

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **CAH - Cardinal Health, Inc. at Merrill Lynch Health Services Investor Conference**

**Event Date/Time: Nov. 28. 2006 / 11:45AM ET**

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## CORPORATE PARTICIPANTS

### Mark Parrish

*Cardinal Health - Healthcare Supply Chain Services CEO*

## PRESENTATION

### Moderator

in other areas of the company outside of \_\_\_ distribution of the company has a variety of \_\_\_ contingency drive bottom line growth. It's my pleasure to welcome Mark Parrish, recently named CEO of the Healthcare Supply Chain Services segment to tell you more about their story and answer your questions.

### Mark Parrish - Cardinal Health - Healthcare Supply Chain Services CEO

Thank you, Tom. Good morning and thanks for your interest in Cardinal Health, and as Tom mentioned to me as I sat down, welcome to springtime in New York. Beautiful time for the Christmas season. My name is, as Tom indicated, Mark Parrish. I've recently been named the CEO of the Healthcare Supply Chain Services sector of Cardinal Health. I would like to begin today first, though, by giving a few slides to give you an overview of the company, and then dive into some of the Healthcare Supply Chain Services group that I have responsibility for in a bit more detail.

Each of you are used to seeing this slide, which will be included as to all companies. Moving forward, though, I think it's important first to try to understand the breadth of Cardinal. Tom gave you a little bit of information in his introduction, but as you can see, we officially distribute one-third of all medicines prescribed in the United States. We manage 275 hospital pharmacies and dispense more than 5 million doses of medication every day through our Alaris and Pyxis medication management and automation products.

Cardinal Health also manufactures and distributes the products used in 50% of the surgeries in the United States, and in total, our products and services are used by over 90% of the hospitals. We also manufacture and package 100 billion doses of medication every year for pharma and biotech manufacturers worldwide. Our customers include hospitals, clinics, doctors' offices, retail stores, large pharmaceutical companies, generic companies, and biotech firms. We have a unique opportunity to reapply investment class learning and integrate products and services across these various businesses to better serve health care.

What I'd like to emphasize here is that Cardinal Health is well positioned for long-term growth in this market, with a clear mission to make the practice and delivery of health care safer and more productive. We're poised to do this with a strong and newly integrated organization, a market leading range of products and solutions, and a very solid financial foundation.

As part of our effort to transition from a holding company model to that of a integrated operating model, which we call One Cardinal Health, we recently reorganized our businesses into two distinct sectors. As many of you know, earlier this year we announced the formation of the Healthcare Supply Chain Services sector by combining our pharmaceutical and medical distribution businesses and their related business units. HSCS is the integrated approach we are taking to drive efficiency and growth across these groups, as well as leverage the success of our employees' leadership and innovation capabilities. This is really Cardinal Health's foundational business, with high revenue growth, lower margins, and very consistent and reliable cash generation. This sector will focus on best-in-class service and cost while managing margins and capital to generate economic profit growth.

Economic profit is a measure that we will continue to use to measure our performance. When making business decisions within our lower-margin distribution businesses, we focus not only on operating margins, but efficient capital utilization as well. This sector accounts for two-thirds of our profits. The Pharmaceutical and Medical Products sector includes all of our manufacturing businesses. This is the development area for the company. With higher margin products and services, this sector will focus on

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innovation and the effective use of assets. And this balanced portfolio, distribution businesses and manufacturing businesses, sets our company clearly apart from the traditional pharmaceutical distribution company, and it results in higher margins, higher return on invested capital, and provides an excellent platform for growth.

In fiscal year '07, as we implement these changes, we will also focus on two other priorities across the entire Cardinal Health organization, supporting our previously announced journey to become One Cardinal Health.

First, we want to invigorate customer-driven organic growth through a focus of innovation and extended product offerings. We will also opportunistically add tuck-in acquisitions and make selective divestitures when we see the right opportunity. But job number one is to grow the business that we have today. And secondly, we will focus on leveraging our scale and operational excellence across the enterprise. Our cost structure certainly is a key component of this source, but also an intense focus on cost will help us to free up funds to drive innovation and the organic growth that we're looking for. Our entire management team at Cardinal is committed to One Cardinal Health because we see the potential it holds for our customers, employees, and shareholders.

Now I'd like to go into a bit more detail about the Hospital Supply Chain Services sector. The strategy we have set is to be the best global supply chain partner, creating and implementing integrated solutions that improve the delivery and the economics of health care. Healthcare Supply Chain Services is an innovative concept, to bring together two distribution businesses which have been considered by the industry as separate businesses heretofore. However, we see a very big idea in this combination. We believe that these businesses have as much in common as they do as separate and distinct characteristics. We believe that we can improve the economic profit of both of these businesses by focusing on the efficiencies to be gained through synergies and best practice sharing in global sourcing, operations, purchasing, transportation management, inventory management, customer service, and shared services such as human resources, IT, finance, et cetera, while still respecting the unique characteristics of each marketplace.

This is an impressive set of businesses with significant scale and complementary services, particularly for our manufacturer customers. The sector is comprised of the following businesses--HSCS Pharmaceutical businesses are the retail alternate care business, nuclear pharmacy services business, Medicine Shoppe International, which is a retail franchising operation for pharmacy, specialty pharmaceutical services, and specialty pharmaceutical distribution, which is a therapeutic plasma business. Under HSCS Medical are the hospital supply distribution business, the pre-source kitting products and services, scientific products and services, and the ambulatory care division. And the integrated supply solutions business will also be under the medical side as well as our Source Canada, source medical business in Canada.

The pursuit of this strategy will deliver value that is greater than the sum of the parts, as well as the internal efficiencies that we will gain. HSCS gives us an opportunity to take the best practices from both of these businesses. We believe customers are going to benefit from superior customer service coming from a focus on higher service levels on initial delivery, a key objective for us in the medical side. Access to a broader range of technology solutions, increased opportunity to take advantage of integrated solutions across Cardinal Health business with a single point of contact for the IDMs that we do business with today, and also breadth of logistics service opportunities for our manufacturer customers.

Cardinal, we believe, will benefit from leveraging the scale internally as we rationalize our net worth to 75 distribution centers as we share best practices across the distribution businesses and share the practices of improved capital efficiency across these businesses. We believe it's going to simplify our operating model and integrate, give us the opportunity to integrate customer information, and we also identified opportunities in technology platform, advantages in warehouse systems, and in customer service technology. Now, all of this, we believe, will result in better performance for our customers, which in turn should result in better returns for our shareholders.

We're structured to deliver drugs through innovation and differentiating customer solutions and leverage our scale to accelerate the cost leadership position. So what is our progress in building out and deploying Healthcare Supply Chain Services? Well, first this spring we completed the strategies development for the sector, the organization model was completed in late summer,

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the strategy development is executing currently and ongoing. We're focused on the synergies, as I mentioned earlier, in warehousing, transportation, purchasing, and manufacturer relations.

As the early opportunities for this strategy, we'll be focusing on solutions implementation for our provider customers and are rolling out in the second half of fiscal year '07, and we are also, have already put into place new selling process, new, integrated selling organization to bring those solutions to market. Our cost structures and our capability leverage is something that will be ongoing for us in this process.

We've made tremendous progress. We're accelerating this progress across the board in both the pharmaceutical and the medical business. And when I think about the next steps that HSCS has to go through, it's really all about accelerating the pace of execution. We've already begun to see the unique opportunities in looking at the supply chain as one and understanding how we can translate that into customer and shareholder value. It's also about delivering an integrated One Cardinal Health offer to our customers, focused on organic growth and leveraging the scale and operational excellence and, importantly, unleashing the power of our employees in that process. I think you can see there's a great deal of potential here, and we have many compelling opportunities.

Now, let's focus in a little more detail on the two businesses that sit within the Healthcare Supply Chain Services sector, first the pharmaceutical and then the medical. The pharmaceutical supply business is one which reaches thousands of retail alternate care, mail order, and hospital pharmacies each day. It's a very well diversified business. This business has a very favorable customer mix of faster-growing chains, hospitals, and long-term care alternate care customers, with a very durable client-vendor relationship with our customers which is unique in our industry.

Medicine Shoppe International is a health care-focused pharmacy format well positioned for the future in the franchise format. Our specialty pharmaceutical services business is a 3PL with a specific focus on the underserved emerging pharma manufacturer sector. Specialty pharmaceutical distribution is a leading therapeutic plasma product distributor, and our nuclear pharmacy business is the nation's largest and is well represented in both the clinic and the hospital marketplace. Each of these businesses is advantaged through low cost positions in the market, channel leadership, strategic relationships with both manufacturer customers and provider customers, in use of technology in varying ways to gain closer relationships with those customers, both the manufacturer customers and the provider customers.

As you can see, HSCS is a broad set of businesses with deep capabilities which are necessary to capitalize on what can only be termed a very significant marketplace. In 2005, the U.S. pharmaceutical market grew at 5.7% to \$251 billion, continuing its steady growth rate, albeit at a more modest rate than the late '90s, from a high of 17%, as you see here on the chart on the blue line in 1999. The market is expected to grow at about 6% to 7% in 2006, with a compound annual growth rate of 5% to 8% through 2010. While those numbers are somewhat muted from the highs of the '90s, it's still a very attractive growth market.

Growth will be driven in this market by a number of factors--utilization increases from the Medicare Part D expansion, favorable demographics, patent expirations, new biotech products, and generics.

Now I'd like to focus on the pharmaceutical supply chain business, which we expect will grow faster than the market in the years ahead, as it did in fiscal year '06. Previously I mentioned the importance of economic profits. I'd like to share with you how we're going to drive economic profit in the pharmaceutical supply chain side of the business. We're going to seize the opportunity in generics with a four-pronged approach I'll cover in a moment. By leveraging our current platform of four distribution capabilities, we are building on our expanded marketing capability in releasing differentiated value-creating services for provider customers and realigning the sales forces to support them. We'll build on this success and also the success that we had with our fee-for-service transition over the last several years with manufacturers to create additional offers for those manufacturers and continue to focus on cost control and improved capital efficiency, which will generate higher savings, more capital for investment, and greater return.

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The opportunity with generics is so significant that it's important to review the size of it. From the beginning of 2006, there's about 57 billion in brand volume that is expected to come off patent in 2000 all the way through to 2008. Managed care and health care providers have had a keen focus on this trend, and they are driving conversions to generics at a rate which is faster than ever. We are now seeing generic conversion rates of 75% of total scrips within three weeks, versus the time frame that was as long as six months or greater five years ago. This pace of conversion requires close collaboration with generic manufacturers and provider customers and results in accelerated contributions of the improved economics of generics.

Our four-pronged strategy will be to create the best possible leverage to this generic opportunity. First, we're going to be sourcing products at the lowest available cost. We'll build on the great relationships we already have with traditional suppliers here operating in the United States, but we also are very active in sourcing directly to the low-cost geographies, such as India and China, to create the best possible cost advantage. This strategy will fully leverage Cardinal Health's expertise in the areas of manufacturing, global sourcing, quality and regulatory through our PTS businesses to drive supplier selection and create the opportunity by assisting emerging suppliers and getting things to the U.S. market on an accelerated pace.

We will expand sales also to existing and new customers. We see a great opportunity here to expand our volume by offering our foreign-source products to our customers who traditionally purchase generics on a direct basis. This expanded volume will in turn drive our ability to source products at the lowest cost and create greater margin opportunities for ourselves and for our customers. We're also very interested in product participation. We'll build on our ability here to create a unique product sourcing arrangement that could include product ownership in niche markets, and select self-manufacturing opportunities in the unique branding strategies as time goes on.

Finally, our acquisition of PharMed was designed to sell retail independent customers and small chains in a manner in which they choose to buy. It's important to note here that retail and independent customers have shown over the years that they will purchase roughly 60% to 70% of their generics from their primary wholesaler. The remainder of them purchase through other opportunistic distributors. As such, we primarily see the competition as other distributors, and not necessarily the full line wholesaling competitors for PharMed. PharMed also gives us the flexibility to work with suppliers on stretch inventory such as short-dated products, validation batch liquidation, testing of our emerging suppliers through our sourcing operations, and pursue new markets that are more appropriate for a flexible sales strategy than that of our full line distribution business.

In fiscal year '07, growth will be driven by the special renewal of fee-for-service contracts and the service extensions that we create for our manufacturers. Generic launches will also create additional drug margin opportunities as well as the opportunity to create greater compliance through our source program for our retail independent customers. Strong bulk growth, which while it's diluted to our overall margins, is a very good business and has a great return on capital and economic profit. This incrementally profitable business does not cannibalize our direct door-to-door business revenue growth, which has been stable now for the last three years, and then finally, efficient capital utilization. Obviously, to stable to increasing the economic profit margins driven by additional margin dollars and efficient capital reuses.

Now I'd like to turn to the other segment, which is the Healthcare Supply Chain Services medical business sitting within the HSCS sector. And in our medical business, we bring the industry's broadest and deepest portfolio products and services to our customers, generating revenues in excess of \$7.5 billion annually. We service hospitals, surgery centers, clinical labs within acute and non-acute providers, reference laboratories, and physician offices in both the United States and in Canada. In each of our businesses, with the exception of physician offices, Cardinal Health is a recognized market leader. All these businesses deliver value to our customers through the industry's lowest cost distribution and custom kitting models. We intend to stay focused on our cost leadership position and accelerate our efforts to hold onto that position, which I will speak more to lately, and provide a unique tailored service to help our customers solve their complex material and clinical supply chain needs.

Today our supply chain covers the spectrum from base distribution to valuing, our market leading stock-up offer for our customers which comprises over \$1.4 billion of our base and is growing at 2.5 times the market rate with a high stickiness factor. We have very few customer deflections from this just-in-time program. Our custom kits and procedure-based delivery systems are consolidated. They can sell their packages and sterile products necessary for a given surgical procedure into one unitized

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package. This presence in the operating room and procedural areas gains us incredible access and insight to the hospitals' highest spend categories and highest margin categories for our customers. As a logistics service provider, or 3PL provider, we also offer services to manufacturers seeking supply chain outsourcing capabilities. In addition, we offer the complete management of a customer's freight expenses across all inbound and outbound deliveries.

Further, our portfolio products and technologies offer unique [inaudible] solutions for all the channels that we serve. The Cardinal Health brand products present customers with an expanded quality of price-borne alternatives to help them manage the costs and contribute to our margin expansion and our economic profit expansion. We also help improve customer provider productivity by applying technology to enable efficient order flow and effectiveness through the supply chain for programs such as order connect.

We participate in a large and growing healthcare market. As you see here with the growth rates of each of the submarkets that we deal in, in the med-surg or hospital and the clinical laboratory markets, these numbers represent both the direct and the distributive markets. Within the hospitals, the growth rate for distributed products is expected to be approximately 4%, with the direct market growing slightly faster at 6% to 8%.

There are several key trends that we believe we're very well positioned to address with this business. Procedure migration is moving, at this point, many procedures out of the hospital into either surgical clinics or specialty hospital areas. Clinical research and lab applications are bringing emerging technologies, again, out of the hospital and into a new market that we are heavily focused on and seeing great success with.

There are currently reimbursement challenges. Subsequently, challenges to operating margins in our hospital customers, and our customers are looking for solutions to try to drive down their total cost of service to the patient. Our supply chain focus with manufacturers and provider customers, we believe, gives us a distinct focus around the higher value medical devices, which create opportunities to expand our reach within the hospital, and our technology adoption free mining of data flow and accessibility and providing that information back to customers is a great advantage.

We believe we're well positioned to have the comprehensive and integrated capabilities to solve customers' challenges in the face of this trend. Candidly, we like to have a customer who's dealing with challenges, because that type of customer is looking for solutions and is willing to make changes.

Now, let me speak to our strategic priorities and how they help us serve our customers in a way that helps to differentiate us and create competitive advantage. Our objective, as I mentioned before, is to create and attain a cost leadership position and are further leveraging that across the HSCS sector and service areas such as customer service, shared service models, finance, HR, and IT. And most importantly, we have developed and deployed a lean six sigma set of resources in our employee base to help us make step change improvements in all quality, performance, fees, and economics, all focusing initially on the voice of the customer.

Additionally, our category management team is aggressively working through the products portfolio that we have and pressing that advantage in all channels through our global sourcing capabilities established abroad. We currently represent the largest corporate branding portfolio of products in the industry and utilize our Singapore operation to augment that on a regular basis. We're enhancing and driving discipline with our supply chain value proposition through tailored offers and services focused on specific customer segments and, importantly, that customer's willingness to pay.

I mentioned this several times, but it's important to continue to focus on, and that's capital efficiency, the core focus for our organization. Improvements in working capital, network and transportation and infrastructure, and overall system velocity will drive positive economic profit leverage for this business. While this is a relentless focus on the perfect order, we believe that contributes to customer loyalty and to our cost leadership position.

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The launching of the integrated supply solutions is an important strategic move. It's a focus on connecting and building on all the Cardinal Health Supply Chain capabilities to offer a solution-based model to a large IDNS, bringing together the distributed products and their direct products. Our IPS, our integrated provider solution selling model, which is integrating the sales forces of all the companies within Cardinal Health that call on the hospital marketplace, is fully deployed now and central to delivering this value to the best flex customer. And finally, our participation in new markets, such as research, Canada, freight management, OEM kitting, all are natural extensions of our capabilities.

In FY '07 top leadership will be fundamental to who we are and how we conduct our business. Projects underway or completed since last year are network rationalization, with consolidation of three distribution centers already and two more coming before the end of the fiscal year. Our transportation management system is in the process of implementation through new technology. We have warehouse automation that we are maximizing to pick the voice automation and key voice profiling systems that allows us to better utilize our transportation assets, and also our customer service consolidation and sales force productivity are increasing as we've gone through the transition to centralized customer service and the integrated sales force.

Now, operational excellence is about more than just cost. It drives sustainable process improvement for us to raise the quality of our performance by eliminating defects, increasing our speed to opportunities in the marketplace and making it part of the Cardinal Health way of doing business, which we believe will improve our customer and supplier satisfaction.

The research market benefits from Cardinal Health's strength and supply chain, product portfolio synergies, services, and manufacturer relationships as we move into the research market from our traditional laboratory market. We'll also be driving organic growth with our expanding product portfolio and the use of the ISS team to deliver the solutions to the customers. And lastly, expanding our participation in Canada will extend the expertise we have across all channels in that marketplace. We believe our product portfolio is an advantage, and the channel expertise that we have will create a huge advantage for us in this particular market.

Now, to summarize, we believe we are well positioned with our strong and newly integrated organization and the market-leading range of products and solutions that we have executed on our mission to make health care safer and more productive. We're organizing our business segments around two major business sectors, the Healthcare Supply Chain Services sector and the Pharmaceutical and Medical Products sector. This will allow us better focus and it will allow us to clearly see the critical business drivers for each particular segment. Our focus on economic profit will create the desired internal discipline around both operating margin growth and efficiency of capital and ultimately will drive economic profit growth for the company.

And finally, for fiscal year 2007, our operating priorities will continue to be to drive customer-driven organic growth through innovation and expanded product offerings and to leverage our scale and operational excellence across the company to drive growth and margin [inaudible].

Thank you for your attention this morning. We've got about 10 or 12 minutes to take questions, if you have any.

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#### Moderator

Great. Thank you very much, Mark. Maybe I'll kick it off here. Just curious. You've got the new title and new responsibilities. Can you talk to us maybe about as you enter this role, the two or things that are kind of at the top of your mind about what you need to accomplish given your expanded responsibilities?

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#### Mark Parrish - Cardinal Health - Healthcare Supply Chain Services CEO

Yes. The, the real beauty of this, Tom, is as I moved into this particular role, I was very much involved in the development of the organizational structure for Healthcare Supply Chain Services and the strategic priorities. So from the standpoint of what are the two or three most important things on my mind were really contained within this presentation as actually part of the team

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over the past year that's developing this whole process. And we're very focused, as we talked about here, on looking at tangible capital and reduce the capital throughout the organization to drive the economic profit and to leverage our cost advantage. Those would be sort of the early, low-hanging-fruit opportunities of the Healthcare Supply Chain Services. Those we need to accelerate.

We've gone through, in my mind, probably a little bit of a long transition period through our reorganization, a little longer than I would have liked to have seen it. But that's behind us now and we're accelerating these priorities that we have in front of us. The other area that I would say is of particular importance is our customer solutions side. Both the medical business and the pharmaceutical business have invested a great deal in the marketing capabilities of bringing in new marketing talent. We have been testing programs fairly quietly over the last year or so. Those programs will be rolled out in the second half of the year, so we're expecting some pretty exciting activities [inaudible].

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**Unidentified Audience Member**

Just a follow-up. You mentioned kind of a long transition period during reorg. You know, cost cutting we've been hearing about for a while, in particular. What inning, to use a baseball analogy, do you think we are in in terms of the low-hanging-fruit, if you will, within your area of business [inaudible] in terms of cost cutting business?

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**Mark Parrish - Cardinal Health - Healthcare Supply Chain Services CEO**

I'd say we're in the early phase of the game. We're in about the third inning. We've got some great opportunities in the medical side of the business and some of our other business units specific to the sector, and we continue to have good opportunity within the pharmaceutical business as well, as we up. As we get better and better, I think, with lean six sigma and the discipline of operational excellence. We're finding there's tremendous opportunity, particularly in distribution businesses where you have so many transactions. You could move into a process where you eliminate defects and eliminate variation in those transactions, you can create a great deal of fix.

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**Unidentified Audience Member**

Two unrelated questions. I'll give you one at a time. Wal-Mart started the \$4 generic, or part of the generic market, and they're starting to spread it a little bit. Who knows where it goes? But could you talk about if it does spread, what is the impact going to be on the distribution [inaudible] specifically, but in particular, are they going to, the independents coming back to you and saying, "I need a better price to compete with some of the big guys," or all the guys coming back and saying, "All these better generic prices from you to match and you have to give up some margin," or what's the pressure point?

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**Mark Parrish - Cardinal Health - Healthcare Supply Chain Services CEO**

You know, it's an interesting phenomenon, but we really aren't seeing that, and the explanation that I would offer to you, having watched this develop over the months and come through the marketplace now. I think yesterday Wal-Mart finally announced they're going to go ahead and roll the program out nationwide in response to Target's announcing that late last week. The key here is that this battle is going on for the cash fare business, and the cash fare tends to go disproportionately to the mass market channels for their prescriptions. This is something that's been going on for a number of years, and the independents and the regular chain businesses, or the traditional chain business, if you will, really operates on a convenience model and tends to have a piece of that cash business, but not as great a piece of that cash business as the mass marketers.

You can see a little bit of this in action when you see who's matching the Wal-Mart program. People that are matching the Wal-Mart program are people like Target, Osco, other mass market players, not necessarily the independents, and not necessarily the regional chains or national chains like Walgreen's and CVS, for example, have indicated they will not match the program.

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But we're not actually getting requests from our independents to change pricing. Most of them have made the decision they're not going to try to meet this price. They operate on a different model, different demographic, and so at this point we've seen no degradation in their volumes. We've seen no volume losses in the independent program. My view on that is that it is an intense battle, and one to be watched, but it is a battle sitting within the mass market channels, and it's only for, what nationwide is 5% of the marketplace because it's disproportionately represented in mass, I'd say perhaps there it's 8% of the marketplace is cash, and that's where the battle is raised. The mass market channel, about 12% of the market overall, roughly. Look up the IMS numbers, I can't give you that exactly, but within my recollection, so you've got 8% of 12% of the market is where this battle is raging. While it's high profile and something to keep an eye on, it's not changing the economics

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### Unidentified Audience Member

And how big is the opportunity [inaudible] business model part you talked about in the international sourcing? Perhaps you could give us a scale of how big that opportunity is and how unique or difficult it would be for some of the competitors or some of your people who buy direct today who try to copy?

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### Mark Parrish - Cardinal Health - Healthcare Supply Chain Services CEO

Well, we think we have an advantage in sourcing based upon our manufacturing expertise. It's really there what you're looking for are manufacturers in emerging markets. It doesn't have to be India or China, but they're two that are talked about frequently, but there are many places around the globe where there are very solid manufacturers working to come to market. We can help manufacturers that would be second- or third-tier, that being defined as all the manufacturers who are not yet FDA approved in their plant and the processes. We can help them come to market faster. We believe with the resources that we have and that gives us an advantage vis a vis our competitors. One of the big opportunities for us in the generic marketplace is the fact that the wholesale channel tends to participate in about 35% to 40% of the channels, with the remainder of them joining the rest. So we identify that direction as a great opportunity to both participate more in sourcing being a good reason for a direct player to work collaboratively with the wholesaler on that piece of it. The direct player, and by that I mean direct purchase.

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### Moderator

One quick question that we are often asked, kind of getting to the last question a little bit, is about AMT and the potential impact, derivative impact on the distribution business in general. Maybe can you talk about some of the things that you've got going on inside Cardinal as you watch this whole thing develop?

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### Mark Parrish - Cardinal Health - Healthcare Supply Chain Services CEO

Yes. While I will hesitate from getting too specific for a variety of competitive reasons, but we're watching the AMT situation very closely. The difficulty here is that you're dealing with something that's really a bit of a moving target. The AMT measure is not well defined yet. It's still somewhat fluid in terms of how exactly it will be defined, and in this particular case, the devil truly does reside within the details. So the strategies that we employ to respond to this will depend greatly on exactly what the wording is and the definition of AMT, but we know a couple of things about it, Tom. We know it's going to create transparency in the marketplace. We believe that that's a, can be a good thing. It makes us, frankly, better buyers, because we will have a much better view of what the actual pricing in the marketplace is, if there still is a classic freight pricing phenomenon occurring within the generic marketplace. We also think it gives us an advantage with sourcing to be able to work to acquire costs that are extremely competitive under this AMT model, and we believe there's some interest in collaboration opportunities with our, with our customers as we build a model like this.

Looking at a couple of different types of models in terms of how generics are brought to market in order to respond to AMT, but again, so much of it depends on exactly how the regulations are written. Not the law, the regulations and [inaudible].

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**Moderator**

Understanding kind of the uncertainty, a few things that you mentioned there were all opportunities. Do you see the AMT changes as more of an opportunity, or a risk as you think about it?

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**Mark Parrish** - *Cardinal Health - Healthcare Supply Chain Services CEO*

Well, I tend to be more optimistic, so I'm going to look at it as an opportunity. I think there's certainly a lot of risk in it as well for everyone, because the transparency can bring uncertainty in the marketplace and bring reimbursement changes into the marketplace. But I think once the, once you get through that, one of the things we're going to see in the industry is the fact that the pricing model today is truly built around a well aligned set of [inaudible]. By that I mean virtually all players in the channels, if you start at the retailer, you look at the DBM, you look at the wholesaler, we all earn a fairly significant profit on our generics, and discount the branded business. In fact, disproportionately because of that. I think as the profitability changes on the generic business as a result of AMT, what you'll see is some level of adjustments on the branded side of the pricing in order to compensate for that. Because the net number, if you will, the net margins that we operate on, are already very efficient margins, very low margins. So there will be a bit of shifting going on as well. It's just something to identify as to what degree does the shifting go on and at what pace, but net-net, I think once the adjustments are completed, I think it's a good opportunity with having the transparency and reference prices that will exist within AMT, that we can then begin to operate.

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**Moderator**

You mentioned your focus on efficiencies of cap [inaudible]. Just curious if you have any thoughts, big picture, on what the implications this may have on your capital structure, big picture, if you feel like you have too much debt right now or not enough debt, or if you feel like you need to improve your credit profile in order to more efficiently utilize your weight of cost of capex. How do you think about your capital structure and where that's going to go going forward?

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**Mark Parrish** - *Cardinal Health - Healthcare Supply Chain Services CEO*

At this point we don't see any changes in the capital structure. We would always like to have a slightly higher credit rating, but at this point we're comfortable with the credit rating. I'd like to see it go up one notch or so, but the important thing here is the economic profit, we believe, will drive greater value in the organization and just agree that we create capital, we have a very defined capital deployment strategy, with about 50% of our excess capital deployed back to the shareholders through dividends or through stock buybacks, and the remaining to be deployed through internal technology or new business opportunities and tuck-in acquisitions or close adjacency acquisition. So I think the capital strategy is efficient. The capital utilization initiative that we have is keyed to that overall objective very well.

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**Moderator**

I'd like to thank Mark and Susie for their time. There will be a formal breakout session in the Louis XVI Center room and at one o'clock there will be Coventry Hall in this room. Thank you.

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