
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-11373

Cardinal Health, Inc.

(Exact name of registrant as specified in its charter)

Ohio

*(State or other jurisdiction of
incorporation or organization)*

7000 Cardinal Place , Dublin , Ohio
(Address of principal executive offices)

31-0958666

*(IRS Employer
Identification No.)*

43017

(Zip Code)

(614) 757-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<i>Title of each class</i>	<i>Trading Symbol(s)</i>	<i>Name of each exchange on which registered</i>
Common shares (without par value)	CAH	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of the registrant's common shares, without par value, outstanding as of April 30, 2020, was the following: 291,986,422.

Cardinal Health

Q3 Fiscal 2020 Form 10-Q

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About Cardinal Health

Cardinal Health, Inc. is an Ohio corporation formed in 1979 and is a globally integrated healthcare services and products company providing customized solutions for hospitals, healthcare systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices. We provide medical products and pharmaceuticals and cost-effective solutions that enhance supply chain efficiency. We connect patients, providers, payers, pharmacists and manufacturers for integrated care coordination and better patient management. We manage our business and report our financial results in two segments: Pharmaceutical and Medical. As used in this report, “we,” “our,” “us,” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. Our fiscal year ends on June 30. References to fiscal 2020 and fiscal 2019 are to the fiscal years ending or ended June 30, 2020 and June 30, 2019, respectively.

Forward-Looking Statements

This Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (this “Form 10-Q”) (including information incorporated by reference) includes “forward-looking statements” addressing expectations, prospects, estimates and other matters that are dependent upon future events or developments. Many forward-looking statements appear in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), but there are others in this Form 10-Q, which may be identified by words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “will,” “should,” “could,” “would,” “project,” “continue,” “likely,” and similar expressions, and include statements reflecting future results, trends or guidance, statements of outlook and expense accruals. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those made, projected or implied. The most significant of these risks and uncertainties are described in Exhibit 99.1 to this Form 10-Q and in “Risk Factors” in this Form 10-Q and the forms 10-Q for the quarters ended September 30, 2019 and December 31, 2020 and our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (our “2019 Form 10-K”). Forward-looking statements in this Form 10-Q speak only as of the date of this document. Except to the extent required by applicable law, we undertake no obligation to update or revise any forward-looking statement.

Non-GAAP Financial Measures

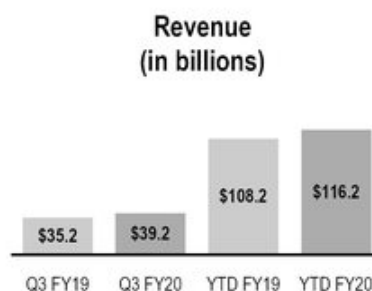
In the “Overview of Consolidated Results” section of MD&A, we use financial measures that are derived from our consolidated financial data but are not presented in our condensed consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). These measures are considered “non-GAAP financial measures” under the United States Securities and Exchange Commission (“SEC”) rules. The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in the “Explanation and Reconciliation of Non-GAAP Financial Measures” section following MD&A in this Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations between the periods specified in our condensed consolidated balance sheets at March 31, 2020 and June 30, 2019, and in our condensed consolidated statements of earnings/(loss) for the three and nine months ended March 31, 2020 and 2019. All comparisons presented are with respect to the prior-year period, unless stated otherwise. This discussion and analysis should be read in conjunction with the MD&A included in our 2019 Form 10-K.

Overview of Consolidated Results

Revenue



During the three and nine months ended March 31, 2020, revenue increased 11 percent to \$39.2 billion and 7 percent to \$116.2 billion, respectively, primarily due to sales growth from pharmaceutical distribution and specialty solutions customers, including a temporary increase in pharmaceutical sales in March, which we believe to be related to accelerated purchasing by some customers in connection with the outbreak in the United States of the novel strain of coronavirus ("COVID-19"). We have experienced below average sales volume since the end of March.

GAAP and Non-GAAP Operating Earnings/(Loss)

(in millions)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020	2019	Change	2020	2019	Change
GAAP operating earnings/(loss)	\$ 562	\$ 432	30%	\$ (4,368)	\$ 1,752	N.M
Surgical gown recall costs	(1)	—		95	—	
State opioid assessment related to prior fiscal years	—	—		4	—	
Restructuring and employee severance	(6)	53		80	97	
Amortization and other acquisition-related costs	130	154		395	468	
Impairments and (gain)/loss on disposal of assets	(1)	11		7	(492)	
Litigation (recoveries)/charges, net	35	17		5,729	20	
Non-GAAP operating earnings	\$ 719	\$ 667	8%	\$ 1,942	\$ 1,845	5%

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

The increase in GAAP operating earnings during the three months ended March 31, 2020 was primarily due to lower restructuring and employee severance, the performance of our Pharmaceutical segment generics program, and an increase in products and distribution within our Medical segment, partially offset by the adverse impact of Pharmaceutical segment customer contract renewals. The increase in sales due to the COVID-19 pandemic had a modest positive impact on GAAP operating earnings during the three months ended March 31, 2020.

The decrease in GAAP operating earnings during the nine months ended March 31, 2020 was primarily due to a \$5.63 billion pre-tax charge we recognized for the estimated liability associated with lawsuits and claims brought against us by states and political subdivisions relating to the distribution of prescription opioid pain medications as described in the Significant Developments in Fiscal 2020 and Trends section in this MD&A and [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements". GAAP operating earnings during the nine months ended March 31, 2019 also include the favorable impact from a \$508 million pre-tax gain from the divestiture of our naviHealth Holdings, LLC ("naviHealth") business.

The increase in non-GAAP operating earnings during the three months ended March 31, 2020 was primarily due to the performance of our Pharmaceutical segment generics program and an increase in products and distribution within our Medical segment, partially offset by the adverse impact of Pharmaceutical segment customer contract renewals. The increase in sales due to the COVID-19 pandemic had a modest positive impact on non-GAAP operating earnings during the three months ended March 31, 2020.

The increase in non-GAAP operating earnings during the nine months ended March 31, 2020 was primarily due to the beneficial impact of enterprise-wide cost-savings measures, the performance of our Pharmaceutical segment generics program and growth from Pharmaceutical specialty solutions, partially offset by the adverse impact of Pharmaceutical segment customer contract renewals.

GAAP and Non-GAAP Diluted EPS

(\$ per share)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020 ⁽²⁾	2019 ⁽²⁾	Change	2020 ⁽²⁾⁽³⁾	2019 ⁽²⁾	Change
GAAP diluted EPS ⁽¹⁾	\$ 1.19	\$ 0.99	20%	\$ (14.84)	\$ 3.88	N.M
Surgical gown recall costs	—	—		0.24	—	
State opioid assessment related to prior fiscal years	—	—		0.01	—	
Restructuring and employee severance	(0.01)	0.13		0.21	0.24	
Amortization and other acquisition-related costs	0.34	0.39		1.01	1.18	
Impairments and (gain)/loss on disposal of assets	—	0.03		0.02	(1.20)	
Litigation (recoveries)/charges, net	0.09	0.03		17.80	0.04	
Loss on extinguishment of debt	0.01	—		0.02	—	
Transitional tax benefit, net	—	0.02		(0.04)	0.03	
Non-GAAP diluted EPS ⁽¹⁾	\$ 1.62	\$ 1.59	2%	\$ 4.41	\$ 4.17	6%

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

- (1) Diluted earnings/(loss) per share attributable to Cardinal Health, Inc. ("diluted EPS" or "diluted loss per share")
- (2) The reconciling items are presented within this table net of tax. See quantification of tax effect of each reconciling item in our GAAP to Non-GAAP Reconciliations in the "Explanation and Reconciliation of Non-GAAP Financial Measures."
- (3) For the nine months ended March 31, 2020, GAAP diluted loss per share attributable to Cardinal Health, Inc. and the EPS impact from the GAAP to non-GAAP per share reconciling items are calculated using a weighted average of 293 million common shares, which excludes potentially dilutive securities from the denominator due to their anti-dilutive effects resulting from our GAAP net loss for the period. Year-to-date fiscal 2020 non-GAAP diluted EPS is calculated using a weighted average of 295 million common shares, which includes potentially dilutive shares.

During the three months ended March 31, 2020, GAAP diluted EPS increased 20 percent primarily due to factors discussed above impacting GAAP operating earnings, partially offset by a higher effective tax rate primarily due to changes in discrete tax items and jurisdictional mix.

During the nine months ended March 31, 2020, we had a \$(14.84) GAAP diluted loss per share due to the charge we recognized for the estimated liability associated with lawsuits and claims brought against us by states and political subdivisions relating to the distribution of prescription opioid pain medications. The charge had a \$(17.53) per share after tax impact on GAAP diluted EPS during the nine months ended March 31, 2020. GAAP diluted EPS during the nine months ended March 31, 2019 also reflects a \$1.25 per share gain from the divestiture of naviHealth.

During the three months ended March 31, 2020, non-GAAP diluted EPS increased 2 percent to \$1.62 per share. This increase was primarily due to the factors discussed above impacting non-GAAP operating earnings, mostly offset by a higher effective tax rate primarily due to changes in discrete tax items.

During the nine months ended March 31, 2020, non-GAAP diluted EPS increased 6 percent to \$4.41 per share. This increase was primarily due to the factors discussed above impacting non-GAAP operating earnings, a lower share count as a result of share repurchases and lower interest expense due to less debt outstanding. The year-over-year comparison was unfavorably impacted by a higher effective tax rate due to the benefit in the prior-year from discrete tax items, largely related to international legal entity changes.

Cash and Equivalents

Our cash and equivalents balance was \$2.3 billion at March 31, 2020 compared to \$2.5 billion at June 30, 2019. During the nine months ended March 31, 2020, net cash provided by operating activities was \$1.7 billion and we deployed \$888 million for long-term debt repayments, \$428 million for cash dividends and \$350 million for share repurchases.

Significant Developments in Fiscal 2020 and Trends

COVID-19

As the COVID-19 pandemic continues to severely impact the U.S. and global economy, our businesses are being impacted in a variety of ways, beginning mostly in the last few weeks of the three months ended March 31, 2020 and continuing through the date of this filing, as discussed in the following paragraphs and under “Results of Operations”.

Within our manufacturing and distribution facilities, we have implemented preparedness plans that are designed to protect the safety of our employees and maintain continuity of our operations. Additionally, in line with various governmental recommendations to reduce large gatherings and practice social distancing, we have transitioned employees who can work remotely, to remote work locations. These measures have created additional burdens on our infrastructure and information technology systems and may result in decreased productivity. Furthermore, if a significant number of our employees are unable to perform their duties for a period of time, we may experience difficulties in operating one or more of our facilities which could adversely impact our financial results.

Within our Medical segment, we have seen dramatically increased demand for personal protective equipment (“PPE”), such as masks, gowns and gloves. We manufacture, source and distribute some of these PPE products and distribute PPE and other products manufactured by others. This increased demand resulted in an increase in sales volume for certain products in the three months ended March 31, 2020, but we do not expect continued increased sales due to supply shortages and disruptions for many of these products, which is likely to negatively impact our ability to meet customer demand. In addition, we may incur increased costs of PPE, which may adversely affect our results of operations.

Similarly, our Pharmaceutical Distribution and Specialty Solutions businesses experienced a temporary increase in sales volume toward the end of the three months ended March 31, 2020, which we believe to be related to accelerated purchasing by some customers due to the COVID-19 pandemic. We have experienced below average sales volume since the end of March and are uncertain when sales volume will return to expected levels.

Federal, state and local governmental policies and initiatives designed to reduce the transmission of COVID-19 also have resulted in, among other things, the cancellation or deferral of many elective medical procedures and some of our customers closing or severely curtailing their operations. To date, these policies and initiatives have resulted in a significant decrease in sales by our Nuclear and Precision Health Solutions division in our Pharmaceutical segment and reduced sales of certain Cardinal Health Brand products and Services in our Medical segment, among others. We cannot predict the duration of these policies and initiatives and expect that while they are in place, they will continue to have an adverse impact on the sales of these products and services.

Political, legal or regulatory actions as a result of the COVID-19 pandemic in jurisdictions where we manufacture, source or distribute products have created supply disruptions within both our Medical and, to a lesser extent, our Pharmaceutical segments and are likely to cause additional supply disruptions or shortages in the future. We cannot currently predict the frequency, duration or scope of these governmental actions and supply disruptions. For example, several countries, including India and China, have increased or instituted new restrictions on the export of medical or pharmaceutical products that we distribute or use in our businesses, including key components or raw materials. Governmental authorities in many countries, including the U.S., are enacting legislative or regulatory changes to address the impact of the pandemic, which may restrict or require changes in our operations, increase our costs, or otherwise adversely affect our operations.

Opioid Lawsuits Development

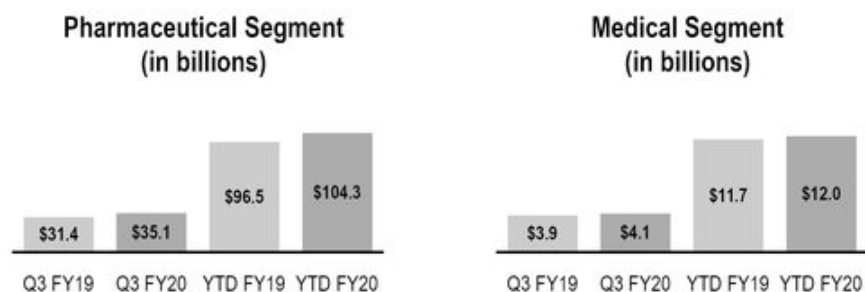
In October 2019, we agreed in principle to a global settlement framework with a leadership group of state attorneys general that is designed to resolve all pending and future opioid lawsuits and claims by states and political subdivisions (the "Settlement Framework"). This Settlement Framework is subject to contingencies and uncertainties as to final terms, but is the basis for our negotiation of definitive terms and documentation. The Settlement Framework includes (1) a cash component, pursuant to which we would pay up to \$5.56 billion over eighteen years, (2) development and participation in a program for distribution of opioid abuse treatment medications for a period of ten years, and (3) industry-wide changes to be specified to controlled substance anti-diversion programs. We continue to negotiate the definitive terms of the Settlement Framework.

In connection with this and with the October 2019 settlement to resolve all claims with two Ohio counties, we recorded a total pre-tax charge of \$5.63 billion (\$5.14 billion after tax) during the nine months ended March 31, 2020 in litigation (recoveries)/charges, net, in the condensed consolidated statement of earnings for the cash component. The amount of ultimate loss may differ materially from this accrual. See [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements" for additional information.

Also in connection with these matters, we recorded a tax benefit of \$487 million, which is net of unrecognized tax benefits of \$468 million, during the nine months ended March 31, 2020, reflecting our current assessment of the estimated future deductibility of the amount that may be paid under the \$5.63 billion accrual taken in connection with the opioid litigation. The actual amount of tax benefit related to uncertain tax positions may differ materially from these estimates. See [Note 8](#) of the "Notes to the Condensed Consolidated Financial Statements" for additional information.

Results of Operations

Revenue



(in millions)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020	2019	Change	2020	2019	Change
Pharmaceutical	\$ 35,112	\$ 31,361	12%	\$ 104,254	\$ 96,516	8%
Medical	4,051	3,871	5%	11,991	11,678	3%
Total segment revenue	39,163	35,232	11%	116,245	108,194	7%
Corporate	(6)	(4)	N.M	(12)	(13)	N.M
Total revenue	\$ 39,157	\$ 35,228	11%	\$ 116,233	\$ 108,181	7%

Pharmaceutical Segment

Pharmaceutical segment revenue growth was primarily due to sales growth from pharmaceutical distribution and specialty solutions customers, which together increased revenue by \$3.8 billion and \$7.7 billion during the three and nine months ended March 31, 2020, respectively. This growth included a temporary increase in pharmaceutical sales in March, which we believe to be related to accelerated purchasing by some customers in connection with the outbreak in the United States of the COVID-19 pandemic. We have experienced below average sales volume since the end of March.

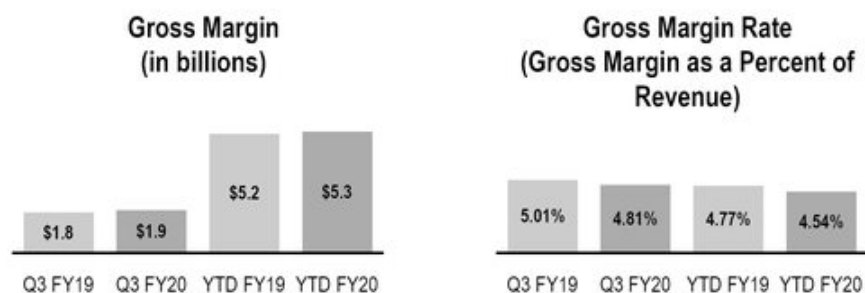
Medical Segment

Medical segment revenue increased during the three and nine months ended March 31, 2020 primarily due to sales growth from products and distribution and Cardinal Health at-Home Solutions.

Cost of Products Sold

Cost of products sold for the three and nine months ended March 31, 2020 increased \$3.8 billion (11 percent) and \$7.9 billion (8 percent) compared to the respective prior-year periods as a result of the factors affecting the changes in revenue and gross margin.

Gross Margin



(in millions)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020	2019	Change	2020	2019	Change
Gross margin	\$ 1,885	\$ 1,764	7%	\$ 5,278	\$ 5,160	2%

Gross margin during the three months ended March 31, 2020 increased \$121 million compared to the prior-year period primarily due to the performance from our Pharmaceutical segment generics program and Medical segment products and distribution sales growth.

Gross margin during the nine months ended March 31, 2020 increased \$118 million compared to the prior-year period primarily due to the performance from our Pharmaceutical segment generics program.

Gross margin rate declined 20 basis points during the three months ended March 31, 2020 mainly due to changes in pharmaceutical distribution product mix and the adverse impact of pharmaceutical customer contract renewals, partially offset by the performance of our Pharmaceutical segment generics program.

Gross margin rate declined 23 basis points during the nine months ended March 31, 2020 mainly due to the adverse impact of pharmaceutical customer contract renewals, changes in pharmaceutical distribution product mix, and the \$55 million charge in connection with a voluntary recall for Association for the Advancement of Medical Instrumentation ("AAMI") Level 3 surgical gowns and a voluntary recall and field actions for surgical procedure packs containing affected gowns (together, the "Recalls"), as described further within [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements".

Distribution, Selling, General and Administrative ("SG&A") Expenses

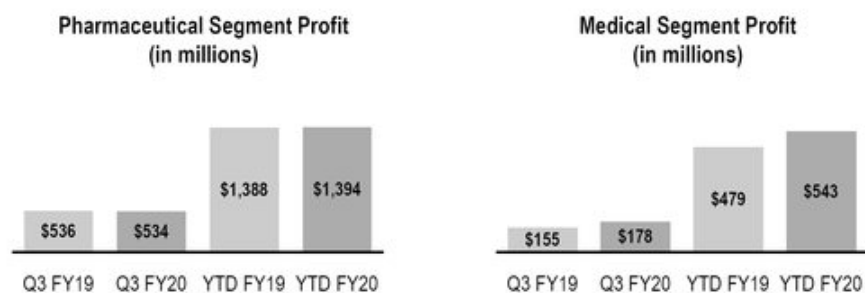
(in millions)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020	2019	Change	2020	2019	Change
SG&A expenses	\$ 1,165	\$ 1,097	6%	\$ 3,435	\$ 3,315	4%

During the three months ended March 31, 2020, SG&A expenses increased primarily due to enterprise-wide incentive compensation and higher costs to support sales growth.

During the nine months ended March 31, 2020, SG&A expenses increased primarily due to higher costs to support sales growth and the \$40 million charge in connection with the Recalls as described further within [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements."

Segment Profit

We evaluate segment performance based on segment profit, among other measures. See [Note 13](#) of the "Notes to Condensed Consolidated Financial Statements" for additional information on segment profit.



(in millions)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020	2019	Change	2020	2019	Change
Pharmaceutical	\$ 534	\$ 536	—%	\$ 1,394	\$ 1,388	—%
Medical	178	155	15 %	543	479	13%
Total segment profit	712	691	3 %	1,937	1,867	4%
Corporate	(150)	(259)	(42)%	(6,305)	(115)	N.M
Total consolidated operating earnings/(loss)	\$ 562	\$ 432	30 %	\$ (4,368)	\$ 1,752	N.M

Pharmaceutical Segment Profit

Pharmaceutical segment profit during the three months ended March 31, 2020 was essentially flat with the adverse impact of customer contract renewals offset by the favorable performance of our generics program. The increase in sales volume due to the COVID-19 pandemic had a modest positive impact on Pharmaceutical segment profit during the three months ended March 31, 2020.

Pharmaceutical segment profit during the nine months ended March 31, 2020 was essentially flat with the performance of our generics program and growth from specialty solutions, mostly offset by the adverse impact of customer contract renewals.

Medical Segment Profit

Medical segment profit during the three and nine months ended March 31, 2020 increased primarily due to the performance of products and distribution, including benefits from global manufacturing and cost-savings measures. The increase in sales volume due to the COVID-19 pandemic had a modest positive impact on Medical segment profit during the three months ended March 31, 2020.

Medical segment financial results do not include the \$95 million charge incurred during the nine months ended March 31, 2020 in connection with the Recalls, as described further within [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements".

Corporate

The changes in Corporate during the three and nine months ended March 31, 2020 were due to the factors discussed in the Other Components of Consolidated Operating Earnings/(Loss) section that follows.

Other Components of Consolidated Operating Earnings/(Loss)

In addition to revenue, gross margin and SG&A expenses discussed previously, consolidated operating earnings/(loss) were impacted by the following:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Restructuring and employee severance	\$ (6)	\$ 53	\$ 80	\$ 97
Amortization and other acquisition-related costs	130	154	395	468
Impairments and (gain)/loss on disposal of assets, net	(1)	11	7	(492)
Litigation (recoveries)/charges, net	35	17	5,729	20

Restructuring and Employee Severance

Restructuring and employee severance during both the three and nine months ended March 31, 2020 and 2019 was primarily related to enterprise-wide cost-saving measures. The income during the three months ended March 31, 2020 was due to changes in estimates for accrued severance.

Amortization and Other Acquisition-Related Costs

Amortization of acquisition-related intangible assets was \$129 million and \$133 million for the three months ended March 31, 2020 and 2019, respectively, and \$385 million and \$399 million for the nine months ended March 31, 2020 and 2019, respectively.

Transaction and integration costs associated with the acquisition of the Patient Recovery Business were \$1 million and \$17 million for the three months ended March 31, 2020 and 2019, respectively, and \$5 million and \$62 million for the nine months ended March 31, 2020 and 2019, respectively.

Impairments and (Gain)/Loss on Disposal of Assets, Net

During the nine months ended March 31, 2019, we recognized a pre-tax gain of \$508 million related to the divestiture of our naviHealth business.

Litigation (Recoveries)/Charges, Net

During the nine months ended March 31, 2020, we recognized a pre-tax charge of \$5.63 billion (\$5.14 billion after tax) associated with the opioid litigation. See Significant Developments in Fiscal 2020 and Trends section in this MD&A for additional information.

The costs we recognized in connection with the IVC filter product liability claims during the three months ended March 31, 2020 and 2019 were \$30 million and \$58 million, respectively, and \$92 million and \$104 million during the nine months ended March 31, 2020 and 2019, respectively.

Recoveries in class action antitrust lawsuits recognized were \$46 million during the three months ended March 31, 2019, and \$16 million and \$94 million during the nine months ended March 31, 2020 and 2019, respectively.

Earnings/(Loss) Before Income Taxes

In addition to the items discussed above, earnings/(loss) before income taxes were impacted by the following:

(in millions)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2020	2019	Change	2020	2019	Change
Other (income)/expense, net	\$ 19	\$ (13)	N.M	\$ 21	\$ 13	N.M
Interest expense, net	60	75	(20)%	189	227	(17)%
Loss on extinguishment of debt	5	—	N.M	9	—	N.M

Other (Income)/Expense, Net

During the three and nine months ended March 31, 2020, other (income)/expense, net was unfavorable compared to the respective prior-year periods primarily due to decreased returns from investments, which are used to offset fluctuations in deferred compensation liabilities that are included within SG&A and discussed further in [Note 9](#).

Interest Expense, Net

The decrease in interest expense during the three and nine months ended March 31, 2020 was primarily due to less debt outstanding.

Provision for/(Benefit from) Income Taxes

During the three months ended March 31, 2020 and 2019, the effective tax rate was 26.8 percent and 20.0 percent, respectively. The increase in the effective tax rate for the three months ended March 31, 2020 compared to the prior period was primarily due to changes in discrete tax items and jurisdictional mix.

During the nine months ended March 31, 2020 and 2019, the effective tax rate was 5.2 percent and 22.6 percent, respectively. The decrease in the effective tax rate for the nine months ended March 31, 2020 compared to the prior period was primarily due to the Settlement Framework, as described further in the Significant Developments in Fiscal 2020 and Trends section in this MD&A.

Liquidity and Capital Resources

We currently believe that, based on available capital resources (cash on hand and committed credit facilities) and projected operating cash flow, we have adequate capital resources to fund working capital needs; currently anticipated capital expenditures; currently anticipated business growth and expansion; contractual obligations; tax payments; and current and projected debt service requirements, early extinguishment of debt, dividends and share repurchases as well as potential opioid litigation settlement payments associated with the Settlement Framework. If we decide to engage in one or more acquisitions, depending on the size and timing of such transactions, we may need to access capital markets for additional financing. We do not currently expect the impacts of the COVID-19 pandemic to result in material changes to our liquidity and capital resources or our ability to comply with financial commitments.

Cash and Equivalents

Our cash and equivalents balance was \$2.3 billion at March 31, 2020 compared to \$2.5 billion at June 30, 2019. At March 31, 2020, our cash and equivalents were held in cash depository accounts with major banks or invested in high quality, short-term liquid investments.

During the nine months ended March 31, 2020, net cash provided by operating activities was \$1.7 billion and we deployed \$888 million for long-term debt repayments, \$428 million for cash dividends and \$350 million for share repurchases.

Changes in working capital, which impact operating cash flow, can vary significantly depending on factors such as the timing of customer payments, inventory purchases and payments to vendors in the

regular course of business, as well as fluctuating working capital needs driven by customer and product mix. In addition, financial hardship to our customers or vendors as a result of the COVID-19 pandemic could adversely impact our working capital.

The cash and equivalents balance at March 31, 2020 includes \$805 million of cash held by subsidiaries outside of the United States.

Other Financing Arrangements and Financial Instruments

Credit Facilities and Commercial Paper

In addition to cash and equivalents and operating cash flow, other sources of liquidity at March 31, 2020 include a \$2.0 billion commercial paper program, backed by a \$2.0 billion revolving credit facility. We also have a \$1.0 billion committed receivables sales facility. At March 31, 2020, we had no amounts outstanding under our commercial paper program, revolving credit facility, or our committed receivables sales facility. During the nine months ended March 31, 2020, we had maximum amounts outstanding under our commercial paper program and our committed receivables program of \$1.7 billion and \$700 million, respectively. The maximum combined total daily amounts outstanding was \$1.7 billion and the average daily amount outstanding was \$244 million.

Our revolving credit and committed receivables sales facilities require us to maintain, as of the end of every fiscal quarter through December 2020, a consolidated net leverage ratio of no more than 4.00-to-1. The maximum permitted ratio will reduce to 3.75-to-1 in March 2021 and as of the end of every quarter thereafter. As of March 31, 2020, we were in compliance with this financial covenant.

Long-Term Debt and Other Short-Term Borrowings

At March 31, 2020, we had total long-term obligations, including the current portion and other short-term borrowings, of \$7.3 billion. In November 2019, we repaid the full principal of the 2.4% Notes due 2019 at maturity for \$450 million. During the nine months ended March 31, 2020, we early repurchased \$247 million of the 2.616%

Notes due 2022, \$11 million of the 3.2% Notes due 2022, \$20 million of the Floating Rate Notes due 2022, \$104 million of the 3.41% Notes due 2027, \$6 million of the 4.6% Notes due 2043, \$5 million of the 4.9% Notes due 2045, and \$35 million of the 4.368% Notes due 2047. The repurchases were paid for with available cash and other short-term borrowings. In connection with the early debt repurchases, we recorded a \$9 million loss on extinguishment of debt.

Capital Deployment

Opioid Settlement Framework

In October 2019, we agreed in principle to a Settlement Framework which includes a cash component, pursuant to which we would pay up to \$5.56 billion over eighteen years. If a definitive agreement is reached, and subject to participation by states and political subdivisions, we expect payment amounts under the Settlement Framework to be spread through the 18-year period. We cannot currently predict when these payments will begin, and it is possible that they may ultimately be made over a different time period, or not at all. See Significant Developments in Fiscal 2020 and Trends section in this MD&A for additional information.

Capital Expenditures

Capital expenditures during the nine months ended March 31, 2020 and 2019 were \$239 million and \$192 million, respectively.

Dividends

On each of May 8, 2019, August 7, 2019, November 6, 2019 and February 11, 2020, our Board of Directors approved a quarterly dividend of \$0.4811 per share, or \$1.92 per share on an annualized basis, which were paid on July 15, 2019, October 15, 2019, January 15, 2020 and April 15, 2020, respectively.

Share Repurchases

During the nine months ended March 31, 2020, we repurchased \$350 million of our common shares under an accelerated share repurchase ("ASR") program. We funded the ASR program with available cash and short-term borrowings. See [Note 11](#) of the "Notes to Condensed Consolidated Financial Statements" for additional information. At March 31, 2020, we had \$943 million authorized for share repurchases.

Other Items

The MD&A in our 2019 Form 10-K addresses our contractual obligations and off-balance sheet arrangements, as of and for the fiscal year ended June 30, 2019. There have been no subsequent material changes outside of the ordinary course of business to those items except for the agreement in principle on a global settlement framework designed to resolve all pending and future opioid lawsuits and claims brought by states and political subdivisions described in the Significant Developments in Fiscal 2020 and Trends section in this MD&A and [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements."

Critical Accounting Policies and Sensitive Accounting Estimates

The discussion and analysis presented below is a supplemental disclosure to the critical accounting policies and sensitive accounting estimates specified in our consolidated balance sheet at June 30, 2019. This discussion and analysis should be read in conjunction with the Critical Accounting Policies and Sensitive Accounting Estimates included in our 2019 Form 10-K and our Forms 10-Q for the quarters ended September 30, 2019 and December 31, 2019.

Critical accounting policies are those accounting policies that (i) can have a significant impact on our financial condition and results of operations and (ii) require the use of complex and subjective estimates based upon past experience and management's judgment. Other people applying reasonable judgment to the same facts and circumstances could develop different estimates. Because estimates are inherently uncertain, actual results may differ.

Goodwill

Purchased goodwill is tested for impairment annually or when indicators of impairment exist. Goodwill impairment testing involves a comparison of the estimated fair value of reporting units to the respective carrying amount, which may be performed utilizing either a qualitative or quantitative assessment. Qualitative factors are first assessed to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There is an option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test. We elected to bypass the qualitative assessment for our annual impairment test in fiscal 2019. Additionally, we elected to bypass the qualitative assessment and perform an interim goodwill impairment test for our Medical Unit at March 31, 2020. A reporting unit is defined as an operating segment or one level below an operating segment (also known as a component).

Goodwill impairment testing involves judgment, including the identification of reporting units, qualitative evaluation of events and circumstances to determine if it is more likely than not that an impairment exists, and, if necessary, the estimation of the fair value of the applicable reporting unit. Our qualitative evaluation considers the weight of evidence and significance of all identified events and circumstances and most relevant drivers of fair value, both positive and negative, in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Medical Unit Goodwill

As noted within [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements", we recorded a charge of \$95 million within Corporate during the nine months ended March 31, 2020 in connection with the Recalls that is allocated to the Medical Unit for purposes of goodwill impairment testing. Primarily due to the risks and uncertainties to the business from both the Recalls and the COVID-19 pandemic, we elected to bypass the qualitative assessment and perform interim goodwill impairment testing for the Medical Unit during the three months ended March 31, 2020. The carrying value of this reporting unit at March 31, 2020 was \$10.1 billion, of which \$4.2 billion was goodwill. The fair value of the reporting unit was estimated to be approximately 10 percent in excess of its carrying value, using a combination of the income-based approach (using a discount rate of 8.5 percent and a terminal growth rate of 2 percent), and the market-based approach.

Adverse changes in key assumptions, including related to our current assumptions about the impact of the Recalls and the COVID-19 pandemic which could cause a decrease in future cash flows; an increase in the discount rate; or a decrease in the terminal growth rate, among other things, could result in a goodwill impairment for the Medical Unit. For example, if we were to increase the discount rate by 1.0 percent, the carrying value would have exceeded the fair value for our Medical Unit by approximately 1 percent at March 31, 2020.

Loss Contingencies

In connection with the opioid litigation as described further in the Significant Developments in Fiscal 2020 and Trends section in this MD&A, we recorded a pre-tax charge of \$5.63 billion (\$5.14 billion after tax) during the nine months ended March 31, 2020. We accrue for contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because loss contingencies are inherently unpredictable and unfavorable developments or resolutions can occur, the assessment is highly subjective and requires judgments about future events. Definitive terms of a settlement under the Settlement Framework continue to be negotiated, and there is no assurance that the necessary parties

will agree to a definitive settlement agreement or that the contingencies to any agreement will be satisfied. We will regularly review opioid litigation matters to determine whether our accrual is adequate. The amount of ultimate loss may differ materially from this accrual.

Provision for Income Taxes

Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination of the technical merits of the position, including resolutions of any related appeals or litigation. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement. For tax benefits that do not qualify for recognition, we recognize a liability for unrecognized tax benefits.

In connection with the \$5.63 billion pre-tax charge for the opioid litigation, during the nine months ended March 31, 2020 we recorded a tax benefit of \$487 million, which is net of unrecognized tax benefits of \$468 million, reflecting our current assessment of the estimated future deductibility of the amount that may be paid. We have made reasonable estimates and recorded amounts based on management's judgment and our current understanding of the Tax Act; however, these estimates require significant judgment since the definitive settlement terms and documentation, including provisions related to deductibility, under the Settlement Framework have not been negotiated and the U.S. tax law governing deductibility was

changed by the Tax Act. Further, it is possible that the tax authorities could challenge our interpretation of the Tax Act or the estimates and assumptions used to assess the future deductibility of these benefits. The actual amount of the tax benefit related to uncertain tax positions may differ materially from these estimates. See [Note 8](#) of the Notes to the "Condensed Consolidated Financial Statements" for more information regarding these matters.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, we are subject to audit by taxing authorities for fiscal years 2008 through the current fiscal year. Tax laws are complex and subject to varying interpretations. Tax authorities have challenged some of our tax positions, including IRS challenges to our international transfer pricing for the periods from 2008 to 2014, and it is possible that they will challenge others. These challenges may adversely affect our effective tax rate or tax payments.

Explanation and Reconciliation of Non-GAAP Financial Measures

The "Overview of Consolidated Results" section within MD&A in this Form 10-Q contains financial measures that are not calculated in accordance with GAAP.

In addition to analyzing our business based on financial information prepared in accordance with GAAP, we use these non-GAAP financial measures internally to evaluate our performance, engage in financial and operational planning, and, in most cases, determine incentive compensation because we believe that these measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of our underlying, ongoing business. We provide these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results on a year-over-year basis and in comparing our performance to that of our competitors. However, the non-GAAP financial measures that we use may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements set forth below should be carefully evaluated.

Exclusions from Non-GAAP Financial Measures

Management believes it is useful to exclude the following items from the non-GAAP measures presented in this report for its own and for investors' assessment of the business for the reasons identified below:

- LIFO charges and credits are excluded because the factors that drive last-in first-out ("LIFO") inventory charges or credits, such as pharmaceutical manufacturer price appreciation or deflation and year-end inventory levels (which can be meaningfully influenced by customer buying behavior immediately preceding our fiscal year-end), are largely out of our control and cannot be accurately predicted. The exclusion of LIFO charges and credits from non-GAAP metrics facilitates comparison of our current financial results to our historical financial results and to our peer group companies' financial results.
- Surgical gown recall costs includes inventory write-offs and certain remediation and supply disruption costs arising from the January 2020 recall of select Association for the Advancement of Medical Instrumentation ("AAMI") Level 3 surgical gowns and voluntary field actions (a recall of some packs and a corrective action allowing overlabeling of other packs) for Presource Procedure Packs containing affected gowns. We have excluded these costs from our non-GAAP metrics to allow investors to better understand the underlying operating results of the business and to facilitate comparison of our current financial results to our historical financial results and to our peer group companies' financial results.

- State opioid assessments related to prior fiscal years is the portion of state assessments for prescription opioid medications that were sold or distributed in periods prior to the fiscal year of the initial assessment. This portion is excluded from non-GAAP financial measures because it is retrospectively applied to sales in prior fiscal years and inclusion would obscure analysis of the current fiscal year results of our underlying, ongoing business. Additionally, while states' laws may require us to make payments on an ongoing basis, the portion of the assessment related to sales in prior periods are contemplated to be one-time, nonrecurring items. Reversals of these accruals have occurred when certain assessments were found by a Court unconstitutional.
- Restructuring and employee severance costs are excluded because they are not part of the ongoing operations of our underlying business.
- Amortization and other acquisition-related costs, which include transaction costs, integration costs, and changes in the fair value of contingent consideration obligations, are excluded because they are not part of the ongoing operations of our underlying business and to facilitate comparison of our current financial results to our historical financial results and to our peer group companies' financial results. Additionally, costs for amortization of acquisition-related intangible assets are non-cash amounts, which are variable in amount and frequency and are significantly impacted by the timing and size of acquisitions, so their exclusion facilitates comparison of historical, current and forecasted financial results. We also exclude other acquisition-related costs, which are directly related to an acquisition but do not meet the criteria to be recognized on the acquired entity's initial balance sheet as part of the purchase price allocation. These costs are also significantly impacted by the timing, complexity and size of acquisitions.
- Impairments and gain or loss on disposal of assets are excluded because they do not occur in or reflect the ordinary course of our ongoing business operations and are inherently unpredictable in timing and amount, and in the case of impairments, are non-cash amounts, so their exclusion facilitates comparison of historical, current and forecasted financial results.
- Litigation recoveries or charges, net are excluded because they often relate to events that may have occurred in prior or multiple periods, do not occur in or reflect the ordinary course of our business and are inherently unpredictable in timing and amount.
- Loss on extinguishment of debt is excluded because it does not typically occur in the normal course of business and may obscure analysis of trends and financial performance. Additionally, the amount and frequency of this type of charge is not consistent and is significantly impacted by the timing and size of debt extinguishment transactions.
- Transitional tax benefit, net related to the Tax Cuts and Jobs Act is excluded because it results from the one-time impact of a very significant change in the U.S. federal corporate tax rate and, due to the significant size of the benefit, obscures analysis of trends and financial performance. The transitional tax benefit includes the initial estimate and subsequent adjustments for the re-measurement of deferred tax assets and liabilities due to the reduction of the U.S. federal corporate income tax rate and the repatriation tax on undistributed foreign earnings.

The tax effect for each of the items listed above, other than the transitional tax benefit item, is determined using the tax rate and other tax attributes applicable to the item and the jurisdiction(s) in which the item is recorded. The gross, tax and net impact of each item are presented with our GAAP to non-GAAP reconciliations.

Definitions

Growth rate calculation: growth rates in this Form 10-Q are determined by dividing the difference between current-period results and prior-period results by prior-period results.

Non-GAAP operating earnings: operating earnings/(loss) excluding (1) LIFO charges/(credits), (2) surgical gown recall costs, (3) state opioid assessment related to prior fiscal years, (4) restructuring and employee severance, (5) amortization and other acquisition-related costs, (6) impairments and (gain)/loss on disposal of assets, and (7) litigation (recoveries)/charges, net.

Non-GAAP earnings before income taxes: earnings/(loss) before income taxes excluding (1) LIFO charges/(credits), (2) surgical gown recall costs, (3) state opioid assessment related to prior fiscal years, (4) restructuring and employee severance, (5) amortization and other acquisition-related costs, (6) impairments and (gain)/loss on disposal of assets, (7) litigation (recoveries)/charges, net, and (8) loss on extinguishment of debt.

Non-GAAP net earnings attributable to Cardinal Health, Inc.: net earnings/(loss) attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) surgical gown recall costs, (3) state opioid assessment related to prior fiscal years, (4) restructuring and employee severance, (5) amortization and other acquisition-related costs, (6) impairments and (gain)/loss on disposal of assets, (7) litigation (recoveries)/charges, net, (8) loss on extinguishment of debt, each net of tax, and (9) transitional tax benefit, net.

Non-GAAP diluted earnings per share attributable to Cardinal Health, Inc.: non-GAAP net earnings attributable to Cardinal Health, Inc. divided by diluted weighted-average shares outstanding.

GAAP to Non-GAAP Reconciliation

(in millions, except per common share amounts)	Operating Earnings/(Loss)	Operating Earnings Growth Rate	Earnings/(Loss) Before Income Taxes	Provision for/(Benefit from) Income Taxes	Net Earnings/(Loss) ¹	Net Earnings/(Loss) ¹ Growth Rate	Diluted EPS ^{1,2}	Diluted EPS ¹ Growth Rate
Three Months Ended March 31, 2020								
GAAP	\$ 562	30 %	\$ 478	\$ 127	\$ 350	18 %	\$ 1.19	20 %
Surgical gown recall costs	(1)		(1)	—	(1)		—	
Restructuring and employee severance	(6)		(6)	(3)	(3)		(0.01)	
Amortization and other acquisition-related costs	130		130	31	99		0.34	
Impairments and (gain)/loss on disposal of assets, net	(1)		(1)	(1)	—		—	
Litigation (recoveries)/charges, net	35		35	8	27		0.09	
Loss on extinguishment of debt	—		5	1	4		0.01	
Transitional tax benefit, net	—		—	1	(1)		—	
Non-GAAP	\$ 719	8 %	\$ 639	\$ 164	\$ 474	— %	\$ 1.62	2 %
Three Months Ended March 31, 2019								
GAAP	\$ 432	(21)%	\$ 370	\$ 74	\$ 296	16 %	\$ 0.99	22 %
Restructuring and employee severance	53		53	14	39		0.13	
Amortization and other acquisition-related costs	154		154	38	116		0.39	
Impairments and (gain)/loss on disposal of assets, net	11		11	4	7		0.03	
Litigation (recoveries)/charges, net	17		17	7	10		0.03	
Transitional tax benefit, net	—		—	(5)	5		0.02	
Non-GAAP	\$ 667	(15)%	\$ 605	\$ 130	\$ 475	9 %	\$ 1.59	14 %
Nine Months Ended March 31, 2020								
GAAP	\$ (4,368)	N.M	\$ (4,587)	\$ (237)	\$ (4,352)	N.M	\$ (14.84)	N.M
Surgical gown recall costs	95		95	25	70		0.24	
State opioid assessment related to prior fiscal years	4		4	1	3		0.01	
Restructuring and employee severance	80		80	18	62		0.21	
Amortization and other acquisition-related costs	395		395	98	297		1.01	
Impairments and (gain)/loss on disposal of assets, net	7		7	1	6		0.02	
Litigation (recoveries)/charges, net ³	5,729		5,729	509	5,220		17.80	
Loss on extinguishment of debt	—		9	2	7		0.02	
Transitional tax benefit, net	—		—	12	(12)		(0.04)	
Non-GAAP	\$ 1,942	5 %	\$ 1,732	\$ 429	\$ 1,300	4 %	\$ 4.41	6 %
Nine Months Ended March 31, 2019								
GAAP	\$ 1,752	45 %	\$ 1,512	\$ 342	\$ 1,169	(18)%	\$ 3.88	(14)%
Restructuring and employee severance	97		97	25	72		0.24	
Amortization and other acquisition-related costs	468		468	112	356		1.18	
Impairments and (gain)/loss on disposal of assets, net	(492)		(492)	(129)	(363)		(1.20)	
Litigation (recoveries)/charges, net	20		20	7	13		0.04	
Transitional tax benefit, net	—		—	(8)	8		0.03	
Non-GAAP	\$ 1,845	(13)%	\$ 1,605	\$ 349	\$ 1,255	— %	\$ 4.17	5 %

Explanation and Reconciliation of Non-GAAP Financial Measures

¹ Attributable to Cardinal Health, Inc.

² For the nine months ended March 31, 2020, GAAP diluted loss per share attributable to Cardinal Health, Inc. and the EPS impact from the GAAP to non-GAAP per share reconciling items are calculated using a weighted average of 293 million common shares, which excludes potentially dilutive securities from the denominator due to their anti-dilutive effects resulting from our GAAP net loss for the period. Year-to-date fiscal 2020 non-GAAP diluted EPS is calculated using a weighted average of 295 million common shares, which includes potentially dilutive shares.

³ Litigation (recoveries)/charges, net includes a pre-tax charge of \$5.63 billion (\$5.14 billion after tax) recorded in the first quarter of fiscal 2020 related to the opioid litigation.

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

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

Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative market risk disclosures included in our 2019 Form 10-K since the end of fiscal 2019 through March 31, 2020.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2020. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of March 31, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Legal Proceedings

In addition to the proceeding described below, the legal proceedings described in [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements" are incorporated in this "Legal Proceedings" section by reference.

In June 2019, Melissa Cohen, a purported shareholder, filed an action on behalf of Cardinal Health, Inc. in the U.S. District Court for the Southern District of Ohio against certain current and former members of our Board of Directors alleging that the defendants breached their fiduciary duties by failing to effectively monitor Cardinal Health's distribution of controlled substances. The derivative complaint seeks, among other things, unspecified money damages against the defendants and an award of attorneys' fees. In December 2019 and January 2020, similar complaints were filed in the U.S. District Court for the Southern District of Ohio by purported shareholders, Stanley M. Malone and Michael Splaine, respectively. In January, 2020, the court consolidated the derivative cases under the caption *In re Cardinal Health, Inc. Derivative Litigation* and in March 2020, plaintiffs filed an amended complaint. The amended derivative complaint seeks, among other things, unspecified money damages against the defendants and an award of attorneys' fees.

Risk Factors

You should carefully consider the information in this Form 10-Q, including the risk factors below, and the risk factors discussed in "Risk Factors" and other risks discussed in our 2019 Form 10-K, our Forms 10-Q for the quarters ended September 30, 2019 and December 31, 2019, and other filings with the SEC since June 30, 2019. These risks could materially and adversely affect our results of operations, financial condition, liquidity, and cash flows. Our business also could be affected by risks that we are not presently aware of or that we currently consider immaterial to our operations.

We have been and expect to continue to be negatively affected by the ongoing COVID-19 pandemic.

In addition to the actual and possible effects of the COVID-19 pandemic and resulting disruptions on our business and operations discussed above in "Management's Discussion and Analysis of Financial Condition and Results of Operations," we face other possible adverse impacts from the COVID-19 pandemic. Among other possible consequences, we may become subject to claims or lawsuits by employees, customers, suppliers or other parties regarding actions we take in our operations in response to the pandemic. Financial hardship to our customers and others could adversely impact the timing and collectability of payments to us from customers and require an increase in reserves against our accounts

receivable. Additionally, the situation has and will likely continue to give rise to or amplify other risks that could adversely affect our results of operations, financial condition, liquidity or cash flows

As a critical player in the global healthcare supply chain, we are participating in industry-wide collaboration with the U.S. government and other distributors intended to increase the availability of PPE in the U.S. and may participate in additional efforts relating to other products. In connection with these efforts, we have received information requests from several members of the U.S. Congress and could be investigated or have enforcement actions instituted against us by one or more agencies of the U.S., state or international governments and have and could receive negative publicity.

We cannot estimate the length or severity of the COVID-19 pandemic or the related consequences on the U.S. and global economy and our business and operations, including whether and when normal economic and operating conditions will resume or the extent to which the disruption may impact our business, financial position, results of operations or cash flow. The COVID-19 pandemic also may give rise to or heighten many of the risks we have previously identified, including risks associated with supplier relationships, international operations, regulatory and licensing, changes to the U.S. healthcare environment, cyber security, access to capital markets, and goodwill impairment, discussed further in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2019 and December 31, 2019. COVID-19 may also adversely affect our operating and financial results in a manner that is not currently known to us or that we do not currently consider a significant risk.

The public health crisis involving the abuse of prescription opioid pain medication and our efforts to resolve related claims could have additional or unexpected material negative effects on our business.

Our Pharmaceutical segment distributes prescription opioid pain medications. In recent years, the abuse of prescription opioid pain medication has become a public health crisis.

A significant number of counties, municipalities and other plaintiffs, including a number of state attorneys general, have filed lawsuits against pharmaceutical manufacturers, pharmaceutical wholesale distributors (including us), retail chains and others relating to the manufacturing, marketing or distribution of prescription opioid pain medications. In addition, we are currently being investigated or sued by other states for the same activities and could be named as a defendant in additional lawsuits. The defense and resolution of current and future lawsuits and events relating to these lawsuits are subject to uncertainty and could have a material adverse effect on our results of operations, financial condition, cash flows, liquidity, our ability to pay dividends or repurchase our shares, or have adverse reputational or operational effects on our business.

In October 2019, we agreed in principle to a Settlement Framework and in connection with this development we recorded a pre-tax accrual of \$5.56 billion in the nine months ended March 31, 2020. This Settlement Framework is subject to contingencies but is the basis for our negotiation of definitive terms and documentation. Definitive terms of a settlement under the Settlement Framework continue to be negotiated, and there is no assurance that the necessary parties will agree to a definitive settlement agreement or that the contingencies to any agreement will be satisfied. We will regularly review opioid litigation matters to determine whether our accrual is adequate. The amount of ultimate loss may differ materially from this accrual. See [Note 7](#) of the "Notes to Condensed Consolidated Financial Statements" for more information regarding these matters.

Other legislative, regulatory or industry measures related to the public health crisis involving the abuse of prescription opioid pain

medication and the distribution of these medications could affect our business in ways that we may not be able to predict. For example, several states have now adopted taxes or other fees on the sale of opioids, and several other states have proposed similar legislative initiatives. These laws and proposals vary in the tax amounts imposed and the means of calculation. Liabilities for taxes or assessments under any such laws could have an adverse impact on our results of operations unless we are able to mitigate them through operational changes or commercial arrangements where permitted.

Ongoing unfavorable publicity regarding the abuse or misuse of prescription opioid pain medications and the role of wholesale distributors in the supply chain of such prescription medications, as well as the continued proliferation of the opioid lawsuits, investigations, regulations and legislative actions, and unfavorable publicity in relation to those lawsuits could have a material adverse effect on our reputation or results of operations.

We could be subject to adverse changes in the tax laws or challenges to our tax positions.

We are a large multinational corporation with operations in the United States and many foreign countries. As a result, we are subject to the tax laws of many jurisdictions.

From time to time, initiatives are proposed in the United States and other jurisdictions in which we operate that could adversely affect our tax positions, effective tax rate or tax payments. Specific initiatives that may impact us include the repeal of the LIFO (last-in, first-out) method of inventory accounting for income tax purposes, the establishment or increase in taxation at the U.S. state level on the basis of gross revenues, recommendations of the recently completed base erosion and profit shifting project undertaken by the Organization for Economic Cooperation and Development and the European Commission's investigation into illegal state aid.

Additionally, in connection with the \$5.63 billion pre-tax charge for the opioid litigation, in the nine months ended March 31, 2020, we recorded a tax benefit of \$487 million, which is net of unrecognized tax benefits of \$468 million, reflecting our current assessment of the estimated future deductibility of the amount that may be paid. We have made reasonable estimates and recorded amounts based on management's judgment and our current understanding of the Tax Act; however, these estimates require significant judgment since the definitive settlement terms and documentation, including provisions related to deductibility, under the Settlement Framework have not been negotiated and the U.S. tax law governing deductibility was changed by the Tax Act. Further, it is possible that the tax authorities could challenge our interpretation of the Tax Act or the estimates and assumptions used to assess the future deductibility of these benefits. The actual amount of the tax benefit related to uncertain tax positions may differ materially from these estimates. See [Note 8](#) of the "Notes to Condensed Consolidated Financial Statements" for more information regarding these matters.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, we are subject to audit by taxing authorities for fiscal

years 2008 through the current fiscal year. Tax laws are complex and subject to varying interpretations. Tax authorities have challenged some of our tax positions, including IRS challenges to our international transfer pricing for the periods from 2008 to 2014, and

it is possible that they will challenge others. These challenges may adversely affect our effective tax rate or tax payments.

Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (2) (in millions)
January 2020	1,678	\$ 53.60	—	\$ 943
February 2020	223	58.58	—	943
March 2020	216	47.41	—	943
Total	2,117	\$ 53.49	—	\$ 943

- (1) Reflects 1,678, 223 and 216 common shares purchased in January, February and March 2020, respectively, through a rabbi trust as investments of participants in our Deferred Compensation Plan.
- (2) On February 7, 2018, our Board of Directors approved a \$1.0 billion share repurchase program that was completed in December 2019. On November 7, 2018, our Board of Directors approved a \$1.0 billion share repurchase program that expires on December 31, 2021 and as of March 31, 2020, we have \$943 million authorized for share repurchases remaining under this program.

Condensed Consolidated Statements of Earnings/(Loss)

(Unaudited)

(in millions, except per common share amounts)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Revenue	\$ 39,157	\$ 35,228	\$ 116,233	\$ 108,181
Cost of products sold	37,272	33,464	110,955	103,021
Gross margin	1,885	1,764	5,278	5,160
Operating expenses:				
Distribution, selling, general and administrative expenses	1,165	1,097	3,435	3,315
Restructuring and employee severance	(6)	53	80	97
Amortization and other acquisition-related costs	130	154	395	468
Impairments and (gain)/loss on disposal of assets, net	(1)	11	7	(492)
Litigation (recoveries)/charges, net	35	17	5,729	20
Operating earnings/(loss)	562	432	(4,368)	1,752
Other (income)/expense, net	19	(13)	21	13
Interest expense, net	60	75	189	227
Loss on extinguishment of debt	5	—	9	—
Earnings/(loss) before income taxes	478	370	(4,587)	1,512
Provision for/(benefit from) income taxes	127	74	(237)	342
Net earnings/(loss)	351	296	(4,350)	1,170
Less: Net earnings attributable to noncontrolling interests	(1)	—	(2)	(1)
Net earnings/(loss) attributable to Cardinal Health, Inc.	\$ 350	\$ 296	\$ (4,352)	\$ 1,169
Earnings/(loss) per common share attributable to Cardinal Health, Inc.:				
Basic	\$ 1.20	\$ 0.99	\$ (14.84)	\$ 3.89
Diluted	1.19	0.99	(14.84)	3.88
Weighted-average number of common shares outstanding:				
Basic	292	298	293	301
Diluted	294	299	293	302
Cash dividends declared per common share	\$ 0.4811	\$ 0.4763	\$ 1.4433	\$ 1.4289

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income/(Loss)

(Unaudited)

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net earnings/(loss)	\$ 351	\$ 296	\$ (4,350)	\$ 1,170
Other comprehensive income/(loss):				
Foreign currency translation adjustments and other	(17)	13	(35)	(16)
Net unrealized loss on derivative instruments, net of tax	(21)	(1)	(27)	(3)
Total other comprehensive income/(loss), net of tax	(38)	12	(62)	(19)
Total comprehensive income/(loss)	313	308	(4,412)	1,151
Less: comprehensive income attributable to noncontrolling interests	(1)	—	(2)	(1)
Total comprehensive income/(loss) attributable to Cardinal Health, Inc.	\$ 312	\$ 308	\$ (4,414)	\$ 1,150

See notes to condensed consolidated financial statements.

Condensed Consolidated Balance Sheets

(Unaudited)

(in millions)	March 31, 2020	June 30, 2019
Assets		
Current assets:		
Cash and equivalents	\$ 2,329	\$ 2,531
Trade receivables, net	9,019	8,448
Inventories, net	12,808	12,822
Prepaid expenses and other	1,692	1,946
Total current assets	25,848	25,747
Property and equipment, net	2,299	2,356
Goodwill and other intangibles, net	11,378	11,808
Other assets	1,623	1,052
Total assets	\$ 41,148	\$ 40,963
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,984	\$ 21,535
Current portion of long-term obligations and other short-term borrowings	508	452
Other accrued liabilities	2,179	2,122
Total current liabilities	24,671	24,109
Long-term obligations, less current portion	6,754	7,579
Deferred income taxes and other liabilities	8,517	2,945
Shareholders' equity:		
Preferred shares, without par value:		
Authorized—500 thousand shares, Issued—none	—	—
Common shares, without par value:		
Authorized—755 million shares, Issued—327 million shares at March 31, 2020 and June 30, 2019, respectively	2,774	2,763
Retained earnings	656	5,434
Common shares in treasury, at cost: 35 million shares and 28 million shares at March 31, 2020 and June 30, 2019, respectively	(2,086)	(1,790)
Accumulated other comprehensive loss	(141)	(79)
Total Cardinal Health, Inc. shareholders' equity	1,203	6,328
Noncontrolling interests	3	2
Total shareholders' equity	1,206	6,330
Total liabilities and shareholders' equity	\$ 41,148	\$ 40,963

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Shareholders' Equity

(Unaudited)

(in millions)	Common Shares		Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount			
Three Months Ended March 31, 2020								
Balance at December 31, 2019	327	\$ 2,752	\$ 449	(35)	\$ (2,099)	\$ (103)	\$ 3	\$ 1,002
Net earnings			350				1	351
Other comprehensive loss, net of tax						(38)		(38)
Employee stock plans activity, net of shares withheld for employee taxes	—	22			13			35
Dividends declared			(142)					(142)
Other			(1)				(1)	(2)
Balance at March 31, 2020	327	\$ 2,774	\$ 656	(35)	\$ (2,086)	\$ (141)	\$ 3	\$ 1,206
Three Months Ended March 31, 2019								
Balance at December 31, 2018	327	\$ 2,728	\$ 5,233	(29)	\$ (1,795)	\$ (123)	\$ —	\$ 6,043
Net earnings			296				—	296
Other comprehensive income, net of tax							12	12
Employee stock plans activity, net of shares withheld for employee taxes	—	20			2			22
Dividends declared			(143)					(143)
Other			—				2	2
Balance at March 31, 2019	327	\$ 2,748	\$ 5,386	(29)	\$ (1,793)	\$ (111)	\$ 2	\$ 6,232
Nine Months Ended March 31, 2020								
Balance at June 30, 2019	327	\$ 2,763	\$ 5,434	(28)	\$ (1,790)	\$ (79)	\$ 2	\$ 6,330
Net earnings/(loss)			(4,352)				2	(4,350)
Other comprehensive loss, net of tax						(62)		(62)
Employee stock plans activity, net of shares withheld for employee taxes	—	11			54			65
Share repurchase program activity		—		(7)	(350)			(350)
Dividends declared			(426)					(426)
Other			—				(1)	(1)
Balance at March 31, 2020	327	\$ 2,774	\$ 656	(35)	\$ (2,086)	\$ (141)	\$ 3	\$ 1,206
Nine Months Ended March 31, 2019								
Balance at June 30, 2018	327	\$ 2,730	\$ 4,645	(18)	\$ (1,224)	\$ (92)	\$ —	\$ 6,059
Net earnings			1,169				1	1,170
Other comprehensive loss, net of tax						(19)		(19)
Employee stock plans activity, net of shares withheld for employee taxes	—	18			1	31		49
Share repurchase program activity		—		(12)	(600)			(600)
Dividends declared			(429)					(429)
Other			1				1	2
Balance at March 31, 2019	327	\$ 2,748	\$ 5,386	(29)	\$ (1,793)	\$ (111)	\$ 2	\$ 6,232

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Nine Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net earnings/(loss)	\$ (4,350)	\$ 1,170
Adjustments to reconcile net earnings/(loss) to net cash provided by operating activities:		
Depreciation and amortization	688	759
Impairments and loss on sale of other investments	—	2
Impairments and (gain)/loss on disposal of assets, net	7	(492)
Loss on extinguishment of debt	9	—
Share-based compensation	68	64
Provision for bad debts	86	59
Change in operating assets and liabilities, net of effects from acquisitions and divestitures:		
Increase in trade receivables	(653)	(156)
Increase in inventories	(8)	(345)
Increase in accounts payable	448	846
Other accrued liabilities and operating items, net	5,425	309
Net cash provided by operating activities	1,720	2,216
Cash flows from investing activities:		
Acquisition of subsidiaries, net of cash acquired	—	(38)
Additions to property and equipment	(239)	(192)
Purchase of investments	(18)	(11)
Proceeds from return of investments	6	3
Proceeds from divestitures, net of cash sold, and disposal of property and equipment	2	749
Net cash provided by/(used in) investing activities	(249)	511
Cash flows from financing activities:		
Net change in short-term borrowings	(2)	—
Reduction of long-term obligations	(888)	(2)
Net tax withholdings from share-based compensation	(4)	(13)
Dividends on common shares	(428)	(435)
Purchase of treasury shares	(350)	(600)
Net cash used in financing activities	(1,672)	(1,050)
Effect of exchange rates changes on cash and equivalents	(1)	(2)
Net increase/(decrease) in cash and equivalents	(202)	1,675
Cash and equivalents at beginning of period	2,531	1,763
Cash and equivalents at end of period	\$ 2,329	\$ 3,438

See notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements include the accounts of all majority-owned or controlled subsidiaries, and all significant intercompany transactions and amounts have been eliminated.

References to "we," "our," and similar pronouns in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (this "Form 10-Q") refer to Cardinal Health, Inc. and its majority-owned or controlled subsidiaries unless the context requires otherwise.

Our fiscal year ends on June 30. References to fiscal 2020 and 2019 in these condensed consolidated financial statements are to the fiscal years ending or ended June 30, 2020 and June 30, 2019, respectively.

Our condensed consolidated financial statements have been prepared in accordance with the United States Securities and Exchange Commission ("SEC") instructions to Quarterly Reports on Form 10-Q and include the information and disclosures required by accounting principles generally accepted in the United States ("GAAP") for interim financial reporting. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes. Actual amounts may differ from these estimated amounts. In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Except as disclosed elsewhere in this Form 10-Q, all such adjustments are of a normal and recurring nature. To conform to the current year presentation, certain prior year amounts have been reclassified. In addition, financial results presented for this fiscal 2020 interim period are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2020. These condensed consolidated financial statements are unaudited and, accordingly, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (the "2019 Form 10-K").

Recently Adopted Financial Accounting Standards

Derivatives and Hedging

In October 2018, the Financial Accounting Standards Board ("FASB") issued amended accounting guidance related to derivatives and hedging which permits the use of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") as a benchmark interest rate for hedge accounting purposes. This guidance is effective beginning the first quarter of fiscal 2020 and must be applied on a prospective basis. The adoption did not have a material impact on our consolidated financial statements.

Leases

In February 2016, the FASB issued amended accounting guidance that requires lessees to recognize most leases on the balance sheet as a lease liability and corresponding right-of-use asset. The guidance also requires disclosures that meet the objective of enabling financial statement users to assess the amount, timing and uncertainty of cash flows arising from leases. We adopted this guidance during the first quarter of fiscal 2020 and elected the transition option which allows us to apply the guidance prospectively. The adoption resulted in the recognition of lease liabilities in the amount of \$422 million and did not have a material impact on our results of operations, liquidity or debt covenant compliance under our current debt agreements. The majority of our lease spend relates to certain real estate with the remaining lease spend primarily related to vehicles and equipment. The adoption required certain changes to our systems and processes. See [Note 5](#) for additional information regarding leases.

Recently Issued Financial Accounting Standards Not Yet Adopted

Financial Instruments - Credit Losses

In June 2016, the FASB issued amended accounting guidance that will require entities to measure credit losses on trade and other receivables, held-to-maturity debt securities, loans and other instruments using an "expected credit loss" model that considers historical experience, current conditions and reasonable supportable forecasts. This guidance also requires that credit losses on available-for-sale debt securities with unrealized losses be recognized as allowances rather than as deductions in the amortized cost of the securities. This guidance will be effective for us in the first quarter of fiscal 2021. We are currently evaluating the impact of this amended guidance but do not expect the adoption to have a material impact on our consolidated financial statements or disclosures.

2. Restructuring and Employee Severance

The following table summarizes restructuring and employee severance:

(in millions)	Three Months Ended March 31,	
	2020	2019
Employee-related (1)	\$ (15)	\$ 29
Facility exit and other (2)	9	24
Total restructuring and employee severance	\$ (6)	\$ 53

(in millions)	Nine Months Ended March 31,	
	2020	2019
Employee-related (1)	\$ 47	\$ 70
Facility exit and other (2)	33	27
Total restructuring and employee severance	\$ 80	\$ 97

- (1) Employee-related costs primarily consist of termination benefits provided to employees who have been involuntarily terminated, duplicate payroll costs and retention bonuses incurred during transition periods.
- (2) Facility exit and other costs primarily consist of product distribution and lease contract termination costs, lease costs associated with vacant facilities, accelerated depreciation, equipment relocation costs, project consulting fees, vendor transition fees, costs associated with restructuring our delivery of information technology infrastructure services and certain other divestiture-related costs.

Restructuring and employee severance during both the three and nine months ended March 31, 2020 and 2019 was primarily related to enterprise-wide cost-saving measures. The income during the three months ended March 31, 2020 was due to changes in estimates for severance previously accrued.

The following table summarizes activity related to liabilities associated with restructuring and employee severance:

(in millions)	Employee-Related Costs	Facility Exit and Other Costs	Total
Balance at June 30, 2019	\$ 64	\$ 8	\$ 72
Additions	57	10	67
Payments and other adjustments	(55)	(3)	(58)
Balance at March 31, 2020	\$ 66	\$ 15	\$ 81

3. Goodwill and Other Intangible Assets

Goodwill

The following table summarizes the changes in the carrying amount of goodwill by segment and in total:

(in millions)	Pharmaceutical	Medical	Total
Balance at June 30, 2019	\$ 2,663	\$ 5,715	\$ 8,378
Goodwill acquired, net of purchase price adjustments	(5)	—	(5)
Foreign currency translation adjustments and other	—	(34)	(34)
Balance at March 31, 2020	\$ 2,658	\$ 5,681	\$ 8,339

Primarily due to the risks and uncertainties to the business from both the Recalls and the COVID-19 pandemic, we elected to bypass the qualitative assessment and perform interim goodwill impairment testing for the Medical Unit during the three months ended March 31, 2020. The carrying value of this reporting unit at March 31, 2020 was \$10.1 billion, of which \$4.2 billion was goodwill. The fair value of the reporting unit was estimated to be approximately 10 percent in excess of its carrying value, using a combination of the income-based approach (using a discount rate of 8.5 percent and a terminal growth rate of 2 percent), and the market-based approach.

Other Intangible Assets

The following tables summarize other intangible assets by class at:

(in millions)	March 31, 2020			
	Gross Intangible	Accumulated Amortization	Net Intangible	Weighted-Average Remaining Amortization Period (Years)
Indefinite-life intangibles:				
IPR&D, trademarks and other	\$ 22	\$ —	\$ 22	N/A
Total indefinite-life intangibles	22	—	22	N/A
Definite-life intangibles:				
Customer relationships	3,544	1,746	1,798	13
Trademarks, trade names and patents	674	329	345	13
Developed technology and other	1,604	730	874	11
Total definite-life intangibles	5,822	2,805	3,017	12
Total other intangible assets	\$ 5,844	\$ 2,805	\$ 3,039	N/A

(in millions)	June 30, 2019		
	Gross Intangible	Accumulated Amortization	Net Intangible
Indefinite-life intangibles:			
IPR&D, trademarks and other	\$ 22	\$ —	\$ 22
Total indefinite-life intangibles	22	—	22
Definite-life intangibles:			
Customer relationships	3,562	1,517	2,045
Trademarks, trade names and patents	672	295	377
Developed technology and other	1,602	616	986
Total definite-life intangibles	5,836	2,428	3,408
Total other intangible assets	\$ 5,858	\$ 2,428	\$ 3,430

Total amortization of intangible assets was \$129 million and \$133 million for the three months ended March 31, 2020 and 2019, respectively, and \$385 million and \$399 million for the nine months ended March 31, 2020 and 2019, respectively. Estimated annual amortization of intangible assets for the remainder of fiscal 2020 through 2024 is as follows: \$134 million, \$442 million, \$408 million, \$358 million and \$328 million.

4. Investments

In August 2018, we sold our 98 percent ownership interest in naviHealth Holdings, LLC ("naviHealth") to investor entities controlled by Clayton, Dubilier & Rice in exchange for cash proceeds of \$737 million (after adjusting for certain fees and expenses) and a 44 percent equity interest in a partnership that owns 100 percent of the equity interest of naviHealth. We also have certain call rights to reacquire naviHealth. We are accounting for this investment using the equity method of accounting and on a one-month reporting lag.

During the nine months ended March 31, 2019, we recognized a pre-tax gain of \$508 million related to this divestiture in impairments and (gain)/loss on disposal of assets in our condensed consolidated statements of earnings/(loss).

The carrying value of this investment was \$330 million and \$334 million as of March 31, 2020 and June 30, 2019, respectively. During the three and nine months ended March 31, 2020, our proportionate share of naviHealth's net loss, which was recorded in other (income)/ expense, net in the condensed consolidated statements of earnings/(loss), was immaterial.

5. Leases

We primarily have operating leases for corporate offices, distribution facilities, vehicles, and equipment. We determine if an arrangement is a lease at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether we obtain substantially all of the economic benefits from and have the ability to direct the use of the asset. Our lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

Beginning July 1, 2019, operating lease right-of-use assets and corresponding operating lease liabilities are recognized in our condensed consolidated balance sheet at commencement date based on the present value of lease payments over the lease term. Operating lease expense for operating lease assets is recognized on a straight-line basis over the lease term. As most of our leases do not provide an implicit rate, we use our collateralized incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate if it is readily determinable.

Our lease agreements include leases that contain lease components and non-lease components. For all asset classes, we have elected to account for both of these provisions as a single lease component. We also, from time to time, sublease portions of our real estate property, resulting in sublease income. Sublease income and the related assets and cash flows are not material to the condensed consolidated financial statements at or for the three and nine months ended March 31, 2020.

We also have elected to apply a practical expedient for short-term leases whereby we do not recognize a lease liability and right-of-use asset for leases with a term of less than 12 months. Short-term lease expense recognized in the three and nine months ended March 31, 2020 was not material. In addition, we elected the package of three practical expedients permitted under the transition guidance, which include the carry forward of our leases without reassessing 1) whether any contracts are leases or contain leases, 2) lease classification and 3) initial direct costs.

Our leases have remaining lease terms from less than 1 year up to approximately 23 years. Our lease terms may include options to extend or terminate the lease when it is reasonably certain and there is a significant economic incentive to exercise that option.

The following table summarizes the components of lease cost:

(in millions)	Three Months Ended March 31,	Nine Months Ended March 31,
	2020	2020
Operating lease cost	\$ 31	\$ 92
Finance lease cost		
Amortization of right-of-use assets	1	9
Total finance lease cost	1	9
Variable lease cost ⁽¹⁾	5	17
Total lease cost	\$ 37	\$ 118

(1) Primarily includes payments for property taxes, maintenance and insurance.

The following table summarizes supplemental balance sheet information related to leases:

(in millions)	March 31, 2020
Operating Leases	
Operating lease right-of-use assets	\$ 469
Current portion of operating lease liabilities	109
Long-term operating lease liabilities	381
Total operating lease liabilities	490
Finance Leases	
Finance lease right-of-use assets	13
Current portion of finance lease liabilities	4
Long-term finance lease liabilities	10
Total finance lease liabilities	\$ 14

Operating leases are included in other assets, other accrued liabilities, and deferred income taxes and other liabilities in our condensed consolidated balance sheet. Finance leases are included in property and equipment, net, current portion of long-term obligations and other short-term borrowings, and long-term obligations, less current portion in our condensed consolidated balance sheet.

The following tables summarize supplemental cash flow information related to leases:

(in millions)	Nine Months Ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows paid for operating leases	\$ 95
Financing cash flows paid for finance leases	4
Non-cash right-of-use assets obtained in exchange for lease obligations:	
New operating leases	154
New finance leases	17
Amended lease standard adoption impact as of July 1, 2019 ⁽¹⁾	400

(1) Includes the effect of \$22 million from reclassifying deferred rent as an offset to the lease right-of-use asset in accordance with the transition guidance.

Our operating leases had a weighted-average remaining lease term of 6.5 years and a weighted-average discount rate of 2.8 percent.

Future lease payments under non-cancellable leases as of March 31, 2020 were as follows:

(in millions)	Operating Leases	Finance Leases	Total
Remainder of 2020	\$ 29	\$ 1	\$ 30
2021	113	6	119
2022	95	4	99
2023	73	4	77
2024	54	1	55
Thereafter	173	—	173
Total future lease payments	537	16	553
Less: leases not yet commenced ⁽¹⁾	4	—	4
Less: imputed interest	43	2	45
Total lease liabilities	\$ 490	\$ 14	\$ 504

(1) As of March 31, 2020, we had certain leases that were executed but did not have control of the underlying assets; therefore, the lease liabilities and right-of-use assets are not recorded in the condensed consolidated balance sheets.

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2019 for fiscal 2020 through 2024 and thereafter were as follows: \$126 million, \$100 million, \$76 million, \$54 million, \$33 million and \$94 million.

6. Long-Term Obligations and Other Short-Term Borrowings

Long-Term Debt and Other Short-Term Borrowings

At March 31, 2020 and June 30, 2019, we had total long-term obligations, including the current portion and other short-term borrowings, of \$7.3 billion and \$8.0 billion, respectively. All the notes represent unsecured obligations of Cardinal Health, Inc. and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. Interest is paid pursuant to the terms of the obligations. These obligations are effectively subordinated to the liabilities of our subsidiaries, including trade payables of \$22.0 billion and \$21.5 billion at March 31, 2020 and June 30, 2019, respectively.

In November 2019, we repaid the full principal of the 2.4% Notes due 2019 at maturity for \$450 million. During the nine months ended March 31, 2020, we early repurchased \$247 million of the 2.616% Notes due 2022, \$11 million of the 3.2% Notes due 2022, \$20 million of the Floating Rate Notes due 2022, \$104 million of the 3.41% Notes due 2027, \$6 million of the 4.6% Notes due 2043, \$5 million of the 4.9% Notes due 2045, and \$35 million of the 4.368% Notes due 2047. The repurchases were paid for with available cash and other short-term borrowings. In connection with the early debt repurchases, we recorded a \$9 million loss on extinguishment of debt.

The following table summarizes long-term obligations and other short-term borrowings at:

(in millions) (1)	March 31, 2020	June 30, 2019
2.4% Notes due 2019	\$ —	\$ 450
4.625% Notes due 2020	504	508
2.616% Notes due 2022	834	1,079
3.2% Notes due 2022	236	247
Floating Rate Notes due 2022	321	340
3.2% Notes due 2023	573	551
3.079% Notes due 2024	815	781
3.5% Notes due 2024	413	402
3.75% Notes due 2025	530	494
3.41% Notes due 2027	1,215	1,318
4.6% Notes due 2043	340	346
4.5% Notes due 2044	342	342
4.9% Notes due 2045	441	445
4.368% Notes due 2047	560	594
7.0% Debentures due 2026	124	124
Other Obligations	14	10
Total	7,262	8,031
Less: current portion of long-term obligations and other short-term borrowings	508	452
Long-term obligations, less current portion	\$ 6,754	\$ 7,579

(1) Maturities are presented on a calendar year basis.

Other Financing Arrangements

In addition to cash and equivalents and operating cash flow, other sources of liquidity include a \$2.0 billion commercial paper program backed by a \$2.0 billion revolving credit facility. We also have a \$1.0 billion committed receivables sales facility.

In September 2019, we renewed our committed receivables sales facility program through Cardinal Health Funding, LLC ("CHF") through September 30, 2022. CHF was organized for the sole purpose of buying receivables and selling undivided interests in those receivables to third-party purchasers. Although consolidated with Cardinal Health, Inc. in accordance with GAAP, CHF is a separate legal entity from Cardinal Health, Inc. and from our subsidiary that sells receivables to CHF. CHF is designed to be a special purpose, bankruptcy-remote entity whose assets are available solely to satisfy the claims of its creditors.

Our revolving credit and committed receivables sales facilities require us to maintain, as of the end of every fiscal quarter through December 2020, a consolidated net leverage ratio of no more than 4.00-to-1. The maximum permitted ratio will reduce to 3.75-to-1 in March 2021 and as of the end of every quarter thereafter. As of March 31, 2020, we were in compliance with this financial covenant.

7. Commitments, Contingent Liabilities and Litigation

Commitments

Generic Sourcing Venture with CVS Health Corporation ("CVS Health")

In July 2014, we established Red Oak Sourcing, LLC ("Red Oak Sourcing"), a U.S.-based generic pharmaceutical sourcing venture with CVS Health for an initial term of 10 years. Red Oak Sourcing negotiates generic pharmaceutical supply contracts on behalf of its participants. Due to the achievement of predetermined milestones, we are required to make quarterly payments of \$45.6 million to CVS Health for the remainder of the initial term.

Legal Proceedings

We become involved from time to time in disputes, litigation and regulatory matters.

We are named from time to time in *qui tam* actions initiated by private third parties. In such actions, the private parties purport to act on behalf of federal or state governments, allege that false claims have been submitted for payment by the government and may receive an award if their claims are successful. After a private party has filed a *qui tam* action, the government must investigate the private party's claim and determine whether to intervene in and take control over the litigation. These actions may remain under seal while the government makes this determination. If the government declines to intervene, the private party may nonetheless continue to pursue the litigation on his or her own purporting to act on behalf of the government.

From time to time, we become aware through employees, internal audits or other parties of possible compliance matters, such as complaints or concerns relating to accounting, internal accounting controls, financial reporting, auditing, or other ethical matters or relating to compliance with laws such as healthcare fraud and abuse, anti-corruption or anti-bribery laws. When we become aware of such possible compliance matters, we investigate internally and take appropriate corrective action. In addition, from time to time, we receive subpoenas or requests for information from various federal or state agencies relating to our business or to the business of a customer, supplier or other industry participants. Internal investigations, subpoenas or requests for information have led, and may in the future lead, to the assertion of claims or the commencement of legal proceedings against us or result in sanctions.

From time to time, we determine that products we manufacture or market do not meet our specifications, regulatory requirements, or published standards. When we or a regulatory agency identify a potential quality or regulatory issue, we investigate and take appropriate corrective action. Such actions can lead to product recalls, costs to repair or replace affected products, temporary interruptions in product sales, action by regulators and product liability claims and lawsuits, including class actions. Even absent an

identified regulatory or quality issue or product recall, we can become subject to product liability claims and lawsuits.

We accrue for contingencies related to disputes, litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates. Except as otherwise disclosed in this footnote, it is not possible for us to reasonably estimate the amount of any possible loss or range of possible losses in the matters described below.

We recognize income from the favorable outcome of litigation when we receive the associated cash or assets.

We recognize estimated loss contingencies for certain litigation and regulatory matters and income from favorable resolution of litigation in litigation (recoveries)/charges in our condensed consolidated statements of earnings.

Opioid Lawsuits and Investigations

Pharmaceutical wholesale distributors, including us, have been named as defendants in over 3,000 lawsuits relating to the distribution of prescription opioid pain medications. The lawsuits seek equitable relief and monetary damages based on a variety of legal theories including various common law claims, such as public nuisance, negligence and unjust enrichment as well as violations of controlled substance laws, the Racketeer Influenced and Corrupt Organizations Act and various other statutes. These lawsuits also name pharmaceutical manufacturers, retail pharmacy chains and other entities as defendants.

States & Political Subdivisions

Approximately 2,700 of these lawsuits have been filed by counties, municipalities, cities and political subdivisions in various federal, state, and other courts. The vast majority of these lawsuits were filed in U.S. federal court and have been transferred for consolidated pre-trial proceedings in a Multi-District Litigation proceeding in the U.S. District Court for the Northern District of Ohio (the "MDL").

In January 2020, the complaints of the Cabell County, West Virginia and the City of Huntington, West Virginia were remanded to U.S. District Court in West Virginia. A trial date has been set in August 2020. In addition, the complaints of San Francisco, California and the Cherokee Nation have been remanded to their original district courts, but no trial dates have been set.

In addition, 25 state attorneys general have filed lawsuits against distributors, including us, in various state courts. A trial in New York for cases brought by the New York State Attorney General and Nassau and Suffolk counties was scheduled to begin in March 2020, but was deferred due to the COVID-19 pandemic. Trial is scheduled to begin in October 2020 for a case brought by the Ohio State Attorney General and trial on a case brought by certain West Virginia political subdivisions is scheduled for March 2021.

Additionally, we have received requests from a multi-state task force of state attorneys general, as well as separate civil investigative demands, subpoenas or requests for information from these and other state attorneys general offices and governmental authorities.

In October 2019, we agreed in principle to a global settlement framework with a leadership group of state attorneys general that is designed to resolve all pending and future opioid lawsuits and claims by states and political subdivisions (the "Settlement Framework"). This Settlement Framework is subject to contingencies and uncertainties as to final terms, but is the basis for our negotiation of definitive terms and documentation.

The Settlement Framework includes (1) a cash component, pursuant to which we would pay up to \$5.56 billion over eighteen years, (2) development and participation in a program for distribution of opioid abuse treatment medications for a period of ten years, and (3) industry-wide changes to be specified to controlled substance anti-diversion programs. Definitive terms for a settlement pursuant to the Settlement Framework continue to be negotiated, and there is no assurance that the necessary parties will agree to a definitive settlement agreement or that the contingencies to any agreement will be satisfied. In connection with these matters, we have \$5.56 billion accrued at March 31, 2020, included in deferred income taxes and other liabilities in the condensed consolidated balance sheets, which represents the cash component. We are unable to reasonably estimate the liability or cost associated with the other components of the Settlement Framework, the potential distribution of treatment medications and any incremental costs for changes to our controlled substance anti-diversion program that we may agree to. We continue to negotiate the definitive terms of the Settlement Framework.

In the nine months ended March 31, 2020, we along with two other national distributors entered into a \$215 million settlement with two Ohio counties, Cuyahoga and Summit, to resolve all claims in the first bellwether trial in the MDL, which had been set for trial for October 2019. In connection with this settlement, we incurred \$66 million within litigation (recoveries)/charges, net during the nine months ended March 31, 2020.

In connection with these matters, we recorded a total pre-tax charge of \$5.63 billion (\$5.14 billion after tax) during the nine months ended March 31, 2020 in litigation (recoveries)/charges, net, in the condensed consolidated statement of earnings for the cash component. Because loss contingencies are inherently unpredictable and unfavorable developments or resolutions can occur, the assessment is highly subjective and requires judgments about future events. We will regularly review these opioid litigation matters to determine whether our accrual is adequate. The amount of ultimate loss may differ materially from this accrual. We continue to strongly dispute the allegations made in these lawsuits and reaching an agreement in principle on a global settlement framework is not an admission of liability or wrongdoing.

Private Plaintiffs

The Settlement Framework does not address claims by private plaintiffs, which includes unions and other health and welfare funds,

hospital systems and other healthcare providers, businesses and individuals. Private plaintiffs had brought approximately 400 lawsuits as of May 4, 2020. Of these, 105 are purported class actions. The causes of action asserted by these plaintiffs are similar to those asserted by public plaintiffs. We will continue to vigorously defend ourselves in these matters.

Department of Justice Investigations

We have received grand jury subpoenas issued on behalf of the District Courts for the Eastern District of New York and the District of Columbia seeking documents and, in the District of Columbia, testimony, related to our anti-diversion policies and procedures, and our distribution of certain controlled substances. We are cooperating with these requests.

Cordis Product Liability Lawsuits

As of May 4, 2020, we are named as a defendant in 309 product liability lawsuits coordinated in Alameda County Superior Court in California involving claims by approximately 3,924 plaintiffs that allege personal injuries associated with the use of Cordis OptEase and TrapEase inferior vena cava (IVC) filter products. Another 29 lawsuits involving similar claims by approximately 34 plaintiffs are pending in other jurisdictions. These lawsuits seek a variety of remedies, including unspecified monetary damages. We are vigorously defending ourselves in these lawsuits.

At March 31, 2020, we had a total of \$466 million accrued for losses and legal defense costs related to the Cordis IVC filter lawsuits, net of estimated insurance recoveries. We believe there is a range of estimated losses with respect to these matters. Because no amount within the range is a better estimate than any other amount within the range, we have accrued the minimum amount in the range. We estimate the high end of the range to be approximately \$900 million, net of estimated insurance recoveries.

Shareholder Securities Litigation

In August 2019, the Louisiana Sheriffs' Pension & Relief Fund filed a purported class action complaint against Cardinal Health and certain current and former officers and employees in the United States District Court for the Southern District of Ohio purportedly on behalf of all purchasers of our common shares between March 2015 and May 2018. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by making misrepresentations and omissions related to the integration of the Cordis business and inventory and supply chain problems within the Cordis business, and seeks to recover unspecified damages and equitable relief for the alleged misstatements and omissions. We believe that the claims asserted in this complaint are without merit and intend to vigorously defend against them.

Surgical Gown Recalls

In January 2020, we issued a voluntary recall for 9.1 million AAMI Level 3 surgical gowns and two voluntary field actions (a recall of some packs and a corrective action allowing overlabeling of other packs) for 2.9 million Presource Procedure Packs containing affected gowns (together, the "Recalls"). These Recalls were necessary

because we discovered in December 2019 that one of our FDA-registered suppliers in China had shifted production of some gowns to unapproved sites with uncontrolled manufacturing environments. Because of this, we could not assure sterility of the gowns.

In connection with these Recalls, in the nine months ended March 31, 2020, we recorded total charges of \$95 million, of which \$55 million is within cost of products sold and \$40 million is within SG&A in the condensed consolidated statements of earnings/(loss). In our condensed consolidated balance sheet at March 31, 2020, we had \$38 million reserved within inventories, net, and \$55 million included in other accrued liabilities related to this charge. This charge represents our best estimate of costs for the Recalls and includes inventory write-off costs and certain remediation and supply disruption costs, such as costs to replace recalled products. Because loss contingencies are inherently unpredictable and unfavorable developments or resolutions can occur, the assessment is highly subjective and requires judgments about future events. The amount of ultimate loss may differ materially from this accrual.

In addition to the charge for the nine months ended March 31, 2020, the Recalls may have other negative impacts, which could include: government investigations and enforcement actions by the U.S. Food and Drug Administration or other regulators or U.S. or international governmental bodies (possibly resulting in the suspension or revocation of the authority to produce, distribute and sell products and other civil or criminal sanctions); losses due to patient claims, including product liability claims and lawsuits; and customer claims unrelated to their direct costs from the supply disruption.

Other Civil Litigation

Generic Pharmaceutical Antitrust Litigation

In December 2019, pharmaceutical distributors including us were added as defendants in a civil multidistrict litigation consisting of multiple individual and class action lawsuits filed by indirect purchasers of generic drugs, such as hospitals and retail pharmacies. The plaintiffs allege that pharmaceutical distributors encouraged manufacturers to increase prices, provided anti-competitive pricing information to manufacturers and informed manufacturers that they wished to maintain current customer allocations for the purpose of avoiding price erosion. We intend to vigorously defend ourselves in these matters.

Blood Pressure Medication Recall Litigation

Many participants in the pharmaceutical supply chain, including manufacturers, repackagers (including us), distributors (including us), and retailers have been named as defendants in Multidistrict Litigation in the U.S. District Court for the District of New Jersey (the "Blood Pressure Medication Recall MDL"), which was created in February 2019. The claims arise out of a series of recalls of generic blood pressure medications due to alleged impurities in active pharmaceutical ingredients. We intend to vigorously defend ourselves in these matters.

8. Income Taxes

Fluctuations in our provision for/(benefit from) income taxes as a percentage of pretax earnings ("effective tax rate") are generally due to changes in international and U.S. state effective tax rates resulting from our business mix and discrete items.

Opioid Settlement Framework

In connection with the \$5.63 billion pre-tax charge for the opioid litigation, during the nine months ended March 31, 2020 we recorded a tax benefit of \$487 million, which is net of unrecognized tax benefits of \$468 million, reflecting our current assessment of the estimated future deductibility of the amount that may be paid. We have made reasonable estimates and recorded amounts based on management's judgment and our current understanding of the Tax Act; however, these estimates require significant judgment since the definitive settlement terms and documentation, including provisions related to deductibility, under the Settlement Framework have not been negotiated and the U.S. tax law governing deductibility was changed by the U.S. Tax Cuts and Jobs Act ("Tax Act"). Further, it is possible that the tax authorities could challenge our interpretation of the Tax Act or the estimates and assumptions used to assess the future deductibility of these benefits. The actual amount of the tax benefit related to uncertain tax positions may differ materially from these estimates. See [Note 7](#) for more information regarding these matters.

Effective Tax Rate

During the three months ended March 31, 2020 and 2019, the effective tax rate was 26.8 percent and 20.0 percent, respectively. The increase in the effective tax rate from the prior period was primarily due to changes in discrete tax items and jurisdictional mix.

During the nine months ended March 31, 2020 and 2019, the effective tax rate was 5.2 percent and 22.6 percent, respectively. The decrease in the effective tax rate from fiscal 2019 to fiscal 2020 was primarily due to the net tax effects of the Settlement Framework.

Unrecognized Tax Benefits

At March 31, 2020 and June 30, 2019, we had \$919 million and \$456 million of unrecognized tax benefits, respectively. The March 31, 2020 and June 30, 2019 balances include \$772 million and \$303 million of unrecognized tax benefits, respectively, that if recognized, would have an impact on the effective tax rate.

At March 31, 2020 and June 30, 2019, we had \$137 million and \$122 million, respectively, accrued for the payment of interest and penalties related to unrecognized tax benefits, which we recognize in the provision for/(benefit from) income taxes in the condensed consolidated statements of earnings/(loss). These balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the condensed consolidated balance sheets.

It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next 12 months due to activities of the U.S. Internal Revenue Service ("IRS") or other taxing authorities, possible settlement of IRS and other audit issues,

reassessment of existing unrecognized tax benefits or the expiration of statutes of limitations. We estimate that the range of the possible change in unrecognized tax benefits within the next 12 months is between zero and a net decrease of up to \$350 million, exclusive of penalties and interest.

Other Tax Matters

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, we are subject to audit by taxing authorities for fiscal years 2008 through the current fiscal year. Tax laws are complex and subject to varying interpretations. Tax authorities have challenged some of our tax positions, including IRS challenges to our international transfer pricing for the periods from 2008 to 2014, and it is possible that they will challenge others. These challenges may adversely affect our effective tax rate or tax payments.

We are a party to a tax matters agreement with CareFusion Corporation ("CareFusion"), a subsidiary of Becton, Dickinson and Company. Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to our fiscal 2010 spin-off of CareFusion. The indemnification receivable was \$173 million and \$165 million at March 31, 2020 and June 30, 2019, respectively, and is included in other assets in the condensed consolidated balance sheets.

As a result of the acquisition of the Patient Recovery Business, Medtronic plc is obligated to indemnify us for certain tax exposures and transaction taxes related to periods prior to the acquisition under the purchase agreement. The indemnification receivable was \$18 million and \$22 million at March 31, 2020 and June 30, 2019, respectively, and is included in other assets in the condensed consolidated balance sheet.

Future adjustments to the financial statements may be necessary as final tax regulations related to U.S. Tax Reform are issued. We will assess any impact as additional guidance is issued.

9. Fair Value Measurements

The following tables present the fair values for assets and (liabilities) measured on a recurring basis at:

March 31, 2020				
(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 647	\$ —	\$ —	\$ 647
Other investments (1)	96	—	—	96
Forward contracts (2)	—	170	—	170

June 30, 2019				
(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 297	\$ —	\$ —	\$ 297
Other investments (1)	118	—	—	118
Forward contracts (2)	—	53	—	53

- (1) The other investments balance includes investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities. These mutual funds invest in the equity securities of companies with both large and small market capitalization and high quality fixed income debt securities. The fair value of these investments is determined using quoted market prices.
- (2) The fair value of interest rate swaps, foreign currency contracts, commodity contracts, and net investment hedges is determined based on the present value of expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Observable Level 2 inputs are used to determine the present value of expected future cash flows. The fair value of these derivative contracts, which are subject to master netting arrangements under certain circumstances, is presented on a gross basis in prepaid expenses and other, other assets, other accrued liabilities, and deferred income taxes and other liabilities within the condensed consolidated balance sheets.

10. Financial Instruments

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk, and commodity price risk. We do not use derivative instruments for trading or speculative purposes. While the majority of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to fair value through earnings at the end of each period. We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines and only enter into derivative instruments with major financial institutions that are rated investment grade or better. We do not have significant exposure to any one counterparty and we believe the risk of loss is remote. Additionally, we do not require collateral under these agreements.

Interest Rate Risk Management

We are exposed to the impact of interest rate changes. Our objective is to manage the impact of interest rate changes on cash flows and the market value of our borrowings. We utilize a mix of debt maturities along with both fixed-rate and variable-rate debt to manage changes in interest rates. In addition, we enter into interest rate swaps to further manage our exposure to interest rate variations related to our borrowings and to lower our overall borrowing costs.

Currency Exchange Risk Management

We conduct business in several major international currencies and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce volatility in earnings, cash flow and net investments in certain subsidiaries to allow management to focus its attention on business operations. Accordingly, we enter into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenue and expenses.

Commodity Price Risk Management

We are exposed to changes in the price of certain commodities. Our objective is to reduce earnings and cash flow volatility associated with forecasted purchases of these commodities to allow management to focus its attention on business operations. Accordingly, we enter into derivative contracts when possible to manage the price risk associated with certain forecasted purchases.

Fair Value Hedges

We enter into pay-floating interest rate swaps to hedge the changes in the fair value of fixed-rate debt resulting from fluctuations in interest rates. These contracts are designated and qualify as fair value hedges. Accordingly, the gain or loss recorded on the pay-floating interest rate swaps is directly offset by the change in fair value of the underlying debt. Both the derivative instrument and the underlying debt are adjusted to market value at the end of each period with any resulting gain or loss recorded in interest expense in the condensed consolidated statements of earnings. For the three and nine months ended March 31, 2020 and 2019, there was no gain or loss recorded to interest expense as changes in the market value of our derivative instruments offset changes in the market value of the underlying debt.

During the nine months ended March 31, 2020 and 2019, no new pay-floating interest rate swaps were executed. In connection with the debt redemption as described in [Note 6](#), two pay-floating interest rate swaps with notional amounts of \$200 million matured in the second quarter of fiscal 2020.

Cash Flow Hedges

We enter into derivative instruments to hedge our exposure to changes in cash flows attributable to interest rate, foreign currency and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the gain or loss on the derivative instrument is reported as a component of other comprehensive income/(loss) and reclassified into earnings in the

same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings.

During the nine months ended March 31, 2020, we entered into forward interest rate swaps with a total notional amount of \$200 million to hedge probable, but not firmly committed, future transactions associated with our debt.

Gains and losses recognized in accumulated other comprehensive loss and reclassified into earnings were immaterial for the three and nine months ended March 31, 2020 and 2019. All gains and losses currently included within accumulated other comprehensive loss associated with our foreign exchange forward contracts that are expected to be reclassified into net earnings within the next 12 months are immaterial.

Net Investment Hedges

We hedge the foreign currency risk associated with certain net investment positions in foreign subsidiaries. To accomplish this, we enter into cross-currency swaps that are designated as hedges of net investments.

In August 2019, we entered into a ¥64.0 billion (\$600 million) cross-currency swap maturing in 2022.

In September 2018, we entered into a €200 million (\$233 million) cross-currency swap maturing in 2023.

Cross-currency swaps designated as net investment hedges are marked-to-market using the current spot exchange rate as of the end of the period, with gains and losses included in the foreign currency translation component of accumulated other comprehensive loss until the sale or substantial liquidation of the underlying net investments. To the extent the cross-currency swaps designated as net investment hedges are not highly effective, changes in carrying value attributable to the change in spot rates are recorded in earnings.

Economic (Non-Designated) Hedges

We enter into foreign currency contracts to manage our foreign exchange exposure related to sales transactions, intercompany financing transactions and other balance sheet items subject to revaluation that do not meet the requirements for hedge accounting treatment. Accordingly, these derivative instruments are adjusted to current market value at the end of each period through earnings. The gain or loss recorded on these instruments is substantially offset by the remeasurement adjustment on the foreign currency denominated asset or liability. The settlement of the derivative instrument and the remeasurement adjustment on the foreign currency denominated asset or liability are both recorded in other (income)/expense, net. We recorded a \$7 million and \$8 million expense during the nine months ended March 31, 2020 and 2019, respectively. The principal currencies managed through foreign currency contracts are the euro, Canadian dollar, British pound, Japanese yen, and Chinese renminbi.

Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, trade receivables, accounts payable and other accrued liabilities at March 31, 2020 and June 30, 2019 approximate fair value due to their short-term maturities.

The following table summarizes the estimated fair value of our long-term obligations and other short-term borrowings compared to the respective carrying amounts at:

(in millions)	March 31, 2020	June 30, 2019
Estimated fair value	\$ 7,211	\$ 8,065
Carrying amount	7,262	8,031

The fair value of our long-term obligations and other short-term borrowings is estimated based on either the quoted market prices for the same or similar issues or other inputs derived from available market information, which represents a Level 2 measurement.

11. Shareholders' Equity

During the nine months ended March 31, 2020, we repurchased 7.3 million common shares having an aggregate cost of \$350 million. The average price paid per common share was \$48.00. These repurchases were made under an accelerated share repurchase ("ASR") program, which began on August 20, 2019 and was completed on December 4, 2019.

During the nine months ended March 31, 2019, we repurchased 11.5 million common shares having an aggregate cost of \$600 million. The average price paid per common share was \$52.32.

We funded the repurchases with available cash and short-term borrowings. The common shares repurchased are held in treasury to be used for general corporate purposes.

Accumulated Other Comprehensive Loss

The following table summarizes the changes in the balance of accumulated other comprehensive loss by component and in total:

(in millions)	Foreign Currency Translation Adjustments	Unrealized Gain/(Loss) on Derivatives, net of tax	Accumulated Other Comprehensive Loss
Balance at June 30, 2019	\$ (95)	\$ 16	\$ (79)
Other comprehensive loss, before reclassifications	(35)	(22)	(57)
Amounts reclassified to earnings	—	(5)	(5)
Other comprehensive loss, net of tax	(35)	(27)	(62)
Balance at March 31, 2020	\$ (130)	\$ (11)	\$ (141)

12. Earnings Per Share Attributable to Cardinal Health, Inc.

The following table reconciles the number of common shares used to compute basic and diluted earnings per share attributable to Cardinal Health, Inc.:

(in millions)	Three Months Ended March 31,	
	2020	2019
Weighted-average common shares—basic	292	298
Effect of dilutive securities:		
Employee stock options, restricted share units and performance share units	2	1
Weighted-average common shares—diluted	294	299

(in millions)	Nine Months Ended March 31,	
	2020	2019
Weighted-average common shares—basic	293	301
Effect of dilutive securities:		
Employee stock options, restricted share units and performance share units	—	1
Weighted-average common shares—diluted	293	302

The potentially dilutive employee stock options, restricted share units and performance share units that were anti-dilutive were 4 million for the three months ended March 31, 2020 and 7 million for the nine months ended March 31, 2020 (2 million of which were anti-dilutive as a result of the year-to-date net loss).

The potentially dilutive employee stock options, restricted share units and performance share units that were anti-dilutive were 6 million during both the three months and the nine months ended March 31, 2019.

13. Segment Information

Our operations are principally managed on a products and services basis and are comprised of two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. The factors for determining the reportable segments include the manner in which management evaluates performance for purposes of allocating resources and assessing performance combined with the nature of the individual business activities.

Our Pharmaceutical segment distributes branded and generic pharmaceutical, specialty pharmaceutical and over-the-counter healthcare and consumer products in the United States. This segment also provides services to pharmaceutical manufacturers and healthcare providers for specialty pharmaceutical products; operates nuclear pharmacies and radiopharmaceutical manufacturing facilities; provides pharmacy management services to hospitals as well as medication therapy management and patient outcomes services to hospitals, other healthcare providers and payers; and repackages generic pharmaceuticals and over-the-counter healthcare products.

Our Medical segment manufactures, sources and distributes Cardinal Health branded medical, surgical and laboratory products, which are sold in the United States, Canada, Europe, Asia and other markets. In addition to distributing Cardinal Health branded products, this segment also distributes a broad range of national brand products and provides supply chain services and solutions to hospitals, ambulatory surgery centers, clinical laboratories and other healthcare providers in the United States and Canada. This segment also distributes medical products to patients' homes in the United States through our Cardinal Health at-Home Solutions division.

Revenue

The following tables present revenue for each reportable segment and disaggregated revenue within our two reportable segments and Corporate:

(in millions)	Three Months Ended March 31,	
	2020	2019
Pharmaceutical Distribution and Specialty Solutions (1) (2)	\$ 34,899	\$ 31,146
Nuclear and Precision Health Solutions	213	215
Pharmaceutical segment revenue	35,112	31,361
Medical distribution and products (3)	3,539	3,431
Cardinal Health at-Home Solutions	512	440
Medical segment revenue	4,051	3,871
Total segment revenue	39,163	35,232
Corporate (4)	(6)	(4)
Total revenue	\$ 39,157	\$ 35,228

(in millions)	Nine Months Ended March 31,	
	2020	2019
Pharmaceutical Distribution and Specialty Solutions (1) (2)	\$ 103,612	\$ 95,888
Nuclear and Precision Health Solutions	642	628
Pharmaceutical segment revenue	104,254	96,516
Medical distribution and products (3)	10,483	10,339
Cardinal Health at-Home Solutions	1,508	1,339
Medical segment revenue	11,991	11,678
Total segment revenue	116,245	108,194
Corporate (4)	(12)	(13)
Total revenue	\$ 116,233	\$ 108,181

- (1) Products and services offered by our Specialty Solutions division are referred to as "specialty pharmaceutical products and services."
- (2) Comprised of all Pharmaceutical segment businesses except for Nuclear and Precision Health Solutions division.
- (3) Comprised of all Medical segment businesses except for Cardinal Health at-Home Solutions division.
- (4) Corporate revenue consists of the elimination of inter-segment revenue and other revenue not allocated to the segments.

The following tables present revenue by geographic area:

(in millions)	Three Months Ended March 31,	
	2020	2019
United States	\$ 38,073	\$ 34,230
International	1,090	1,002
Total segment revenue	39,163	35,232
Corporate (1)	(6)	(4)
Total revenue	\$ 39,157	\$ 35,228

(in millions)	Nine Months Ended March 31,	
	2020	2019
United States	\$ 113,053	\$ 105,190
International	3,192	3,004
Total segment revenue	116,245	108,194
Corporate (1)	(12)	(13)
Total revenue	\$ 116,233	\$ 108,181

- (1) Corporate revenue consists of the elimination of inter-segment revenue and other revenue not allocated to the segments.

Segment Profit

We evaluate segment performance based on segment profit, among other measures. Segment profit is segment revenue, less segment cost of products sold, less segment distribution, selling, general and administrative ("SG&A") expenses. Segment SG&A expenses include share-based compensation expense as well as allocated corporate expenses for shared functions, including corporate management, corporate finance, financial, and customer care shared services, human resources, information technology, and legal and compliance, including certain litigation defense costs. Corporate expenses are allocated to the segments based on headcount, level of benefit provided and other ratable allocation methodologies. The results attributable to noncontrolling interests are recorded within segment profit.

We do not allocate the following items to our segments: last-in first-out, or ("LIFO"), inventory charges/(credits); surgical gown recall costs; restructuring and employee severance; amortization and other acquisition-related costs; impairments and (gain)/loss on disposal of assets; litigation (recoveries)/charges, net; state opioid assessment related to prior fiscal years; other (income)/expense, net; interest expense, net; loss on extinguishment of debt; and provision for income taxes.

In addition, certain investment spending, certain portions of enterprise-wide incentive compensation and other spending are not allocated to the segments. Investment spending generally includes the first-year spend for certain projects that require incremental investments in the form of additional operating expenses. Because approval for these projects is dependent on executive management, we retain these expenses at Corporate. Investment spending within Corporate was \$17 million for both the three months ended March 31, 2020 and 2019, and \$37 million and \$36 million for the nine months ended March 31, 2020 and 2019, respectively.

In connection with the opioid litigation as discussed further in [Note 7](#), we recognized a pre-tax charge of \$5.63 billion during the nine months ended March 31, 2020, which was retained at Corporate.

In connection with the surgical gown recall as discussed further in [Note 7](#), we recognized a pre-tax charge of \$95 million during the nine months ended March 31, 2020 which was retained at Corporate.

In connection with the naviHealth divestiture, we recognized a pre-tax gain of \$508 million during the nine months ended March 31, 2019, which was retained at Corporate.

The following tables present segment profit by reportable segment and Corporate:

(in millions)	Three Months Ended March 31,	
	2020	2019
Pharmaceutical	\$ 534	\$ 536
Medical	178	155
Total segment profit	712	691
Corporate	(150)	(259)
Total operating earnings	\$ 562	\$ 432

(in millions)	Nine Months Ended March 31,	
	2020	2019
Pharmaceutical	\$ 1,394	\$ 1,388
Medical	543	479
Total segment profit	1,937	1,867
Corporate	(6,305)	(115)
Total operating earnings/(loss)	\$ (4,368)	\$ 1,752

The following table presents total assets for each reportable segment and Corporate at:

(in millions)	March 31, 2020	June 30, 2019
Pharmaceutical	\$ 22,508	\$ 22,446
Medical	15,445	15,284
Corporate	3,195	3,233
Total assets	\$ 41,148	\$ 40,963

14. Share-Based Compensation

We maintain stock incentive plans (collectively, the "Plans") for the benefit of certain of our officers, directors and employees.

The following table provides total share-based compensation expense by type of award:

(in millions)	Three Months Ended March 31,	
	2020	2019
Restricted share unit expense	\$ 20	\$ 17
Employee stock option expense	1	2
Performance share unit expense	6	4
Total share-based compensation	\$ 27	\$ 23

(in millions)	Nine Months Ended March 31,	
	2020	2019
Restricted share unit expense	\$ 53	\$ 47
Employee stock option expense	3	8
Performance share unit expense	12	9
Total share-based compensation	\$ 68	\$ 64

The total tax benefit related to share-based compensation was \$5 million and \$4 million for the three months ended March 31, 2020

and 2019, respectively, and \$12 million and \$13 million for the nine months ended March 31, 2020 and 2019, respectively.

Restricted Share Units

Restricted share units granted under the Plans generally vest in equal annual installments over three years. Restricted share units accrue cash dividend equivalents that are payable upon vesting of the awards.

The following table summarizes all transactions related to restricted share units under the Plans:

<u>(in millions, except per share amounts)</u>	Restricted Share Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at June 30, 2019	2	\$ 51.65
Granted	2	42.58
Vested	(1)	60.13
Canceled and forfeited	—	
Nonvested at March 31, 2020	3	\$ 45.88

At March 31, 2020, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested restricted share units not yet recognized was \$93 million, which is expected to be recognized over a weighted-average period of two years.

Stock Options

Employee stock options granted under the Plans generally vest in equal annual installments over three years and are exercisable for ten years from the grant date. All stock options are exercisable at a price equal to the market value of the common shares underlying the option on the grant date.

The following table summarizes all stock option transactions under the Plans:

<u>(in millions, except per share amounts)</u>	Stock Options	Weighted-Average Exercise Price per Common Share
Outstanding at June 30, 2019	6	\$ 63.78
Granted	—	—
Exercised	—	—
Canceled and forfeited	—	—
Outstanding at March 31, 2020	6	\$ 64.02
Exercisable at March 31, 2020	5	\$ 63.96

At March 31, 2020, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested stock options not yet recognized was \$1 million, which is expected to be recognized over a weighted-average period of less than one year.

The following tables provide additional detail related to stock options:

<u>(in millions)</u>	March 31, 2020	June 30, 2019
Aggregate intrinsic value of outstanding options at period end	\$ 9	\$ 10
Aggregate intrinsic value of exercisable options at period end	9	10

<u>(in years)</u>	March 31, 2020	June 30, 2019
Weighted-average remaining contractual life of outstanding options	5	5
Weighted-average remaining contractual life of exercisable options	5	5

Performance Share Units

Performance share units vest over a three-year performance period based on achievement of specific performance goals. Based on the extent to which the targets are achieved, vested shares may range from zero to 240 percent of the target award amount. Performance share units accrue cash dividend equivalents that are payable upon vesting of the awards.

The following table summarizes all transactions related to performance share units under the Plans (based on target award amounts):

<u>(in millions, except per share amounts)</u>	Performance Share Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at June 30, 2019	0.9	\$ 51.45
Granted	0.6	43.68
Vested	(0.1)	48.40
Canceled and forfeited	(0.1)	50.76
Nonvested at March 31, 2020	1.3	\$ 51.94

At March 31, 2020, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested performance share units not yet recognized was \$29 million, which is expected to be recognized over a weighted-average period of two years if targets are achieved.

Exhibits

Exhibit Number	Exhibit Description
3.1	<u>Amended and Restated Articles of Incorporation of Cardinal Health, Inc., as amended (incorporated by reference to Exhibit 3.1 to Cardinal Health's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, File No. 1-11373)</u>
3.2	<u>Cardinal Health, Inc. Restated Code of Regulations (incorporated by reference to Exhibit 3.2 to Cardinal Health's Current Report on Form 8-K filed on November 12, 2019, File No. 1-11373)</u>
10.1	<u>Cardinal Health Deferred Compensation Plan, Amended and Restated effective January 1, 2020 (incorporated by reference to Exhibit 10.4 to Cardinal Health's Quarterly Report for the quarter ended December 31, 2019, File No. 1-11373)*</u>
10.2	<u>Letter Agreement, dated March 9, 2020, between Cardinal Health, Inc. and Jason Hollar (incorporated by reference to Exhibit 10.1 to Cardinal Health's Current Report on Form 8-K filed on March 19, 2020, File No. 1-11373)*</u>
10.3	<u>Confidentiality and Business Protection Agreement, effective as of April 27, 2020, between Cardinal Health, Inc. and Jason Hollar (incorporated by reference to Exhibit 10.2 to Cardinal Health's Current Report on Form 8-K filed on March 19, 2020, File No. 1-11373)*</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
99.1	<u>Statement Regarding Forward-Looking Information</u>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - formatted in Inline XBRL (included as Exhibit 101)

Cardinal Health Website

Cardinal Health uses its website as a channel of distribution for material company information. Important information, including news releases, financial information, earnings and analyst presentations and information about upcoming presentations and events is routinely posted and accessible at ir.cardinalhealth.com. In addition, the website allows investors and other interested persons to sign up automatically to receive e-mail alerts when the company posts news releases, SEC filings and certain other information on its website.

Form 10-Q Cross Reference Index

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 11, 2020

Cardinal Health, Inc.

/s/ MICHAEL C. KAUFMANN

Michael C. Kaufmann

Chief Executive Officer

/s/ DAVID C. EVANS

David C. Evans

Chief Financial Officer

I, Michael C. Kaufmann, certify that:

1. I have reviewed this Form 10-Q of Cardinal Health, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ MICHAEL C. KAUFMANN

Michael C. Kaufmann

Chief Executive Officer

I, David C. Evans, certify that:

1. I have reviewed this Form 10-Q of Cardinal Health, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ DAVID C. EVANS

David C. Evans

Chief Financial Officer

**Certification of the Chief Executive Officer and the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Michael C. Kaufmann, Chief Executive Officer of Cardinal Health, Inc. (the “Company”) and David C. Evans, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Periodic Report on Form 10-Q for the quarter ended March 31, 2020 containing the financial statements of the Company (the “Periodic Report”), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 11, 2020

/s/ MICHAEL C. KAUFMANN

Michael C. Kaufmann

Chief Executive Officer

/s/ DAVID C. EVANS

David C. Evans

Chief Financial Officer

Statement Regarding Forward-Looking Information

As used in this exhibit, “we,” “our,” “us” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. Our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (the “2019 Form 10-K”), our quarterly reports on Form 10-Q, including this one, and our current reports on Form 8-K (along with any exhibits and amendments to such reports), as well as our news releases or any other written or oral statements made by or on behalf of us, including materials posted on our website, may include, directly or by incorporation by reference, forward-looking statements that reflect our current view (as of the date the forward-looking statement is first made) about future events, prospects, projections or financial performance. The matters discussed in these forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied in or by such statements. These risks and uncertainties include:

- competitive pressures in the markets in which we operate, including pricing pressures;
 - uncertainties relating to the pricing of generic pharmaceuticals;
 - uncertainties relating to the timing, frequency and profitability of generic pharmaceutical launches;
 - our ability to maintain the benefits of our generic pharmaceutical sourcing venture with CVS Health Corporation;
 - with respect to our distribution services agreements with branded pharmaceutical manufacturers, changes in the amount of service fees we receive or, in cases where part of our compensation under these agreements is based on branded pharmaceutical price appreciation, changes in the frequency or magnitude of such price appreciation;
 - changes in manufacturer approaches to pricing branded pharmaceutical products and risks related to our compensation under contractual arrangements with manufacturers being set as a percentage of the wholesale acquisition cost of branded pharmaceuticals;
 - changes in the timing or frequency of the introduction of branded pharmaceuticals;
 - risks associated with the resolution and defense of the lawsuits and investigations in which we have been or will be named relating to the distribution of prescription opioid pain medication, including the risk that the outcome of these lawsuits and investigations could have a material adverse effect on our results of operations, financial condition, cash flows or liquidity;
 - potential damage to our reputation, adverse operational impacts or other effects that may result from the national opioid epidemic, the allegations that have been made about our role in such epidemic and the ongoing unfavorable publicity surrounding the lawsuits and investigations against us;
 - risks associated with the ongoing discussions regarding a potential global settlement of certain opioid lawsuits and investigations against us, including the risk that we could fail to reach a final settlement, that any final settlement reached could require us to pay more than we currently anticipate or could have a negative effect on our liquidity or ability to return money to shareholders and the risk that any injunctive or non-monetary remedies we may agree to could have unintended consequences;
 - risks arising from the COVID-19 pandemic, including the possibility that our manufacturing or distribution facilities will be required to cease operations, whether from government regulation in the United States or internationally, or from reduction in available workforce due to illness; the possibility that we could experience significant delays or disruptions in our supply of medical or pharmaceutical products resulting in an inability to fulfill customer demand; the possibility that the widespread required cancellation or deferral of elective medical procedures will result in a sustained reduction in demand for our products; and the potential for us to receive negative publicity resulting from prolonged supply shortages or our participation in industry-wide collaboration to increase the supply of personal protective equipment in the United States;
 - potential adverse impact to our financial results resulting from enacted and proposed state taxes or other assessments on the sale or distribution of opioid medications;
 - our high sales concentration with certain key customers, including CVS Health Corporation and OptumRx;
 - costs or claims resulting from a quality issue related to the manufacture of some of our sterile surgical downs, or other potential errors or defects in our manufacturing of medical devices or other products or in our compounding, repackaging, information systems or pharmacy management services that may injure persons or damage property or operations, including costs from recalls, remediation efforts, and related product liability claims and lawsuits, including class action lawsuits;
 - actions of regulatory bodies and other governmental authorities, including the U.S. Drug Enforcement Administration, certain agencies within the U.S. Department of Health and Human Services (including the U.S. Food and Drug Administration, Centers for Medicare and Medicaid Services, the Office of Inspector General and the Office for Civil Rights), the U.S. Nuclear Regulatory Commission, the U.S. Federal Trade Commission, the U.S. Customs and Border Protection, various state boards of pharmacy, state controlled substance authorities, state health departments, state insurance departments, state Medicaid departments or comparable regulatory bodies or governmental authorities or foreign equivalents that, in each case, could delay, limit or suspend product development, manufacturing, distribution, importation or sales or result in warning letters, recalls, seizures, injunctions or monetary sanctions;
 - any compromise of our information systems or of those of a third-party service provider, including unauthorized access to or use or disclosure of company or customer information, disruption of access and ancillary risks associated with our ability to effectively manage any issues arising from any such compromise or disruption;
-

- uncertainties related to our Medical segment's Cardinal Health Brand products, including our ability to manage infrastructure and cost challenges, and to improve its performance;
 - risks associated with the realignment of our Medical segment's supply chain and other businesses, including our ability to achieve the expected benefits from such realignment;
 - uncertainties with respect to our cost-savings initiatives or other restructuring activities, including the ability to achieve the expected benefits from such initiatives, the risk that we could incur unexpected charges, and the risk that we may fail to retain key personnel;
 - difficulties or delays in the development, production, manufacturing, sourcing and marketing of new or existing products and services, including difficulties or delays associated with obtaining requisite regulatory consents or approvals associated with those activities;
 - manufacturing disruptions, whether due to regulatory action, production quality deviations, safety issues or raw material shortages or defects, or because a key product is manufactured at a single manufacturing facility with limited alternate facilities;
 - risks arising from possible violations of healthcare fraud and abuse laws;
 - risks arising from possible violations of the U.S. Foreign Corrupt Practices Act and other similar anti-corruption laws in other jurisdictions and U.S. and foreign export control, trade embargo and customs laws;
 - risks arising from our collecting, handling and maintaining patient-identifiable health information and other sensitive personal and financial information, which are subject to federal, state and foreign laws that regulate the use and disclosure of such information;
 - risks arising from certain of our businesses being Medicare-certified suppliers or participating in other federal and state healthcare programs, such as state Medicaid programs and the federal 340B drug pricing program, which businesses are subject to accreditation and quality standards and other rules and regulations, including applicable reporting, billing, payment and record-keeping requirements;
 - risks arising from certain of our businesses manufacturing pharmaceutical and medical products or repackaging pharmaceuticals that are purchased or reimbursed through, or are otherwise governed by, federal or state healthcare programs, which businesses are subject to federal and state laws that establish eligibility for reimbursement by such programs and other applicable standards and regulations;
 - changes in laws or changes in the interpretation or application of laws or regulations, as well as possible failures to comply with applicable laws or regulations, including as a result of possible misinterpretations or misapplications;
 - material reductions in purchases, pricing changes, non-renewal, early termination, or delinquencies or defaults under contracts with key customers;
 - unfavorable changes to the terms or with our ability to meet contractual obligations of key customer or supplier relationships, or changes in customer mix;
 - risks arising from changes in U.S. or foreign tax laws and unfavorable challenges to our tax positions and payments to settle these challenges, which may adversely affect our effective tax rate or tax payments;
 - uncertainties due to possible government healthcare reform, including proposals related to Medicare drug rebate arrangements, possible repeal or replacement of major parts of the Patient Protection and Affordable Care Act, proposals related to prescription drug pricing transparency and the possible adoption of Medicare-For-All;
 - reductions or limitations on governmental funding at the state or federal level or efforts by healthcare insurance companies to limit payments for products and services;
 - changes in manufacturers' pricing, selling, inventory, distribution or supply policies or practices;
 - changes in legislation or regulations governing prescription drug pricing, healthcare services or mandated benefits;
 - changes in hospital buying groups or hospital buying practices;
 - changes in distribution or sourcing models for pharmaceutical and medical and surgical products, including an increase in direct and limited distribution;
 - changes to the prescription drug reimbursement formula and related reporting requirements for generic pharmaceuticals under Medicaid;
 - continuing consolidation in the healthcare industry, which could give the resulting enterprises greater bargaining power and may increase pressure on prices for our products and services or result in the loss of customers;
 - disruption, damage or lack of access to, or failure of, our or our third-party service providers' information systems, our critical facilities, including our national logistics center, or our distribution networks;
 - risks to our business and information and controls systems in the event that business process improvements, infrastructure modernizations or initiatives to use third-party service providers for key systems and processes are not effectively implemented;
 - the results, costs, effects or timing of any commercial disputes, government contract compliance matters, patent infringement claims, *qui tam* actions, government investigations, shareholder lawsuits or other legal proceedings;
 - possible losses relating to product liability lawsuits and claims regarding products for which we cannot obtain product liability insurance or for which such insurance may not be adequate to cover our losses, including the product liability lawsuits we are currently defending relating to alleged personal injuries associated with the use of Cordis inferior vena cava filter products;
 - our ability to maintain adequate intellectual property protections;
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- the costs, difficulties and uncertainties related to the integration of acquired businesses, including liabilities relating to the operations or activities of such businesses prior to their acquisition, and uncertainties relating to our ability to achieve the anticipated results from acquisitions;
- our ability to manage and complete divestitures or other strategic business combination transactions, including our ability to find buyers or other strategic exit opportunities and risks associated with the possibility that we could experience greater dis-synergies than anticipated or otherwise fail to achieve our strategic objectives;
- increased costs for commodities and other materials used in the Medical segment manufacturing, including various components, compounds, raw materials or energy such as oil-based resins, pulp, cotton, latex and other commodities;
- shortages in commodities, components, compounds, raw materials or energy used by our businesses, including supply disruptions of radioisotopes;
- the loss of, or default by, one or more key suppliers for which alternative suppliers may not be readily available;
- bankruptcy, insolvency or other credit failure of a customer or supplier that owes us a substantial amount;
- risks associated with global operations, including the effect of local economic environments, inflation, recession, currency volatility and global competition, in addition to risks associated with compliance with U.S. and international laws relating to global operations;
- uncertainties with respect to U.S. or international trade policies, tariffs, excise or border taxes and their impact on our ability to source products or materials that we need to conduct our business;
- risks associated with our use of and reliance on the global capital and credit markets, including our ability to access credit and our cost of credit, which may adversely affect our ability to efficiently fund our operations or undertake certain expenditures;
- our ability to introduce and market new products and our ability to keep pace with advances in technology;
- significant charges to earnings if goodwill or intangible assets become impaired;
- uncertainties relating to general political, business, industry, regulatory and market conditions; and
- other factors described in the “Risk Factors” section of the 2019 Form 10-K and Forms 10-Q for the three-months ended September 30, 2019 and December 31, 2019.

The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “will,” “should,” “could,” “would,” “project,” “continue,” “likely,” and similar expressions generally identify “forward-looking statements,” which speak only as of the date the statements were made, and also include statements reflecting future results or guidance, statements of outlook and expense accruals. We undertake no obligation to update or revise any forward-looking statements, except to the extent required by applicable law.