

# Q3 FY2016

Cardinal Health, Inc. Earnings Investor/Analyst call  
April 28, 2016



# Forward-looking statements and GAAP reconciliation

## Cautions Concerning Forward-Looking Statements

This presentation contains forward-looking statements addressing expectations, prospects, estimates and other matters that are dependent upon future events or developments. These statements 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 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 projected, anticipated or implied. These risks and uncertainties include competitive pressures in Cardinal Health's various lines of business; the frequency or rate of pharmaceutical price appreciation or deflation and the timing of generic and branded pharmaceutical introductions; the ability to continue to achieve and maintain the benefits from the generic sourcing venture with CVS Health and from the acquisitions of Cordis and The Harvard Drug Group; the risk of non-renewal or a default under one or more key customer or supplier arrangements or changes to the terms of or level of purchases under those arrangements; uncertainties due to government health care reform, including federal health care reform legislation; changes in the distribution patterns or reimbursement rates for health care products and services; the effects of any investigation or action by any regulatory authority; and changes in foreign currency rates and the cost of commodities such as oil-based resins, cotton, latex and diesel fuel. Cardinal Health is subject to additional risks and uncertainties described in Cardinal Health's Form 10-K, Form 10-Q and Form 8-K reports and exhibits to those reports. This presentation reflects management's views as of April 28, 2016. Except to the extent required by applicable law, Cardinal Health undertakes no obligation to update or revise any forward-looking statement. In addition, this presentation contains Non-GAAP financial measures. Cardinal Health provides definitions and reconciliations of the differences between the Non-GAAP financial measures and their most directly comparable GAAP financial measures in the Financial Appendix at the end of these presentations and at [ir.cardinalhealth.com](http://ir.cardinalhealth.com). An audio replay of the conference call will be available at [ir.cardinalhealth.com](http://ir.cardinalhealth.com).

## Q3 FY16 Financial summary

### GAAP Basis (\$M)

	Q3 FY16	Q3 FY15
<b>Revenue</b> <i>% change</i>	<b>\$30,662</b> 21% increase YoY	<b>\$25,375</b> 18% increase YoY
<b>Gross Margin</b> <i>% change</i> <i>Ratio to revenue</i>	<b>\$1,689</b> 16% increase YoY 5.51%	<b>\$1,459</b> 12% increase YoY 5.75%
<b>Operating Earnings</b> <i>% change</i> <i>Ratio to revenue</i>	<b>\$656</b> 11% increase YoY 2.14%	<b>\$591</b> 16% increase YoY 2.33%
<b>Net Earnings<sup>1</sup></b> <i>% change</i> <i>Ratio to revenue</i>	<b>\$386</b> 6% increase YoY 1.26%	<b>\$365</b> 16% increase YoY 1.44%
<b>Diluted EPS<sup>1</sup></b> <i>% change</i>	<b>\$1.17</b> 7% increase YoY	<b>\$1.09</b> 20% increase YoY

### Non-GAAP Basis (\$M)

	Q3 FY16	Q3 FY15
	<b>\$1,702</b> 17% increase YoY 5.55%	<b>\$1,459</b> 12% increase YoY 5.75%
	<b>\$788</b> 20% increase YoY 2.57%	<b>\$657</b> 17% increase YoY 2.59%
	<b>\$472</b> 19% increase YoY 1.54%	<b>\$396</b> 13% increase YoY 1.56%
	<b>\$1.43</b> 20% increase YoY	<b>\$1.19</b> 18% increase YoY

<sup>1</sup>Attributable to Cardinal Health.

Please see appendix for comparable GAAP numbers and GAAP to Non-GAAP reconciliations.

## Q3 FY16 Pharmaceutical segment business analysis

	Q3 FY16 (\$M)	Q3 FY15 (\$M)	YoY Change
Revenue	<b>\$27,527</b>	<b>\$22,605</b>	<b>22%</b>
Segment Profit	<b>\$660</b>	<b>\$567</b>	<b>16%</b>
Segment Profit Margin	<b>2.40%</b>	<b>2.51%</b>	

### Highlights:

- **Revenue** for the Pharmaceutical segment increased 22 percent to \$27.5 billion due to growth from new and existing customers as well as acquisitions.
- **Segment profit** increased 16 percent to \$660 million due to significant contributions from strong performance by both acquisitions and new and existing customers.

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

## Q3 FY16 Medical segment business analysis

	Q3 FY16 (\$M)	Q3 FY15 (\$M)	YoY Change
Revenue	<b>\$3,138</b>	<b>\$2,774</b>	<b>13%</b>
Segment Profit	<b>\$128</b>	<b>\$102</b>	<b>26%</b>
Segment Profit Margin	<b>4.08%</b>	<b>3.66%</b>	

### Highlights:

- **Revenue** for the Medical segment increased 13 percent to \$3.1 billion due to the net contribution from acquisitions as well as solid growth from existing businesses.
- **Segment profit** increased 26 percent to \$128 million due to the contribution from acquisitions, net of divestitures, and from Cardinal Health-branded products. Segment profit includes the \$21 million negative impact of the Cordis-related inventory fair value step-up.

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

## Q3 FY16 GAAP to non-GAAP reconciliation

	Q3 FY 2016			
	Gross Margin (\$M)	Operating Earnings (\$M)	Net Earnings <sup>1</sup> (\$M)	Diluted EPS <sup>1</sup>
<b>GAAP</b>	<b>\$1,689</b>	<b>\$656</b>	<b>\$386</b>	<b>\$1.17</b>
LIFO charges/(credits)	12	12	8	0.02
Restructuring and employee severance	-	6	4	0.01
Amortization and other acquisition-related costs <sup>1</sup>	-	108	71	0.21
Impairments and (gain)/loss on disposal of assets	-	-	-	-
Litigation (recoveries)/charges, net	-	5	3	0.01
<b>Non-GAAP</b>	<b>\$1,702</b>	<b>\$788</b>	<b>\$472</b>	<b>\$1.43</b>

Amortization of acquisition-related intangible assets	-	\$88	\$57	\$0.17
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	Q3 FY 2015			
	Gross Margin (\$M)	Operating Earnings (\$M)	Net Earnings <sup>1</sup> (\$M)	Diluted EPS <sup>1</sup>
<b>GAAP</b>	<b>\$1,459</b>	<b>\$591</b>	<b>\$365</b>	<b>\$1.09</b>
LIFO charges/(credits)	-	-	-	-
Restructuring and employee severance	-	7	4	0.01
Amortization and other acquisition-related costs <sup>1</sup>	-	77	48	0.15
Impairments and (gain)/loss on disposal of assets	-	(1)	-	-
Litigation (recoveries)/charges, net	-	(18)	(21)	(0.07)
<b>Non-GAAP</b>	<b>\$1,459</b>	<b>\$657</b>	<b>\$396</b>	<b>\$1.19</b>

Amortization of acquisition-related intangible assets	-	\$48	\$30	\$0.09
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<sup>1</sup>Attributable to Cardinal Health.

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

# FY2016 Outlook



## FY16 financial expectations

	<b>FY2016 Outlook</b>	<b>FY2015 Actual</b>
<b>Revenue</b>	Mid- to high-teens percentage growth vs. PY	\$103B
<b>Non-GAAP Diluted EPS</b>	<b>\$5.17 to \$5.27</b>	\$4.38 <sup>1</sup>

<sup>1</sup>Non-GAAP diluted EPS from continuing operations  
Red font indicates a change since previous guidance.



## FY16 corporate assumptions

	FY2016 Outlook	FY2015 Actual
Non-GAAP effective tax rate	35.5% - 36.5% <sup>1</sup>	37.2%
Diluted weighted average Shares outstanding	330M – 331M	335M
Interest and other, net	\$185M - \$200M	\$134M
Capital expenditures	\$450M - \$480M	\$300M
Acquisition-related intangible amortization	~\$348M or ~\$0.68 <sup>2</sup>	\$189M or \$0.36

<sup>1</sup>May fluctuate quarterly due to unique items affecting periods.

<sup>2</sup>Includes only acquisitions closed as of March 31, 2016.

Red font indicates a change since previous guidance.

Q3 FY2016 trailing five quarters,  
Year-to-Date Financial summary  
and GAAP to Non-GAAP  
reconciliation statements



## Q3 FY2016 Segment analysis

### Pharmaceutical segment

	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16
Revenue (\$M)	22,605	24,676	25,140	28,287	27,527
Segment Profit (\$M)	567	535	657	627	660

### Medical segment

	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16
Revenue (\$M)	2,774	2,855	2,919	3,162	3,138
Segment Profit (\$M)	102	103	101	106	128

# Year-to-Date Financial summary<sup>1</sup>

## GAAP Basis (\$M)

	YTD FY16	YTD FY15
<b>Revenue</b> <i>% change</i>	<b>\$90,162</b> <i>20% increase YoY</i>	<b>\$74,983</b> <i>10% increase YoY</i>
<b>Gross Margin</b> <i>% change</i> <i>Ratio to revenue</i>	<b>\$4,877</b> <i>15% increase YoY</i> <i>5.41%</i>	<b>\$4,254</b> <i>9% increase YoY</i> <i>5.67%</i>
<b>Operating Earnings</b> <i>% change</i> <i>Ratio to revenue</i>	<b>\$1,839</b> <i>15% increase YoY</i> <i>2.04%</i>	<b>\$1,603</b> <i>7% increase YoY</i> <i>2.14%</i>
<b>Net Earnings<sup>2</sup></b> <i>% change</i> <i>Ratio to revenue</i>	<b>\$1,095</b> <i>19% increase YoY</i> <i>1.21%</i>	<b>\$920</b> <i>1% decrease YoY</i> <i>1.23%</i>
<b>Diluted EPS<sup>2</sup></b> <i>% change</i>	<b>\$3.30</b> <i>20% increase YoY</i>	<b>\$2.74</b> <i>2% increase YoY</i>

## Non-GAAP Basis (\$M)

	YTD FY16	YTD FY15
	<b>\$4,929</b> <i>16% increase YoY</i> <i>5.47%</i>	<b>\$4,254</b> <i>9% increase YoY</i> <i>5.67%</i>
	<b>\$2,251</b> <i>21% increase YoY</i> <i>2.50%</i>	<b>\$1,861</b> <i>11% increase YoY</i> <i>2.48%</i>
	<b>\$1,361</b> <i>20% increase YoY</i> <i>1.51%</i>	<b>\$1,136</b> <i>9% increase YoY</i> <i>1.52%</i>
	<b>\$4.10</b> <i>21% increase YoY</i>	<b>\$3.38</b> <i>12% increase YoY</i>

<sup>1</sup> Nine Months ended 3/31/2016.

<sup>2</sup> Attributable to Cardinal Health.

Please see appendix for comparable GAAP numbers and GAAP to Non-GAAP reconciliations.

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

Third Quarter 2016

(in millions, except per common share amounts)	Gross Margin	Gross Margin Growth Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Provision for Income Taxes	Net Earnings attributable to Cardinal Health, Inc.	Net Earnings attributable to Cardinal Health, Inc. Growth Rate	Diluted EPS attributable to Cardinal Health, Inc.	Diluted EPS attributable to Cardinal Health, Inc. Growth Rate <sup>1</sup>
<b>GAAP</b>	\$ 1,689	16 %	\$ 656	11 %	\$ 612	\$ 226	\$ 386	6 %	\$ 1.17	7 %
LIFO charges/(credits)	12		12		12	4	8		0.02	
Restructuring and employee severance	-		6		6	2	4		0.01	
Amortization and other acquisition-related costs	-		108		108	37	71		0.21	
Impairments and (gain)/loss on disposal of assets	-		-		-	-	-		-	
Litigation (recoveries)/charges, net	-		5		5	2	3		0.01	
<b>Non-GAAP</b>	\$ 1,702	17 %	\$ 788	20 %	\$ 744	\$ 272	\$ 472	19 %	\$ 1.43	20 %

Third Quarter 2015

GAAP	\$ 1,459	12 %	\$ 591	16 %	\$ 558	\$ 193	\$ 365	16 %	\$ 1.09	20 %
Restructuring and employee severance	-		7		7	3	4		0.01	
Amortization and other acquisition-related costs	-		77		77	29	48		0.15	
Impairments and (gain)/loss on disposal of assets	-		(1)		(1)	(1)	-		-	
Litigation (recoveries)/charges, net	-		(18)		(18)	3	(21)		(0.07)	
Non-GAAP	\$ 1,459	12 %	\$ 657	17 %	\$ 624	\$ 228	\$ 396	13 %	\$ 1.19	18 %

Year-to-Date 2016

(in millions, except per common share amounts)	Gross Margin	Gross Margin Growth Rate	Operating Earnings	Operating Earnings Growth Rate	Earnings Before Income Taxes	Provision for Income Taxes	Net Earnings attributable to Cardinal Health, Inc.	Net Earnings attributable to Cardinal Health, Inc. Growth Rate	Diluted EPS attributable to Cardinal Health, Inc.	Diluted EPS attributable to Cardinal Health, Inc. Growth Rate
<b>GAAP</b>	\$ 4,877	15 %	\$ 1,839	15 %	\$ 1,700	\$ 604	\$ 1,095	19 %	\$ 3.30	20 %
LIFO charges/(credits)	51		51		51	20	31		0.10	
Restructuring and employee severance	-		19		19	7	12		0.04	
Amortization and other acquisition-related costs	-		327		327	115	212		0.64	
Impairments and (gain)/loss on disposal of assets	-		17		17	7	10		0.03	
Litigation (recoveries)/charges, net	-		(3)		(3)	(3)	-		-	
<b>Non-GAAP</b>	\$ 4,929	16 %	\$ 2,251	21 %	\$ 2,112	\$ 751	\$ 1,361	20 %	\$ 4.10	21 %

Year-to-Date 2015

GAAP	\$ 4,254	9 %	\$ 1,603	7 %	\$ 1,444	\$ 524	\$ 920	(1)%	\$ 2.74	2 %
Restructuring and employee severance	-		33		33	12	21		0.06	
Amortization and other acquisition-related costs	-		190		190	69	121		0.36	
Impairments and loss on disposal of assets	-		(19)		(19)	(10)	(9)		(0.03)	
Litigation (recoveries)/charges, net	-		54		54	8	46		0.14	
Loss on extinguishment of debt	-		-		60	23	37		0.11	
Non-GAAP	\$ 4,254	9 %	\$ 1,861	11 %	\$ 1,763	\$ 627	\$ 1,136	9 %	\$ 3.38	12 %

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, 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
Fiscal Year 2015								
<b>GAAP</b>	\$ 2,161	15 %	\$ 1,967	\$ 755	\$ 1,212	4 %	\$ 3.61	7 %
Restructuring and employee severance	44		44	15	29		0.09	
Amortization and other acquisition-related costs	281		281	100	181		0.54	
Impairments and (gain)/loss on disposal of assets	(19)		(19)	(10)	(9)		(0.03)	
Litigation (recoveries)/charges, net	5		5	(14)	19		0.06	
Loss on extinguishment of debt	-		60	23	37		0.11	
<b>Non-GAAP</b>	\$ 2,472	16 %	\$ 2,339	\$ 870	\$ 1,469	11 %	\$ 4.38	14 %

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  
Total Company Business Analysis

<i>(in millions)</i>	Third Quarter		Non-GAAP Third Quarter	
	2016	2015	2016	2015
<b>Revenue</b>				
Amount	\$ 30,662	\$ 25,375		
Grow th rate	21 %	18 %		
<b>Gross margin</b>				
Amount <sup>1</sup>	\$ 1,689	\$ 1,459	\$ 1,702	\$ 1,459
Grow th rate	16 %	12 %	17 %	12 %
<b>Operating earnings</b>				
Amount	\$ 656	\$ 591	\$ 788	\$ 657
Grow th rate	11 %	16 %	20 %	17 %
<b>Net earnings attributable to Cardinal Health, Inc.</b>				
Amount	\$ 386	\$ 365	\$ 472	\$ 396
Grow th rate	6 %	16 %	19 %	13 %
Return on equity	23 %	23.4 %	28.1 %	25.4 %
Effective tax rate	36.9 %	34.6 %	36.6 %	36.5 %
Debt to total capital	45 %	39 %		
Net debt to capital			31 %	11 %

<i>(in millions)</i>	Year-to-Date		Non-GAAP Year-to-Date	
	2016	2015	2016	2015
<b>Revenue</b>				
Amount	\$ 90,162	\$ 74,983		
Grow th rate	20 %	10 %		
<b>Gross margin</b>				
Amount <sup>1</sup>	\$ 4,877	\$ 4,254	\$ 4,929	\$ 4,254
Grow th rate	15 %	9 %	16 %	9 %
<b>Operating earnings</b>				
Amount	\$ 1,839	\$ 1,603	\$ 2,251	\$ 1,861
Grow th rate	15 %	7 %	21 %	11 %
<b>Net earnings attributable to Cardinal Health, Inc.</b>				
Amount	\$ 1,095	\$ 920	\$ 1,361	\$ 1,136
Grow th rate	19 %	(1)%	20 %	9 %
Return on equity	22.3 %	19.5 %	27.7 %	24.1 %
Effective tax rate	35.5 %	36.3 %	35.6 %	35.6 %

GAAP Gross margin includes the negative impact of a \$12 million LIFO charge in the third quarter (\$51 million year-to-date).

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

**Cardinal Health, Inc. and Subsidiaries**  
**Segment Business Analysis**

(in millions)	Third Quarter		(in millions)	Third Quarter	
	2016	2015		2016	2015
<b>Pharmaceutical</b>			<b>Medical</b>		
<b>Revenue</b>			<b>Revenue</b>		
Amount	\$ 27,527	\$ 22,605	Amount	\$ 3,138	\$ 2,774
Grow th rate	22 %	20 %	Grow th rate	13 %	4 %
<b>Segment profit</b>			<b>Segment profit</b>		
Amount	\$ 660	\$ 567	Amount	\$ 128	\$ 102
Grow th rate	16 %	25 %	Grow th rate <sup>1</sup>	26 %	(8)%
Segment profit margin	2.40 %	2.51 %	Segment profit margin	4.08 %	3.66 %

Segment profit includes a \$21 million impact from the roll out of the inventory fair value step up related to the Cordis acquisition for the three months ended March 31, 2016. Excluding the impact of the inventory fair value step up, Medical segment profit would have increased 47% for the three months ended March 31, 2016.

Refer to definitions for an explanation of calculations.

Total consolidated revenue for the three months ended March 31, 2016 was \$30,662 million, which included total segment revenue of \$30,665 million and Corporate revenue of \$(3) million. Total consolidated revenue for the three months ended March 31, 2015 was \$25,375 million, which included total segment revenue of \$25,379 million and Corporate revenue of \$(4) million. Corporate revenue consists primarily of elimination of inter-segment revenue and other revenue not allocated to the segments.

Total consolidated operating earnings for the three months ended March 31, 2016 were \$656 million, which included total segment profit of \$788 million and Corporate costs of \$(132) million. Total consolidated operating earnings for the three months ended March 31, 2015 were \$591 million, which included total segment profit of \$669 million and Corporate costs of \$(78) million. Corporate includes, among other things, LIFO charges/(credits), restructuring and employee severance, amortization and other acquisition-related costs, impairments and (gain)/loss on disposal of assets, litigation (recoveries)/charges, net, and certain investment spending that are not allocated to the segments.



**Cardinal Health, Inc. and Subsidiaries**  
**Segment Business Analysis**

<u>(in millions)</u>	Year-to-Date		<u>(in millions)</u>	Year-to-Date	
	2016	2015		2016	2015
<b>Pharmaceutical</b>			<b>Medical</b>		
<b>Revenue</b>			<b>Revenue</b>		
Amount	\$ 80,954	\$ 66,440	Amount	\$ 9,220	\$ 8,540
Grow th rate	22 %	11 %	Grow th rate	8 %	5 %
<b>Segment profit</b>			<b>Segment profit</b>		
Amount	\$ 1,945	\$ 1,559	Amount	\$ 335	\$ 330
Grow th rate	25 %	14 %	Grow th rate <sup>1</sup>	1 %	(5)%
Segment profit margin	2.40 %	2.35 %	Segment profit margin	3.63 %	3.86 %

Segment profit includes a \$43 million impact from the roll out of the inventory fair value step up related to the Cordis acquisition for the nine months ended March 31, 2016. Excluding the impact of the inventory fair value step up, Medical segment profit would have been 14% for the nine months ended March 31, 2016.

Refer to definitions for an explanation of calculations.

Total consolidated revenue for the nine months ended March 31, 2016 was \$90,162 million, which included total segment revenue of \$90,174 million and Corporate revenue of \$(12) million. Total consolidated revenue for the nine months ended March 31, 2015 was \$74,983 million, which included total segment revenue of \$74,980 million and Corporate revenue of \$3 million. Corporate revenue consists primarily of elimination of inter-segment revenue and other revenue not allocated to the segments.

Total consolidated operating earnings for the nine months ended March 31, 2016 were \$1,839 million, which included total segment profit of \$2,280 million and Corporate costs of \$(441) million. Total consolidated operating earnings for the nine months ended March 31, 2015 were \$1,603 million, which included total segment profit of \$1,889 million and Corporate costs of \$(286) million. Corporate includes, among other things, LIFO charges/(credits), restructuring and employee severance, amortization and other acquisition-related costs, impairments and (gain)/loss on disposal of assets, litigation (recoveries)/charges, net, and certain investment spending that are not allocated to the segments.

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

(in millions)	Third Quarter					
	2016		2015			
<b>GAAP return on equity</b>	<b>23 %</b>		<b>23.4 %</b>			
<b>Non-GAAP return on equity</b>						
Net earnings attributable to Cardinal Health, Inc.	\$	386	\$	365		
LIFO charges/(credits), net of tax		8		-		
Restructuring and employee severance, net of tax		4		4		
Amortization and other acquisition-related costs, net of tax		71		48		
Litigation (recoveries)/charges, net, net of tax		3		(21)		
Adjusted net earnings attributable to Cardinal Health, Inc.	\$	472	\$	396		
Annualized	\$	1,889	\$	1,584		
		<b>Third Quarter 2016</b>	<b>Second Quarter 2016</b>	<b>Third Quarter 2015</b>	<b>Second Quarter 2015</b>	
Total Cardinal Health, Inc. shareholders' equity	\$	6,713	\$	6,711	\$ 6,369	\$ 6,100
Divided by average Cardinal Health, Inc. shareholders' equity	\$	6,712	\$	6,235		
<b>Non-GAAP return on equity</b>		<b>28.1 %</b>		<b>25.4 %</b>		

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)	Year-to-Date	
	2016	2015
<b>GAAP return on equity</b>	<b>22.3 %</b>	<b>19.5 %</b>
<b>Non-GAAP return on equity</b>		
Net earnings attributable to Cardinal Health, Inc.	\$ 1,095	\$ 920
LIFO charges/(credits), net of tax	31	-
Restructuring and employee severance, net of tax	12	21
Amortization and other acquisition-related costs, net of tax	212	121
Impairments and (gain)/loss on disposal of assets, net of tax	10	(9)
Litigation (recoveries)/charges, net, net of tax	-	46
Loss on extinguishment of debt, net of tax	-	37
Adjusted net earnings attributable to Cardinal Health, Inc.	\$ 1,361	\$ 1,136
Annualized	\$ 1,815	\$ 1,515

	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
	2016	2016	2016	2015	2015	2015	2015	2014
Total Cardinal Health, Inc. shareholders' equity	\$ 6,713	\$ 6,711	\$ 6,505	\$ 6,256	\$ 6,369	\$ 6,100	\$ 6,256	\$ 6,401
Divided by average Cardinal Health, Inc. shareholders' equity	\$ 6,546				\$ 6,281			
<b>Non-GAAP return on equity</b>	<b>27.7 %</b>				<b>24.1 %</b>			

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)	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
<b>GAAP effective tax rate</b>	<b>36.9 %</b>	34.6 %	<b>35.5 %</b>	36.3 %
<b>Non-GAAP effective tax rate</b>				
Earnings before income taxes	\$ 612	\$ 558	\$ 1,700	\$ 1,444
LIFO charges/(credits)	12	-	51	-
Restructuring and employee severance	6	7	19	33
Amortization and other acquisition-related costs	108	77	327	190
Impairments and (gain)/loss on disposal of assets	-	(1)	17	(19)
Litigation (recoveries)/charges, net	5	(18)	(3)	54
Loss on extinguishment of debt	-	-	-	60
Adjusted earnings before income taxes	\$ 744	\$ 624	\$ 2,112	\$ 1,763
Provision for income taxes	\$ 226	\$ 193	\$ 604	\$ 524
LIFO charges/(credits) tax benefit	4	-	20	-
Restructuring and employee severance tax benefit	2	3	7	12
Amortization and other acquisition-related costs tax benefit	37	29	115	69
Impairments and (gain)/loss on disposal of assets tax benefit/(expense)	-	(1)	7	(10)
Litigation (recoveries)/charges, net tax benefit/(expense)	2	3	(3)	8
Loss on extinguishment of debt tax benefit	-	-	-	23
Adjusted provision for income taxes	\$ 272	\$ 228	\$ 751	\$ 627
<b>Non-GAAP effective tax rate</b>	<b>36.6 %</b>	36.5 %	<b>35.6 %</b>	35.6 %

	Third Quarter	
	2016	2015
<b>Debt to total capital</b>	<b>45 %</b>	39 %
<b>Net debt to capital</b>		
Current portion of long-term obligations and other short-term borrowings	\$ 351	\$ 283
Long-term obligations, less current portion	5,195	3,720
Debt	\$ 5,546	\$ 4,003
Cash and equivalents	(2,598)	(3,183)
Net debt	\$ 2,948	\$ 820
Total Cardinal Health, Inc. shareholders' equity	6,713	6,369
Capital	\$ 9,661	\$ 7,189
<b>Net debt to capital</b>	<b>31 %</b>	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**

<u>(in millions)</u>	<u>Fiscal Year</u>
	<u>2015</u>
<b>GAAP effective tax rate from continuing operations</b>	<b>38.4 %</b>
<b>Non-GAAP effective tax rate from continuing operations</b>	
Earnings before income taxes and discontinued operations	\$ 1,967
Restructuring and employee severance	44
Amortization and other acquisition-related costs	281
Impairments and (gain)/loss on disposal of assets	(19)
Litigation (recoveries)/charges, net	5
Loss on extinguishment of debt	60
Adjusted earnings before income taxes and discontinued operations	\$ 2,339
Provision for income taxes	\$ 755
Restructuring and employee severance tax benefit	15
Amortization and other acquisition-related costs tax benefit	100
Impairments and (gain)/loss on disposal of assets tax benefit/(expense)	(10)
Litigation (recoveries)/charges, net tax expense	(14)
Loss on extinguishment of debt tax benefit	23
Adjusted provision for income taxes	\$ 870
 <b>Non-GAAP effective tax rate from continuing operations</b>	 <b>37.2 %</b>

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.

**Forward-Looking Non-GAAP Financial Measures**

We present non-GAAP net earnings attributable to Cardinal Health, Inc. and non-GAAP effective tax rate (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 net earnings attributable to Cardinal Health, Inc. and effective tax rate. 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 LIFO charges/(credits), restructuring and employee severance, amortization and other acquisition-related costs, impairments and (gain)/loss on disposal of assets, litigation (recoveries)/charges, net, and loss on extinguishment of debt, 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.

Definitions

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

**Debt to Total Capital:** debt divided by (debt plus total Cardinal Health, Inc. 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 Cardinal Health, Inc. shareholders' equity).

**Non-GAAP Diluted EPS attributable to Cardinal Health, Inc. or "Non-GAAP Diluted EPS" or "Non-GAAP Diluted Earnings Per Share":** non-GAAP net earnings attributable to Cardinal Health, Inc. divided by diluted weighted-average shares outstanding.

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

**Non-GAAP Effective Tax Rate:** (provision for income taxes adjusted for (1) LIFO charges/(credits)<sup>1</sup>, (2) restructuring and employee severance<sup>2</sup>, (3) amortization and other acquisition-related costs<sup>3</sup>, (4) impairments and (gain)/loss on disposal of assets<sup>4</sup>, (5) litigation (recoveries)/charges, net<sup>5</sup>, and (6) loss on extinguishment of debt<sup>6</sup>) divided by (earnings before income taxes adjusted for the same six items).

**Non-GAAP Gross Margin:** Gross margin excluding LIFO charges/(credits).

**Non-GAAP Net Earnings attributable to Cardinal Health, Inc. or "Non-GAAP Net Earnings":** net earnings attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net, and (6) loss on extinguishment of debt, each net of tax.

**Non-GAAP Earnings from Continuing Operations:** earnings from continuing operations excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net, and (6) loss on extinguishment of debt, each net of tax.

**Non-GAAP Operating Earnings:** operating earnings excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net.

**Non-GAAP Return on Equity:** (annualized current period net earnings attributable to Cardinal Health, Inc. excluding (1) LIFO charges/(credits), (2) restructuring and employee severance, (3) amortization and other acquisition-related costs, (4) impairments and (gain)/loss on disposal of assets, (5) litigation (recoveries)/charges, net, and (6) loss on extinguishment of debt, each net of tax) divided by average Cardinal Health, Inc. shareholders' equity.

**Return on Equity:** annualized current period net earnings attributable to Cardinal Health, Inc. divided by average Cardinal Health, Inc. shareholders' equity.

**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.

<sup>1</sup> The inventories of the Company's core pharmaceutical distribution facilities in the Pharmaceutical segment are valued at the lower of cost, using the LIFO method, or market. These charges or credits are included in cost of products sold, and represent changes in the Company's LIFO inventory reserve.

<sup>2</sup> Programs by which the Company 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 realignment of the management structure of a business unit in response to changing market conditions).

<sup>3</sup> 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.

<sup>4</sup> Asset impairments and (gains)/losses from the disposal of assets not eligible to be classified as discontinued operations are classified within impairments and (gain)/loss on disposal of assets within the condensed consolidated statements of earnings.

<sup>5</sup> Loss contingencies related to litigation and regulatory matters and income from favorable resolution of legal matters.

<sup>6</sup> Charges related to the make-whole premium on the redemption of notes.