FINAL TRANSCRIPT

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PRESENTATION

Tom Gallucci - *Merrill Lynch - Analyst*

We're very pleased to have Cardinal Health here as our next presenter. Cardinal Health is a diversified healthcare services provider with leading market positions in a number of areas including pharma distribution, med serve manufacturing and distribution, clinical technologies and services, as well as medical products and technologies. A lot of the drug distribution business is obviously very important to the company. Some of these other areas make up almost 50% company profits, differentiating Cardinal from its traditional wholesaler peer group as well as giving the company a number of other levers at its disposal for growth.

It's my pleasure to have Dave Schlotterbeck here, Vice Chairman and CEO of the company's CMP business, tell you more about Cardinal and take your questions.

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Thank you, Tom. I want to remind you that I will be making forward-looking statements and refer you to our SEC filings for additional details.

These are the key themes that I want to follow this morning, and first I'll give you a brief description of the company at a very high level and then take you into my part of the business, clinical and medical products, and give you more insights into why this part of the business is growing so rapidly.

We have a great portfolio of leading businesses across the company. We've organized into two sectors to create scale and focus under our unifying mission to make healthcare more productive and safer. The healthcare services supply chain sector is primarily focused on improving productivity through our industry leading pharmaceutical and medical product distribution platforms, while our clinical and medical products sector primarily contributes to making healthcare safer through our manufactured medical products and technologies.

This diversified portfolio of businesses provide balance and resiliency which allows us to deliver consistent with shareholder value. HSCS is our industry-leading distribution businesses with good growth, strong cash flow, and which we use to fund and support sizeable share repurchases in our dividend plan. This sector accounted for 94% of our revenues and 64% of our total segment profits in the second quarter of FY08.

Clinical and Medical Products is our high-growth, higher margin healthcare products and technology businesses. It accounted for 6% of our revenues and 36% of our total segment profit in our latest reported quarter. Now, as the CEO of Clinical and Medical Products I intend to focus my comments on this group.

We are aligned into two segments. The first is Clinical Technologies and Service and second Medical Products and Technologies. There are four key businesses which generate about 85% of the profits within CMP. So let me take you through a very high level overview of each of these four businesses.

The first in CTS is our infusion business. We are a leader in the marketplace with our Alaris pumps and in the last year accounted for more than 50% of all the new placements in the market in the United States. We have a significant competitive advantage with our Guardrail software which is clinically proven to reduce the number of medication errors, which as you know is a key issue impacting our acute care hospital customers. This is very much a razor, razorblade business with a highly profitable follow-on disposable stream from dedicated disposables.

The other primary business in CTS is dispensing, commonly known as Pyxis. We're -- again, we are the market leader in pharmaceutical dispensing in acute care hospitals. Our install base is nearly five times that of our closest competitor.

Now, turning to the Medical Products and Technologies segment we have infection prevention. And first I'll mention MedMined which is an electronic automated surveillance system that is designed to predict through data mining and pattern recognition infectious outbreaks in hospitals. And what we have found is that by the second year of using this service hospitals are able to reduce their infection rates by approximately 20%. We are a leader in surgeon and non-latex gloves and surgical drapes and masks. About 50% of all surgical procedures use our disposable products in infection prevention from Cardinal Health.

The last business here is our Respiratory business, and this was consummated with the recent acquisition of VIASYS Healthcare in the summer of last year and makes us now the largest acute care respiratory company in the world.

I want to provide you some context on the relative importance of Clinical and Medical Products to Cardinal and give you a view of our expectations for the future. In fiscal year '07 CMP accounted for 26% of all of Cardinal's profits. When you look at this chart, this represents the expected contribution of CMP to our overall segment profits, and you can see that FY08 is clearly a springboard for strong future performance and we expect this sector to deliver exceptional growth for Cardinal and our shareholders. Our expectation is that this sector should be at or above 30% of total segment profit in FY08 with both businesses in this sector growing well above 20% during this period. By 2010 we expect our Clinical and Medial Products sector to account for 35% to 40% of our overall company profits, and as such have a significant impact on our growth rate and our overall operating margins.

This is a very significant business and will only continue to become more so. We're already making meaningful progress. In fact, in the first half of FY08 CMP accounted for 33% of segment profits on a 24% increase in revenue with profits up 34%. So we expect this revenue growth and margin expansion to continue, and now I'd like to give you some insights into the basis for that.

First, our strategy is to build competitive advantage along three dimensions. We want to build -- we want to continue to build high-value franchises in all of our business and we've done this with our Alaris infusion devices where we've created a great razorblade model with device sales pulling through an annuity stream lasting 5 to 7 years of dedicated disposables. And now we're building a similar model with VIASYS where they had a great portfolio of devices but were not capitalizing on the disposable opportunity as well as we could. So we are changing that business over to the same razor, razorblade model.

We've had a tremendous franchise with our Pyxis dispensing products where we have about a 70% market share and continue to maintain that position. And we are expanding our product offerings in infection prevention.

Now, while building these franchises we are focused on developing leading offers that address our customers' most significant needs, and I will discuss those in greater detail in a moment. And we are doing this through innovative product offerings with a focus on clinical differentiation. And what I mean when I say clinical differentiation is that we can repeatedly demonstrate clinical improvements through the use of our products to our customers.

And finally, we're working to harness the power of One Cardinal Health, most notably our hospital selling organization where we are leveraging our supply chain access to the C-suite to pull through products from CMP. And I'm really seeing the power of this. As the former CEO of Alaris prior to the acquisition I would see maybe one deal a year worth about $15 million of capital equipment, and now I see one to two a quarter.

So how do we intend to deliver this projected growth? We are all familiar with the rising cost of healthcare. And, in fact, the United States has the highest healthcare spend in the world and now at $2.2 trillion in 2007 this is the largest industry on earth. It's putting pressure on cost, safety, and efficiency. Let me give you some perspective on the actual performance of the healthcare system in our country.

You'll notice on the right of this chart that the best in class U.S. industries can perform at about a Six Sigma quality level. We have all experienced problems with airline baggage handling. That performance is at about a Four Sigma quality level. This is multiple data points on our healthcare system. Probably most effective analysis overall is from the RAND Corporation which says that the quality levels of our healthcare system are below a Two Sigma quality point. Now you'll notice adverse drug events, which have to do with one of our specialties in medication management, and hospital acquired infections are significant issues and are actually worse than airline baggage handling.

This isn't to say that improvements cannot be made, and I want to show you this data point on anesthesia related fatality rates. And history suggests that we can make improvements. This near Six Sigma level of performance has really taken place over a 20 year effort by the anesthesia community. So it is possible.

Now the issue, then, is that Medicare and Medicaid are running out of money and so they are looking for ways to not only improve the quality but to reduce the cost associated with the delivery of healthcare in our country. So recently CMS announced that starting in the fall of this year they will not longer reimburse for eight conditions that are acquired during a hospital stay, and you can see these listed on this slide. Three of these eight Cardinal already has products, either in the market or under development, designed to reduce the frequency of those occurrences. What is less known is that the DRG system has also been modified, which makes it a lot more complicated and difficult for a hospital to charge for complications. So the squeeze is already happening. I happen to know that this list is going to be expanded in FY09 and FY10.

So what we're seeing is a lot of attention to key quality issues in hospitals across the United States and our strategy is to focus on these top issues, in particular medication errors and infection prevention. And by leveraging our position and scale in medication management and infection prevention we're able to provide solutions for key issues impacting our healthcare provider customers.

In infusion systems we hold the number one position in 23 of 26 global segments and set a new standard for medication safety. In automated dispensing, our automated dispensing is used by 1 million nurses every day. With VIASYS we have the largest acute care respiratory company in the world. We provide experts who help hospital pharmacies improve their performance, meet their regulatory requirements, and even staff up to meet patient demand with over 1,000 pharmacists on staff. Our medical products and disposables are used in 90% of U.S. hospitals, and in particular we have global leadership in surgical gowns, drapes, and gloves.

And now we are creating end-to-end offerings that position Cardinal Health as a leader to make sure hospital patients are getting the right drug at the right time in the right dose, while making the clinician's job more productive. We provide infection tracking with our MedMined services to improve safety, reduce healthcare costs, reduce clinical variation, and improve outcomes. And finally, with Care Fusion we anticipate assuming a leadership position in bar code technology for medication verification and positive patient ID.

So these are our strategic priorities. Driving innovation and clinical differentiation you will see us introduce between 45 and 50 new products targeting these two areas in the next 18 months. We will continue to leverage our leadership positions as a springboard to have even more clinical impact in the performance of hospitals around the world. We are very focused on the successful integration of VIASYS and we remain ahead of schedule against our financial targets in the first year and are projecting the same for the second and third. And we're going to continue to round out our solutions and we will sell these through our U.S. hospital sales force, making Cardinal currently the largest supplier to U.S. hospitals, doing over $20 billion of business annually.

So I'm very excited that as we deliver on these strategic priorities you will continue to see the kind of growth that we've been able to deliver. So let me open this up for questions.

QUESTIONS AND ANSWERS

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Yes, sir?

Unidentified Audience Participant

The overall multiple of the company maybe doesn't reflect the value of the CMP businesses, and I just wonder, you know, why not chop it off and run it on its own? Wouldn't that be a good way to give shareholders value for what are clearly excellent businesses?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Well, certainly we realize that CMP's performance is undervalued, and we consider that to be a significant amount of undervalue. And we have in play a number of things that we are hopeful will allow Cardinal to receive full value for CMP. So we're exploring a number of alternatives in that area.

Unidentified Audience Participant

Hi. In your opening comments, you talked about the larger business being a source of cash flow to fund the future growth of CMP, and certainly, the cash flow that that business has generated recently is not what it has been in the past. And I guess my question is -- and I've been very impressed in reading through your literature, the way you're talking about capital allocation because that's a great things -- do you think that the drug distribution business is going to provide enough capital to fund the future growth of the CMP business? If not, where do you get the capital to fund the growth objectives that you talked about? Thank you.

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Yes. Let me say that cash flow in the recent quarter was a timing issue, with a number of payables coming due at the very end of the quarter. I expect that to rebound, and I expect our distribution business to remain in a strong cash flow position so that they can help fund future growth of CMP.

Unidentified Audience Participant

Dave, maybe -- you talked a lot about -- in CMP, the hospital customer and the things that you can do there. Can you discuss a little bit maybe the financial health of that customer base; the general appetite (inaudible) buyers of these products, but the ability to pay for these products?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

The question had to do with the financial health of the hospital customer. And my view is that hospital customers fall into two categories. There are those that are focused on quality and safety and they seem to be performing in a much better financial mode than what I would call the transactional customers. The transactional customers, I think, are going to have a tough road to hoe, particularly as CMS begins to clamp down in payments for poor quality and safety issues.

Our focus happens to be on what we call strategic customers. Those happen to be the more sophisticated hospitals in the country and in the world. Because they are already performing at a higher financial level, that means that they do have the means to purchase premium price products. And I'll give you an example of how that has been holding true. The Alaris system, which was introduced seven years ago with a focus on making the delivery of IV drugs safer -- because IV drugs were the most harmful and can cause the most impact on a patient if you misadminister an IV drug -- and these problems are happening all the time. There have been 62 clinical papers published over the last seven years on the clinical benefits of the Alaris system, and the Alaris system has commanded a 40% price premium for seven years, and continues to take market share.

So there's a real benefit in what I call clinical differentiation, and demonstrating to hospitals that you can make a difference with their significant problems; and being selective on who your customers to be. What that means, translating into financial performance that in a market has been growing at 3% to 4% annually, with a 40% price premium and taking market share, Alaris' revenue have been growing 15% to 20% annually. So customers are willing to pay if you can demonstrate that you can repeatedly solve some of their biggest issues.

Unidentified Audience Participant

Dave, can you discuss a little bit, your sales -- core structure and the go-to-market strategy? I know that's changed a little bit in the last few years. And then maybe to the question earlier; is there any evidence or facts that you can throw out to sort of help us understand the synergy between the business (inaudible)?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Sure. Tom's question was around describing our go-to-market selling strategy, particularly in the US, and we're now in the process of replicating this is Europe and expect to have what I will describe to you that we've done in the US in place in Europe in about 18 months.

We've pulled together all of our hospital selling forces and they are now under common management. Both the distribution sales force and the medical products sales forces report up through an individual who reports to me. Because of the position that we have in the marketplace, we have accessed to the C-suite of hospitals like no other company, and every hospital CEO and CFO knows Cardinal Health. And what this means is that through a strategic account management process where many of our account managers, who may only be responsible for four or five strategic hospitals in total, are essentially treated as a staff member by the CEO because they know so much of what is taking place in that institution.

So we have extraordinary insight into the problems that our hospital -- our strategic hospital customers are having. We have insight into when they are going to be making purchase decisions, and because we are a trusted advisor, we are able to get their products and their clinical differentiation in front of the decision makers very much upfront. And so the end result is that we're seeing above-market growth in businesses that I have that didn't use to grow above the market rate.

Now we also target what I call transactional customers. Transactional customers arecustomers that are buying exclusively on price. And if I were to split the hospital market in the US, strategic customers represent above 1800 hospitals, with the balance being transactional customers. And quite frankly, we don't do anything special for transactional customers. We continue to call on them the way we have in the past. But we are investing more in our strategic accounts, and we're finding that our growth rate in those strategic accounts in nearly every part of the business is about double what we see in our transactional accounts.

So we're looking forward to implementing this same model in the European community, and are in the process of doing that right now.

Unidentified Audience Participant

Just a question, perhaps a clarification. You mentioned that 40% premium; is that on a per channel basis, or is that a particular multi-channel pump? What -- how do you encompass the entirety of your pump line when you get to that 40%?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

The way that a hospital purchases infusion pumps is that they will outfit the entire hospital. And the rule of thumb is that they will purchase one infusion pump per bed. And typically, what we have been seeing is that the total purchase of capital equipment is 40% of a price premium for that buy for that hospital over what other competitors are selling for. So the hospital will determine the number of channels that they want, but on average, pricing is about a 40% markup.

Unidentified Audience Participant

Question about the distribution business. Could you talk about margin trends, where you see opportunities for better margins like generics, and where some margin pressures might be coming from and sort of how it all sorts out?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

I'm going to turn that question over to my colleague, John, since I'm not an expert on our distribution business.

Unidentified Participant

Thanks for your question. You know, from a margin perspective, clearly coming into this year, we were looking for a stable to slightly increasing margin in that business. That's still our goal. We've run into some headwind this year; hard to say what next year looks like. We're in the midst of our planning process and haven't talked to much about that. We still look to -- maintaining or slightly increasing margins in that business. The one particular headwind that's of note in this year is the significant repricings that we've had with our key large customers that really took effect heading into this year, and then most recently, with our recent renewal of Walgreens.

Unidentified Audience Participant

John, can you speak to maybe the more recent sort of sequential margin trends and where you were in the fourth quarter versus what your expectations might be, as opposed to maybe on an annual basis?

Unidentified Participant

Yeah. Most recently, we're just coming off of a pretty challenging quarter where the pharma segment margins were down -- or EBIT was down about 20+%; of course, the margins down along with that. A few challenges in the quarter that we talked about, timing and changes in brand and price increases, generic deflation, and kind of coupled with the dearth of new launches in the quarter. Sequentially, we anticipate an improvement over the back half. Of course, there's a couple of key drivers in the market. I think most notably, there's expectation and some actual price increases here in the -- which are third quarter, but first fiscal quarter of the calendar as well as what I would say is a more robust generic pipeline here as we head into '08.

Unidentified Audience Participant

Then maybe, John, just while you're there. A big topic yesterday was -- and lately, I guess -- has been the DEA. Can you just discuss sort of Cardinal's current situation and how you put that in perspective with your recent 10-Q?

Unidentified Participant

Yep. Yeah, definitely. I know it's a hot topic with some of the announcements that were out yesterday, our recent filing. This is -- just to step back from it for a second. The security of the supply chain is really core. Dave mentioned our focus and our mission of making healthcare safer and more productive, and we view this as a key component of the safer side of the house with respect to this issue. And it's well-published; we've had three licenses suspended to distribute controlled substances out of CDCs. We're taking very significant action; improving our systems and controls; working very closely with the DEA to expeditiously resolve this issue. But it's hard to tell how long that will take.

The issue that Tom referenced in regards to our recent 10-Q, we had a recent notice to a facility we have outside of Houston that's going to most likely recent in an administrative hearing -- and just to be clear, that license has not been suspended. This is a hearing where you would look to review your controls for that particular site and it's really part of the same ongoing matter, and we expect all the issues to be consolidated to one item as the first three have been.

Unidentified Audience Participant

Dave, I was curious. What do you think about international? You briefly mentioned it a few times, but I've heard you talk before about -- both an opportunity on the revenue side as well as on sort of the cost side. Maybe could you address your initiatives there?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Yes. Internationally, we are currently doing slightly over $1 billion in revenue. We have a very strong position through Alaris and their international position; very strong position with VIASYS; and a growing position with Pyxis, and that really has to do more with the readiness of the market there.

My expectation is that we will see over the next three to four years very significant growth out of Pyxis, particularly in Western Europe; really as a result of the healthcare IT investments that they've made in Europe over the last four to five years. So I look forward to accelerating international growth. We are reducing our overall cost internationally as we consolidate country headquarters and combine sales management from multiple sales forces to single country managers, just as we've done here in the United States. And my expectation is that the kinds of cost pressures that CEOs of hospitals in Europe are now beginning to see, that CEOs of hospitals in the United States have seen for a while, are really going to help drive our business as we provide more and more products that are clinically differentiated.

I think we have time for one more question.

Tom Gallucci - *Merrill Lynch - Analyst*

I guess I'll ask it if there's nothing in the audience at the moment. You also briefly mentioned in your remarks before about VIASYS and how they haven't done as good a job on the consumable side. Maybe can you give us some specifics or tangibles about what you're doing to sort of reverse that trend?

Dave Schlotterbeck - *Cardinal Health Inc - Vice Chairman and CEO*

Right. As I had mentioned, my intention is to turn VIASYS into a razor/razor blade business. There had virtually been no focus on proprietary disposables in the past, and as a result, VIASYS' ventilator business was significantly bigger than its disposables business. And it really should have been the other way around, had they had a significant focus on disposables.

So we have about 13 new products coming out of VIASYS over the next 18 months, all in acute care ventilation. Every one of those new products has proprietary disposables that you can only purchase from Cardinal Health. And so while I don't expect an immediate impact, as the installed base begins to shift from a smaller to a larger percentage of products that have proprietary disposables, I think you will see top line growth in the business along with margin expansion as a result.

Tom Gallucci - *Merrill Lynch - Analyst*

Great. I'd like to thank Dave and John for being here.
