over time, you'll see us building out more capabilities to help make that a more efficient process, for not only the employees of the hospital, but also the caregivers or the patients themselves in discharge, as we kind of bring that together more broadly with naviHealth and some of the services we offer there.

So, we're very excited about it. We've been outpacing the market growth on top line, and continue to see you know opportunities moving forward.

Michael Kaufmann: So, Michael was just talking about growth in his space. Can you tell us a little bit about what you see as the next opportunities of growth in specialty and then, was there any particularly competitors or areas where you're taking volume from because our growth has been impressive in specialty?

Joe DePinto: Yes. So, the specialty group works in a highly competitive market place, there's no doubt about it, it's highly contested, and the fundamentals of the specialty market are strong. So everybody wants to go get a piece of it. We, as you said before, Mike, we've grown organically, and we focused a lot of our activity on making sure we're executing well across all of our business, both upstream at the manufacturer side, and downstream at the provider side. We've seen a lot of activity with the addition of Metro Medical expanding our depth and breadth now into rheumatology and nephrology, as well as our core business in oncology and hematology with the manufacturer services side. That opens up all those different specialties for us to continue to sell services to.

So, we are out there working hard to bring our distribution services and our GPO services to our key customers. We have had good partnerships and we continue to have partnerships with RainTree and bring on—continue to bring on volume there. But, we look to continue to focus on the big customers and making sure that we're meeting their needs from not only a service standpoint, but a technology standpoint, to build that long-term brand loyalty.

Michael Kaufmann: I don't know whether you or Jon want to answer, but clearly specialty pharmacies have been in the news a lot lately, not necessarily in a good light, but can you talk a little bit about this area? How they are beneficial to the supply chain and any of our thoughts around specialty pharmacy.

Jon Giacomin: Maybe I'll chime in; Joe you can add this as well.

Joe DePinto: Sure.

Jon Giacomin: Well, specialty pharmacy has certainly grown as we've seen more specialty drugs launched in the marketplace, for sure. The forecast is for more of them down the line, as you all know, that's where the growth is

expected. I think specialty pharmacies, in and of themselves, working with multiple manufacturers, working with multiple payers, actually provide a lot of value. They do a lot of the things that I was talking about earlier, relative to our Sonexus hub, in that they've got patient services, they've got some other, "white glove" type of customer service that they provide. So that, once, the drug is dispensed, the patient has it, they may have some questions, they're able to do call-in, and then they've got an ability to have some follow-up and ongoing monitoring of a particular patient.

So, I do think that there is an opportunity for specialty pharmacy and obviously, there's big players in specialty pharmacy, who many of which happen to—or a few of which happen to be payers. So I think it does perform something very good within the healthcare market relative to getting patients on the drug, trying to ensure that they're compliant, and at the same time trying to hold the cost.

Joe DePinto: Yes, perfect answer. The only thing I'd add is when I look at these specialty pharmacies, they're typically licensed and accredited, and what they're helping to do is to deliver the drug; oftentimes that means specific, or special handling, and services to the patient that typically suffers from serious and debilitating diseases. So they take that patient perspective, getting that drug to them at the right time, to be delivered, is really an important role they play.

Michael Kaufmann: Yes. Don, for you. We heard a lot about the shift to value, how the shift to value will benefit Cardinal. Can you give some specific examples of this across the businesses? What do you see as the risk, as it relates to change in reimbursement?

Don Casey: Well, I'll answer the second part first. Look, the changing reimbursement is going to cause a lot of hospitals and the IDNs really think through how they want to go forward, and ultimately they believe that they're going to have less money per occasion. So they're going to put more pressure on how are they going to manage costs going into the future. I think where we get excited about that though, it used to be 10, and the occasion is now going to be a nine, they're going to look for creative solutions to how am I going to deliver great quality care at a number that's lower than what it was two-weeks ago.

This is where we think we shine. We think, as we talked about that total solution, we're in categories like interventional cardiology, endovascular negative pressure wound, and other areas, we believe that we have a product that's going to be a terrific addition. We're going to bring it in through shared distribution, which is going to allow us to deliver that at a lower cost. We're going to put it on a smart distribution system, with WaveMark, which is going to eliminate things like out-of-stocks, it's going to eliminate lost product or dated product. If you look at some of the categories, whether it's orthopedics/interventional cardiology, these are categories where there's not two-days of inventory, there's potentially a hundred days, two-hundred days of inventory. So that's a huge efficiency that's going to help the hospital.

Then, as you begin to look at these bundles that go beyond just the simple DRG 470, which used to be all contained within the hospital walls and begin to look at an occasion of care from prehab to rehab, the fact that we have an absolutely category-leading asset in post-acute discharge with navi, a great example of where we're going to become increasingly relevant as part of the team that's going to manage these bundles. Then you look at another one of Michael's businesses, which is Cardinal Health At Home, where they're going to need the supplies as they transition from the surgery center of the hospital to the home, and we can get them there.

So when you begin to look at the fact that the hospitals have gone from just a in-the-box I'm going to do the surgery, to somebody that's going to manage the patient across the continuum of care; the ability to offer more products across that continuum of care in an integrated way that's going to allow them to deliver better patient quality, at lower cost. We think is going to differentiate us going into the future.

Michael Kaufmann: Michael, I know you recently picked up the Strategic Accounts Group. We've heard Don and Jon speak a little bit about it from their perspective, anything you'd like to add on what you're seeing in your excitement about what you're seeing from that team? What they're doing across M&P?

Michael Petras: Yes, I think the biggest thing is you know I'm relatively new to healthcare but spending time with the leaders of several health systems across the country in the recent past and they've always thought of Cardinal in one way, and that was for moving supplies for pharma through their system. The conversations we're having now are very different. We're much more focused around some of the top ten challenges they're having, if it's value-based reimbursement, or it's post-acute management. They're starting to see Cardinal in a very different light

then they have in the past. When you start to think about all the solutions, we're bringing around physician preference items, MTM services, the pharmacy solutions in the hospital, the discharge management. Even, and we talked about it briefly earlier today in the presentation, in our at-home business, sitting down with them and saying, "Listen, you have your own home health agency hospital, and you shouldn't be touching the product or the fulfillment for the home at all. You take care of the patient engagement on the front-end and we'll do all the fulfillment on the back-end for you so when your nurses get to the home, the product is there meeting them." It drives more efficiency. Or they want to expand to their own DMEs, we're able to bring more services to them and being a backroom for them, and be able to take care of their services. So I think when they look at Cardinal, what we're seeing now—and again, the recent meetings I had even this week where they're sitting there saying, "But we didn't realize Cardinal's play is so big and so broad, across the whole care continuum." They're seeing us as a real potential solution to help them solve challenges that they're trying to deal with going forward. So it's really exciting to be able to see that level of engagement.

Just this week, we talked to this CEO, the Chief Clinical Officer, the Chief Care Transformation Leader; that wasn't a typical place we spent time in and it's really encouraging to see what Cardinal can offer them.

Michael Kaufmann: Yes, I'll wrap up with this question/comment. So little comments around inflation, both generic and brand, and on the generic side, then I'll talk—Craig just wrap up with what you're seeing about out value prop with branded manufacturers and your confidence around that. But on the generic side, we do continue to believe what we've said. We still continue to see what we're seeing in the marketplace - that generic inflation will continue to moderate for the rest of this year. So I don't anything's changed in the environment, right now, that makes us think that that's going to be different then we've been talking about so far with you. So, that's how I feel about it on the generic side; we'll continue to manage all that.

But, just end with a few thoughts on our value prop, the branded manufacturers, and our confidence around even if things change on the inflation front, you know, our thoughts around that?

Craig Cowman: Yes, sure. I think that we provide indispensible service to branded manufacturers and that could be Pharmaceutical or Medical product. I think how you get products to-market from manufacturer to patient is a fairly sophisticated set of components and I think Jon did a nice job earlier of explaining that under our logistics

solutions. So the relationships we have with those manufacturers I think have evolved over many years. I think that I would categorize them as stable at this point, and we are always looking at what is our cost to serve, what's the best cost to serve to these manufacturers. We have communication around those with those manufacturers, and I think that I don't foresee a lot of change in the value that we provide, therefore, I think that the fees or the way in which we're compensated from those manufacturers will follow suit.

Michael Kaufmann: Yes. We renegotiate with these folks all the time. Sometimes they go up; sometimes they go down, depending on the changing dynamics with that manufacturer. So we have a lot of experience and it's something that Craig and I feel confident we'll be able to manage through.

So with that, I want to thank the panel. Nice job and I will turn it over to George Barrett to wrap us up.

George Barrett: So I'm going to conclude here today. First—because I'll forget to do it if I don't do it now— I want to thank Sally and her team, this kind of stuff doesn't just happen. It's a lot of work and Deb Mitchell is here on the communications side and Betty on events. We really appreciate the work you guys do to set this up. So thanks.

I appreciate your taking—it's been a long morning, you guys, I've now gotten a chance to see the list of companies you follow, cover in your portfolios. I don't know how you do what you do and keep it all, particularly, given the convergence of all these systems. So we recognize how hard your job is and we appreciate it.

I want to just touch on a few things, and as always I'm precisely scripted here. I took some notes as we were going through the day and I just wanted to make a few observations.

In the next 24-hours, just in the US alone, millions of people are going come in touch with Cardinal products and services in the next 24-hours. I mean I love Meg's little picture of the person, the little, "Where's Waldo?" game; how many Cardinal products and services are there? I get calls all the time from friends, who are like, "I just saw your product/ I just saw your truck." This is part of an important dynamic for us, which is the system going through change, we're extremely relevant. We touch everyone. That's number one.

I don't know if there's anybody that has more touch points across this system than us and I think it's really important now. The second thing I'd highlight is this: we started talking about demographics, and I just want to share this little fact. We have roughly, just US alone, and we're not the oldest country in the world, 11-ish million

people over the age of 80. We often talk about the—we talk about the Medicare population at 65, which is actually now, statistically speaking, you know while they're less healthy than the 35-year olds and the 20-year olds, it's a relatively healthy population, now go to 80. That group of people is going to be 20-plus million over the next five or six years.

So the implications of that, again, we've heard from the physicians—who by the way, I also want to thank, for them to take the time out to do this is incredibly great and appreciated by us. So that aging population dynamic is powerful and I think there's going to be these tensions. One, you cannot fight demographics; the numbers are increasing. You cannot fight it. So there'll be attempts to create per capita pressure to manage this and I think a lot of the tools that we've talked about during the course of today actually help the system do that. So that's the reason like we say, we are on the right side of healthcare.

This idea of being stewards of your capital and being disciplines, our roots are deeply embedded in this low-margin, tough, nails—you know, nails business. Really attentive to the details of how we operate, how we execute; our metrics are designed that way. That's incredibly useful at a time when the system is saying, help us be more efficient, so I just want to highlight that.

I want to sort of finish by talking a little about connecting this idea of partnerships and the patient. I made some notes and then I'm going to come back to the people. We're finding that a system—and just think about your own lives—at a time of great change where there's some uncertainty, even if it's not about the what, but it's about the how fast or the when, what are you looking for? Like-minded folks that you can talk to who get it. You're looking for partnerships. This reference here on the slide is about the partnerships that we've announced like CVS Health on Red Oak, and Schein, but it's deeper than that. We want to be—I think we are—increasingly that company that institutions are calling and saying, "We'd like to get our top team together with your top team because we are wrestling through some challenges and we don't have all the answers."

Nobody has all the answers today in healthcare; nobody, and I think to have a company that has this kind of depth, reach, knowledge across the system and really touching every part of the system is really important. I think our customers and our suppliers increasingly see us in that context, not just these big partnerships we announced. So I wanted to highlight that.

Then finally, I want to talk about our team. A lot of what happens, happens because you've got people that really internalize what we do. I, as the guy that gets to lead this, I often use stories with our organization about who we are and what we do because I can't touch 36,000 people directly. What we do is we illuminate who we are and how we do it for the stories that we tell and they're powerful. We touch so much of the system. So our people bring to this knowledge, they bring humility, and especially in a time of great change, I don't want somebody that's going to tell me they have all the answers. Nobody has all of the answers; I want a learning culture where the organization is essentially on this very steep learning curve all the time. I think we have that.

It is a diverse organization in spite of the appearance of this last panel, by the way. It is a diverse organization. I don't just mean gender-wise, geographic diversity, ethnic diversity; I'm talking about a point of view, that healthy tension that is necessary for any great enterprise I think is present inside Cardinal Health, and a sense of accountability to one another and to you all. We recognize that we have a responsibility to you and we have a responsibility to our employees to develop their careers, we have a responsibility to our customers to serve them in a way that perhaps is unlike anybody else.

So we are excited about the work that we're doing. We feel really optimistic about the future, excited to be engaged in this craziness of healthcare, and with that I will thank you for your time and your attention, and your patience and your great questions, and you support, and with that we'll close. Thank you.