Q4 FY17 Cardinal Health, Inc. Earnings Conference Call

August 2, 2017 8:30AM Eastern

Operator: Good day and welcome to the Cardinal Health Fourth Quarter Fiscal Year 2017 Earnings and Fiscal Year 2018 Guidance Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Sally Curley.

Sally Curley: Thank you, Antony, and welcome to this morning's call to discuss Cardinal Health's fourth quarter and year end fiscal 2017 earnings and fiscal 2018 guidance. With me today are Chairman and CEO George Barrett, CFO Mike Kaufmann, and VP Investor Relations Lisa Capodici. George and Mike will have some prepared comments and then we'll move into Q&A. Since we will be making forward-looking statements, we need to remind you that the matters addressed in the statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected or implied. Please refer to the SEC filings and forward-looking statements slide at the beginning of the presentation, found on the investor page of our website, for description of risks and uncertainties. We will be ending today's conference call promptly at 9:45AM. To more efficiently get through our question and answer queue, we are limiting each individual to one question with one follow-up. As always, the IR team will be available if you have an additional questions.

There are a few items I want to highlight today. First, you may see a second posting of our 8-K filing today. The components were initially misclassified on the SEC website, so we're fixing that, but there is no change to the content. And second, we'll be presenting at the Robert W Baird Healthcare Conference on Thursday, 7th September at 9:05AM Eastern in New York, and at the Morgan Stanley 15th Annual Global Healthcare Conference on Monday, 11th September at 8:45AM Eastern in New York.

Before I turn the call over to George, as many of you know, September 18th will be my last day at Cardinal Health. It has been an honor to be a Cardinal Health Investor Relations officer and to serve you for nearly a decade. I'll continue to work closely with George, Mike, and Lisa to make this transition as seamless as possible.

Lisa has more than 30 years of finance and IR experience and she and her team will serve the company well. So, after more than three decades as an IRO and spokesperson, more than 120 earnings calls, more than 400 sell-side events, several thousand investor meetings and millions of frequent flyer miles, I'm looking forward to parlaying all that experience into my new Savannah-based consulting business. I've made great friendships with many of you that I know will stand the test of time and I look forward to catching up with you over the coming weeks. Now onto the earnings call. George?

George Barrett: Thanks, Sally. Good morning and thank you for joining our year-end call. These past 12 months have been trying ones for those of us in healthcare. Our fiscal 2017 was a year of challenges, but also a year in which we took important actions to strengthen our market positioning, grow our scale, add new long-term drivers of growth and improve the overall balance of our integrated portfolio. These actions will have significant impact over the next two to five years. With this in mind, I'll devote most of my commentary to the year completed and the year in front of us, letting Mike provide details on Q4, which came in largely as we expected.

Before I begin, I'd like to make a quick comment about our guidance for fiscal 2018. Our perspective on the environment and our operating performance for FY18 has remained fairly consistent since we provided an early outlook back in April. We will, however, take actions this year, which have some impact on EPS for fiscal 2018, relative to that early outlook. We feel confident that this work will accelerate our growth rate trajectory in fiscal 2019 and beyond. Mike will cover these incremental items in his commentary.

While demand for the healthcare products and services we provide continues to grow, powered by demographic changes that will only accelerate in years ahead, a combination of market dynamics, policy uncertainty and economic forces made our FY17 among the most difficult years to model and predict. The impact of those dynamics was most pronounced in our pharma distribution business, where pricing was a material headwind that was mostly associated with generics. We have talked about this pricing phenomenon all year and spoke about it extensively in April. Along the way, however, we have also indicated that most of the Cardinal Health portfolio has been performing extremely well and we feel confident that we are well positioned for the long-term. Let me emphasise, I like our position in the markets in which we compete.

That said, let me give you some observations about our pharmaceutical distribution business. It remained an anchor tenant in our portfolio and very valuable to the broader healthcare system. Cardinal Health manages an intricate network, which includes complex contracting, global sourcing, extensive regulatory interfaces and a vital interconnection between manufacturers, providers and patients, giving us a leadership role in the safest and most secure pharmaceutical supply chain in the world. Ours is a business of enormous scale, innovation, and efficiency, both in terms of operations and return on capital. And perhaps most important, it provides a critical and valuable service to our thousands of retail, hospital and institutional pharmacy customers and their patients, as well as our pharmaceutical manufacturer partners.

Having said this, there's no doubt that pricing dynamics, most notably in generics, has been a challenge for our pharmaceutical distribution business, at a time where we were getting little benefit from new generic product launches. This dynamic weighed heavily on our numbers in FY17. To be clear, we are taking actions to address the changes in the market, including, one, employing advanced analytics and pricing strategies; two, reducing SG&A costs; and three, pursuing novel approaches to grow our consumer product offerings for our customers. We are taking these steps at a time where our service levels and line item fill rates are at historical highs, our customer retention numbers are outstanding and our PSAO network, the group of pharmacies for whom we negotiate network inclusion continues to grow, now serving over 5,600 members. We support this work with a suite of valuable services, including a growing medication management program, telepharmacy, inventory management and reimbursement support, all of which helps enable our customers to better compete and better serve their patients.

We have built a strong model in Red Oak Sourcing, our joint venture with CVS Health, and it continues to contribute nicely and is a source of strength for us, and our customers. Recently, we have designed a program to enable Cardinal Health and CVS Health to jointly source our OTC and consumer products. While this offers a considerably smaller opportunity than that associated with our generics program, we still believe that this scale will be beneficial to our customers and to us.

Our specialty solutions group generated outstanding growth this year, with annual sales now exceeding $12 billion. We have grown along all dimensions, expanding our therapeutic reach and growing both our acute

customer base and the number of clinicians and physician practices we serve. And we expect this trend to continue.

We have also grown our service offerings to our biopharma partners, helping manufacturers obtain global product approval, make informed strategy decisions and expand product reach. Our patient support hub improves patient access and adherence, helping to ensure that patients get the right medicine, in the right way, at the right time, and stay compliant with their treatment pathways.

So this was also a strong year for our nuclear business and we now serve more than 1 million patients each month. Of particular note, we are now the only Alpha radiopharmaceutical manufacturing facility in North America and have received Health Canada, EU and FDA market approval. The first commercial batch of Xofigo was manufactured in June and has already been used by patients.

Our medical segment showed excellent growth this year with contributions coming in broadly. Our medical surgical distribution unit had the strongest growth in recent years and we drove growth among critical business lines, including our surgical kitting, lab and medical services businesses. We also had excellent growth from our post-acute activities, which include naviHealth and Cardinal Health at Home.

Five years ago, our Cardinal Health brand product portfolio contained 4,800 product SKUs in 470 categories. Today, we have nearly 12,000 product SKUs, spanning 850 categories, to support customers who seek standardization and cost efficiencies in product categories where there is little clinical differentiation. As we integrate the newly acquired patient recovery business from Medtronic, this number grows to nearly 21,000 product SKUs, spanning more than 1,200 categories.

Now let me take a few minutes to provide an update on Cordis. We have always placed patient care as the top priority in our work. Very early on in the integration of this business, it was clear to us, and we shared with you, that given our priority and the number of interfaces with J&J that we would need to navigate, as we built out a global infrastructure to fully stand up the business, achieving our target synergies would take longer than originally modeled. We are creating a global platform. And the actions we've taken to build this infrastructure will prove particularly valuable as we integrate the 25% of the patient recovery business which operates outside of the U.S.

On the commercial side, we have made considerable progress over the year. We saw solid sales growth in Asia-Pacific, Latin America, and Europe. Our U.S. business, which had a slow start as we merged the organization with our AccessClosure business, is getting its sea legs and the progress has been encouraging. As we look to next year for Cordis, while much of the heavy lifting is behind us, it's still not complete. We are getting some commercial momentum and have signed distribution partnerships to expand our product portfolio, which now includes a coronary drug-eluting stent, a side branch stent to treat significant coronary bifurcation lesions, and balloon catheters.

Finally, turning to the patient recovery business, we are tremendously excited to have closed this transaction late last week. This is a product line that has been on our radar for many years. It is a product portfolio that fits naturally into work that we're doing across the continuum of care, in product categories and channels with which we have enormous expertise. The addition of the patient recovery business into our enterprise portfolio strengthens our ability to offer a broad line of products and services which are extremely important to our customer base, across multiple channels. There is much to be done to integrate this business and we are so pleased to welcome to the organization our new colleagues from around the world. A highly talented group of people who share our values and our commitment to quality.

Through it all, our people have remained passionate in their commitment to improve the efficiency, safety and quality of healthcare. Our organization has remained firmly focused on delivering value to our customers, keeping them in a competitive position so that they can best serve their patients. And we have maintained a clear perspective on the long-term, enduring value of our enterprise.

With these priorities front and center, we are taking a number of actions during the upcoming year to continue to drive efficiency, better align the organization, so that our customers can take full advantage of the comprehensive strength of our enterprise offerings; enhance the long-term positioning of our portfolio; improve the execution of our global products organization; and support our people.

I'd like to focus on one of those actions, our portfolio analysis. We are committed to creating value through an integrated portfolio across the enterprise, which we regularly review to ensure that, one, we are or can be capable of establishing a leadership position; and, two, the line of business is valuable to our customers and furthers our mission of helping to make healthcare more cost effective, safer, and high quality. With this discipline in mind, we

are evaluating certain aspects of that portfolio for alignment with those goals. As an outgrowth of this process, we are exploring strategic alternatives for our service and distribution business in China. Our China business has shown solid growth in the years since the acquisition of Yong Yu, and our Chinese colleagues have done excellent work in building out the portfolio. The China market clearly has outstanding potential for further growth. However, to take full advantage of this growth and to attain the market leadership we seek, it would take a level of investment that we believe could be more effectively deployed in other parts of our portfolio.

As I mentioned at the beginning of my commentary, very little has changed in our expectations for FY18 since we spoke to you in April. Underlying that early outlook was an assumption that our enterprise operating performance would grow. Four months later, that underlying assumption remains unchanged. We are running this business with the long game in mind. Our goal is to create enduring value for all of our stakeholders. We do intend to take some actions this year which we think are important to our future and which will position us to accelerate growth in FY19, but will negatively impact our EPS for FY18. As a result, we expect our fiscal 2018 non-GAAP EPS to be in the range of $4.85 to $5.10. Mike will cover this and walk you through the numbers to bridge our early outlook to today's guidance.

As we move beyond fiscal 18, we expect to see strong growth in 2019 and beyond. For historic perspective, some of you will remember that we made similar decisions during another challenging year in 2009 when we provided insights into how we saw the future. At that time, we said that we needed to make strategic decisions and key investments to provide reliably high performance. Since the spinoff of CareFusion, through the end of fiscal 17, we have delivered total shareholder return of 272%, including reinvested dividends. Our approach then was the same as it is now. Make the important moves today for a more financially secure future. We are well positioned to play a vital role in healthcare and its transformation, and we look at all our decisions and actions with our ability to create value for the long-term as a backdrop.

Let me finally address one more important topic. You should expect to see us take a more visible role in helping to address the national opioid epidemic. We intend to make a serious investment to support efforts to address the opiate crisis. Like others around the country, many of us at Cardinal Health have been touched personally by this public health crisis and all of us are deeply troubled by the devastating impact that drug addiction is having on our communities. We are, however, encouraged to see those communities come together with policy makers and

acknowledge that this is a multidimensional problem, one that cannot be addressed meaningfully by a single player or by stand-alone efforts. The search for blame is the enemy of the search for solutions. Addressing this national crisis requires open dialogue among all stakeholders, coordination and work on both the supply and the demand side.

Nine years ago, Cardinal Health Foundation launched its Generation Rx initiative to combat drug abuse and misuse and now we are building on that platform with a pilot program, targeting some of the hardest hit counties throughout Appalachia. Partnering with law enforcement, educators, and community groups, we will be working to promote education, prevention, product donations, and implement drug take-back strategies. With this work, we believe we can have a positive effect on some of the hardest hit neighborhoods. We look forward to telling you more about our plan in the coming months and we are engaging with partners across business, regulators and non-profits to have the greatest impact. This commitment is part of who we are at Cardinal Health. We know that solutions require planning and time and cooperation.

In spite of market challenges and policy uncertainty, our people managed to stay focused on one thing - serving their customers so that patients can receive the care, services and products they need. For that, I am most appreciative and I thank all of our very committed members of the Cardinal Health team around the world.

One final note before I turn the call over to Mike. As many of you know, Sally Curley, our SVP of IR and my partner for these nine years, has decided to join her husband in Savannah, Georgia, where they will plant stakes in the ground, set sail, one of her great joys, and set up her own consultancy. How Sally can pick her husband over Cardinal Health is a mystery to me, but we are excited for Sally and we will miss her daily presence. She has been recognized consistently over the years as one of the leading practitioners of her craft. Moving into FY18, we will benefit from the training that she has provided to her team and we will have her with us through the early fall, ensuring a smooth transition. And with that, thank you, Sally and I'll turn the call over to Mike.

Mike Kaufmann: Thanks, George, and thanks to everyone joining us on the call. As George said, it has been a trying year, but also a year of significant accomplishments as the organization has taken a number of important steps. I will divide my comments into two primary areas. First, I plan to provide some greater specifics and clarity on our

numbers for the quarter and the year. Then, I will give you some additional color on our FY18 and provide a financial bridge from the early outlook we provided in April to our updated FY18 guidance.

The financial results that I provide this morning will all be on a non-GAAP basis, unless I specifically call them out as being GAAP. Slides seven and eleven of the presentation on our website include our GAAP to non-GAAP reconciliation tables for the fourth quarter and full year.

Let me start by discussing the financial performance for the quarter and full year as detailed on slides four and eight respectively. The quarter ended up largely where we guided when we spoke in April, except for our tax rate, which was lower than expected. Fourth quarter consolidated revenues increased 5% to $33 billion, while full-year revenues increased 7% to $130 billion. Fourth quarter non-GAAP gross margin dollars increased 1% and were flat for the full fiscal year. Gross margin rate decreased in the fourth quarter and full year by 22 and 35 basis points respectively. The drivers for these three items are best explained when I cover the segments in greater detail.

SG&A expenses increased for the quarter, largely because of our important investment in the IT system refresh in the pharma segment. Again, this major project, we refer internally as P-Mod, is designed to improve long-term customer service and interactions. So far, it has been on time and on budget and I feel very good about the success of future phases. For the year, SG&A expenses increased largely as a result of strategic acquisitions and the impact of the P-Mod project. This was partially offset by lower incentive compensation and disciplined management of expenses.

Non-GAAP operating earnings decreased 1% to $640 million for the fourth quarter and decreased 4% to $2.8 billion for the year. Moving below the operating line, for the fourth quarter, Net Interest and other expense was $65 million, which is roughly a $20 million increase over the prior year. This increase relates to the costs associated with our financing of the acquisition of the patient recovery business, which, as George mentioned, we were thrilled to close over this past weekend. The drivers for the full-year variance are consistent with those noted for the quarter.

Our non-GAAP effective tax rate was 27% for the fourth quarter. The tax rate was notably lower as we saw tax benefits from the realignment of foreign subsidiaries in anticipation of closing the patient recovery acquisition. In

addition, there were several other discrete tax benefits in the quarter, most of which will not repeat in fiscal 18. This resulted in a full year effective tax rate of 32.6%.

Our fourth quarter and full-year diluted weighted average shares outstanding were $318 million and $320 million, respectively. We did not execute any share repurchases during the fourth quarter. However, our fiscal 2017 total share repurchases were about $600 million, which, combined with our differentiated dividend payout, totals a robust $1.2 billion in cash returned to shareholders. We continue to have $443 million remaining on our board authorized share repurchase program. The impact of all of these items resulted in an increase in non-GAAP diluted EPS of 15% to $1.31 for the quarter and an increase of 3% to $5.40 for the full year.

Moving on to operating cash flow. We generated $724 million in the quarter, an improvement over the prior year. Operating cash flow was lower than we expected for the quarter because of nearly $400 million of vendor payments that were made early, due to some changes included in our Q4 P-Mod implementation. The impact of this will be resolved in Q1 of FY18. Our full year operating cash flow was $1.2 billion, of which we deployed $387 million in capital expenditures. Key areas, in which we invested, were around acquisition support and improvements to our existing infrastructure, including P-Mod.

Overall, we ended the year with cash, including short-term investments, of approximately $6.9 billion, of which $569 million were held outside the United States. This unusually high cash balance includes the proceeds of the $5.2 billion bond issuance in June. Remember that $4.5 billion was designated to fund the patient recovery acquisition, with the remaining amount mainly to fund the debt payments made in July. The $6.1 billion patient recovery acquisition completed this past week was funded by the $4.5 billion of the bond issuance, cash on hand and borrowings of $700 million under our existing credit arrangements.

Now let's move to the pharmaceutical segment performance for the fourth quarter and fiscal year. You can refer to slides five and nine. Pharma segment revenue in the fourth quarter grew 5% to $29.6 billion. For the year, revenue grew 7% to $116.5 billion. Both the quarter and full-year increases were driven by growth from pharmaceutical distribution customers and strong performance in the specialty solutions business. Segment profit for the fourth quarter decreased 7% to $505 million, primarily driven by generic pharmaceutical pricing as well as the ongoing investment in P-Mod. These were partially offset by solid performance from Red Oak Sourcing. Segment profit for the full year decreased 12% to $2.2 billion, due to generic pharmaceutical pricing and, to a

lesser extent, the loss of Safeway and lower branded manufacturer price appreciation. Again, the solid performance from Red Oak Sourcing provided some offset for these numbers.

For the fourth quarter and full year, our segment profit margin rate declined 22 and 40 basis points, respectively. These declines were largely due to generic pharmaceutical pricing, which we have discussed throughout the year. Consistent with recent comments, while this continues to be a headwind, the environment, while still competitive, seems to be stabilizing.

Now, let's move to slides six and ten to review the medical segment results for the quarter and the full year. Revenue for the quarter grew 6% to $3.4 billion, driven by contributions from new and existing customers. Revenue for the year grew 9% to $13.5 billion, driven by contributions from new and existing customers and, to a lesser extent, acquisitions. Fourth quarter segment profit increased 13% to $138 million, reflecting solid performance from post-acute solutions, favorability from compensation-related items and growth in distribution services. These were partially offset by performance in Cardinal Health branded products, including Cordis. Full-year segment profit increased 25% to $572 million, due to the contribution from post-acute solutions, Cardinal Health branded products, including Cordis, favorability from compensation-related items and growth in distribution services. Medical segment profit rate for the fourth quarter and full year increased 22 and 56 basis points. Both increases were driven by the same factors affecting the segment profit.

I know that George gave you some high-level thoughts on Cordis, so let me give you some further details. As you know, we've been working over the past 18 months to build out our global infrastructure for Cordis. The costs of this build out have been more than expected and have had a negative impact on SG&A and gross margin for the quarter and year. Specifically, the costs of moving manufacturing and standing up our back office services has been more expensive than we modeled, but I feel we have solid plans to address this in the first half of FY18. Mainly due to these increased costs, we did not achieve our fiscal 17 accretion target of $0.15.

In addition to the higher SG&A and manufacturing costs, mainly outside the US, there are two other factors that affected the accretion this fiscal year. First, we experienced lower-than-anticipated sales from partnership agreements. These agreements, while behind our original projections, are on a significant growth trajectory. And second, we incurred higher-than-planned write-offs for excess inventory. With the acquisition of the patient

recovery business, the investments that we've made in standing up our global business are important to best position the medial segment over the long-term.

Now onto the details of fiscal 18. My forward-looking comments will be focused on non-GAAP since we do not provide GAAP future guidance due to the difficulty in predicting items that we don't include in our non-GAAP EPS. Starting on slide thirteen, we expect mid-single digit percentage growth in our consolidated company revenues and expect our non-GAAP EPS to be in the range of $4.85 – $5.10.

Let me bridge this guidance to what we provided in our early outlook in April. First, we experienced some additional discrete items, mostly in taxes, that caused us to finish higher than we expected. This higher finish of about $0.06 when including the costs of issuing the debt for the patient recovery acquisition, impacts our FY18 growth rates. Also, we recently included three additional items in our FY18 guidance that total about $0.16 that we had not included in our April early outlook. First, we have identified some customer initiatives and actions we plan to take in fiscal 18 which will benefit us longer term. The majority of the items sit in the pharma segment and are why we lowered our segment profit assumption from high single-digit decline to low double-digit decline. Second, as George mentioned in his remarks, we intend to make a serious investment to support education, prevention and local communities in their efforts to address the opioid crisis. And finally, we are in the process of evaluating some tax planning that will be a headwind in fiscal 18, but will benefit us over the longer term. This is reflected in our full year tax rate.

So in summary, the bridge from our April 18th early outlook to our guidance of $4.85 – $5.10 consists of about a $0.06 higher finish, combined with about $0.16 of discrete items we believe will help us for the coming years. We are confident in our assumptions and have identified the key elements that will affect us in the coming year. This has been a thorough process and we are well positioned now to achieve these results in fiscal 2018 and beyond.

On slide fourteen, you will see five corporate assumptions for fiscal 2018. First, we expect a non-GAAP effective tax rate of 35 to 37%. As I've mentioned on prior calls, we only provide full-year guidance on tax rates as they have natural quarter-to-quarter fluctuations resulting from discrete items. Second, we are assuming diluted weighted average shares outstanding in the range of 319 to 320 million. This assumes share repurchases will offset dilution and will occur in the second half of the fiscal year. As a reminder, we plan to payoff notes of about $550 million in June of fiscal 18. This is part of our commitment to pay down $1.5 billion of debt during the next

three years. Third, we expect net interest and other expense to increase to $340 to $360 million, mainly due to debt issued for the patient recovery acquisition. Fourth, we expect capital investment to be in the range of $500 to $540 million, which includes costs associated with the integration of our acquisitions and the important ongoing investment in P-Mod. And finally, we assume amortization of approximately $370 million or $0.78, which includes all acquisitions closed as of June 30. Again, this is excluded from non-GAAP and does not include amortization from the patient recovery business, which is expected to be significant.

Now let me drill down to the pharma segment assumptions you will see on slide fifteen. Beginning with revenues, we expect a low to mid-single-digit percentage increase versus the prior year. Please note that we expect first half growth to be significantly lower than the second half, due to the lapping of certain customer changes. As I mentioned a few minutes ago, we expect pharma segment profit for the full year to be down low double digits versus the prior year. Other key assumptions for pharma are, first, generic drug prices are modeled to deflate in the mid-single digits for the full fiscal year. When we talk about generic market pricing, it is forward-looking and includes the impact on both the buy side and sell-side.

Next, we are modeling brand drug manufacturer price changes of 7 to 8% inflation for the full fiscal year. Of note, as we exited fiscal 17, less than 10% of our brand margin is now contingent on inflation. There will be incremental expense related to the continued investment in P-Mod to support growth. Also there is an incremental contribution from new generic launches year over year, but the benefit will be significantly less. Next, there will be incremental contribution from Red Oak Sourcing, but less on a year-over-year basis. We expect double-digit growth in revenue and profit from the specialty solutions business. And finally, our model assumes that we have a full year of contribution from Cardinal Health China. As a reminder, China reports in both segments, but primarily contributes to our pharmaceutical segment. For fiscal 18, the revenues for Cardinal Health China should exceed $4 billion. As George mentioned, we are exploring strategic alternatives for this business.

Let's now move to expectations and assumptions for our medical segment for fiscal 18, which you can find on slide sixteen. We expect revenues to increase in the high teens percentage range versus the prior year. We also expect strong, double-digit segment profit growth. Other key assumptions for medical include, first, the patient recovery acquisition is accretive by $0.21, integrates into the Cardinal Health brand business and has an

inventory step-up in the first half of fiscal 18 of up to $100 million. In addition, we expect solid growth from all of our other medical businesses and that the second half segment profit margin rate will exceed 6%. One large headwind will be the loss of a significant portion of the VA contract. The full effect began in the fourth quarter of fiscal 17, as the transition to the new suppliers took much longer than expected. Finally, we are not modeling a reinstatement of a medical device tax.

Another item of note is that in our first quarter of 2018, in accordance with GAAP accounting principles, we will adopt the new accounting treatment for the tax effect of share-based compensation. We do not expect a significant impact on our EPS as a result of a discrete tax benefit or expense.

While we don't generally provide quarterly guidance, I do want to provide some color on what we are seeing for Q1. First, we will see a tough comparison in the pharma segment, associated with generic pharmaceutical pricing in the first quarter. Second, in the first half of fiscal 18, we expect to see the inventory step-up for the patient recovery business. Next, expenses related to P-Mod which will negatively impact both our first and second quarters of fiscal 18. And finally, we will see considerably reduced contribution from the change in the VA contract. As a result of these items, we are currently modeling roughly 20% of our full year, non-GAAP EPS in our first quarter.

Now, for FY19. Given the actions we are taking this year, we are targeting non-GAAP EPS of at least $5.60. As we exit FY19, we'll be a business that has multiple engines of growth, increasing balance across the portfolio and excellent alignment with healthcare trends.

Thanks for bearing with me through my rather long, prepared remarks. And I'll now turn it over to the operator to start Q&A.

Operator: Thank you. Today's question and answer session will be conducted electronically. If you would like to ask a question at this time, please press star one on your touchtone telephone. If you are using a speakerphone, please turn your speaker function off to allow your signal to reach our equipment. We ask that you please limit yourself to one question and one follow-up. We'll take our first question from Charles Rhyee with Cowen.

Charles Rhyee: Thanks for taking the question and, you know, for all the information there. Maybe, George or Mike, you talked about China a little bit earlier. Can you talk about sort of… How is that currently – is that currently still in the guidance as we're looking forward? And can you give a sense for the magnitude of the contribution it's giving the business, in case something happens? And then secondly, I think you mentioned in the medical business, you acquired, within Cordis, a drug-eluting stent. Is there any kind of approval processes you need to go through to market that in the U.S. or is that something currently just in Europe? Thanks.

Mike Kaufmann: Yeah, thanks for the question. As it relates to China, we are assuming a full year of contribution in China in our FY18. So it's assumed to be all the way through June 30th of this year. But then we are assuming, and when we say at least $5.60 of earnings in FY19. We are not including China in our FY19 guidance. Now this is probably a follow-up question. We are assuming there will be some redeployment of capital, but right now, in our at least $5.60, China would be slightly dilutive to us in our FY19 numbers.

And, George, you want to take over.

George Barrett: Yeah, sure. Hi, good morning, Charles. On the second part of your question, the drug-eluting stent was actually not part of the patient recovery business that we acquired, but actually done through partnership. If you remember, we talked about the fact that we'd be adding to the portfolio largely through opportunities to partner and that's what we've done here. So it's an approved product and not something that we acquired through the patient recovery business. And, by the way, to be clear, this is not for the U.S. market right now.

Mike Kaufmann: And if you listened on my comments, I made a comment that the partnership agreements were on a significant growth trajectory for FY18 and this would be one of the items that we expect to drive that growth for us in FY18.

Operator: Our next question comes from Michael Cherny with UBS.

Michael Cherny: Good morning, everyone. Thank you for all of the color and, Sally, again, wishing you best of luck in the new role. So just want to understand some of the additional customer actions. As you think about the investments you're making, how many of these do you view as defensive, reactionary? I know there's a lot that's positioning for the long-term health of the business. But part of, I think, what I'm trying to understand and I think some other people are trying to understand is, are these going to be truly one time in nature in terms of strengthening the business now? Or is there a need over time, especially in an increasingly competitive market, to continue to pursue these type of investments for the long-term health of the business?

George Barrett: Michael, good morning. It's George. I'll take that and then Mike can jump in. I think our perspective in dealing with our customers is always sort of, 'How do we grow opportunity? How do we see the opportunity to partner more deeply with them and create growth over the long-term?' So, while I can't go into details on these programs, that's sort of the underlying assumption. As we mentioned earlier, of course, as you said, it is a competitive market, but our position with our customers is strong. There are things that we see that are opportunities to solidify those relationships and create new value. And that's sort of what is the focus of our work.

Mike Kaufmann: Yeah, and I wouldn't see these investments as something we have to make incrementally each year. This is something that, again, we have an option to make this year. If we don't think we'll get the right returns out of those investments, we don't necessarily have to make those and that could provide some upside for us this year. But we thought it was prudent to build these in, because we think there's some things that we'd like to do that we think are important for us to be able to, you know, solidify where we're headed in 19 and beyond.

Michael Cherny: Great. I'll turn it over to other people. Thanks so much.

Mike Kaufmann: Thanks, Michael.

Operator: Our next question comes from Ricky Goldwasser with Morgan Stanley.

Ricky Goldwasser: Yeah, hi, good morning. So my first question is around your generic deflation assumptions, you know, in the mid-single digits. It sounds like you incorporate sell-side and buy side. So can you just give us a little bit more context in terms of what are you seeing in the market right now, and how do you think pricing will play out throughout the year? Because, to your point, you're giving us more forward-looking thoughts around pricing.

Mike Kaufmann: A couple of things. I'd say, first of all, as we've mentioned, we thought it was, you know, the curve was steepest during our first couple of quarters of our year and we started to see less steep of a decline in our second half. And, to us, that indicates that there's clearly been some stabilizing in the environment from what, you know, again, we're seeing as well as hearing from the teams. What that means is we would expect to have some tougher compares in our Q1 and Q2 this year. And then we would think the comparisons to the prior year would get better in the second half of the year. So that's the first thing I would say.

When we say we're including the buy side and sell-side, what we're basically saying is that, you know, when we get lower acquisition costs, sometimes that will translate into lower market pricing. And sometimes that's an opportunity for us to take a look at our margins, always keeping in mind our customers and making sure that they can compete in the marketplace and that they have the appropriate generic pricing that they need to have. And so ours is just basically an all-in of what we're seeing from the terms of our ultimate sell price downstream to the customers. So generally I would say that the good news is what we're seeing is it looks like the market is stabilizing and has over the last several months.

Ricky Goldwasser: So my follow-up, I have a follow-up on the medical segment, but also a clarification on what you just said. So, first, on the generic assumptions, it sounds like you are really thinking about it from a comp perspective in the second half of the year, so it would be great if you just can confirm that for me. And then, on the medical segment, you know, when you talked about the delay in sales coming from partnership agreements that are now kind of like starting to pick up, what was it about the relationship that led to that kind of like slow ramp-up? And

any lessons that you learned that you think could help you to improve when you sign up these new type of customers?

Mike Kaufmann: Yeah, thanks. So, on the generics I would say that, again, all I'm saying is that since the curve was steeper in the first half of last year, we would expect the comps on generic deflation to be a little tougher in our first half than we would in the second half. And hopefully that answers that. As far as the partnership agreements, I'll mention it – and George may have a couple of quick comments in. Yeah, I think we've learned a couple of different things. I wouldn't say any real concerns. Just generally that sometimes just getting it down on paper and actually getting it signed and all the terms and conditions agreed to just takes a little bit longer than you think. And then sometimes, when you're working with the partners, the timing of which they think they'll get approvals, whether it be overseas or in the U.S., just takes a little longer than they expected. So it's really more about getting the 't's crossed, 'i's dotted and these approvals that just slowed it down. But nothing at all that makes us concerned that this isn't the right strategy, isn't going to be a significant portion of what we do. I think these partners see us as a great go-to-market partner, not only because of our distribution capabilities, but because of our commercialization capabilities with the significant sales activities that we have in place and excellent sales teams.

George Barrett: Yeah, Ricky, I actually don't have anything to add to that. I think that's exactly the right – right response.

Operator: Our next question comes from Ross Muken with Evercore ISI.

Ross Muken: Good morning, guys. So just digging back into the sort of 2019 color that you gave, I'm just trying to sort of, you know, back into the underlying profit growth. So you talked about a pretty decent step up in accretion from the Medtronic deal, so an incremental $0.34 in 2019. And obviously you've got some moving parts on the China piece. It seems like the underlying growth is somewhere in the 5 to 6% range. I guess, one, is that right in terms of profit? And, if so, is it really thinking about sort of the improved results in the second half and then kind of run

rating that into 19 in both of the underlying businesses? Or are there sort of other assumptions in there to kind of be mindful of, as we kind of get into that picture? Again, I realize you're not going to give a ton of color, but maybe just broad strokes of how you're thinking about that progression.

Mike Kaufmann: Yeah, absolutely. So I think obviously one of the things that we'll see is we really believe that the pharma distribution business will be stabilizing in FY19 as we continue to lap some of the headwinds that we've had, both in terms of some customer changes as well as generic market pricing. We believe that we're going to continue to see really strong growth in our specialty business, which – its base continues to get larger and larger, so that strong growth becomes more and more meaningful. We won't have any inventory step up for the patient recovery business, which, as I mentioned, you know, that we're targeting to be up to $100 million. Plus we expect to see growth in that business as well as Cordis and other businesses.

We have some negative comp, you know, things that we mentioned, that were one-timers last year that affect this year, that we won't have that noise in the numbers. Overall demand; we expect base overall demand to continue to grow. We also expect some really nice growth, as we've seen this year, in our core med business in the post-acute and the distribution services area. They've done a very nice job in med this year and we are excited about them in the future. And then also there's some opportunities with capital deployment. So I would say those are the broad strokes as to why we feel good about where we're headed in FY19.

Ross Muken: And maybe this morning, one of your customers was acquired by KKR, but also there was involvement from Walgreens and Pharmerica. I'm sure it's hard to comment, but I guess in those cases, can you just give us a sense for the profile of a customer like that, you know, the - sort of - materiality to the business and how you think about risk during these sort of transition periods?

George Barrett: Yeah, Ross, why don't I start? First of all, obviously, we just saw the news this morning, so it is hard to say much other than that Pharmerica has been a customer and our agreement goes through June 2018. You know, we've been in an industry that has seen the chess board move around a fair amount. We will occasionally

be on the right side of the movements, we'll occasionally be on the wrong side and that is true for all of us. I would say, in the big picture, this is not a material issue for us, but you certainly are seeing an industry that is going through some changes over these last couple of years and we'll probably see more now and again. But we feel like we have a very robust base at this point, strong positioning, and our customer stability is quite - quite high.

Operator: Our next question comes from Lisa Gill with JP Morgan.

Lisa Gill: Thanks very much and good morning. George, I was wondering if you were seeing any changes on the manufacturing side. So, you know, any of your contracts that maybe weren't under a fee-for-service relationship previously. Are you seeing any changing in any of the contracting right now on the manufacturing side?

George Barrett: Good morning, Lisa. So I'll do this carefully. Obviously, the conversations that we have with our manufacturer partners are proprietary and we're careful about that. I will say the industry is going through some interesting changes over these last couple of years. And so we're trying to make sure that, in our conversations with our branded partners, both sides are reflecting those changes. I think Mike sort of captured one of them, which I think is very significant, which is we're just going to see less and less that is in contingency, that is tied to something other than a fee base. So I think, directionally, we'll see more moving towards a standard fee base and I think Mike captured that and gave you a little bit of an economic sense of that. I would think that trend is going to continue. But by and large, I think – you know - conversations are productive. We are hopefully respected for the value we create and we have great respect for the partners that we work with on the manufacturing side.

Mike Kaufmann: Yeah, as I mentioned, we said in 17, a little less than 15% was contingent, but we exited at less than 10%, so we would expect our 18 to be less than 10% to be contingent. And we are continuing, as George said, to

have very productive conversations with some of the folks in that less than 10% bucket. So we'll see where that goes, but I feel very good that we're doing the right things to reduce our exposure there.

Lisa Gill: And my follow-up question, Mike, would just be around the $0.16, where you talk about first seeing customer initiatives on the pharmaceutical segment. Can you just give me an example? I'm just trying to understand what kinds of things you're doing and then the investments that you're making around your customer segment?

Mike Kaufmann : Yeah, that's hard to do. So I really can't do that. It's just we have some different discussions that we're doing with various customers that, again, if we think together with them, that leads to the right type of situation that we find to benefit us in 19 and beyond, we'll make those investments. And if we don't, then we won't make those and you will see some upside from us for the year related to not making those investments. So I can't really give you more – more detail than that.

Operator: Our next question comes from Erin Wright with Credit Suisse.

Erin Wright: Great, thanks. Can you speak to the strength in the specialty business that you've alluded to? And how should we think about the quarterly progression here and what's driving that business?

George Barrett: So let me start. I probably would say that I don't know that I can give you much about the quarterly progression as relates to specialty. Again, I think beyond – Mike may just want to give further color on Q1 that he mentioned. But our specialty group has just been on a very strong pattern here. I think we've built out a lot of capability. We're clinically very strong. I think our analytics are very strong. And what we've been able to do, I think, is grow in both our ability to serve more therapeutic areas downstream and create more service offerings for our bio-pharmaceutical partners on the upstream. And obviously, we are also aligning with a trend that's happening in the pharmaceutical and biotech world, which is, more products that are being approved and are in

development are specialty drugs. So I think we've been you know, seven or eight years ago, we made an important turn in the road to really double-down in this business and we've made a few acquisitions. We've done some great things organically to grow and we've built out some real capability. And we like to see ourselves as a thought leader in the space. So I think it's an encouraging sign, great direction and leadership is strong and we're thrilled with the team we've got there.

Mike Kaufmann: Yeah, I don't see anything lumpy or anything like that happening in specialty. I think it should be strong, steady growth throughout the year.

Erin Wright: Okay, great. And on potential redeployment of capital following a China exit, as you further diversify – kind of – your business, or have been in recent years, what other verticals have you contemplated? Whether it be in contract research services side or alternative species groups, such as animal health, anything like that. Thanks.

George Barrett: Yeah, why don't I take that, qualifying that as it relates to the redeployment of any capital that, coming from the China activities, that's one we can't comment on at this point. In terms of where we are strategically in the portfolio, there are areas that we think are very important, most of which we are now competing in and competing very effectively. So I wouldn't say that there is a marked hole in the portfolio. I like where we are on the pharmaceutical side. I think we touch all channels. I think we touch all of the manufacturing world and I think our reach is extensive. We said a couple of years ago that specialty needed to be bigger. It is. We said that generics needed to be bigger. It is. I think we're doing the things we need to do there.

On the medical side, I think our business, at this point, is really driven by the value that we can create for our customer base. And if you look at our customers, whether those are an IDN customer or a straight hospital customer or a clinic, our ability to provide a really broad basket of related services and products right now is pretty extensive. So we'll always look for opportunities to increase scale or competitive strength, but I wouldn't point you to a particular area of weakness right now. Again, another piece I'd add is that our post-acute work has been really interesting and I think we're quite strong there and we sort of took an early position in that space. So I

wouldn't say there's an area to highlight as a weak area, but I think we're on the right paths there and I think the portfolio looks strong and highly connected.

Operator: Our next question comes from Brian Tanquilut from Jefferies.

Brian Tanquilut: Hey, good morning, guys. Just a follow-up on generics, to Ricky's question earlier. So you're assuming mid-single-digit deflation for the full fiscal year, but you also said that you think it's starting to stabilize. So sparsing the details, are you basically expecting this to turn flat to positive once we anniversary the market disruptions or as we get to the back half of the year?

Mike Kaufmann: No, I wouldn't say that we would see it going to flat or to the positive. In fact, the history of generics wouldn't indicate that that's typically the case. As we've said a few times, we've had a couple of years where we did have a net increase, net inflation in generics, but typically it is a net deflationary environment. So we would assume it to stay in a deflationary environment, just not as extreme as we saw for the first part of this year. And I think that's probably just the best way to summarize it.

Brian Tanquilut: Got ya. And then my follow-up, you mentioned something about investment in opioid measures. If you don't mind just walking us through what you were thinking of doing there. And then, as we've seen this in the press, obviously a lot of focus on you guys and your exposure there. If you wouldn't mind giving us some color on what you think, you know, with all the investigations, your exposure is, given what you do for opioid drugs?

George Barrett: Let me, um, let me do the second part first and then I'll come to the first part of your question. Start with the basics. We operate a very strong, robust, suspicious order monitoring system and process that not only meets our regulatory requirements, we believe it exceeds what is required of distributors. We're doing our part to prevent the diversion of drugs. I would also say though, it is important that everyone do their part in dealing with

this issue. You know, I said in my comments earlier that the search for blame is the enemy of the search for solutions. It's something I say often in our organization, but it is especially true in a complex situation like this. What we really need is for all of the stakeholders to work cooperatively and openly to address both sides of this issue. And so I think that's important. As it relates to legal cases, I would just say this, we are going to vigorously defend ourselves. We believe that the lawsuits do not advance the hard work needed to solve the opioid abuse crisis. And we are going to do the things that we think are important in the public good to help in a place where we've got some knowledge. And so, we are doing this, and have been doing this, in education.

We've talked a lot about our Generation Rx initiative. Some of you know about it. We haven't been that visible in the public about it, but it is actually a really important program in helping to combat drug abuse and misuse. We are working with law enforcement; we are working with educators. We are working on product donations to help in a crisis. We've got takeback strategies. So what we are probably going to be doing, in terms of our focus, is working in the regions where the, we're really going to pilot this in regions where it's most acute. And we feel that's very important. So it's an action that we want to take. It will build on the work that we've done. And we think it's important and we're going to do it.

Operator: Our next question comes from John Kreger with William Blair.

John Kreger: Hi, thanks very much. George, could you talk a little bit more about how you view the international opportunity? It seems like, on the one hand, you're signaling that you're backing away from China, at least on the drug distribution side, but on the other hand, you're investing on the medical side with Cordis and Medtronic. So how do you think about international as a growth opportunity going forward?

George Barrett: Hey, John. Yeah, great question. You absolutely drew a very valuable distinction, an important one for us, which is we're looking at – and I think I've always said this to you as we're looking internationally. We look at the services part of our business with a different lens than we look at the product side. Let me put it very plainly. We have a big product business. We want to sell those products in every market in the world. Those tend to be

opportunities where scale is advantageous to us. It drives manufacturing costs and there's sort of a virtuous cycle of having that scale.

Service businesses transport with greater challenges. It's harder to create value out of service businesses. We entered China because we saw a unique opportunity. We knew it was a business that was in a market that was growing. There was a roll up that was likely to occur and then we thought we could bring something to that market. And I think we have and our teams have done a great job there. They've really grown that business. But I think what we are seeing there is to have the kind of leadership that we seek is going to require a deployment of capital that can be more effectively deployed elsewhere. So I think it's just, for us, a question of how quickly and what does it take to achieve that leadership position? And so that's driving our decision in China. But I do think that distinction that you drew is an important one. We tend to look at product lines and product businesses a little bit differently than we do those – those service businesses.

John Kreger: Thank you. And then a follow-up for Mike. Can you just talk a bit more about investment areas in fiscal 18? It looks like CAPEX is slated to be up significantly, it looks like over 30%. What sort of investments are you planning on making in the coming year?

Mike Kaufmann: Yeah, as far as – you know – overall capital deployment, you're right. We would expect CAPEX to be, as we said, $500 to $540 million. We still plan to maintain our dividend policy of a 30 to 35% payout. And, as I mentioned, we also committed to pay down about $500 million of debt each year for the next three years. So those are three important things for us in terms of capital deployment. And, obviously, after that, as we always have, we'll continue to look at opportunistic repo and M&A that fits strategically with the business. Specifically as it relates to CAPEX, the biggest piece of that is going to be our P-Mod cost. We continue to make those investments over that multi-year project. And then there's some – also some dollars that were significant into some of the acquisitions. The patient recovery business will have some initial capital that we want to put into our plan for this year, as well as continuing to invest in some of our other recent acquisitions. So those are the biggest ones. And then we'll continue to invest, obviously, in all of our infrastructure, whether it be our buildings,

IT systems etc. and our other businesses that we continue to do across post-acute and specialty, etc. But those are a couple bigger carve-outs.

Operator: Our next question comes from Garen Sarafian with Citi Research.

Garen Sarafian: Good morning, everyone, and farewell, Sally, you'll be missed by many. Mike, sorry to come back to this, but in your prepared remarks on generic pricing, you stated that it remains competitive but seems to be stabilizing. Maybe we're mincing words here, but when can you declare victory, that it has indeed stabilized? I think to an earlier response, you implied it is lapsing with the quarters, but I want to see if there's something else that we're missing.

Mike Kaufmann: Yeah, I would just say this. I'm not sure that you can ever declare. I wish that I could say, 'On November 15th, we ought to be good to go,' but that's just not the way it works. I think it ebbs and flows, depending on various things going on in the market. And I think that when you have various launches that happen, multiple players etc. So I think it has always ebbed and flowed. That's been the case – I've been here 27 years now and I've seen it. I think what we try to say is that we're used to dealing with those normal ebbs and flows. What we saw late last year and the first half of this year was a little bit more extreme, because there was a lot of noise in the marketplace. And it seemed like those ebbs and flows were just a little bit more extreme. And what we're saying is it's not that it's stabilized in the sense of no competition, it's just that it's going back to what I would call more historical norms. George, I don't know if you want to add anything?

George Barrett: Yeah. It's an interesting question. Let me just frame it. And it's probably aligned with what Mike was just saying. You know, historically, you see deflation in generics. So, in a way, victory is just going back to typically our ability to model it very effectively. We actually have been able to model very effectively. This was the most challenging year for us in terms of being able to predict and model it. It just looked a little different than we had

seen. So in some ways, victory is actually just knowing that we're seeing patterns that are familiar and then we can model more effectively. I think that's my version of victory on this one.

Garen Sarafian: No, that's actually very helpful. And then, just moving onto the medical side of the business, hospital utilization trends have been weak thus far in the quarter. It doesn't look like it impacted you this quarter, but anything that you've observed and what are you assuming for fiscal 18? Thanks.

George Barrett: Yeah, Garen, yeah, from the data we're seeing, it's relatively flat utilization. You know, I'd still, I think I've said this to a number of you, I do think that in a way that defies gravity. We know that demographics are driving more people to need healthcare. So I do think what we're seeing and what will continue this for a while is some choppiness associated with, you know, shifting benefit designs. And, but ultimately, I think demographics will win out. I mean, that's the reality. Our business has been growing. I do think our value proposition is resonating perhaps differently than it did three or four years ago. And, as a result, we're positioned well with market leaders and I think our share position is good. So I think we're not assuming a big increase in utilization in our upcoming year. I think we'll continue to assume it's relatively steady as she goes. No major changes. Again, my view is that underlying that, there are some issues that are probably going to continue to grow over years.

Operator: Our next question comes from David Larsen with Leerink Partners.

David Larsen: Hi, let's assume you do sell the business in China. Can you talk about any restrictions on what the cash might be? Can you take it back into the U.S. and buy back stock? Any thoughts around that would be helpful. Thanks.

Mike Kaufmann: Yeah, obviously that's something we are obviously thinking about and, as you can imagine, are doing the appropriate planning to do the right things to be able to have access to that cash. So, at this point in time, you

know, I can't say a lot, other than we would not expect to be limited with at least a large portion of any net proceeds that we have.

David Larsen: Okay, great. And then for these $0.16 of discrete items, that's in addition to the $0.50 that you mentioned last quarter, is that correct? And would any of that $0.16, are those like separate, discrete projects or would some of that potentially be, you know, perhaps pricing a bit more aggressively to win new business? Thanks.

Mike Kaufmann: Good question. Really, they're two separate things. When I was really talking about the discrete items that were greater than $0.50, I was really trying to call out things that caused FY18 to be down from FY17. For instance, if you have a discrete tax item that doesn't repeat in 18 that you had in 17, then you obviously create a headwind. Or if you have a reserve adjustment that was positive in 17 that isn't going to repeat in 18, then those are the types of things I was talking about. So that greater than $0.50 obviously finished a little bit higher because taxes got a little bit better. And that's why, you know, we finished a little higher, which created more headwind for 18. So that was that bucket.

What I was specifically talking about on the $0.16 plus the $0.06, so a total of roughly $0.22, was where I was really trying to help you bridge our guidance that we gave of $4.85 – $5.10 back to the April early outlook, where we said that we would be down flattish to mid-single digits. And so that $0.22 really helps you reconcile, you know, roughly midpoint to midpoint, if you look at it, of what happened. Because since April, we went back and said, as we're establishing our budget, 'What else do we think's important to do?' And so, first of all, not really part of the budget, we finished $0.06 higher. But then we had the other $0.16, as I mentioned, as some customer investments that we decided to build in, that, again, if we do not do them, those will be potentially things that we would be able to give back this year in terms of over-performance. But we think those are good investments that we're working through with various customers. I will say those are not just being more aggressive in the marketplace. That's not at all what those would refer to. And then it's some tax planning that we're doing in order to put ourselves in the best position. And then, as George mentioned, it's, significant investment into fighting this

opioid epidemic that we're planning to do in 18 that we think is an important thing for us to do as a company and to step up.

Operator: Our next question comes from Steven Valiquette with Bank of America Merrill Lynch.

Steven Valiquette: Yeah, thanks. Good morning, George and Mike. And also, Sally, I enjoyed our interaction over the years. And thanks for taking the question here. Just quickly on brands. We heard that one of your peers talk about some pressure in mid-calendar 17 from just recently converting more branded drug manufacturer contracts to fee-for-service. So I was just curious if Cardinal made any changes around that in the past several months. Is that playing a role in the near-term results and outlook? And then I have a very quick, one-line follow-up question.

Mike Kaufmann: Yeah, I would say that we can't get into a lot of specifics, but we have been working, as I said, with some of the suppliers that were in that contingent bucket, that had a portion of contingent. And some of those suppliers we have reached new agreements with and other ones we're still working through with. So that's why I said we went from around 15% to less than 10% now being contingent. Was there a little bit of noise on some of that? There's a little bit of that. Nothing I would call significant in our 18 numbers, but, yeah, there was a little bit of trade-offs as we worked through with some of those manufacturers. But we feel really good in general about where those came out and some of the other components of the deals that we were able to strike.

Steven Valiquette: Okay, great. And just quickly on Red Oak, you mentioned, I think, for FY18 maybe a little bit less contribution year over year. I'm just curious, can you remind us just how much the annual payments were from Cardinal to CVS in fiscal 17 that just ended and then is that expected to change materially at all in FY18?

Mike Kaufmann: Yeah, the annual payments to CVS are $45.6 million a quarter and those payments are locked in for the rest of the deal, so there'll be no change in the impact of those payments in FY18 to FY17. But, again, the value that we're seeing from Red Oak, net of those payments, continues to be very, very positive.

Just quickly, because we're running late on time, we're really going to have to make the next question our last one. And then anybody else that didn't get a chance to get in, please we'll hopefully answer your questions, as we do one-on-one calls today or throughout the next several days if you need to get your questions answered. So let's go to the last question.

Operator: Our final question comes from Robert Jones with Goldman Sachs.

Robert Jones: I appreciate you guys sneaking me in and I'll just limit it to one. Looking at fiscal 19, the kind of early guidance you guys had given there, obviously pretty unprecedented for Cardinal to be providing, you know, guidance two years out when wrapping up the fiscal year. So I guess just maybe, both George and Mike, just a little bit more on the thought process behind this. I would think, you know, honestly, given how fluid the environment has been, that visibility would be still somewhat limited, especially that far out. So how should we think about your confidence in the drivers behind fiscal 19, and maybe just the thought process behind, you know, kind of taking a step out and providing that to us today.

George Barrett: Bob, thanks. It's a fair question. You know, I think it was important for us, as we looked at our business, we have been, over the past nine years, we have had moments where we've had to reset, invest, and drive for future plans. I mentioned that during my prepared comments. This is, sort of, one of these moments. Part of this is the conditions of the market. Part of it is the moves that we've made. We felt, as we started looking out at the business, particularly having deployed some capital and some important moves, that it would be valuable for you to understand how we saw those and to sort of lay out our aspirations. So I think it's partly a way of sort of framing how we see the business and the evolution of the portfolio. You know, you've seen us make – announce a potential move here in China. Over the last week, we've closed another transaction which we think strengthens

our business on the product side. So we talked about it and felt that it would be helpful for us to frame that out for our investors to give you a little bit of a sense of our direction, our portfolio and our sense of optimism going forward.

All right, folks. Thank you for staying with us. I know it was a long call today. I know there are one or two, maybe three or four of you, who did not get a chance to get questions in on the call. We will make sure to be available to you during the day. We look forward to getting a chance to talk with all of you. Thank you all and we'll talk to you soon.

Operator: That does conclude today's conference. Thank you for your participation.