

Q1 FY2014 earnings investor/analyst call

October 31, 2013

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Forward-looking statements and GAAP reconciliation

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Q1 FY2014 financial summary

	GAAP Basis ($M)		Non-GAAP Basis ($M)	
	Q1 FY14	Q1 FY13	Q1 FY14	Q1 FY13
Revenue	$24,523	$25,889		
% change	*(5)%*	*(3)%*		
Operating earnings	$471	$457	$532	$469
% change	*3%*	*11%*	*13%*	*6%*
Ratio to revenue	*1.92%*	*1.76%*	*2.17%*	*1.81%*
Earnings from continuing ops	$340	$272	$378	$281
% change	*25%*	*15%*	*35%*	*9%*
Ratio to revenue	*1.38%*	*1.05%*	*1.54%*	*1.08%*
Diluted EPS from continuing ops	$0.99	$0.79	$1.10	$0.81
% change	*25%*	*16%*	*36%*	*11%*

	Q1 FY14	Q1 FY13
Operating cash flow	$951	$568

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Q1 FY2014 Pharmaceutical segment business analysis

	Q1 FY14 ($M)	Q1 FY13 ($M)	% Change
Revenue	$21,813	$23,498	(7)%
Segment profit	$433	$400	8%
Segment profit margin	1.99%	1.70%	

Highlights:

- Revenue decreased 7% vs. last year driven by the previously announced expiration of the Express Scripts contract on September 30, 2012 and the Walgreens contract on August 31, 2013. The decline was partially offset by volume growth from new and existing customers
- Segment profit increased 8%, demonstrating balance across the businesses, with both generic and branded programs showing strong performance
- Expanded segment profit margin by 29bps

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

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Q1 FY2014 Medical segment business analysis

	Q1 FY14 ($M)	Q1 FY13 ($M)	% Change
Revenue	$2,711	$2,393	13%
Segment profit	$106	$74	43%
Segment profit margin	3.92%	3.11%	

Highlights:

- Revenue increased primarily due to the recent AssuraMed acquisition. Also realized strong growth in strategic hospital network accounts
- Segment profit up 43%, driven by:
  - AssuraMed acquisition
  - Planned efficiency initiatives
  - Performance of preferred products portfolio
- Expanded segment profit margin by 82bps

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Q1 FY2014 GAAP to non-GAAP reconciliation

	Q1 FY 2014			Q1 FY 2013		
	Operating Earnings ($M)	Earnings from Continuing Operations ($M)	Diluted EPS from Continuing Operations	Operating Earnings ($M)	Earnings from Continuing Operations ($M)	Diluted EPS from Continuing Operations
GAAP	**$471**	**$340**	**$0.99**	**$457**	**$272**	**$0.79**
Restructuring and employee severance	11	7	0.02	5	3	0.01
Amortization and other acquisition-related costs[1]	49	31	0.09	28	18	0.05
Impairments and loss on disposal of assets	-	-	-	1	1	-
Litigation (recoveries)/charges, net	1	1	-	(22)	(13)	(0.04)
Non-GAAP	**$532**	**$378**	**$1.10**	**$469**	**$281**	**$0.81**

[1] Amortization of acquisition-related intangible assets included in Amortization and other acquisition-related costs are as follows:

Amortization of acquisition-related intangible assets	$45	$28	$0.08	$21	$13	$0.04

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

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FY2014 outlook

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Updated FY2014 financial expectations

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FY2014 non-GAAP EPS from continuing operations:

$3.62 - $3.72

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Updated FY14 corporate assumptions

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	FY14 outlook	FY13 actual
Diluted weighted average shares outstanding	≤343M	344.5M
Interest and other, net	$140M - $150M	$108M
Capital expenditures	$245M - $265M	$195M
Amortization of acquisition-related intangible assets	~$180M or ~$0.33[1]	$118M or $0.22
Non-GAAP effective tax rate	34.5-36%[2]	33.7%[3]

1 *Includes only acquisitions closed as of September 30, 2013*

2 *Represents annual rate. Expected to fluctuate quarterly due to unique items affecting periods. Includes $63M related to favorable settlements in Q1 FY14, which contributed $0.18 to Non-GAAP EPS*

3 *Includes $64M related to a favorable settlement in Q3 FY13, which contributed $0.18 to Non-GAAP EPS*

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Q1 FY2014 trailing five quarters and GAAP to Non-GAAP reconciliation statements

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Q1 FY2014 segment analysis

Pharmaceutical segment

	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14
Revenue ($M)	23,498	22,747	22,070	22,783	21,813
Segment Profit ($M)	400	441	498	395	433

Medical segment

	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14
Revenue ($M)	2,393	2,487	2,484	2,697	2,711
Segment Profit ($M)	74	94	100	104	106

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

(in millions, except per common share amounts)	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes and Discontinued Operations	Provision for Income Taxes	Earnings from Continuing Operations	Earnings from Continuing Operations Growth Rate	Diluted EPS from Continuing Operations	Diluted EPS from Continuing Operations Growth Rate
	First Quarter 2014							
GAAP	**$ 471**	**3 %**	**$ 442**	**$ 102**	**$ 340**	**25 %**	**$ 0.99**	**25 %**
Restructuring and employee severance	**11**		**11**	**4**	**7**		**0.02**	
Amortization and other acquisition-related costs	**49**		**49**	**18**	**31**		**0.09**	
Impairments and loss on disposal of assets	**-**		**-**	**-**	**-**		**-**	
Litigation (recoveries)/charges, net	**1**		**1**	**-**	**1**		**-**	
Non-GAAP	**$ 532**	**13 %**	**$ 503**	**$ 124**	**$ 378**	**35 %**	**$ 1.10**	**36 %**
	First Quarter 2013							
GAAP	$ 457	11 %	$ 439	$ 167	$ 272	15 %	$ 0.79	16 %
Restructuring and employee severance	5		5	2	3		0.01	
Amortization and other acquisition-related costs	28		28	10	18		0.05	
Impairments and loss on disposal of assets	1		1	-	1		-	
Litigation (recoveries)/charges, net	(22)		(22)	(9)	(13)		(0.04)	
Non-GAAP	$ 469	6 %	$ 451	$ 170	$ 281	9 %	$ 0.81	11 %

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

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

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

(in millions)	First Quarter 2014	First Quarter 2013
GAAP return on equity	**22.1 %**	17.3 %
Non-GAAP return on equity		
Net earnings	**$ 339**	$ 271
Restructuring and employee severance, net of tax, in continuing operations	**7**	3
Amortization and other acquisition-related costs, net of tax, in continuing operations	**31**	18
Impairments and loss on disposal of assets, net of tax, in continuing operations	**-**	1
Litigation (recoveries)/charges, net, net of tax, in continuing operations	**1**	(13)
Adjusted net earnings	**$ 378**	$ 280
Annualized	**$ 1,512**	$ 1,120

	First Quarter 2014	Fourth Quarter 2013	First Quarter 2013	Fourth Quarter 2012
Total shareholders' equity	**$ 6,297**	**$ 5,975**	$ 6,281	$ 6,244
Divided by average shareholders' equity	**$ 6,136**		$ 6,263	
Non-GAAP return on equity	**24.7 %**		17.9 %	

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

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

(in millions)	First Quarter 2014	2013
GAAP effective tax rate from continuing operations[1]	**23.2 %**	38.1 %
Non-GAAP effective tax rate from continuing operations		
Earnings before income taxes and discontinued operations	**$ 442**	$ 439
Restructuring and employee severance	**11**	5
Amortization and other acquisition-related costs	**49**	28
Impairments and loss on disposal of assets	**-**	1
Litigation (recoveries)/charges, net	**1**	(22)
Adjusted earnings before income taxes and discontinued operations	**$ 503**	$ 451
Provision for income taxes	**$ 102**	$ 167
Restructuring and employee severance tax benefit	**4**	2
Amortization and other acquisition-related costs tax benefit	**18**	10
Impairments and loss on disposal of assets tax benefit	**-**	-
Litigation (recoveries)/charges, net tax expense	**-**	(9)
Adjusted provision for income taxes	**$ 124**	$ 170
Non-GAAP effective tax rate from continuing operations[1]	**24.7 %**	37.8 %

	First Quarter 2014	2013
Debt to total capital	**38 %**	31 %
Net debt to capital		
Current portion of long-term obligations and other short-term borrowings	**$ 190**	$ 471
Long-term obligations, less current portion	**3,693**	2,408
Debt	**$ 3,883**	$ 2,879
Cash and equivalents	**(2,753)**	(2,440)
Net debt	**$ 1,130**	$ 439
Total shareholders' equity	**6,297**	6,281
Capital	**$ 7,427**	$ 6,720
Net debt to capital	**15 %**	7 %

[1] The settlement of federal and state tax controversies favorably impacted, for fiscal 2014 first quarter, both the effective tax rate from continuing operations and non-GAAP effective tax rate from continuing operations by 14.3 and 12.6 percentage points, respectively. The fiscal 2014 first quarter non-GAAP effective tax rate from continuing operations, excluding the impact of the tax settlement, would have been 37.3%.

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

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

(in millions)	Fiscal Year 2013
GAAP effective tax rate from continuing operations[1]	**62.3 %**
Non-GAAP effective tax rate from continuing operations	
Earnings/(loss) before income taxes and discontinued operations	**$ 888**
Restructuring and employee severance	**71**
Amorization and other acquisition-related costs	**158**
Impairments and loss on disposal of assets	**859**
Litigation (recoveries)/charges, net	**(38)**
Adjusted earnings before income taxes and discontinued operations	**$ 1,938**
Provision for income taxes	**$ 553**
Restructuring and employee severance tax benefit	**27**
Amortization and other acquisition-related costs tax benefit	**52**
Impairments and loss on disposal of assets tax benefit	**37**
Litigation (recoveries)/charges, net tax expense	**(15)**
Adjusted provision for income taxes	**$ 654**
Non-GAAP effective tax rate from continuing operations[1]	**33.7 %**

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

[1] For fiscal 2013, the revaluation of the deferred tax liability and related interest on unrepatriated foreign earnings as a result of an agreement with tax authorities reduced, for fiscal 2013, both the effective tax rate from continuing operations and non-GAAP effective tax rate from continuing operations by 7.2 and 3.3 percentage points, respectively. The fiscal 2013 non-GAAP effective tax rate from continuing operations, excluding the impact of the tax settlement, would have been 37.0%.

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

(in millions)	First Quarter 2014	2013
Distribution, selling, general and administrative expenses	**$ 732**	$ 690
Restructuring and employee severance	**11**	5
Amortization and other acquisition-related costs	**49**	28
Impairments and loss on disposal of assets	**-**	1
Litigation (recoveries)/charges, net	**1**	(22)
Total GAAP operating expenses	**$ 793**	$ 702
GAAP operating expense growth rate	**13.0 %**	
Restructuring and employee severance	**(11)**	(5)
Amortization and other acquisition-related costs	**(49)**	(28)
Impairments and loss on disposal of assets	**-**	(1)
Litigation recoveries/(charges), net	**(1)**	22
Total Non-GAAP operating expenses	**$ 732**	$ 690
Non-GAAP operating expense growth rate	**6.1 %**	

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

(in millions)	First Quarter 2014	2013
Revenue	**$ 24,523**	$ 25,889
GAAP operating earnings	**$ 471**	$ 457
Restructuring and employee severance	**11**	5
Amortization and other acquisition-related costs	**49**	28
Impairments and loss on disposal of assets	**-**	1
Litigation (recoveries)/charges, net	**1**	(22)
Non-GAAP operating earnings	**$ 532**	$ 469
GAAP operating earnings margin rate	**1.92 %**	1.76 %
Non-GAAP operating earnings margin rate	**2.17 %**	1.81 %
	36bp	

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

Forward-Looking Non-GAAP Financial Measures

We present non-GAAP earnings from continuing operations and non-GAAP effective tax rate from continuing operations (and presentations derived from these financial measures, including per share calculations) on a forward-looking basis. The most directly comparable forward-looking GAAP measures are earnings from continuing operations and effective tax rate from continuing operations. We are unable to provide a quantitative reconciliation of these forward-looking non-GAAP measures to the most directly comparable forward-looking GAAP measures because we cannot reliably forecast restructuring and employee severance, amortization and other acquisition-related costs, impairments and loss on disposal of assets and litigation (recoveries)/charges, net, which are difficult to predict and estimate and are primarily dependent on future events. Please note that the unavailable reconciling items could significantly impact our future financial results.

Cardinal Health, Inc. and Subsidiaries
Schedule of Notable Items

(in millions, except per common share amounts)	First Quarter 2014	2013
Restructuring and employee severance	**$ (11)**	$ (5)
Tax benefit	**4**	2
Restructuring and employee severance, net of tax	**$ (7)**	$ (3)
Decrease to diluted EPS from continuing operations	**$ (0.02)**	$ (0.01)
Amortization and Other Acquisition-Related Costs		
Amortization of acquisition-related intangible assets	**$ (45)**	$ (21)
Tax benefit	**17**	8
Amortization of acquisition-related intangible assets, net of tax	**$ (28)**	$ (13)
Decrease to diluted EPS from continuing operations	**$ (0.08)**	$ (0.04)
Other acquisition-related costs	**$ (3)**	$ (7)
Tax benefit	**1**	2
Other acquisition-related costs, net of tax	**$ (2)**	$ (5)
Decrease to diluted EPS from continuing operations	**$ (0.01)**	$ (0.01)
Total amortization and other acquisition-related costs[1]	**$ (49)**	$ (28)
Tax benefit[1]	**18**	10
Total amortization and other acquisition-related costs, net of tax[1]	**$ (31)**	$ (18)
Decrease to diluted EPS from continuing operations[1]	**$ (0.09)**	$ (0.05)
Impairments and loss on disposal of assets	**$ -**	$ (1)
Tax benefit	**-**	-
Impairments and loss on disposal of assets, net of tax	**$ -**	$ (1)
Decrease to diluted EPS from continuing operations	**$ -**	$ -
Litigation recoveries/(charges), net	**$ (1)**	$ 22
Tax expense	**-**	(9)
Litigation recoveries/(charges), net, net of tax	**$ (1)**	$ 13
Increase to diluted EPS from continuing operations	**$ -**	$ 0.04
Weighted-average number of diluted shares outstanding	**344**	344

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

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

Cardinal Health, Inc. and Subsidiaries
Asset Management Analysis

	First Quarter	
	2014	2013
Debt to total capital	**38 %**	31 %
Net debt to capital	**15 %**	7 %
Return on equity	**22.1 %**	17.3 %
Non-GAAP return on equity	**24.7 %**	17.9 %
Effective tax rate from continuing operations[1]	**23.2 %**	38.1 %
Non-GAAP effective tax rate from continuing operations[1]	**24.7 %**	37.8 %

[1] The settlement of federal and state tax controversies favorably impacted, for fiscal 2014 first quarter, both the effective tax rate from continuing operations and non-GAAP effective tax rate from continuing operations by 14.3 and 12.6 percentage points, respectively. The fiscal 2014 first quarter non-GAAP effective tax rate from continuing operations, excluding the impact of the tax settlement, would have been 37.3%.

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

Given the expiration of our pharmaceutical distribution contract with Walgreen Co. on August 31, 2013, we do not believe that days sales outstanding, days inventory on hand, days payable outstanding and net working capital days provide meaningful measures of our working capital performance in fiscal 2014 first quarter.

Cardinal Health, Inc. and Subsidiaries

Definitions

Debt: long-term obligations plus short-term borrowings.

Debt to Total Capital: debt divided by (debt plus total shareholders' equity).

Interest and Other, net: other (income)/expense, net plus interest expense, net.

Net Debt: a Non-GAAP measure defined as debt minus (cash and equivalents).

Net Debt to Capital: a Non-GAAP measure defined as net debt divided by (net debt plus total shareholders' equity).

Non-GAAP Diluted EPS from Continuing Operations: non-GAAP earnings from continuing operations divided by diluted weighted-average shares outstanding.

Non-GAAP Earnings from Continuing Operations: earnings from continuing operations excluding (1) restructuring and employee severance[1], (2) amortization and other acquisition-related costs[2], (3) impairments and loss on disposal of assets[3] and (4) litigation (recoveries)/charges, net[4], each net of tax.

Non-GAAP Effective Tax Rate from Continuing Operations: (provision for income taxes adjusted for (1) restructuring and employee severance, (2) amortization and other acquisition-related costs, (3) impairments and loss on disposal of assets and (4) litigation (recoveries)/charges, net) divided by (earnings before income taxes and discontinued operations adjusted for the same four items).

Non-GAAP Operating Earnings: operating earnings excluding (1) restructuring and employee severance, (2) amortization and other acquisition-related costs, (3) impairments and loss on disposal of assets and (4) litigation (recoveries)/charges, net.

Non-GAAP Operating Earnings Margin Rate: current period non-GAAP operating earnings divided by revenue.

Non-GAAP Operating Expenses: operating expenses excluding (1) restructuring and employee severance, (2) amortization and other acquisition-related costs, (3) impairments and loss on disposal of assets and (4) litigation (recoveries)/charges, net.

Non-GAAP Return on Equity: (annualized net earnings excluding (1) restructuring and employee severance, (2) amortization and other acquisition-related costs, (3) impairments and loss on disposal of assets and (4) litigation (recoveries)/charges, net, each net of tax) and divided by average shareholders' equity.

Return on Equity: annualized net earnings divided by average shareholders' equity.

Revenue Mix: segment revenue divided by total segment revenue for all segments.

Segment Profit: segment revenue minus (segment cost of products sold and segment distribution, selling, general and administrative expenses).

Segment Profit Margin: segment profit divided by segment revenue.

Segment Profit Mix: segment profit divided by total segment profit for all segments.

[1] Programs whereby Cardinal Health fundamentally changes its operations such as closing and consolidating facilities, moving manufacturing of a product to another location, production or business process sourcing, employee severance (including rationalizing headcount or other significant changes in personnel) and realigning operations (including substantial realignment of the management structure of a business unit in response to changing market conditions).

[2] Costs that consist primarily of amortization of acquisition-related intangible assets, transaction costs, integration costs and changes in the fair value of contingent consideration obligations.

[3] Asset impairments and losses from the disposal of assets not eligible to be classified as discontinued operations are classified within impairments and loss on disposal of assets within the condensed consolidated statements of earnings.

[4] Loss contingencies related to litigation and regulatory matters and income from favorable resolution of legal matters.