# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

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

For the quarterly period ended December 31, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 1-11373


# Cardinal Health, Inc.

***(Exact name of registrant as specified in its charter)***

| **Ohio** | **31-0958666** |
|---|---|
| ***(State or other jurisdiction of incorporation or organization)*** | ***(IRS Employer Identification No.)*** |
| **7000 Cardinal Place, Dublin, Ohio** | **43017** |
| ***(Address of principal executive offices)*** | ***(Zip Code)*** |

**(614) 757-5000**

***(Registrant's telephone number, including area code)***

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

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

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

| | |
|---|---|
| Large accelerated filer ☑ | Accelerated filer ☐ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐ |
| | Emerging growth company ☐ |

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

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

The number of the registrant's common shares, without par value, outstanding as of January 31, 2018, was the following: 314,706,914.

# Cardinal Health

**Q2 Fiscal 2018 Form 10-Q**

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## About Cardinal Health

Cardinal Health, Inc. is an Ohio corporation formed in 1979 and is a globally integrated healthcare services and products company providing customized solutions for hospitals, healthcare systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices. We provide medical products and pharmaceuticals and cost-effective solutions that enhance supply chain efficiency. We connect patients, providers, payers, pharmacists and manufacturers for integrated care coordination and better patient management. We manage our business and report our financial results in two segments: Pharmaceutical and Medical. As used in this report, “we,” “our,” “us,” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. Our fiscal year ends on June 30. References to fiscal 2018 and fiscal 2017 and to FY18 and FY17 are to the fiscal years ending or ended June 30, 2018 and June 30, 2017, respectively.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q for the quarter ended December 31, 2017 (this "Form 10-Q") (including information incorporated by reference) includes "forward-looking statements" addressing expectations, prospects, estimates and other matters that are dependent upon future events or developments. Many forward-looking statements appear in Management’s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), but there are others in this Form 10-Q, which may be identified by words such as "expect," "anticipate," "intend," "plan," "believe," "will," "should," "could," "would," "project," "continue," "likely," and similar expressions, and include statements reflecting future results, trends or guidance, statements of outlook and expense accruals. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those made, projected or implied. The most significant of these risks and uncertainties are described in Exhibit 99.1 to this Form 10-Q and in "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (our “2017 Form 10-K”). Forward-looking statements in this Form 10-Q speak only as of the date of this document. Except to the extent required by applicable law, we undertake no obligation to update or revise any forward-looking statement.

## Non-GAAP Financial Measures

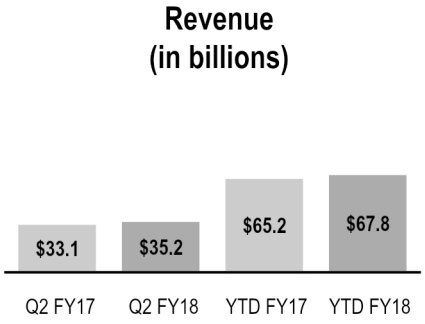
In the "Overview of Consolidated Results" section of MD&A, we use financial measures that are derived from our consolidated financial data but are not presented in our condensed consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These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

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

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations between the periods specified in our condensed consolidated balance sheets at December 31, 2017 and June 30, 2017, and in our condensed consolidated statements of earnings for the three and six months ended December 31, 2017 and 2016. All comparisons presented are with respect to the prior-year period, unless stated otherwise. This discussion and analysis should be read in conjunction with the MD&A included in our 2017 Form 10-K.

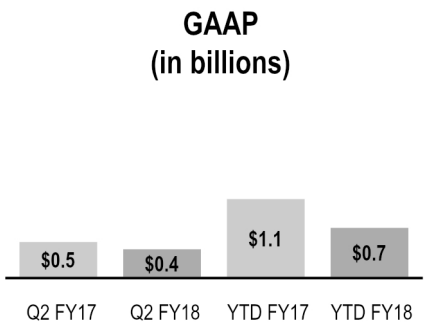
## Overview of Consolidated Results

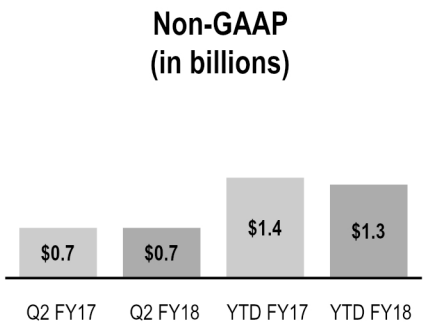
### Revenue




During the three and six months ended December 31, 2017, revenue increased 6 percent to $35.2 billion and 4 percent to $67.8 billion, respectively, primarily due to sales growth from pharmaceutical distribution and specialty pharmaceutical customers, partially offset by the previously announced May 2017 expiration of a large pharmaceutical distribution mail order customer contract. Medical segment acquisitions also contributed to the increase in revenue during the three and six months ended December 31, 2017.

## GAAP and Non-GAAP Operating Earnings




| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (in millions) | **2017** | 2016 | **Change** | **2017** | 2016 | **Change** |
| **GAAP operating earnings** | **$ 399** | $ 542 | **(26)%** | **$ 661** | $ 1,076 | **(39)%** |
| LIFO charges/(credits) | **—** | 9 | | **—** | 9 | |
| Restructuring and employee severance | **21** | 7 | | **153** | 16 | |
| Amortization and other acquisition-related costs | **184** | 115 | | **368** | 237 | |
| Impairments and (gain)/loss on disposal of assets | **68** | 9 | | **68** | 12 | |
| Litigation (recoveries)/charges, net | **58** | 19 | | **90** | 20 | |
| **Non-GAAP operating earnings** | $ 730 | $ 701 | **4 %** | **$ 1,340** | $ 1,370 | **(2)%** |

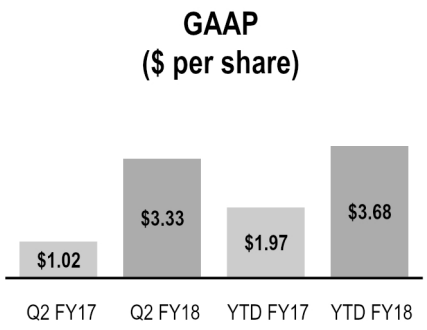
The sum of the components may not equal the total due to rounding.

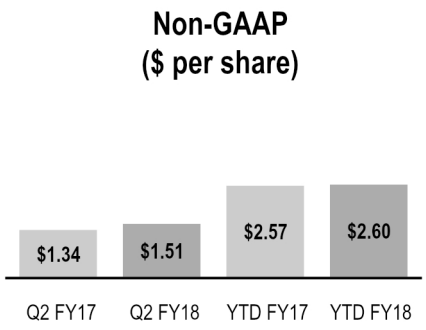
The decrease in GAAP operating earnings during the three months ended December 31, 2017 was primarily due to increased amortization of acquisition-related intangible assets as a result of the Patient Recovery Business acquisition; the write-down of the net assets held for sale from the divestiture of our China distribution business; litigation charges associated with inferior vena cava (IVC) filter product liability claims; performance from Cardinal Health Brand products; costs related to our multi-year project to replace certain Pharmaceutical segment finance and operating information systems; and Pharmaceutical segment generics program performance, which includes the negative impact of generic pharmaceutical customer pricing changes offset by the benefits of Red Oak Sourcing. These factors were partially offset by the segment profit contribution from acquisitions, including the Patient Recovery Business acquisition. In addition to the factors affecting GAAP earnings for the three months described above, the decrease in GAAP operating earnings during the six months ended December 31, 2017 includes contract termination restructuring costs to transition the distribution of our Medical segment's surgeon gloves in certain international markets from a third-party distribution arrangement to a direct distribution model.

The increase in non-GAAP operating earnings during the three months ended December 31, 2017 was primarily due to contributions from acquisitions, including the Patient Recovery Business acquisition. These factors were largely offset by performance from Cardinal Health Brand products, costs related to our multi-year project to replace certain Pharmaceutical segment finance and operating information systems and Pharmaceutical segment generics program performance.

The decrease in non-GAAP operating earnings during the six months ended December 31, 2017 was primarily due to our Pharmaceutical segment generics program performance, costs related to our multi-year project to replace certain Pharmaceutical segment finance and operating information systems and performance from Cardinal Health Brand products. The decreases were partially offset by contributions from acquisitions, including the Patient Recovery Business acquisition.

## GAAP and Non-GAAP Diluted EPS




| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| ($ per share) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| **GAAP** [1] | **$ 3.33** | $ 1.02 | **226%** | **$ 3.68** | $ 1.97 | **87%** |
| LIFO charges/(credits) | **—** | 0.02 | | **—** | 0.02 | |
| Restructuring and employee severance | **0.07** | 0.01 | | **0.34** | 0.03 | |
| Amortization and other acquisition-related costs | **0.46** | 0.24 | | **0.85** | 0.49 | |
| Impairments and (gain)/loss on disposal of assets | **0.35** | 0.02 | | **0.35** | 0.02 | |
| Litigation (recoveries)/charges, net | **0.13** | 0.04 | | **0.19** | 0.04 | |
| Transitional tax benefit, net | **(2.83)** | — | | **(2.82)** | — | |
| **Non-GAAP** [1] | **$ 1.51** | $ 1.34 | **13%** | **$ 2.60** | $ 2.57 | **1%** |

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

(1) diluted earnings per share attributable to Cardinal Health, Inc. ("diluted EPS")

During the three and six months ended December 31, 2017, GAAP diluted EPS increased primarily due to the net benefit from enactment of the U.S. Tax Cuts and Jobs Act ("Tax Act"), partially offset by the net impact of the factors impacting GAAP operating earnings and an increase in interest expense.

During the three months ended December 31, 2017, non-GAAP diluted EPS increased primarily due to the benefit of applying a lower U.S. federal statutory tax rate to U.S. pre-tax non-GAAP earnings as a result of the Tax Act and the net benefit of the factors impacting non-GAAP operating earnings, partially offset by an increase in interest expense.

During the six months ended December 31, 2017, non-GAAP diluted EPS increased primarily due to the benefit of applying a lower U.S. federal statutory tax rate to U.S. pre-tax non-GAAP earnings as a result of the Tax Act, largely offset by an increase in interest expense and the factors impacting non-GAAP operating earnings.

## Cash and Equivalents

Our cash and equivalents balance was $1.2 billion at December 31, 2017 compared to $6.9 billion at June 30, 2017. The decrease in cash and equivalents during the six months ended December 31, 2017 was due to $6.1 billion paid for acquisitions, $403 million to redeem our 1.7% notes due 2018 and $296 million paid in dividends, offset in part by net cash provided by operating activities of $1.5 billion.

# Significant Developments in Fiscal 2018 and Trends

## Acquisitions and Divestitures

### Patient Recovery Business Acquisition

On July 29, 2017, we acquired the Patient Care, Deep Vein Thrombosis, and Nutritional Insufficiency businesses (the "Patient Recovery Business") from Medtronic plc for $6.1 billion in cash. The Patient Recovery Business manufactures 23 categories of medical products that are sold into multiple healthcare channels, and include numerous industry-leading brands, such as Curity, Kendall, Dover, Argyle and Kangaroo. The acquisition further expanded the Medical segment's portfolio of self-manufactured products.

### China Distribution Business Divestiture

On November 14, 2017, we announced that we signed a definitive agreement to sell our pharmaceutical and medical products distribution business in China ("China distribution business") to Shanghai Pharmaceuticals Holding Co., Ltd. The divestiture does not include Cardinal Health's remaining businesses in China, including Cordis and its recently acquired Patient Recovery Business.

The transaction closed on February 1, 2018 with gross proceeds of $1.2 billion. The net proceeds are approximately $800 million after adjusting for third party indebtedness, taxes, and other transaction expenses and adjustments. In connection with the sale, during the three months ended December 31, 2017, we recognized a $67 million write-down of the net assets held for sale. The write-down is non-deductible for tax purposes. We also recognized estimated tax expense of $57 million related to the transaction.

## Trends

### Pharmaceutical Segment

Within our Pharmaceutical segment, we continue to expect fiscal 2018 segment profit to be less than our fiscal 2017 segment profit due primarily to generic pharmaceutical customer pricing changes. However, as is generally the case, the frequency, timing, magnitude, and profit impact of pharmaceutical customer pricing changes and branded and generic pharmaceutical manufacturer pricing changes remain uncertain and their impact on Pharmaceutical segment profit and consolidated operating earnings in fiscal 2018 could be more or less than we expect.

### Patient Recovery Business Acquisition

The acquisition of the Patient Recovery Business increased Medical segment revenue and profit during the three and six months ended December 31, 2017. We expect the acquisition to increase Medical segment profit more during the remainder of fiscal 2018 than it did during the six months ended December 31, 2017.

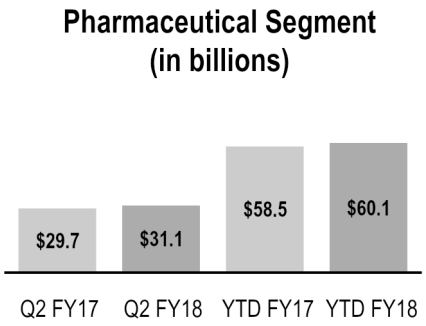
### Tax Cuts and Jobs Act

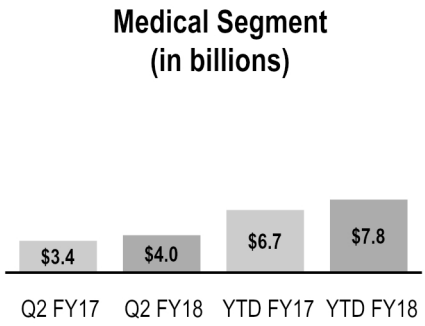
The Tax Act was enacted on December 22, 2017. The Tax Act, among other things, reduces the U.S. federal corporate tax rate from 35 percent to 21 percent and requires companies to pay a one-time tax to repatriate, for U.S. purposes, earnings of certain foreign subsidiaries that were previously deferred for tax purposes. In addition, beginning July 1, 2018 for us, it limits certain deductions and creates new taxes on certain foreign sourced earnings. The rate change is effective at the beginning of calendar year 2018 and, as a result, we have a blended U.S. federal statutory tax rate of 28.1 percent for our fiscal year 2018. The application of the lower federal tax rate to our year-to-date U.S. pre-tax earnings resulted in a tax benefit during the three months ended December 31, 2017. Additionally, we recognized a $894 million net transitional tax benefit comprised of the remeasurement of our U.S. deferred tax assets and liabilities at the lower tax rate partially offset by the provisional expense for the repatriation tax.

We are still completing our accounting for the tax effects of the Tax Act because all of the necessary information is not currently available, prepared, or analyzed. As such, the amounts we have recorded are provisional estimates and, as permitted by the SEC, we will continue to assess the impact of enactment of the Tax Act and we may record additional provisional amounts or adjustments to provisional amounts during the remainder of fiscal 2018 and in the first half of fiscal 2019.

# Results of Operations

## Revenue




| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Pharmaceutical | $ 31,146 | $ 29,743 | 5% | $ 60,066 | $ 58,505 | 3% |
| Medical | 4,044 | 3,410 | 19% | 7,768 | 6,690 | 16% |
| Total segment revenue | 35,190 | 33,153 | 6% | 67,834 | 65,195 | 4% |
| Corporate | (4) | (3) | 33% | (7) | (6) | 17% |
| **Total revenue** | $ 35,186 | $ 33,150 | 6% | $ 67,827 | $ 65,189 | 4% |

### Pharmaceutical Segment

Pharmaceutical segment revenue growth for the three and six months ended December 31, 2017 was primarily due to $2.5 billion and $3.5 billion, respectively, of sales growth from pharmaceutical distribution and specialty pharmaceutical customers, partially offset by the previously announced May 2017 expiration of a large pharmaceutical distribution mail order customer contract.

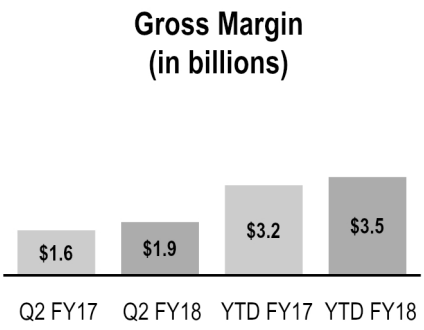
### Medical Segment

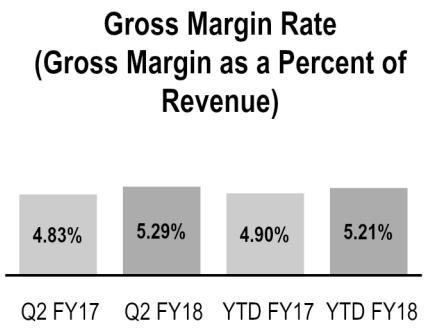
Medical segment revenue growth for the three and six months ended December 31, 2017 was primarily due to $545 million and $877 million, respectively, of contributions from acquisitions, including the Patient Recovery Business acquisition, and sales growth from new and existing customers.

## Cost of Products Sold

Cost of products sold for the three and six months ended December 31, 2017 increased $1.8 billion (6 percent) and $2.3 billion (4 percent) compared to the prior-year periods, respectively, as a result of the same factors affecting the changes in revenue and gross margin.

## Gross Margin




| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Gross margin | $ 1,861 | $ 1,602 | 16% | $ 3,533 | $ 3,192 | 11% |

Gross margin during the three and six months ended December 31, 2017 increased $259 million and $341 million, respectively, compared to the prior-year period primarily due to acquisitions ($235 million and $336 million, respectively), including the Patient Recovery Business acquisition.

Gross margin rate grew 46 and 31 basis points during the three and six months ended December 31, 2017, respectively, due to acquisitions, including the Patient Recovery Business acquisition, partially offset by the negative impact of changes in pharmaceutical distribution product mix.

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

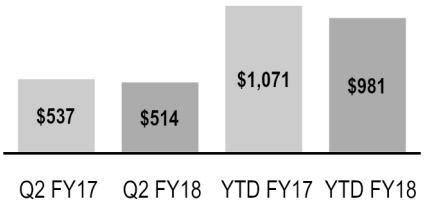
| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| SG&A expenses | $ 1,131 | $ 910 | 24% | $ 2,193 | $ 1,831 | 20% |

The increase in SG&A expenses during the three and six months ended December 31, 2017 was due to acquisitions ($135 million and $225 million, respectively), including the Patient Recovery Business acquisition, and costs related to our multi-year project to replace certain Pharmaceutical segment finance and operating information systems.

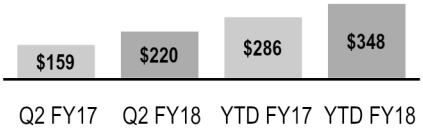
## Segment Profit

We evaluate segment performance based on segment profit, among other measures. See Note 15 of the "Notes to Condensed Consolidated Financial Statements" for additional information on segment profit.

**Pharmaceutical Segment Profit (in millions)**




**Medical Segment Profit (in millions)**




| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Pharmaceutical | $ 514 | $ 537 | (4)% | $ 981 | $ 1,071 | (8)% |
| Medical | 220 | 159 | 38 % | 348 | 286 | 22 % |
| Total segment profit | 734 | 696 | 5 % | 1,329 | 1,357 | (2)% |
| Corporate | (335) | (154) | 118 % | (668) | (281) | 138 % |
| **Total consolidated operating earnings** | $ 399 | $ 542 | (26)% | $ 661 | $ 1,076 | (39)% |

### Pharmaceutical Segment Profit

The decrease in Pharmaceutical segment profit during the three months ended December 31, 2017 was primarily due to costs related to our multi-year project to replace certain Pharmaceutical segment finance and operating information systems and our generic program performance, which includes the negative impact of generic pharmaceutical customer pricing changes partially offset by the benefits of Red Oak Sourcing. Performance from our specialty pharmaceutical products distribution and services business positively impacted Pharmaceutical segment profit.

The decrease in Pharmaceutical segment profit during the six months ended December 31, 2017 was primarily due to our generic program performance and costs related to our multi-year project to replace certain Pharmaceutical segment finance and operating information systems. Performance from our specialty pharmaceutical products distribution and services business positively impacted Pharmaceutical segment profit.

### Medical Segment Profit

The increases in Medical segment profit during the three and six months ended December 31, 2017 were primarily due to acquisitions, which included the unfavorable cost of products sold impact from the fair value step up of inventory acquired with the Patient Recovery Business acquisition. The increases were partially offset by performance from Cardinal Health Brand products.

### Corporate

The changes in Corporate during the three and six months ended December 31, 2017 were due to the factors discussed in the Other Components of Consolidated Operating Earnings section that follows.

## Other Components of Consolidated Operating Earnings

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

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| (in millions) | **2017** | 2016 | **2017** | 2016 |
| Restructuring and employee severance | **$ 21** | $ 7 | **$ 153** | $ 16 |
| Amortization and other acquisition-related costs | **184** | 115 | **368** | 237 |
| Impairments and (gain)/loss on disposal of assets, net | **68** | 9 | **68** | 12 |
| Litigation (recoveries)/charges, net | **58** | 19 | **90** | 20 |

**Restructuring and Employee Severance**
The increase in restructuring and employee severance during the six months ended December 31, 2017 was primarily due to $125 million in contract termination costs to transition the distribution of our Medical segment's surgeon gloves in certain international markets from a third-party distribution arrangement to a direct distribution model.

**Amortization and Other Acquisition-Related Costs**
Amortization of acquisition-related intangible assets was $150 million and $95 million for the three months ended December 31, 2017 and 2016, respectively, and $285 million and $196 million for the six months ended December 31, 2017 and 2016, respectively. The increases in amortization of acquisition-related intangible assets during the three and six months ended December 31, 2017 were largely due to the Patient Recovery Business acquisition.

Transaction and integration costs associated with the Patient Recovery Business acquisition were $24 million and $61 million for the three and six months ended December 31, 2017, respectively.

**Impairments and (gain)/loss on disposal of assets, net**
During the three and six months ended December 31, 2017 we recognized a $67 million write-down of the assets held for sale from the divestiture of our China distribution business.

**Litigation (Recoveries)/Charges, Net**
The increases in litigation charges during the three and six months ended December 31, 2017 were due to an increase in estimated losses and legal defense costs associated with inferior vena cava (IVC) filter product liability claims.

## Earnings Before Income Taxes

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

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (in millions) | **2017** | 2016 | **Change** | **2017** | 2016 | **Change** |
| Other (income)/expense, net | $ (5) | $ 7 | N.M. | $ (4) | $ 3 | N.M. |
| Interest expense, net | $ 87 | $ 44 | 96% | $ 168 | $ 88 | 91% |
| Loss on extinguishment of debt | $ — | $ — | N.M. | $ 2 | $ — | N.M. |

**Interest expense, net**
The increases in interest expense during the three and six months ended December 31, 2017 was primarily due to increased debt issued in June 2017 to fund a portion of the purchase price of the Patient Recovery Business acquisition.

## Provision for/(Benefit from) Income Taxes

During the three months ended December 31, 2017 and 2016, the effective tax rate was (231.9) percent and 34.0 percent, respectively. During the six months ended December 31, 2017 and 2016, the effective tax rate was (136.6) percent and 35.6 percent, respectively. The change in the effective tax rate for the three and six months ended December 31, 2017 compared to the prior periods is due to the net benefit from enactment of the Tax Act.

The net benefit from the Tax Act during the three and six months ended December 31, 2017 includes a provisional net tax benefit of $935 million related to the remeasurement of our deferred tax assets and liabilities to the new federal statutory rate, the benefit from the impact of applying a lower federal tax rate to our year-to-date U.S. pre-tax earnings and a provisional tax expense of $41 million for the one-time repatriation tax applied to our undistributed foreign earnings.

Our effective tax rate also includes $57 million of tax expense recognized in connection with the sale of our China distribution business.

# Liquidity and Capital Resources

We currently believe that, based on available capital resources (cash on hand and committed credit facilities) and projected operating cash flow, we have adequate capital resources to fund working capital needs; currently anticipated capital expenditures; currently anticipated business growth and expansion; contractual obligations; tax payments; and current and projected debt service requirements, dividends and share repurchases. If we decide to engage in one or more acquisitions, depending on the size and timing of such transactions, we may need to access capital markets for additional financing.

## Cash and Equivalents

Our cash and equivalents balance was $1.2 billion at December 31, 2017 compared to $6.9 billion at June 30, 2017. At December 31, 2017, our cash and equivalents were held in cash depository accounts with major banks or invested in high quality, short-term liquid investments.

During the six months ended December 31, 2017, we deployed $6.1 billion for acquisitions, net of cash acquired, $403 million to redeem our 1.7% notes due 2018, $296 million for cash dividends, $168 million for capital expenditures and $150 million on share repurchases; net cash provided by operating activities was $1.5 billion, driven primarily by net earnings. Additionally, we had $151 million outstanding under our commercial paper program as of December 31, 2017. The $802 million increase in net cash provided by operating activities during the six months ended December 31, 2017 compared to the prior-year period was primarily due to changes in working capital.

The cash and equivalents balance at December 31, 2017 included $538 million of cash held by subsidiaries outside of the United States. As a result of the Tax Act, we have recognized a provisional amount of $41 million for the one-time U.S. repatriation tax on undistributed earnings of foreign subsidiaries. Though these foreign earnings have been deemed to be repatriated from a U.S. federal tax perspective, we have not yet completed our assessment of the Tax Act on our plans to reinvest foreign earnings and as such have not changed our prior conclusion that the earnings are indefinitely reinvested. As such, no non-U.S. taxes were recorded at December 31, 2017. If we decide to repatriate these earnings in the future, we may be subject to certain non-U.S. taxes at that time. See Note 8 of the "Notes to Condensed Consolidated Financial Statements" for additional information on the Tax Act.

Changes in working capital, which impact operating cash flow, can vary significantly depending on factors such as the timing of customer payments, inventory purchases and payments to vendors in the regular course of business, as well as fluctuating working capital needs driven by customer and product mix.

## Other Financing Arrangements and Financial Instruments

### Credit Facilities and Commercial Paper

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

At December 31, 2017, we had $151 million outstanding under our commercial paper program and no amounts outstanding under the revolving credit facility or the committed receivables sales facility program. During the six months ended December 31, 2017, we had maximum amounts outstanding under our commercial paper and committed receivables programs of $1.3 billion and an average daily amount outstanding of $381 million.

Our revolving credit facility and committed receivables sales facility programs require us to maintain, as of the end of any calendar quarter, a consolidated leverage ratio of no more than 4.25-to-1, which will reduce to 3.25-to-1 in March 2019. The ratio temporarily increased as result of our acquisition of the Patient Recovery Business. As of December 31, 2017, we were in compliance with this financial covenant.

# Capital Deployment

## Capital Expenditures

Capital expenditures during the six months ended December 31, 2017 and 2016 were $168 million and $213 million, respectively.

## Dividends

On November 8, 2017, our Board of Directors approved a quarterly dividend of $0.4624 per share, or $1.85 per share on an annualized basis, which was paid on January 15, 2018 to shareholders of record on January 2, 2018.

## Share Repurchases

During the six months ended December 31, 2017, we repurchased $150 million of our common shares. We funded the repurchases with available cash and short term borrowings. At December 31, 2017, we had $293 million remaining under our existing share repurchase program. On February 7, 2018, our Board of Directors approved a new $1.0 billion share repurchase program that expires on December 31, 2020.

## Funding for Acquisition of Patient Recovery Business

On July 29, 2017, we acquired the Patient Recovery Business from Medtronic plc for $6.1 billion in cash. We funded the acquisition through $4.5 billion in new long-term debt issued in June 2017, the use of existing cash and borrowings under existing credit arrangements.

## China Distribution Business Divestiture

On February 1, 2018, we completed the divestiture of our China distribution business to Shanghai Pharmaceuticals Holding Co., Ltd. for gross proceeds of $1.2 billion. The net proceeds are approximately $800 million after adjusting for third-party indebtedness, taxes, and other transaction expenses and adjustments.

# Other Items

The MD&A in our 2017 Form 10-K addresses our contractual obligations, critical accounting policies and sensitive accounting estimates and off-balance sheet arrangements, as of and for the fiscal year ended June 30, 2017. There have been no subsequent material changes outside of the ordinary course of business to those items, except for critical accounting policies and sensitive accounting estimates related to the assets held for sale classification of the China distribution business and the accounting effects resulting from the Tax Act as discussed further in Note 4 and Note 8, respectively, of the "Notes to Condensed Consolidated Financial Statements."

# Explanation and Reconciliation of Non-GAAP Financial Measures

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

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

## Exclusions from Non-GAAP Financial Measures

Management believes it is useful to exclude the following items from the non-GAAP measures presented in this Form 10-Q for its own and for investors' assessment of the business for the reasons identified below:

- LIFO charges and credits are excluded because the factors that drive last-in first-out ("LIFO") inventory charges or credits, such as pharmaceutical manufacturer price appreciation or deflation and year-end inventory levels (which can be meaningfully influenced by customer buying behavior immediately preceding our fiscal year-end), are largely out of our control and cannot be accurately predicted. The exclusion of LIFO charges from non-GAAP metrics facilitates comparison of our current financial results to our historical financial results and to our peer group companies' financial results.
- Restructuring and employee severance costs are excluded because they relate to programs in which we fundamentally change our operations and because they are not part of the ongoing operations of our underlying business.
- Amortization and other acquisition-related costs are excluded primarily for consistency with the presentation of the financial results of our peer group companies. Additionally, costs for amortization of acquisition-related intangible assets are non-cash amounts, which are variable in amount and frequency and are significantly impacted by the timing and size of acquisitions, so their exclusion facilitates comparison of historical, current and forecasted financial results. We also exclude other acquisition-related costs, which are directly related to an acquisition but do not meet the criteria to be recognized on the acquired entity's initial balance sheet as part of the purchase price allocation. These costs are also significantly impacted by the timing, complexity and size of acquisitions.
- Impairments and gain or loss on disposal of assets are excluded because they do not occur in or reflect the ordinary course of our ongoing business operations and are inherently unpredictable in timing and amount, and in the case of impairments, are non-cash amounts, so their exclusion facilitates comparison of historical, current and forecasted financial results.
- Litigation recoveries or charges, net are excluded because they often relate to events that may have occurred in prior or multiple periods, do not occur in or reflect the ordinary course of our business and are inherently unpredictable in timing and amount.
- Loss on extinguishment of debt is excluded because it does not typically occur in the normal course of business and may obscure analysis of trends and financial performance. Additionally, the amount and frequency of this type of charge is not consistent and is significantly impacted by the timing and size of debt financing transactions.
- Transitional tax benefit, net related to the Tax Cuts and Jobs Act is excluded because it results from the one-time impact during the one-year measurement period of a very significant change in the U.S. federal corporate tax rate and, due to the significant size of the benefit, obscures analysis of trends and financial performance. The transitional tax benefit includes the estimate for the re-measurement of deferred tax assets and liabilities due to the reduction of the U.S. federal corporate income tax rate and the repatriation tax on undistributed foreign earnings, both of which are subject to adjustment during an up to 12 month measurement period.

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

# Definitions

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

**Non-GAAP operating earnings**: operating earnings 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 and (5) litigation (recoveries)/charges, net.

**Non-GAAP earnings before income taxes**: earnings before income taxes 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.

**Non-GAAP net earnings attributable to Cardinal Health, Inc.**: 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, (6) loss on extinguishment of debt, each net of tax, and (7) transitional tax benefit, net.

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

# GAAP to Non-GAAP Reconciliations

| (in millions, except per common share amounts) | Operating Earnings | Operating Earnings Growth Rate | Earnings Before Income Taxes | Provision for/ (Benefit from) Income Taxes | Net Earnings[1] | Net Earnings[1] Growth Rate | Diluted EPS[1] | Diluted EPS[1] Growth Rate |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended December 31, 2017 | | | | | | | |
| **GAAP** | **$ 399** | **(26)%** | **$ 317** | **$ (736)** | **$ 1,053** | **225 %** | **$ 3.33** | **226 %** |
| Restructuring and employee severance | 21 | | 21 | (2) | 23 | | 0.07 | |
| Amortization and other acquisition-related costs | 184 | | 184 | 41 | 143 | | 0.46 | |
| Impairments and loss on disposal of assets | 68 | | 68 | (43) | 111 | | 0.35 | |
| Litigation (recoveries)/charges, net | 58 | | 58 | 17 | 41 | | 0.13 | |
| Transitional tax benefit, net[2] | — | | — | 894 | (894) | | (2.83) | |
| **Non-GAAP** | **$ 730** | **4 %** | **$ 648** | **$ 171** | **$ 478** | **12 %** | **$ 1.51** | **13 %** |
| | Three Months Ended December 31, 2016 | | | | | | | |
| GAAP | $ 542 | (4)% | $ 491 | $ 167 | $ 324 | — % | $ 1.02 | 4 % |
| LIFO charges/(credits) | 9 | | 9 | 4 | 5 | | 0.02 | |
| Restructuring and employee severance | 7 | | 7 | 2 | 5 | | 0.01 | |
| Amortization and other acquisition-related costs | 115 | | 115 | 39 | 76 | | 0.24 | |
| Impairments and loss on disposal of assets | 9 | | 9 | 3 | 6 | | 0.02 | |
| Litigation (recoveries)/charges, net | 19 | | 19 | 7 | 12 | | 0.04 | |
| Non-GAAP | $ 701 | (4)% | $ 650 | $ 222 | $ 427 | (1)% | $ 1.34 | 3 % |
| | **Six Months Ended December 31, 2017** | | | | | | | |
| **GAAP** | **$ 661** | **(39)%** | **$ 495** | **$ (675)** | **$ 1,168** | **85 %** | **$ 3.68** | **87 %** |
| Restructuring and employee severance | 153 | | 153 | 45 | 108 | | 0.34 | |
| Amortization and other acquisition-related costs | 368 | | 368 | 98 | 270 | | 0.85 | |
| Impairments and loss on disposal of assets | 68 | | 68 | (43) | 111 | | 0.35 | |
| Litigation (recoveries)/charges, net | 90 | | 90 | 30 | 60 | | 0.19 | |
| Loss on extinguishment of debt | — | | 2 | 1 | 1 | | — | |
| Transitional tax benefit, net[2] | — | | — | 894 | (894) | | (2.82) | |
| **Non-GAAP** | **$ 1,340** | **(2)%** | **$ 1,175** | **$ 350** | **$ 823** | **— %** | **$ 2.60** | **1 %** |
| | Six Months Ended December 31, 2016 | | | | | | | |
| GAAP | $ 1,076 | (9)% | $ 985 | $ 351 | $ 633 | (11)% | $ 1.97 | (8)% |
| LIFO charges/(credits) | 9 | | 9 | 4 | 5 | | 0.02 | |
| Restructuring and employee severance | 16 | | 16 | 6 | 10 | | 0.03 | |
| Amortization and other acquisition-related costs | 237 | | 237 | 79 | 158 | | 0.49 | |
| Impairments and (gain)/loss on disposal of assets | 12 | | 12 | 4 | 8 | | 0.02 | |
| Litigation (recoveries)/charges, net | 20 | | 20 | 8 | 12 | | 0.04 | |
| Non-GAAP | $ 1,370 | (6)% | $ 1,279 | $ 452 | $ 826 | (7)% | $ 2.57 | (4)% |

1 attributable to Cardinal Health, Inc.

2 Reflects the estimated net transitional benefit from the remeasurement of our deferred tax assets and liabilities partially offset by the repatriation tax on cash and earnings of foreign subsidiaries. We have not yet completed our analysis of the impact of the Tax Act and, as such, these amounts are provisional estimates and we may record additional provisional amounts or adjustments to the provisional amounts in future periods. See Note 8 of the "Notes to Condensed Consolidated Financial Statements" for more information on the Tax Act.

The sum of the components may not equal the total due to rounding.
We generally apply varying tax rates depending on the item's nature and tax jurisdiction where it is incurred.

# Quantitative and Qualitative Disclosures About Market Risk

As previously disclosed in our 2017 Form 10-K, as a result of the completion of the acquisition of the Patient Recovery Business, our exposure to both translational and transactional foreign exchange rate fluctuations has increased since the end of fiscal 2017. At the time of filing this Form 10-Q, we have not completed our analysis to quantify these impacts. Our direct exposure to market price changes for commodities has increased by approximately $108 million as a result of the completion of the acquisition of the Patient Recovery Business.

# Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

We evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2017. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of December 31, 2017, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

## Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Legal Proceedings

The legal proceedings described in Note 9 of the "Notes to Condensed Consolidated Financial Statements" are incorporated in this "Legal Proceedings" section by reference.

# Risk Factors

You should carefully consider the information in this Form 10-Q and the risk factors discussed in "Risk Factors" and other risks discussed in our 2017 Form 10-K and our filings with the SEC since June 30, 2017. These risks could materially and adversely affect our results of operations, financial condition, liquidity and cash flows. Our business also could be affected by risks that we are not presently aware of or that we currently consider immaterial to our operations.

# Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (2) | Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (2) (in millions) |
|---|---|---|---|---|
| October 2017 | 144 | $ 66.06 | — | $ 293 |
| November 2017 | 148 | 59.38 | — | 293 |
| December 2017 | 177 | 61.50 | — | 293 |
| **Total** | **469** | **$ 62.23** | **—** | **$ 293** |

(1) Reflects 144, 148 and 177 common shares purchased in October, November and December 2017, respectively, through a rabbi trust as investments of participants in our Deferred Compensation Plan.

(2) On May 4, 2016, our Board of Directors approved a $1.0 billion share repurchase program that expires on December 31, 2019. On February 7, 2018, our Board of Directors approved a new $1.0 billion share repurchase program that expires on December 31, 2020.

# Condensed Consolidated Statements of Earnings

**(Unaudited)**

| (in millions, except per common share amounts) | Three Months Ended December 31, 2017 | Three Months Ended December 31, 2016 | Six Months Ended December 31, 2017 | Six Months Ended December 31, 2016 |
|---|---|---|---|---|
| Revenue | **$ 35,186** | $ 33,150 | **$ 67,827** | $ 65,189 |
| Cost of products sold | **33,325** | 31,548 | **64,294** | 61,997 |
| Gross margin | **1,861** | 1,602 | **3,533** | 3,192 |
| **Operating expenses:** | | | | |
| Distribution, selling, general and administrative expenses | **1,131** | 910 | **2,193** | 1,831 |
| Restructuring and employee severance | **21** | 7 | **153** | 16 |
| Amortization and other acquisition-related costs | **184** | 115 | **368** | 237 |
| Impairments and loss on disposal of assets, net | **68** | 9 | **68** | 12 |
| Litigation (recoveries)/charges, net | **58** | 19 | **90** | 20 |
| Operating earnings | **399** | 542 | **661** | 1,076 |
| Other (income)/expense, net | **(5)** | 7 | **(4)** | 3 |
| Interest expense, net | **87** | 44 | **168** | 88 |
| Loss on extinguishment of debt | **—** | **—** | **2** | — |
| Earnings before income taxes | **317** | 491 | **495** | 985 |
| Provision for/(benefit from) income taxes | **(736)** | 167 | **(675)** | 351 |
| Net earnings | **1,053** | 324 | **1,170** | 634 |
| Less: Net earnings attributable to noncontrolling interests | **—** | — | **(2)** | (1) |
| **Net earnings attributable to Cardinal Health, Inc.** | **$ 1,053** | $ 324 | **$ 1,170** | $ 633 |
| **Earnings per common share attributable to Cardinal Health, Inc.:** | | | | |
| Basic | **$ 3.35** | $ 1.02 | **$ 3.70** | $ 1.99 |
| Diluted | **3.33** | 1.02 | **3.68** | 1.97 |
| **Weighted-average number of common shares outstanding:** | | | | |
| Basic | **315** | 318 | **315** | 319 |
| Diluted | **316** | 319 | **317** | 321 |
| Cash dividends declared per common share | **$ 0.4624** | $ 0.4489 | **$ 0.9248** | $ 0.8978 |

See notes to condensed consolidated financial statements.

# Condensed Consolidated Statements of Comprehensive Income

**(Unaudited)**

| (in millions) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Net earnings | **$ 1,053** | $ 324 | **$ 1,170** | $ 634 |
| | | | | |
| **Other comprehensive income/(loss):** | | | | |
| Foreign currency translation adjustments and other | **(9)** | (78) | **31** | (80) |
| Net unrealized gain/(loss) on derivative instruments, net of tax | **—** | 24 | **(1)** | 26 |
| Total other comprehensive income/(loss), net of tax | **(9)** | (54) | **30** | (54) |
| | | | | |
| Total comprehensive income | **1,044** | 270 | **1,200** | 580 |
| | | | | |
| Less: comprehensive income attributable to noncontrolling interests | — | — | **(2)** | (1) |
| **Total comprehensive income attributable to Cardinal Health, Inc.** | **$ 1,044** | $ 270 | **$ 1,198** | $ 579 |

See notes to condensed consolidated financial statements.

# Condensed Consolidated Balance Sheets

**(Unaudited)**

| (in millions) | December 31, 2017 | June 30, 2017 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and equivalents | **$ 1,249** | $ 6,879 |
| Trade receivables, net | **7,664** | 8,048 |
| Inventories, net | **12,087** | 11,301 |
| Prepaid expenses and other | **1,972** | 2,117 |
| Assets held for sale | **2,216** | — |
| Total current assets | **25,188** | 28,345 |
| Property and equipment, net | **2,547** | 1,879 |
| Goodwill and other intangibles, net | **14,366** | 9,207 |
| Other assets | **804** | 681 |
| **Total assets** | **$ 42,905** | $ 40,112 |
| **Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity** | | |
| **Current liabilities:** | | |
| Accounts payable | **$ 19,194** | $ 17,906 |
| Current portion of long-term obligations and other short-term borrowings | **702** | 1,327 |
| Other accrued liabilities | **1,890** | 1,988 |
| Liabilities related to assets held for sale | **1,339** | — |
| Total current liabilities | **23,125** | 21,221 |
| Long-term obligations, less current portion | **9,057** | 9,068 |
| Deferred income taxes and other liabilities | **3,091** | 2,877 |
| Redeemable noncontrolling interests | **13** | 118 |
| **Shareholders' equity:** | | |
| Preferred shares, without par value: | | |
| Authorized—**500 thousand** shares, Issued—**none** | **—** | — |
| Common shares, without par value: | | |
| Authorized—**755 million** shares, Issued—327 million shares at **December 31, 2017** and June 30, 2017, respectively | **2,694** | 2,697 |
| Retained earnings | **5,848** | 4,967 |
| Common shares in treasury, at cost: **12 million** shares and 11 million shares at **December 31, 2017** and June 30, 2017, respectively | **(848)** | (731) |
| Accumulated other comprehensive loss | **(95)** | (125) |
| **Total Cardinal Health, Inc. shareholders' equity** | **7,599** | 6,808 |
| Noncontrolling interests | **20** | 20 |
| **Total shareholders' equity** | **7,619** | 6,828 |
| **Total liabilities, redeemable noncontrolling interests and shareholders' equity** | **$ 42,905** | $ 40,112 |

See notes to condensed consolidated financial statements.

# Condensed Consolidated Statements of Cash Flows

**(Unaudited)**

| (in millions) | Six Months Ended December 31, 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net earnings | **$ 1,170** | $ 634 |
| | | |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | **520** | 339 |
| Loss on extinguishment of debt | **2** | — |
| Impairments and loss on sale of other investments | **6** | 3 |
| Impairments and loss on disposal of assets, net | **68** | 12 |
| Share-based compensation | **40** | 47 |
| Provision for bad debts | **49** | 29 |
| Change in operating assets and liabilities, net of effects from acquisitions: | | |
| Increase in trade receivables | **(617)** | (146) |
| Increase in inventories | **(995)** | (1,294) |
| Increase in accounts payable | **2,107** | 1,563 |
| Other accrued liabilities and operating items, net | **(890)** | (529) |
| Net cash provided by operating activities | **1,460** | 658 |
| | | |
| **Cash flows from investing activities:** | | |
| Acquisition of subsidiaries, net of cash acquired | **(6,141)** | (11) |
| Additions to property and equipment | **(168)** | (213) |
| Purchase of available-for-sale securities and other investments | **(6)** | (125) |
| Proceeds from sale of available-for-sale securities and other investments | **65** | 72 |
| Proceeds from maturities of available-for-sale securities | **—** | 39 |
| Proceeds from divestitures and disposal of property and equipment and held for sale assets | **1** | 1 |
| Net cash used in investing activities | **(6,249)** | (237) |
| | | |
| **Cash flows from financing activities:** | | |
| Payment of contingent consideration obligation | **(17)** | — |
| Net change in short-term borrowings | **155** | 33 |
| Purchase of noncontrolling interests | **(106)** | (12) |
| Proceeds from long-term obligations, net of issuance costs | **3** | — |
| Reduction of long-term obligations | **(403)** | (60) |
| Proceeds from interest rate swap terminations | **—** | 14 |
| Net tax proceeds/(withholdings) from share-based compensation | **(16)** | — |
| Excess tax benefits from share-based compensation | **—** | 32 |
| Dividends on common shares | **(296)** | (293) |
| Purchase of treasury shares | **(150)** | (600) |
| Net cash used in financing activities | **(830)** | (886) |
| | | |
| Effect of exchange rates changes on cash and equivalents | **7** | (10) |
| Cash reclassified to assets held for sale | **(18)** | — |
| | | |
| Net decrease in cash and equivalents | **(5,630)** | (475) |
| Cash and equivalents at beginning of period | **6,879** | 2,356 |
| **Cash and equivalents at end of period** | **$ 1,249** | $ 1,881 |

See notes to condensed consolidated financial statements.

# Notes to Condensed Consolidated Financial Statements

## 1. Basis of Presentation and Summary of Significant Accounting Policies

### Basis of Presentation

Our condensed consolidated financial statements include the accounts of all majority-owned or controlled subsidiaries, and all significant intercompany transactions and amounts have been eliminated. References to "we," "our," and similar pronouns in this Quarterly Report on Form 10-Q for the quarter ended December 31, 2017 (this "Form 10-Q") refer to Cardinal Health, Inc. and its majority-owned or controlled subsidiaries unless the context requires otherwise.

Our fiscal year ends on June 30. References to fiscal 2018 and 2017 in these condensed consolidated financial statements are to the fiscal years ending or ended June 30, 2018 and June 30, 2017, respectively.

Our condensed consolidated financial statements have been prepared in accordance with the U.S. Securities and Exchange Commission ("SEC") instructions to Quarterly Reports on Form 10-Q and include the information and disclosures required by accounting principles generally accepted in the United States ("GAAP") for interim financial reporting. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes. Actual amounts may differ from these estimated amounts. In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Except as disclosed elsewhere in this Form 10-Q, all such adjustments are of a normal and recurring nature. In addition, financial results presented for this fiscal 2018 interim period are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2018. These condensed consolidated financial statements are unaudited and, accordingly, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the "2017 Form 10-K").

### Recent Financial Accounting Standards

In August 2017, the Financial Accounting Standards Board (the "FASB") issued accounting guidance which is intended to improve and simplify accounting rules around hedge accounting. The guidance will be effective for us in the first quarter of fiscal 2020 and early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

In January 2017, the FASB issued amended accounting guidance that simplifies the accounting for goodwill impairment by eliminating the step of measuring a goodwill impairment by estimating the implied fair value of goodwill. Instead, goodwill impairment will be measured as the amount by which the reporting unit's carrying value exceeds its fair value, limited to the carrying value of goodwill. We adopted this guidance in the second quarter of fiscal 2018. The adoption did not have an impact on our condensed consolidated financial statements.

In March 2016, the FASB issued amended accounting guidance that changed the accounting for certain aspects of share-based compensation to employees. The guidance requires all income tax effects of share-based awards to be recognized in the statement of earnings as awards vest or are settled. Additionally, the guidance increases the amount employers can withhold in shares to cover employee income taxes without requiring liability classification and allows a policy election for accounting for forfeitures. The primary impact of adoption is the recognition of excess tax benefits in the statement of earnings on a prospective basis, rather than as a component of equity. The impact on the presentation in the condensed consolidated statement of cash flows is also prospective. We adopted this guidance in the first quarter of fiscal 2018. The impact of adoption on the provision for/(benefit from) income taxes on our condensed consolidated statement of earnings was immaterial. The inclusion of excess tax benefits and deficiencies as a component of our income tax expense will increase volatility within our provision for/(benefit from) income taxes as the amount of excess tax benefits or deficiencies from share-based compensation awards depends on our stock price at the date the awards vest or settle.

In February 2016, the FASB issued amended accounting guidance that requires lessees to recognize most leases on the balance sheet as a lease liability and corresponding right-of-use asset. The guidance also requires disclosures that meet the objective of enabling financial statement users to assess the amount, timing, and uncertainty of cash flows arising from leases. This guidance will be effective for us in the first quarter of fiscal 2020, with early adoption permitted. We are currently evaluating the impact of this standard on our consolidated financial statements and the options for adoption.

In May 2014, the FASB issued amended accounting guidance related to revenue recognition which is effective for us in the first quarter of fiscal 2019. This guidance is based on the principle that revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to customers. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent considerations, performance obligations and licensing, and certain scope improvements and practical expedients.

We continue to make progress on our evaluation of the amended revenue recognition guidance. Our revenue is primarily distribution revenue, which we recognize at a point in time when title transfers to customers and we have no further obligation to provide services related to such merchandise. Although we are continuing to assess the impact of the amended guidance, we generally anticipate that the timing of recognition of distribution revenue will be substantially

unchanged under the amended guidance and we do not expect the adoption of the amended accounting guidance to have a material impact on our consolidated financial statements. During the remainder of fiscal 2018 we will quantify the impact of adoption, if any, and implement any required changes to processes to meet the new accounting, reporting and disclosure requirements and will update our internal controls and policies accordingly. Additionally, we are continuing to evaluate our method of adoption.

## 2. Acquisitions

### Patient Recovery Business

On July 29, 2017, we acquired the Patient Care, Deep Vein Thrombosis, and Nutritional Insufficiency businesses (the "Patient Recovery Business") from Medtronic plc for $6.1 billion in cash. The Patient Recovery Business manufactures 23 categories of medical products sold into multiple healthcare channels, and includes numerous industry-leading brands, such as Curity, Kendall, Dover, Argyle and Kangaroo. The acquisition further expanded the Medical segment's portfolio of self-manufactured products. We closed the Patient Recovery Business acquisition in 28 principal countries on July 29, 2017, and acquired control of, for GAAP purposes, and the rights to, the net economic benefit from the entire Patient Recovery Business in the remaining countries at the closing. We are in the process of transitioning legal ownership in the remaining non-principal countries, which we expect to complete by the end of calendar 2018. The results for the entire Patient Recovery Business in all countries are included in the condensed consolidated financial statements beginning July 29, 2017. We funded the acquisition through $4.5 billion in new long-term debt, existing cash and borrowings under our existing credit arrangements.

Transaction and integration costs associated with the acquisition of the Patient Recovery business were $24 million and $61 million during the three and six months ended December 31, 2017, respectively, and are included in amortization and other acquisition-related costs in the condensed consolidated statements of earnings.

**Fair Value of Assets Acquired and Liabilities Assumed**

The allocation of the purchase price for the acquisition of the Patient Recovery Business is not yet finalized and is subject to adjustment as we complete the valuation analysis for this acquisition.

The valuation of identifiable intangible assets utilizes significant unobservable inputs and thus represents a Level 3 nonrecurring fair value measurement. The estimated fair value of the identifiable intangible assets was determined using income-based approaches, which includes market participant expectations of the cash flows that an asset could generate over its economic life, discounted back to present value using an appropriate rate of return. The weighted-average discount rate used to arrive at the present value of the identifiable intangible assets was 8.2 percent, and considers the inherent risk of each intangible asset relative to the internal rate of return and weighted-average cost of capital.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date for the Patient Recovery Business:

| (in millions) | Patient Recovery Business |
|---|---|
| **Identifiable intangible assets:** | |
| Customer relationships (1) | $ 1,733 |
| Trade names (2) | 187 |
| Developed technology and other (3) | 732 |
| Total identifiable intangible assets acquired | 2,652 |
| | |
| Cash and equivalents | 22 |
| Inventories | 426 |
| Prepaid expenses and other | 249 |
| Property and equipment, net | 752 |
| Other accrued liabilities | (307) |
| Deferred income taxes and other liabilities | (851) |
| Total identifiable net assets acquired/(liabilities assumed) | 2,943 |
| Goodwill | 3,137 |
| **Total net assets acquired** | **$ 6,080** |

(1) The range of useful lives for customer relationships is 10 to 18 years.

(2) The useful life of trade names is 15 years.

(3) The useful life of developed technology is 15 years.

## 3. Restructuring and Employee Severance

The following table summarizes restructuring and employee severance costs:

| | Three Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Employee-related costs (1) | **$ 15** | $ 6 |
| Facility exit and other costs (2) | **6** | 1 |
| **Total restructuring and employee severance** | **$ 21** | $ 7 |

| | Six Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Employee-related costs (1) | **$ 19** | $ 13 |
| Facility exit and other costs (2) | **134** | 3 |
| **Total restructuring and employee severance** | **$ 153** | $ 16 |

(1) Employee-related costs primarily consist of termination benefits provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods.

(2) Facility exit and other costs primarily consist of product distribution and lease contract termination costs, accelerated depreciation, equipment relocation costs, project consulting fees and costs associated with restructuring our delivery of information technology infrastructure services.

In September 2017, we entered into an agreement to transition the distribution of our Medical segment's surgeon gloves in certain international markets from a third-party distribution arrangement to a direct distribution model. The expected costs with this restructuring include $125 million, on a pre-tax basis, in contract termination costs.

These costs are reflected in facility exit and other costs in the condensed consolidated statement of earnings during the six months ended December 31, 2017. We paid $65 million of the contract termination fee during the three months ended December 31, 2017 and the remaining $60 million during January 2018.

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

| (in millions) | Employee-Related Costs | Facility Exit and Other Costs | Total |
|---|---|---|---|
| Balance at June 30, 2017 | $ 41 | $ — | $ 41 |
| Additions | 11 | 130 | 141 |
| Payments and other adjustments | (16) | (66) | (82) |
| **Balance at December 31, 2017** | **$ 36** | **$ 64** | **$ 100** |

## 4. Assets Held for Sale

We classify assets and liabilities (the "disposal group") as held for sale when management commits to a plan to sell the disposal group in its present condition and at a price that is reasonable in relation to its current fair value. We also consider whether an active program to locate a buyer has been initiated and if it is probable that the sale will occur within one year without significant changes to the plan to sell. Upon classification of the disposal group as held for sale, we test the assets for impairment and cease related depreciation and amortization.

In November 2017, we signed a definitive agreement with Shanghai Pharmaceuticals Holding Co., Ltd. to sell our pharmaceutical and medical products distribution business in China ("China distribution business") for gross proceeds of $1.2 billion. The transaction closed on February 1, 2018 for net proceeds of approximately $800 million after adjusting for third party indebtedness, taxes, and other transaction expenses and adjustments.

During the three months ended December 31, 2017, we met the criteria for the related assets and liabilities of the China distribution business to be classified as held for sale. We determined that the sale of the China distribution business does not meet the criteria to be classified as discontinued operations. The China distribution business primarily operates within our Pharmaceutical segment, with a smaller portion operating within our Medical segment.

At December 31, 2017, the book value of the disposal group exceeded its fair value less cost to sell. Accordingly, we recognized a $67 million write-down on the disposal group in impairments and loss on disposal of assets in our condensed consolidated statement of earnings. This write-down includes a $2 million gain related to currency translation adjustments in accumulated other comprehensive income. The write-down is non-deductible for tax purposes. We also recognized provisional tax expense of $57 million related to the transaction. See Note 8 for additional information regarding income taxes.

The following table presents information related to the assets and liabilities that were classified as held for sale at December 31, 2017 in the condensed consolidated balance sheets:

| (in millions) | December 31, 2017 |
|---|---|
| Trade Receivables, net | $ 952 |
| Inventories, net | 622 |
| Goodwill and other intangibles, net | 448 |
| Other assets | 261 |
| Impairment of assets held for sale | (67) |
| **Total assets held for sale** | **2,216** |
| Accounts Payable | 818 |
| Current portion of long-term obligations and other short term borrowings | 397 |
| Other liabilities | 124 |
| **Total liabilities related to assets held for sale** | **$ 1,339** |

## 5. Goodwill and Other Intangible Assets

### Goodwill

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

| (in millions) | Pharmaceutical | Medical | Total |
|---|---|---|---|
| Balance at June 30, 2017 | $ 2,939 | $ 4,282 | $ 7,221 |
| Goodwill acquired, net of purchase price adjustments | 1 | 3,187 | 3,188 |
| Foreign currency translation adjustments and other | 14 | 9 | 23 |
| Reclassified to assets held for sale | (333) | (54) | (387) |
| **Balance at December 31, 2017** | **$ 2,621** | **$ 7,424** | **$ 10,045** |

The increase in the Medical segment goodwill is primarily due to the Patient Recovery Business acquisition. Goodwill recognized in connection with the Patient Recovery Business acquisition primarily represents the expected benefits from certain synergies of integrating the business, the existing workforce of the acquired entity, and the expected growth from new customers.

During the three months ended December 31, 2017, goodwill of $387 million was reclassified to assets held for sale in connection with the sale of our China distribution business, discussed further in Note 4.

### Other Intangible Assets

The following tables summarize other intangible assets by class at:

| (in millions) | December 31, 2017 Gross Intangible | Accumulated Amortization | Net Intangible | Weighted-Average Remaining Amortization Period (Years) |
|---|---|---|---|---|
| **Indefinite-life intangibles:** | | | | |
| IPR&D, trademarks and other | $ 62 | $ — | $ 62 | N/A |
| Total indefinite-life intangibles | 62 | — | 62 | N/A |
| **Definite-life intangibles:** | | | | |
| Customer relationships | 3,614 | 1,074 | 2,540 | 13 |
| Trademarks, trade names and patents | 686 | 224 | 462 | 14 |
| Developed technology and other | 1,648 | 391 | 1,257 | 12 |
| Total definite-life intangibles | 5,948 | 1,689 | 4,259 | 13 |
| **Total other intangible assets** | $ 6,010 | $ 1,689 | $ 4,321 | N/A |

| (in millions) | June 30, 2017 Gross Intangible | Accumulated Amortization | Net Intangible |
|---|---|---|---|
| **Indefinite-life intangibles:** | | | |
| IPR&D, trademarks and other | $ 61 | $ — | $ 61 |
| Total indefinite-life intangibles | 61 | — | 61 |
| **Definite-life intangibles:** | | | |
| Customer relationships | 1,966 | 967 | 999 |
| Trademarks, trade names and patents | 509 | 195 | 314 |
| Developed technology and other | 916 | 304 | 612 |
| Total definite-life intangibles | 3,391 | 1,466 | 1,925 |
| **Total other intangible assets** | $ 3,452 | $ 1,466 | $ 1,986 |

The increase in definite-life intangibles is primarily due to the Patient Recovery Business acquisition. Total amortization of intangible assets was $152 million and $95 million for the three months ended December 31, 2017 and 2016, respectively, and $287 million and $196 million for the six months ended December 31, 2017 and 2016, respectively. For acquisitions closed on or before December 31, 2017, estimated annual amortization of intangible assets for the remainder of fiscal 2018 through 2022 is as follows: $289 million, $553 million, $522 million, $450 million and $417 million.

During the three months ended December 31, 2017, other intangible assets of $61 million were transferred to assets held for sale in connection with the sale of our China distribution business, discussed further in Note 4.

## 6. Available-for-Sale Securities

We invest in marketable securities, which are classified as available-for-sale and are carried at fair value in the condensed consolidated balance sheets. We held the following investments in marketable securities at fair value at:

| (in millions) | December 31, 2017 | June 30, 2017 |
|---|---|---|
| **Current available-for-sale securities:** | | |
| Treasury bills | $ — | $ 25 |
| International bonds | — | 3 |
| Corporate bonds | — | 30 |
| U.S. agency bonds | — | 3 |
| Asset-backed securities | — | 3 |
| International equity securities | — | 1 |
| **Total available-for-sale securities** | $ — | $ 65 |

In July 2017, we liquidated our marketable securities. There were no unrealized gains or loss at December 31, 2017, and gross unrealized gains and losses were immaterial at June 30, 2017. During the six months ended December 31, 2017 and 2016, gross realized gains and losses were immaterial and we did not recognize any other-than-temporary impairments.

## 7. Long-Term Obligations and Other Short-Term Borrowings

### Long-Term Debt

At December 31, 2017 and June 30, 2017, we had total long term obligations, including the current portion and other short-term borrowings, of $9.8 billion and $10.4 billion, respectively. All the notes represent unsecured obligations of Cardinal Health, Inc. and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. Interest is paid pursuant to the terms of the obligations. These notes are effectively subordinated to the liabilities of our subsidiaries, including trade payables of $19.2 billion.

In June 2017, we issued additional debt with the aggregate principal amount of $5.2 billion to fund a portion of the acquisition of the Patient Recovery Business, to redeem the $400 million 1.7% Notes due 2018 and for general corporate purposes. The notes issued in June 2017 were 1.948% Notes due 2019, 2.616% Notes due 2022, 3.079% Notes due 2024, 3.410% Notes due 2027, 4.368% Notes due 2047, and floating rate Notes due 2022.

### Other Financing Arrangements

In addition to cash and equivalents and operating cash flow, other sources of liquidity include a $2.0 billion commercial paper program, which is backed by a $2.0 billion revolving credit facility and a $1.0 billion committed receivables sales facility program. At December 31, 2017, we had $151 million outstanding under the commercial paper program and no amounts outstanding under the revolving credit facility and committed receivables sales facility program.

In November 2016, we renewed our committed receivables sales facility program through Cardinal Health Funding, LLC ("CHF") through November 1, 2019. CHF was organized for the sole purpose of buying receivables and selling undivided interests in those receivables to third-party purchasers. Although consolidated with Cardinal Health, Inc. in accordance with GAAP, CHF is a separate legal entity from Cardinal Health, Inc. and from our subsidiary that sells receivables to CHF. CHF is designed to be a special purpose, bankruptcy-remote entity whose assets are available solely to satisfy the claims of its creditors.

## 8. Income Taxes

Fluctuations in our provision for/(benefit from) income taxes as a percentage of pretax earnings ("effective tax rate") are generally due to changes in international and U.S. state effective tax rates resulting from our business mix and discrete items. In our second quarter ending December 31, 2017 new U.S. tax legislation, as discussed further below, was the primary driver of fluctuations.

**U.S. Tax Cuts and Jobs Act**

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affect our fiscal year 2018 financial results in two primary ways. First, effective as of January 1, 2018, the Tax Act reduces the U.S. federal corporate tax rate from 35 percent to 21 percent. Second, it requires companies to pay a one-time U.S. repatriation tax on certain undistributed earnings of foreign subsidiaries. Because our fiscal year ends in June, we have a blended U.S. Federal statutory tax rate for fiscal 2018 of 28.1 percent under the Tax Act. The Tax Act also establishes new tax provisions that will affect us beginning July 1, 2018 including, (1) eliminating the U.S. manufacturing deduction; (2) establishing new limitations on deductible interest expense and certain executive compensation; (3) eliminating the corporate alternative minimum tax; (4) creating the base erosion anti-abuse tax; (5) creating a new provision designed to tax global intangible low-tax income ("GILTI"); (6) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; and (7) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

Regarding the new GILTI tax rules, we are allowed to make an accounting policy election to either (1) treat taxes due on future GILTI exclusions in U.S. taxable income as a current period expense when incurred or (2) reflect such portion of the future GILTI exclusions in U.S. taxable income that relate to existing basis differences in our measurement of deferred taxes. Our analysis of the new GILTI rules and how they may impact us is incomplete. Accordingly, we have not made a policy election regarding the treatment of the GILTI tax.

Also on December 22, 2017, the SEC issued Staff Accounting Bulletin 118 (SAB 118) allowing companies to use provisional estimates to record the effects of the Tax Act. SAB 118 also provides a measurement period (not to exceed one year from the date of enactment) to complete the accounting for the impacts of the Tax Act.

We are still completing our accounting for the tax effects of the Tax Act because all the necessary information is not currently available, prepared, or analyzed. As permitted by SAB 118, we have made reasonable estimates of the effects of the Tax Act on our financial results. As we complete our analysis of the accounting for the tax effects of enactment of the Tax Act, we may record additional provisional amounts or adjustments to provisional amounts as discrete items in future periods.

**Remeasurement of Deferred Tax Assets and Liabilities**

As a result of the enactment of a lower tax rate, we remeasured our U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. While we are still analyzing certain aspects of the Tax Act and refining our calculations, we have recorded a provisional net benefit of $935 million in the three months ended December 31, 2017 related to this required remeasurement. The provisional estimate is based on currently available information related to deferred tax assets and liabilities which is subject to change as additional information becomes available, prepared, and analyzed.

**Repatriation Tax on Undistributed Foreign Earnings**

In connection with the required one-time U.S. repatriation tax on undistributed earnings of foreign subsidiaries, we recorded a provisional tax expense of $41 million in the three months ended December 31, 2017. The Tax Act permits the payment of this tax over an eight-year period beginning in fiscal 2019. Though these foreign earnings have been deemed to be repatriated from a U.S. federal tax perspective, we have not yet completed our assessment of the Tax Act on our plans to reinvest foreign earnings and as such have not changed our prior conclusion that the earnings are indefinitely reinvested. The repatriation tax is based on currently available information and technical guidance related to the new tax law. The provisional estimate will be updated when additional information related to undistributed foreign earnings, foreign taxes and foreign cash and equivalents becomes available, prepared and analyzed.

**Effective Tax Rate**

During the three months ended December 31, 2017 and 2016, the effective tax rate was (231.9) percent and 34.0 percent, respectively. During the six months ended December 31, 2017 and 2016, the effective tax rate was (136.6) percent and 35.6 percent, respectively. The change in the effective tax rate for the three and six months ended December 31, 2017 compared to the prior periods is due to the net benefit from enactment of the Tax Act.

The net benefit from the Tax Act during the three and six months ended December 31, 2017 includes the aforementioned provisional net tax benefit of $935 million related to the remeasurement of our deferred tax assets and liabilities to the new federal statutory rate, the benefit from the impact of applying a lower federal tax rate to year-to-date U.S. pre-tax earnings and the provisional tax expense of $41 million based on the one-time repatriation tax applied to our undistributed foreign earnings.

Our effective tax rate also includes $57 million of tax expense recognized in connection with the sale of our China distribution business.

**Unrecognized Tax Benefits**

At December 31, 2017 and June 30, 2017, we had $520 million and $417 million of unrecognized tax benefits, respectively. The

December 31, 2017 and June 30, 2017, balances include $277 million and $268 million of unrecognized tax benefits, respectively, that if recognized, would have an impact on the effective tax rate.

At December 31, 2017 and June 30, 2017, we had $125 million and $99 million, respectively, accrued for the payment of interest and penalties related to unrecognized tax benefits, which we recognize in the provision for/(benefit from) income taxes in the condensed consolidated statements of earnings. These balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the condensed consolidated balance sheets.

It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next 12 months due to activities of the U.S. Internal Revenue Service ("IRS") or other taxing authorities, possible settlement of audit issues, reassessment of existing unrecognized tax benefits or the expiration of statutes of limitations. We estimate that the range of the possible change in unrecognized tax benefits within the next 12 months is between zero and a net decrease of $30 million, exclusive of penalties and interest.

**Other Tax Matters**

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, we are subject to audit by taxing authorities for fiscal years 2008 through the current fiscal year.

We are a party to a tax matters agreement with CareFusion Corporation ("CareFusion"), which has been acquired by Becton, Dickinson and Company. Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to our fiscal 2010 spin-off of CareFusion. The indemnification receivable was $146 million and $142 million at December 31, 2017 and June 30, 2017, respectively, and is included in other assets in the condensed consolidated balance sheets.

As a result of the acquisition of the Patient Recovery Business from Medtronic plc, we have an indemnification receivable of $136 million recognized as of December 31, 2017. Under the purchase agreement, Medtronic plc is obligated to indemnify us for certain tax exposures and transaction taxes related to periods prior to our acquisition of the Patient Recovery Business. In January 2018, Medtronic plc paid $85 million of this amount to us which we placed on deposit with the IRS.

## 9. Commitments, Contingent Liabilities and Litigation

### Commitments

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

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

### Legal Proceedings

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

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

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

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

We accrue for contingencies related to disputes, litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates.

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

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

**Opioid Lawsuits**

Pharmaceutical wholesale distributors, including us, have been named as defendants in a number of lawsuits relating to the distribution of prescription opioid pain medications. These lawsuits, which have been filed in various federal, state and other courts, allege violations of controlled substance laws and various other statutes as

well as common law claims, including negligence, public nuisance and unjust enrichment, and seek equitable relief and monetary damages. Many of these lawsuits also name pharmaceutical manufacturers, retail chains and other entities as defendants.

As of February 2, 2018, we are named as a defendant in 343 lawsuits in 36 jurisdictions. The plaintiffs in these lawsuits include 317 counties, municipalities and other entities; two state attorneys general; and 23 union and other health and welfare funds and hospital systems and other health care providers. Of these lawsuits, ten are purported class actions. In December 2017, all federal lawsuits (298 as of February 2, 2018) were ordered to be transferred for consolidated pre-trial proceedings in a Multi-District Litigation proceeding in the United States District Court for the Northern District of Ohio. We are vigorously defending ourselves in these lawsuits. Since these lawsuits are in early stages, we are unable to predict their outcome or estimate a range of reasonably possible losses.

In addition to the two state attorneys general who have sued us, we, along with other distributors, have, since September 2017, received requests related to an investigation being conducted by a group of 39 U.S. state attorneys general relating to the distribution of opioid medication. This investigation is part of a broader investigation of pharmaceutical manufacturers and distributors. We also have received civil investigative demands, subpoenas or requests for information from nine individual state attorneys general offices. We are cooperating with these investigations.

**Product Liability Lawsuits**

As of February 2, 2018, we are named as a defendant in 112 product liability lawsuits filed in Alameda County Superior Court in California involving claims by approximately 1,362 plaintiffs that allege personal injuries associated with the use of Cordis OptEase and TrapEase inferior vena cava (IVC) filter products. Another 17 lawsuits involving similar claims by approximately 28 plaintiffs are pending in other jurisdictions. These lawsuits seek a variety of remedies, including unspecified monetary damages. We are vigorously defending ourselves in these lawsuits.

At December 31, 2017, we had a total of $184 million, net of expected insurance recoveries, accrued for losses and legal defense costs related to the Cordis IVC filter lawsuits. While we have recorded accruals based on our assessment of these matters, because these lawsuits are in early stages, we are unable to estimate a range of reasonably possible losses in excess of this accrued amount.

## 10. Fair Value Measurements

**Assets and (liabilities) measured on a recurring basis**

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

| | December 31, 2017 | | | |
|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Cash equivalents | $ — | $ — | $ — | $ — |
| Available-for-sale securities (2) | — | — | — | — |
| Other investments (3) | **122** | — | — | **122** |
| **Liabilities:** | | | | |
| Forward contracts (1) | — | **(33)** | — | **(33)** |
| Contingent consideration (4) | — | — | **(21)** | **(21)** |

| | June 30, 2017 | | | |
|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Cash equivalents | $ 739 | $ — | $ — | $ 739 |
| Available-for-sale securities (2) | — | 65 | — | 65 |
| Other investments (3) | 116 | — | — | 116 |
| **Liabilities:** | | | | |
| Forward contracts (1) | — | (21) | — | (21) |
| Contingent consideration (4) | — | — | (32) | (32) |

(1) The fair value of interest rate swaps, foreign currency contracts and commodity contracts is determined based on the present value of expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Observable Level 2 inputs are used to determine the present value of expected future cash flows. The fair value of these derivative contracts, which are subject to master netting arrangements under certain circumstances, is presented on a gross basis in the condensed consolidated balance sheets.

(2) We invest in marketable securities, which are classified as available-for-sale and are carried at fair value in the condensed consolidated balance sheets. Observable Level 2 inputs such as quoted prices for similar securities, interest rate spreads, yield curves and credit risk are used to determine the fair value. See Note 6 for additional information regarding available-for-sale securities.

(3) The other investments balance includes investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities. These mutual funds primarily invest in the equity securities of companies with large market capitalization and high quality fixed income debt securities. The fair value of these investments is determined using quoted market prices.

(4) Contingent consideration represents the obligations incurred in connection with acquisitions. We do not deem the fair value of the contingent consideration obligations under any single acquisition to be significant. The estimate of fair value of the contingent consideration obligations requires subjective assumptions to be made regarding future business results, discount rates, discount periods, and probabilities assigned to various potential business result scenarios and was determined using probability assessments with respect to the likelihood of reaching various targets or of achieving certain milestones. The fair value measurement is based on significant inputs unobservable in the market and thus represents a Level 3 measurement. Changes in current expectations of progress could change the probability of achieving the targets within the measurement periods and result in an increase or decrease in the fair value of the contingent consideration obligation.

The following table presents those liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3):

| (in millions) | Contingent Consideration Obligation |
|---|---|
| Balance at June 30, 2017 | $ 32 |
| Additions from acquisitions | 5 |
| Changes in fair value of contingent consideration (1) | — |
| Payment of contingent consideration | (17) |
| **Balance at December 31, 2017** | **$ 21** |

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

(1) Amount is included in amortization and other acquisition-related costs in the condensed consolidated statements of earnings.

**Assets and (liabilities) measured on a nonrecurring basis**

Assets and liabilities held for sale of $2.2 billion and $1.3 billion, respectively, at December 31, 2017 are related to the sale of our China distribution business that closed on February 1, 2018. There were no assets or liabilities held for sale at June 30, 2017. These estimated fair values utilized Level 3 unobservable inputs based on expected sales proceeds following a competitive bidding process. See Note 4 for additional information regarding assets and liabilities held for sale.

## 11. Financial Instruments

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk and commodity price risk. We do not use derivative instruments for trading or speculative purposes. While the majority of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to fair value through earnings at the end of each period. Our derivative and hedging programs are consistent with those described in the 2017 Form 10-K. The amount of ineffectiveness associated with these derivative instruments was immaterial for the three and six months ended December 31, 2017 and 2016.

During the six months ended December 31, 2017 and 2016, we entered into pay-floating interest rate swaps with a total notional amounts of $350 million and $100 million, respectively. These swaps have been designated as fair value hedges of our fixed rate debt and are included in other assets in the condensed consolidated balance sheet.

During the six months ended December 31, 2016, we entered into forward interest rate swaps with a total notional amount of $200 million to hedge probable, but not firmly committed, future transactions associated with our debt.

### Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, trade receivables, accounts payable and other accrued liabilities at December 31, 2017 and June 30, 2017 approximate fair value due to their short-term maturities.

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

| (in millions) | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Estimated fair value | **$ 9,801** | $ 10,713 |
| Carrying amount | **9,759** | 10,395 |

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

## 12. Redeemable Noncontrolling Interests

In connection with the acquisition of a 71 percent ownership interest in naviHealth during fiscal 2016, we recognized redeemable noncontrolling interest with a fair value of $119 million at the acquisition date.

During the six months ended December 31, 2017, certain third-party noncontrolling interest holders exercised their put right on the noncontrolling interest representing 16 percent of naviHealth with a redemption value of $103 million and a carrying value of $109 million, which we settled in cash. As a result of this settlement, our ownership in naviHealth increased to 98 percent.

The following table summarizes activity in redeemable noncontrolling interests:

| (in millions) | Redeemable Noncontrolling Interest |
|---|---|
| Balance at June 30, 2017 | $ 118 |
| Net earnings attributable to redeemable noncontrolling interests | 2 |
| Net purchase of redeemable noncontrolling interests | (103) |
| Adjustment of redeemable noncontrolling interests to redemption value | (4) |
| **Balance at December 31, 2017** | **$ 13** |

## 13. Shareholders' Equity

During the six months ended December 31, 2017, we repurchased 2.2 million common shares having an aggregate cost of $150 million. The average price paid per common share was $67.92. We funded the repurchases with available cash and short-term borrowings.

During the six months ended December 31, 2016, we repurchased 8.1 million common shares having an aggregate cost of $600 million. The average price paid per common share was $74.08. We funded the repurchases with available cash.

The common shares repurchased are held in treasury to be used for general corporate purposes.

During the six months ended December 31, 2016, we retired 37 million common shares in treasury. The retirement of these shares had no impact on total shareholders' equity; however, it did impact certain individual components of shareholders' equity as follows: $2.5

billion decrease in common shares in treasury, $302 million decrease in common shares, and $2.2 billion decrease in retained earnings.

### Accumulated Other Comprehensive Loss

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

| (in millions) | Foreign Currency Translation Adjustments | Unrealized Gain/(Loss) on Derivatives, net of tax | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at June 30, 2017 | $ (148) | $ 23 | **$ (125)** |
| Other comprehensive income/ (loss), before reclassifications | 31 | (1) | **30** |
| Amounts reclassified to earnings | — | — | **—** |
| Other comprehensive income/(loss), net of tax | 31 | (1) | **30** |
| **Balance at December 31, 2017** | **$ (117)** | **$ 22** | **$ (95)** |

Activity related to realized and unrealized gains and losses on available-for-sale securities, as described in Note 6, was immaterial during the six months ended December 31, 2017.

## 14. Earnings Per Share Attributable to Cardinal Health, Inc.

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

| | Three Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Weighted-average common shares–basic | **315** | 318 |
| **Effect of dilutive securities:** | | |
| Employee stock options, restricted share units and performance share units | **1** | 1 |
| **Weighted-average common shares–diluted** | **316** | 319 |

| | Six Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Weighted-average common shares–basic | **315** | 319 |
| **Effect of dilutive securities:** | | |
| Employee stock options, restricted share units and performance share units | **2** | 2 |
| **Weighted-average common shares–diluted** | **317** | 321 |

The potentially dilutive employee stock options, restricted share units and performance share units that were antidilutive were 7 million and 4 million for the three months ended December 31, 2017 and 2016, respectively, and 6 million and 3 million for the six months ended December 31, 2017 and 2016, respectively.

## 15. Segment Information

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

The following table presents revenue for each reportable segment and Corporate:

| | Three Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Pharmaceutical | **$ 31,146** | $ 29,743 |
| Medical | **4,044** | 3,410 |
| Total segment revenue | **35,190** | 33,153 |
| Corporate (1) | **(4)** | (3) |
| **Total revenue** | **$ 35,186** | $ 33,150 |

| | Six Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Pharmaceutical | **$ 60,066** | $ 58,505 |
| Medical | **7,768** | 6,690 |
| Total segment revenue | **67,834** | 65,195 |
| Corporate (1) | **(7)** | (6) |
| **Total revenue** | **$ 67,827** | $ 65,189 |

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

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

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

In addition, certain investment spending, certain portions of enterprise-wide incentive compensation and other spending are not allocated to the segments. Investment spending generally includes the first-year spend for certain projects that require incremental investments in the form of additional operating expenses. We

encourage our segments and corporate functions to identify investment projects that will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are often retained at Corporate. Investment spending within Corporate was $6 million and $1 million for the three months ended December 31, 2017 and 2016, respectively, and $11 million and $2 million for the six months ended December 31, 2017 and 2016, respectively.

The following table presents segment profit by reportable segment and Corporate:

| | Three Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Pharmaceutical | **$ 514** | $ 537 |
| Medical | **220** | 159 |
| Total segment profit | **734** | 696 |
| Corporate | **(335)** | (154) |
| **Total operating earnings** | **$ 399** | $ 542 |

| | Six Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Pharmaceutical | **$ 981** | $ 1,071 |
| Medical | **348** | 286 |
| Total segment profit | **1,329** | 1,357 |
| Corporate | **(668)** | (281) |
| **Total operating earnings** | **$ 661** | $ 1,076 |

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

| (in millions) | **December 31, 2017** | June 30, 2017 |
|---|---|---|
| Pharmaceutical | **$ 23,014** | $ 21,848 |
| Medical | **17,993** | 10,688 |
| Corporate | **1,898** | 7,576 |
| **Total assets** | **$ 42,905** | $ 40,112 |

## 16. Share-Based Compensation

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

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

| | Three Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Restricted share unit expense | **$ 16** | $ 17 |
| Employee stock option expense | **5** | 5 |
| Performance share unit expense | **2** | 2 |
| **Total share-based compensation** | **$ 23** | $ 24 |

| | Six Months Ended December 31, | |
|---|---|---|
| (in millions) | **2017** | 2016 |
| Restricted share unit expense | **$ 34** | $ 34 |
| Employee stock option expense | **10** | 10 |
| Performance share unit expense | **(4)** | 3 |
| **Total share-based compensation** | **$ 40** | $ 47 |

The total tax benefit related to share-based compensation was $5 million and $8 million for the three months ended December 31, 2017 and 2016, respectively, and $11 million and $16 million for the six months ended December 31, 2017 and 2016, respectively.

### Restricted Share Units

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

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

| (in millions, except per share amounts) | **Restricted Share Units** | **Weighted-Average Grant Date Fair Value per Share** |
|---|---|---|
| Nonvested at June 30, 2017 | 2 | $ 76.72 |
| Granted | 1 | 66.10 |
| Vested | (1) | 79.80 |
| Canceled and forfeited | — | — |
| **Nonvested at December 31, 2017** | **2** | **$ 67.92** |

At December 31, 2017, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested restricted share units not yet recognized was $107 million, which is expected to be recognized over a weighted-average period of two years.

### Stock Options

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

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

| (in millions, except per share amounts) | **Stock Options** | **Weighted-Average Exercise Price per Common Share** |
|---|---|---|
| Outstanding at June 30, 2017 | 6 | $ 63.44 |
| Granted | 2 | 66.44 |
| Exercised | — | — |
| Canceled and forfeited | — | — |
| **Outstanding at December 31, 2017** | **8** | **$ 64.28** |
| **Exercisable at December 31, 2017** | **5** | **$ 59.14** |

At December 31, 2017, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested stock options not yet recognized was $31 million, which is expected to be recognized over

a weighted-average period of two years. The following tables provide additional detail related to stock options:

| (in millions) | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Aggregate intrinsic value of outstanding options at period end | $ 47 | $ 109 |
| Aggregate intrinsic value of exercisable options at period end | 47 | 106 |

| (in years) | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Weighted-average remaining contractual life of outstanding options | 7 | 7 |
| Weighted-average remaining contractual life of exercisable options | 6 | 6 |

### Performance Share Units

Performance share units vest over a three-year performance period based on achievement of specific performance goals. Based on the extent to which the targets are achieved, vested shares may range from zero to 200 percent of the target award amount. Performance share units accrue cash dividend equivalents that are payable upon vesting of the awards.

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

| (in millions, except per share amounts) | Performance Share Units | Weighted-Average Grant Date Fair Value per Share |
|---|---|---|
| Nonvested at June 30, 2017 | 0.6 | $ 77.83 |
| Granted | 0.2 | 66.43 |
| Vested (1) | (0.2) | 71.57 |
| Canceled and forfeited | — | — |
| **Nonvested at December 31, 2017** | **0.6** | **$ 75.14** |

(1) Vested based on achievement of 133 percent of the target performance goal.

At December 31, 2017, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested performance share units not yet recognized was $16 million, which is expected to be recognized over a weighted-average period of two years if targets are achieved.

## 17. Subsequent Events

On February 1, 2018, we closed on the sale of our China distribution business to Shanghai Pharmaceuticals Holding Co., Ltd. for gross proceeds of $1.2 billion and net proceeds of approximately $800 million. The information needed to calculate the loss on sale was not available at the time these condensed consolidated financial statements were prepared. We estimated the loss as of December 31, 2017 to be $67 million, which we recognized as a write-down on the disposal group in impairments and loss on disposal of assets in our condensed consolidated statement of earnings.

On January 3, 2018, we paid the remaining $60 million of the contract termination fee related to the agreement to transition the distribution of our Medical segment's surgeon gloves in certain international markets from a third-party distribution arrangement to a direct distribution model.

# Exhibits

| Exhibit Number | Exhibit Description |
|---|---|
| 2.1 | Amendment No. 2, dated as of October 2, 2017, to Stock and Asset Purchase Agreement, dated as of March 2, 2015, by and between Ethicon, Inc. and Cardinal Health, Inc. (incorporated by reference to Exhibit 2.2 to Cardinal Health's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, File No. 1-11373) |
| 2.2 | Letter Agreement, dated November 21, 2017, by and between Cardinal Health, Inc. and Medtronic plc |
| 3.1 | Amended and Restated Articles of Incorporation of Cardinal Health, Inc., as amended (incorporated by reference to Exhibit 3.1 to Cardinal Health's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, File No. 1-11373) |
| 3.2 | Cardinal Health, Inc. Restated Code of Regulations (incorporated by reference to Exhibit 3.2 to Cardinal Health's Current Report on Form 8-K filed on June 30, 2016, File No. 1-11373) |
| 10.1 | Form of Directors' Restricted Share Units Agreement under the Amended Cardinal Health, Inc. 2011 Long-Term Incentive Plan |
| 10.2 | Second Amendment, effective as of January 1, 2018, to the Cardinal Health Deferred Compensation Plan, as amended and restated effective as of January 1, 2016 |
| 10.3 | Letter Agreement, dated November 5, 2017, between Cardinal Health, Inc. and George S. Barrett (incorporated by reference to Exhibit 10.1 to Cardinal Health's Current Report on Form 8-K filed on November 6, 2017, File No. 1-11373) |
| 10.4 | Confidentiality and Business Protection Agreement, effective as of November 6, 2017, between Cardinal Health, Inc. and Jorge M. Gomez |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Statement Regarding Forward-Looking Information |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

## Cardinal Health Website

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

# Form 10-Q Cross Reference Index



**N/A** Not applicable

# Signatures

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

Cardinal Health, Inc.

Date: February 8, 2018

/s/ MICHAEL C. KAUFMANN

**Michael C. Kaufmann**

**Chief Executive Officer**

/s/ JORGE M. GOMEZ

**Jorge M. Gomez**

**Chief Financial Officer**

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, OH 43017

November 21, 2017

Medtronic plc
710 Medtronic Parkway
Minneapolis, MN 55432

Ladies and Gentlemen:

Reference is made to the Stock and Asset Purchase Agreement, dated as of April 18, 2017 and amended as of July 28, 2017 (as it may be amended, supplemented or modified from time to time, the "Purchase Agreement"), by and between Medtronic plc ("Seller") and Cardinal Health, Inc. ("Buyer"). Capitalized terms used but not otherwise defined in this letter agreement (the "Letter Agreement") shall have the meanings given to such terms in the Purchase Agreement.

In consideration of the mutual agreements, provisions and covenants contained in this Letter Agreement and the Purchase Agreement, the parties hereto agree as follows:

1. Price Adjustment Statement Delivery Extension. Pursuant to Section 11.04 of the Purchase Agreement, Seller and Buyer hereby agree that, without limiting any rights or remedies that may be available to Buyer or Seller under or by reason of the Purchase Agreement, the ninety (90) day period after the Closing Date during which Seller must prepare and deliver to Buyer the Price Adjustment Statement pursuant to Section 2.04(b) of the Purchase Agreement is extended to November 19, 2017. Buyer acknowledges that Seller delivered the Price Adjustment Statement on November 19, 2017.

2. Proposed Allocation Negotiation Extension. Pursuant to Section 11.04 of the Purchase Agreement, Seller and Buyer hereby agree that the thirty (30) calendar day period during which Seller and Buyer must negotiate in good faith to resolve Seller's objections to the Proposed Allocation pursuant to Sections 2.05(c) of the Purchase Agreement is extended to, and will expire at midnight central time on, December 19, 2017.

3. Modifications and Amendments. This Letter Agreement shall not be altered or otherwise amended except pursuant to an instrument in writing executed and delivered by each of the parties hereto.

4. Miscellaneous. The provisions of Sections 11.04 (*Waivers*), 11.06 (*Assignability, Beneficiaries; Enforcement*), 11.07 (*Notices*), 11.08 (*Headings*), 11.09 (*Counterparts*), 11.12 (*Governing Law; Consent to Jurisdiction; Waivers*) and 11.14 (*Severability*) of the Purchase Agreement apply to this Letter Agreement, *mutatis mutandis*.

[*Signature Page Follows*]

Very truly yours,

CARDINAL HEALTH, INC.

By: /s/ Jorge M. Gomez
Name: Jorge M. Gomez
Title: Chief Financial Officer - Medical Segment

Accepted and agreed:

MEDTRONIC PLC

By: /s/ Philip Albert
Name: Philip Albert
Title: VP, Corporate Taxes

**CARDINAL HEALTH, INC.**
**DIRECTORS' RESTRICTED SHARE UNITS AGREEMENT**

This Restricted Share Units Agreement (this "Agreement") is entered into in Franklin County, Ohio. On [date of grant] (the "Grant Date"), Cardinal Health, Inc., an Ohio corporation (the "Company"), has awarded to [Director name] ("Awardee"), [# of Shares] Stock Units (the "Restricted Share Units" or "Award"), representing an unfunded unsecured promise of the Company to deliver common shares, without par value, of the Company (the "Shares") to Awardee as set forth in this Agreement. The Restricted Share Units have been granted pursuant to the Amended Cardinal Health, Inc. 2011 Long-Term Incentive Plan (the "Plan"), and are subject to all provisions of the Plan, which are incorporated in this Agreement by reference, and are subject to the provisions of this Agreement. Capitalized terms used in this Agreement which are not specifically defined have the meanings ascribed to such terms in the Plan.

1. Vesting of Restricted Share Units. The Restricted Share Units vest on the first anniversary of the Grant Date, except that if the [year] Annual Meeting of Shareholders is prior to the first anniversary of the Grant Date, then the Restricted Share Units will vest on the date of the [year] Annual Meeting of Shareholders (in either event, the "Vesting Date"), subject to the provisions of this Agreement, including those relating to Awardee's continued service on the Board. In the event of a Change of Control, the Restricted Share Units (to the extent not previously vested or forfeited) vest in full, except to the extent that (a) Awardee is asked to continue to serve on the Board or to serve as a member of the board of directors (or similar governing body) of the Company's successor in the Change of Control or another entity that is affiliated with the Company or its successor following the Change of Control; and (b) a Replacement Award is offered to Awardee in accordance with Section 16(b) of the Plan.

2. Transferability. The Restricted Share Units are not transferable.

3. Termination of Service on the Board. If Awardee ceases to be a member of the Board prior to the vesting of the Restricted Share Units for any reason other than Awardee's death, all of the then unvested Restricted Share Units shall be forfeited by Awardee immediately after Awardee ceases to be a member of the Board. If Awardee ceases to be a member of the Board prior to the vesting or forfeiture of the Restricted Share Units by reason of Awardee's death, then such Restricted Share Units vest in full and are not forfeited.

4. Special Forfeiture and Repayment Rules. This Agreement contains special forfeiture and repayment rules intended to encourage conduct that protects the legitimate business assets of the Company and its Affiliates (collectively, the "Cardinal Group") and discourage conduct that threatens or harms those assets. The Company does not intend to have the benefits of this Agreement reward or subsidize conduct detrimental to the Company, and therefore will require the forfeiture of the benefits offered under this Agreement and the repayment of gains obtained from this Agreement, according to the rules specified below. Activities that trigger the forfeiture and repayment rules are divided into two categories: Misconduct and Competitor Conduct.

(a) Misconduct. During service on the Board and for three years after Awardee's termination of service on the Board for any reason, Awardee agrees not to engage in Misconduct. If Awardee engages in Misconduct during service on the Board or within three years after Awardee's termination of service on the Board for any reason, then

(i) Awardee immediately forfeits the Restricted Share Units that have not yet vested or that vested at any time within three years prior to the date the Misconduct first occurred and have not yet been paid pursuant to Paragraph 5, and those forfeited Restricted Share Units automatically terminate, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to (A) the gross gain to Awardee resulting from the payment of Restricted Share Units pursuant to Paragraph 5 that had vested at any time within three years prior to the date the Misconduct first occurred less (B) $1.00. The gross gain is the Fair Market Value of the Shares represented by the Restricted Share Units on the date of receipt.

As used in this Agreement, "**Misconduct**" means

(A) disclosing or using any of the Cardinal Group's confidential information (as defined by the applicable Cardinal Group policies and agreements) without proper authorization from the Cardinal Group or in any capacity other than as necessary for the performance of Awardee's duties as a Director of the Company;

(B) violation of the Standards of Business Conduct or any successor code of conduct or other applicable Cardinal Group policies, including but not limited to conduct which would constitute a breach of any representation or certificate of compliance signed by Awardee;

(C) fraud, gross negligence or willful misconduct by Awardee, including but not limited to fraud, gross negligence or willful misconduct causing or contributing to a material error resulting in a restatement of the financial statements of any member of the Cardinal Group;

(D) directly or indirectly soliciting or recruiting for employment or contract work on behalf of a person or entity other than a member of the Cardinal Group, any person who is an employee, representative, officer or director in the Cardinal Group or who held one or more of those positions at any time within the 12 months prior to Awardee's termination of service on the Board;

(E) directly or indirectly inducing, encouraging or causing an employee of the Cardinal Group to terminate his/her employment or a contract worker to terminate his/her contract with a member of the Cardinal Group;

(F) any action by Awardee and/or his or her representatives that either does or could reasonably be expected to undermine, diminish or otherwise damage the relationship between the Cardinal Group and any of its customers, prospective customers, vendors, suppliers or employees known to Awardee; or

(G) breaching any provision of any agreement with a member of the Cardinal Group.

Nothing in this Agreement will prevent Awardee from testifying truthfully as required by law, prohibit or prevent Awardee from filing a charge with or participating, testifying or assisting in any investigation, hearing, whistleblower proceeding or other proceeding before any federal, state or local government agency (e.g., Equal Employment Opportunity Commission, National Labor Relations Board, Securities and Exchange Commission, etc.), or prevent Awardee from disclosing Cardinal Group's confidential information in confidence to a federal, state or local government official for the purpose of reporting or investigating a suspected violation of law.

(b) Competitor Conduct. If Awardee engages in Competitor Conduct during service on the Board or within one year after Awardee's termination of service on the Board for any reason, then

(i) Awardee immediately forfeits the Restricted Share Units that have not yet vested or that vested at any time within one year prior to the date the Competitor Conduct first occurred and have not yet been paid pursuant to Paragraph 5, and those forfeited Restricted Share Units automatically terminate, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to (A) the gross gain to Awardee resulting from the payment of Restricted Share Units pursuant to Paragraph 5 that had vested at any time since the earlier of one year prior to the date the Competitor Conduct first occurred or one year prior to Awardee's termination of service on the Board, if applicable, less (B) $1.00. The gross gain is the Fair Market Value of the Shares represented by the Restricted Share Units on the date of receipt.

As used in this Agreement, "**Competitor Conduct**" means accepting employment with, or directly or indirectly providing services to, a Competitor in the United States. A "Competitor" means any person or business that competes with the products or services provided by a member of the Cardinal Group or about which Awardee obtained confidential information (as defined by the applicable Cardinal Group policies or agreements). For purposes of this Agreement, the nature and extent of Awardee's activities, if any, disclosed to and reviewed by the Audit or Nominating and Governance Committees of the Board (each, a "Specified Committee") prior to the date of Awardee's termination of service on the Board will not be deemed to be Competitor Conduct unless specified to the contrary by the Specified Committee in a written notice given to Awardee within 90 days after the Specified Committee is notified in writing of such activities.

(c) General.

(i) Nothing in this Paragraph 4 constitutes or is to be construed as a "noncompete" covenant or other restraint on employment or trade. The execution of this Agreement is voluntary. Awardee is free to choose to comply with the terms of this Agreement and receive the benefits offered or else reject this Agreement with no adverse consequences to Awardee's service on the Board.

(ii) Awardee agrees to provide the Company with at least 10 days written notice prior to accepting employment with or providing services to a Competitor within one year after Awardee's termination of service on the Board.

(iii) Awardee acknowledges receiving sufficient consideration for the requirements of this Paragraph 4, including Awardee's receipt of the Restricted Share Units. Awardee further acknowledges that the Company would not provide the Restricted Share Units to Awardee without Awardee's promise to abide by the terms of this Paragraph 4. The parties also acknowledge that the provisions contained in this Paragraph 4 are ancillary to, or part of, an otherwise enforceable agreement at the time this Agreement is made.

(iv) Awardee may be released from the obligations of this Paragraph 4 if and only if the Administrator determines, in writing and in the Administrator's sole discretion, that a release is in the best interests of the Company.

5. Payment.

(a) General. Subject to the provisions of Paragraph 4 and Paragraphs 5(b), (c) and (d) below, Awardee is entitled to receive from the Company (without any payment by or on behalf of Awardee) the Shares represented by the vested Restricted Share Units on the Vesting Date.

(b) Death. To the extent that Restricted Share Units are vested on the date of Awardee's death, Awardee is entitled to receive the corresponding Shares from the Company on the date of death.

(c) Change of Control. To the extent that Restricted Share Units are vested on the date of a Change of Control, Awardee is entitled to receive the corresponding Shares from the Company on the date of the Change of Control; provided, however, that if such Change of Control would not qualify as a permissible date of distribution under Section 409A(a)(2)(A)(v) of the Code and the regulations thereunder, and where Section 409A of the Code applies to such distribution as a deferral of compensation, Awardee is entitled to receive the corresponding Shares from the Company on the date that would have otherwise applied pursuant to Paragraphs 5(a) or (b).

(d) Elections to Defer Receipt. Elections to defer receipt of the Shares beyond the date of payment provided in this Agreement may be permitted in the discretion of the Administrator pursuant to procedures established by the Administrator in compliance with the requirements of Section 409A of the Code.

6. Dividend Equivalents. Awardee is not entitled to receive cash dividends on the Restricted Share Units, but will receive a dividend equivalent payment from the Company in an amount equal to the dividends that would have been paid on each Share underlying the Restricted Share Units if it had been outstanding between the Grant Date and the payment date of any such Share (i.e., based on the record date for cash dividends). Subject to an election to defer receipt as permitted under Paragraph 5(d), the Company shall pay dividend equivalent payments in cash as soon as reasonably practicable after the payment date of the Restricted Share Units to which such dividend equivalents relate.

7. Right of Set-Off. By accepting the Restricted Share Units, Awardee consents to a deduction from, and set-off against, any amounts owed to Awardee that are not treated as "non-qualified deferred compensation" under Section 409A of the Code by any member of the Cardinal Group from time to time (including, but not limited to, amounts owed to Awardee as Director annual retainer fees, meeting fees or other fringe benefits) to the extent of the amounts owed to the Company by Awardee under this Agreement.

8. No Shareholder Rights. Awardee has no rights of a shareholder with respect to the Restricted Share Units, including no right to vote the Shares represented by the Restricted Share Units until such Shares vest and are paid to Awardee.

9. Governing Law/Venue for Dispute Resolution/Costs and Legal Fees. This Agreement is governed by the laws of the State of Ohio, without regard to principles of conflicts of law, except to the extent superseded by the laws of the United States of America. **The parties agree and acknowledge that the laws of the State of Ohio bear a substantial relationship to the parties and/or this Agreement and that the Restricted Share Units and benefits granted in this Agreement would not be granted without the governance of this Agreement by the laws of the State of Ohio. In addition, all legal actions or proceedings relating to this Agreement must be brought exclusively in state or federal courts located in Franklin County, Ohio and the parties executing this Agreement hereby consent to the personal jurisdiction of such courts.** Awardee acknowledges that the covenants contained in Paragraph 4 are reasonable in nature, are fundamental for the protection of the Company's legitimate business and proprietary interests, and do not adversely affect Awardee's ability to earn a living. In the event that it becomes necessary for the Company to institute legal proceedings under this Agreement, Awardee is responsible to the Company for all costs and reasonable legal fees incurred by the Company in connection with the proceedings. Any provision of this Agreement which is determined by a court of competent jurisdiction to be invalid or unenforceable or to disqualify the Award under any Applicable Law should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by the provision, without invalidating or rendering unenforceable the remaining provisions of this Agreement.

10. Defend Trade Secrets Act Notice. Under the federal Defend Trade Secrets Act of 2016, Awardee will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made to Awardee's attorney in relation to a lawsuit for retaliation against Awardee for reporting a suspected violation of law; or (c) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

11. Action by the Administrator. The parties agree that the interpretation of this Agreement rests exclusively and completely within the sole discretion of the Administrator. The parties agree to be bound by the decisions of the Administrator with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. In fulfilling its responsibilities hereunder, the Administrator may rely upon documents, written statements of the parties, financial reports or other material as the Administrator deems appropriate. The parties agree that there is no right to be heard or to appear before the Administrator and that any decision of the Administrator relating to this Agreement, including whether particular conduct constitutes Misconduct or Competitor Conduct, is final and binding.

12. Electronic Delivery and Consent to Electronic Participation. The Company may, in its sole discretion, decide to deliver any documents related to the Restricted Share Unit grant under and participation in the Plan or future Restricted Share Units that may be granted under the Plan by electronic means or to request Awardee's consent to participate in the Plan by electronic means. Awardee hereby consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, including the acceptance of restricted share unit grants and the execution of restricted share unit agreements through electronic signature.

13. Notices. All notices, requests, consents and other communications required or provided under this Agreement to be delivered by Awardee to the Company will be in writing and will be deemed sufficient if delivered by hand, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to the Company at the address set forth below:

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
Attention: Deputy General Counsel

All notices, requests, consents and other communications required or provided under this Agreement to be delivered by the Company to Awardee may be delivered by e-mail or in writing and will be deemed sufficient if delivered by e-mail, hand, facsimile, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to Awardee.

14. Amendment. Any amendment to the Plan is deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment may impair the rights of Awardee with respect to an outstanding Restricted Share Unit unless agreed to by Awardee and the Company, which agreement must be in writing and signed by Awardee and the Company. Other than following a Change of Control, no such agreement is required if the Administrator determines in its sole discretion that such amendment either (a) is required or advisable in order for the Company, the Plan or the Restricted Share Units to satisfy any Applicable Law or to meet the requirements of any accounting standard or (b) is not reasonably likely to significantly diminish the benefits provided under the Restricted Share Units, or that any such diminishment has been adequately compensated, including pursuant to Section 16(c) of the Plan.

15. Adjustments. The number of Shares issuable for each Restricted Share Unit and the other terms and conditions of the Award evidenced by this Agreement are subject to adjustment as provided in Section 16 of the Plan.

16. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement comply with the provisions of Section 409A of the Code. This Agreement shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force or effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of Awardee).

17. No Right to Future Awards or Board Membership. The grant of the Restricted Share Units under this Agreement to Awardee is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. Nothing contained in this Agreement shall confer upon Awardee any right to continued service as a member of the Board.

18. Successors and Assigns. Without limiting Paragraph 2, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Awardee, and the successors and assigns of the Company.

CARDINAL HEALTH, INC.

By: _____
Its: _____

ACCEPTANCE OF AGREEMENT

Awardee hereby: (a) acknowledges that he or she has received a copy of the Plan, a copy of the Company's most recent annual report to shareholders and other communications routinely distributed to the Company's shareholders, and a copy of the Plan Description pertaining to the Plan; (b) accepts this Agreement and the Restricted Share Units granted to him or her under this Agreement subject to all provisions of the Plan and this Agreement, including the provisions in the Agreement regarding "Special Forfeiture and Repayment Rules" set forth in Paragraph 4; (c) represents that he or she understands that the acceptance of this Agreement through an on-line or electronic system, if applicable, carries the same legal significance as if he or she manually signed the Agreement; and (d) agrees that no transfer of the Shares delivered in respect of the Restricted Share Units may be made unless the Shares have been duly registered under all applicable Federal and state securities laws pursuant to a then-effective registration which contemplates the proposed transfer or unless the Company has received a written opinion of, or satisfactory to, its legal counsel that the proposed transfer is exempt from such registration.

_____

Awardee's Signature

_____

Date

**SECOND AMENDMENT**
**TO THE**
**CARDINAL HEALTH DEFERRED COMPENSATION PLAN**
(As amended and restated January 1, 2016)

## Background Information

A. Cardinal Health, Inc. ("Cardinal Health") previously adopted and currently maintains the Cardinal Health Deferred Compensation Plan (the "Plan") for the benefit of a select group of management and highly compensated employees of Cardinal Health and its subsidiaries and affiliates.

B. The Cardinal Health, Inc. Benefits Policy Committee (the "BPC") oversees the administration of the Plan and, pursuant to Section 7.1 of the Plan, is authorized to approve certain amendments to the Plan in accordance with authority delegated by the Human Resources and Compensation Committee of the Board of Directors of Cardinal Health.

C. The BPC desires to amend the Plan to modify plan governance processes and amendment authority and make other technical and conforming changes. The aforementioned changes fall within the BPC's delegated authority.

D. Section 7.1 of the Plan permits the amendment of the Plan at any time.

## Amendment of the Plan

The Plan is hereby amended as set forth below, effective as of January 1, 2018.

1. Section 1.1(b) of the Plan is hereby amended in its entirety to read as follows:

"(b) Administrative Committee. The Financial Benefit Plans Committee of the Company."

2. The first sentence of Section 1.1(l) of the Plan is hereby amended to read as follows:

"Any employee of an Employer who is (i) an employee who is a Reporting Person or (ii) (A) among a select group of management or highly compensated employees (within the meaning of Sections 201(2), 301(a)(3) and 401(a) of ERISA), and (B) designated by the Company as eligible to make Compensation deferral contributions under Article II of the Plan in accordance with eligibility criteria established from time to time by the Administrative Committee, the Committee or the Board."

3. Section 1.1(t) of the Plan is hereby amended in its entirety to read as follows:

"(t) [Reserved.]"

4. The last sentence of Section 1.1(aa) of the Plan is hereby amended to read as follows:

"The Administrative Committee may require the Participant to submit to periodic medical examinations at the Participant's expense to confirm the existence and continuation of a Total Disability."

5. The fifth sentence of Section 3.3 of the Plan is hereby amended to read as follows:

"Contributions made to Participant Accounts under this Section may be subject to additional requirements as established from time to time by the Administrative Committee, such as a requirement to be employed on the last day of the year for which such contribution is made."

6. A new Section 6.1A is hereby added to the Plan to read as follows:

"6.1A Administrative Committee Meetings and Membership. The Administrative Committee shall be comprised of the following members: (1) Senior Vice President of the Company overseeing Benefits; (2) An individual designated by the Chief Human Resources Officer ("CHRO") of the Company; (3) Treasurer of the Company; and (4) An individual designated by the Chief Financial Officer ("CFO") of the Company. Each Member of the Administrative Committee shall serve without the need of a formal appointment or resignation, so long as she or he holds the position, or is designated in writing as the stated designee of the CHRO or CFO. The designee of the CFO shall chair the Administrative Committee.

The Administrative Committee shall meet quarterly as determined by the Administrative Committee and at such other times as necessary to perform its duties. A majority of the members of the Administrative Committee constitutes a quorum. The Administrative Committee may act by a majority vote at a meeting or by a writing approved by a majority of its members without a meeting. The Administrative Committee may adopt such rules and procedures as are necessary or appropriate, as determined in the Administrative Committee's discretion, to carry out its responsibilities with respect to the Plan."

6. Section 6.2 of the Plan is hereby amended in its entirety to read as follows:

"6.2 Administrative Committee. The Administrative Committee shall have full power, authority and discretion to control and manage the operation and administration of the Plan. The discretionary authority of the Administrative Committee shall include, but not be limited to, the following:

A. To determine all questions relating to the rights and status of Eligible Employees and Participants, the value of a Participant's Account, and the nonforfeitable percentage of each Participant's Account;

B. To adopt rules and procedures necessary for the proper and efficient administration of the Plan, provided the rules and procedures are not inconsistent with the terms of this Plan;

C. To construe, interpret and enforce the terms of the Plan and the rules and regulations it adopts, including the discretionary authority to interpret the Plan documents, documents related to the Plan's operation, and findings of fact;

D. To review and render decisions respecting claims (including appeals of denied claims) in accordance with the Plan's claims procedures;

E. To furnish an Employer with information that the Employer may require for tax or other purposes;

F. To engage such legal, accounting, recordkeeping, clerical, investment and/or administrative services that it may deem necessary or appropriate for the proper administration or operation of the Plan;

G. To engage the services of agents whom it may deem advisable to assist it with the performance of its duties;

H. To delegate responsibility (including the responsibilities described in this Section 6.2) to others, including, but not limited to benefits staff of the Company and third parties engaged to provide services to the Plan;

I. To keep such records, books of account, data and other documents as may be necessary for the proper administration of the Plan;

J. To prepare and distribute to Participants and Beneficiaries information concerning the Plan and their rights under the Plan;

K. To determine the times and places for holding meetings of the Administrative Committee and the notice to be given of such meetings; and

L. To do all things necessary or appropriate to operate and administer the Plan in accordance with its provisions and in compliance with applicable provisions of law.

Without limiting the powers set forth herein, the Administrative Committee shall have the power to change or waive any requirements of the Plan to conform with Code Section 409A or other applicable law or to meet special circumstances not anticipated or covered in the Plan.

When making a determination or calculation, the Administrative Committee shall be entitled to rely upon all valuations, certificates and reports furnished by any funding agent or service provider, upon all certificates and reports made by an accountant, upon all opinions given by any legal counsel selected or approved by the Administrative Committee, and upon any information furnished by a Participant or Beneficiary (including the legal counsel or other representative thereof), an Employer, or the Trustee. The members of the Administrative Committee, the Committee, and the Company and its officers and directors shall, except as otherwise provided by law, be fully protected in respect of any action taken or suffered by them in good faith in reliance upon any such valuations, certificates, reports, opinions, advice, or other information.

Benefits under the Plan shall be paid only if the Administrative Committee (or its delegate) decides in its discretion that the applicant is entitled to such benefits under the Plan."

7. Section 7.1 of the Plan is hereby amended in its entirety to read as follows:

"7.1 Amendment. The Company may amend the Plan at any time and in any respect through a written resolution adopted or approved by the Board, or by:

A. the Administrative Committee, with respect to any amendment that: (i) is required to comply with a change in applicable law, or (ii) when aggregated with any other amendment or amendments approved on the same date, is reasonably expected to have an annual financial impact on the Company of $5 million or less;

B. the CHRO of the Company, with respect to any amendment that, when aggregated with any other amendment or amendments approved on the same date, is reasonably expected to have an annual financial impact on the Company of $20 million or less; and

C. the Chief Executive Officer of the Company.

However, no amendment shall operate retroactively so as to affect adversely any rights to which a Participant may be entitled under the provisions of the Plan as in effect prior to such action."

8. All other provisions of the Plan shall remain in full force and effect.

**CARDINAL HEALTH, INC.**
**BENEFITS POLICY COMMITTEE**

By: /s/ Pamela O. Kimmet

Its: Chief HR Officer

Date: November 27, 2017

# Confidentiality and Business Protection Agreement

This Confidentiality and Business Protection Agreement ("Agreement") is hereby entered into by and between Jorge M. Gomez ("Executive") and Cardinal Health, Inc., an Ohio Corporation (the "Company") effective as of November 6, 2017.

It is hereby agreed as follows:

1. Consideration and Acknowledgements. The parties acknowledge that the provisions and covenants contained in this Agreement are ancillary and material to, and in consideration of, the promotion of Executive to Chief Financial Officer and that the limitations contained herein are reasonable in geographic and temporal scope and do not impose a greater restriction or restraint than is necessary to protect the goodwill and other legitimate business interests of the Company. The parties also acknowledge and agree that the provisions of this Agreement do not adversely affect Executive's ability to earn a living in any capacity that does not violate the covenants contained herein. The parties further acknowledge and agree that the provisions of Section 9(a) below are accurate and necessary because (i) this Agreement is entered into in the State of Ohio, (ii) Ohio has a substantial relationship to the parties and to this transaction, (iii) Ohio is the headquarters state of the Company, which has operations worldwide and has a compelling interest in having its employees treated uniformly, (iv) the use of Ohio law provides certainty to the parties in any covenant litigation in the United States, and (v) enforcement of the provisions of this Agreement would not violate any fundamental public policy of Ohio or any other jurisdiction.

2. Confidential Information. Executive shall hold in a fiduciary capacity for the benefit of the Company and all of its subsidiaries, partnerships, joint ventures, limited liability companies and other affiliates (collectively, the "Cardinal Group"), all secret or confidential information, knowledge or data relating to the Cardinal Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research, secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that Executive has obtained or obtains during Executive's employment by the Cardinal Group and that is not public knowledge (other than as a result of Executive's violation of this Agreement) ("Confidential Information"). For the purposes of this Agreement, information shall not be deemed to be publicly available merely because it is embraced by general disclosures or because individual features or combinations thereof are publicly available. Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after Executive's employment with the Cardinal Group, except with prior written consent of the applicable Cardinal Group company, or as otherwise required by law or legal process. All records, files, memoranda, reports, customer lists, drawings, plans, documents and the like that Executive uses, prepares or comes into contact with during the course of Executive's employment shall remain the sole property of the Company or the Cardinal Group company, as applicable, and shall be turned over to the applicable Cardinal Group company upon termination of Executive's employment.

3. Non-Recruitment of Cardinal Group Employees, etc. Executive shall not, at any time during the Restricted Period (as defined below), without the prior written consent of the Company, engage in the following conduct (a "Solicitation"): (i) directly or indirectly, including via social media or professional networking services, solicit, recruit or employ (whether as an employee, officer, director, agent, consultant or independent contractor) any person who is or was at any time during the previous twelve months an employee, representative, officer or director of the Cardinal Group; or (ii) take any action to encourage or induce any employee, representative, officer or director of the Cardinal Group to cease his or her relationship with the Cardinal Group for any reason. A "Solicitation" does not include any recruitment of employees within or for the Cardinal Group. The "Restricted Period" means the period of Executive's employment with the Cardinal Group and the additional period ending twenty-four months after Executive's date of termination of employment or date of retirement, as applicable. The Restricted

Period shall be extended and its expiration tolled by the time period in which Executive is in breach of any covenant in this Agreement to ensure that Executive does not benefit from any breach and that the Company receives the full benefit of two years protection from unfair competition on which it has relied in entering into this Agreement.

4. No Competition -- Solicitation of Business. During the Restricted Period, Executive shall not (either directly or indirectly or as an officer, agent, employee, partner, consultant or director of any other company, partnership or entity) solicit, service or accept on behalf of any competitor of the Cardinal Group the business of (i) any customer of the Cardinal Group during the time of Executive's employment or at date of termination of employment, or (ii) any potential customer of the Cardinal Group which Executive knew to be an identified, prospective purchaser of products or services of the Cardinal Group.

5. No Competition -- Employment by Competitor. During the Restricted Period, Executive shall not invest in (other than in a publicly traded company with a maximum investment of no more than 1% of outstanding shares), counsel, advise or be otherwise engaged or employed by any entity or enterprise that is in competition with the business conducted by any member of the Cardinal Group (other than a business that is not a significant business to the Cardinal Group as a whole or to the entity or enterprise as a whole).

6. No Disparagement.

(a) Executive and the Company shall at all times refrain from taking actions or making statements, written or oral, that (i) denigrate, disparage or defame the goodwill or reputation of Executive or the Cardinal Group, as the case may be, or any of its trustees, officers, security holders, partners, agents or former or current employees and directors, or (ii) are intended to, or may be reasonably expected to, adversely affect the morale of the employees of the Cardinal Group. Executive further agrees not to make any negative statements to third parties relating to Executive's employment or any aspect of the businesses of the Cardinal Group and not to make any statements to third parties about the circumstances of the termination of Executive's employment or about the Cardinal Group or its trustees, directors, officers, security holders, partners, agents or former or current employees and directors, except as may be required by a court or governmental body.

(b) Executive further agrees that, following termination of employment for any reason, Executive shall assist and cooperate with the Company with regard to any matter or project in which Executive was involved during Executive's employment with the Company, including but not limited to any litigation that may be pending or may arise after such termination of employment. Further, Executive agrees to notify the Company at the earliest opportunity of any contact that is made by any third parties concerning any such matter or project. The Company shall not unreasonably request such cooperation of Executive and shall cooperate with Executive in scheduling any assistance by Executive, taking into account Executive’s business and personal affairs, and shall compensate Executive for any lost wages or expenses associated with such cooperation and assistance.

7. Inventions. All plans, discoveries and improvements, whether patentable or unpatentable, made or devised by Executive, whether alone or jointly with others, from the date of Executive's initial employment by the Company and continuing until the end of any period during which Executive is employed by the Cardinal Group, relating or pertaining in any way to Executive's employment with or the business of the Cardinal Group, shall be promptly disclosed in writing to the Company’s Chief Legal and Compliance Officer and are hereby transferred to and shall redound to the benefit of the Company, and shall become and remain its sole and exclusive property. Executive agrees to execute any assignment to the Company or its nominee, of Executive's entire right, title and interest in and to any such discoveries and improvements and to execute any other instruments and documents requisite or desirable in applying for and obtaining patents, trademarks or copyrights, at the expense of the Company, with respect thereto in the United States and in all foreign countries, that may be required by

the Company. Executive further agrees at all times to cooperate to the extent and in the manner required by the Company in the prosecution or defense of any patent or copyright claims or any litigation or other proceeding involving any trade secrets, processes, discoveries or improvements covered by this Agreement, but all necessary expenses thereof shall be paid by the Company.

8. Acknowledgement and Enforcement. Executive acknowledges and agrees that: (a) the purpose of the foregoing covenants, including without limitation the noncompetition covenants of Sections 4 and 5, is to protect the goodwill, trade secrets and other Confidential Information of the Company; (b) because of the nature of the business in which the Cardinal Group is engaged and because of the nature of the Confidential Information to which Executive has access, the Company would suffer irreparable harm and it would be impractical and excessively difficult to determine the actual damages of the Cardinal Group in the event Executive breached any of the covenants of this Agreement; and (c) remedies at law (such as monetary damages) for any breach of Executive's obligations under this Agreement would be inadequate. Executive therefore agrees and consents that if Executive commits any breach of a covenant under this Agreement or threatens to commit any such breach, the Company shall have the right (in addition to, and not in lieu of, any other right or remedy that may be available to it) to temporary and permanent injunctive relief from a court of competent jurisdiction, without posting any bond or other security and without the necessity of proof of actual damage. If any of the covenants contained in this Agreement are finally held by a court to be invalid, illegal or unenforceable (whether in whole or in part), such covenant shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining covenants shall not be affected thereby; provided, however, that if any of such covenants is finally held by a court to be invalid, illegal or unenforceable because it exceeds the maximum scope or duration determined to be acceptable to permit such provision to be enforceable, such covenant will be deemed to be modified to the minimum extent necessary to modify such scope or duration in order to make such provision enforceable hereunder.

9. Defend Trade Secrets Act Notice. Under the U.S. Defend Trade Secrets Act of 2016, Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney, and (ii) solely for the purpose of reporting or investigating a suspected violation of law; (b) is made to Executive’s attorney in relation to a lawsuit for retaliation against Executive for reporting a suspected violation of law; or (c) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

10. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio, without reference to principles of conflict of laws. If, under any such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto. The parties hereto irrevocably agree to submit to the jurisdiction and venue of the courts of the State of Ohio in any action or proceeding brought with respect to or in connection with this Agreement. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives. This Agreement is the product of negotiation and shall not be construed strictly for or against any party.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive: At the most recent address on file for Executive at the Company

If to the Company: Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
Attention: Chief Legal and Compliance Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with the law.

(d) Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right Executive or the Company may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand and the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

/s/ Jorge M. Gomez
Jorge M. Gomez
Execution Date: 11/16/2017

CARDINAL HEALTH, INC.

/s/ Pamela O. Kimmet
By: Pamela O. Kimmet
Its: Chief Human Resources Officer
Execution Date: 11/16/2017

**Exhibit 12.1**

# Computation of Ratio of Earnings to Fixed Charges

| (in millions, except ratios) | 2014 | 2015 | 2016 | 2017 | **Six months ended December 31, 2017** |
|---|---|---|---|---|---|
| Earnings before income taxes | $ 1,798 | $ 1,967 | $ 2,276 | $ 1,924 | **$ 495** |
| | | | | | |
| **Plus fixed charges:** | | | | | |
| Interest expense | 129 | 137 | 178 | 187 | **168** |
| Capitalized interest | 1 | 2 | 6 | 9 | **2** |
| Amortization of debt offering costs | 4 | 8 | 6 | 6 | **5** |
| Interest portion of rent expense | 10 | 10 | 12 | 14 | **8** |
| **Fixed charges (1)** | 144 | 156 | 201 | 217 | **183** |
| Plus: amortization of capitalized interest | 3 | 2 | 3 | 4 | **2** |
| Less: capitalized interest | (1) | (2) | (6) | (9) | **(2)** |
| **Earnings (1)** | $ 1,944 | $ 2,124 | $ 2,473 | $ 2,135 | **$ 678** |
| | | | | | |
| **Ratio of earnings to fixed charges (1) (2)** | 14 | 14 | 12 | 10 | **4** |

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

(2) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings from continuing operations before income taxes plus fixed charges and capitalized interest. Fixed charges include interest expense, amortization of debt offering costs and the portion of rent expense that is deemed to be representative of the interest factor. Interest expense recorded on tax exposures has been recorded in income tax expense and has therefore been excluded from the calculation.

**Exhibit 31.1**

I, Michael C. Kaufmann, certify that:

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

Date: February 8, 2018

/s/ MICHAEL C. KAUFMANN

Michael C. Kaufmann

Chief Executive Officer

**Exhibit 31.2**

I, Jorge M. Gomez, certify that:

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

Date: February 8, 2018

/s/ JORGE M. GOMEZ

Jorge M. Gomez

Chief Financial Officer

**Exhibit 32.1**

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

Each of Michael C. Kaufmann, Chief Executive Officer of Cardinal Health, Inc. (the "Company"), and Jorge M. Gomez, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q for the quarter ended December 31, 2017 containing the financial statements of the Company (the "Periodic Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 8, 2018

/s/ MICHAEL C. KAUFMANN
Michael C. Kaufmann
Chief Executive Officer

/s/ JORGE M. GOMEZ
Jorge M. Gomez
Chief Financial Officer

## Statement Regarding Forward-Looking Information

As used in this exhibit, “we,” “our,” “us” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. Our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the “2017 Form 10-K”), our quarterly reports on Form 10-Q and our current reports on Form 8-K (along with any exhibits and amendments to such reports), as well as our news releases or any other written or oral statements made by or on behalf of us, may include, directly or by incorporation by reference, forward-looking statements that reflect our current view (as of the date the forward-looking statement is first made) about future events, prospects, projections or financial performance. The matters discussed in these forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied in or by such statements. These risks and uncertainties include:

- competitive pressures in the markets in which we operate, including pricing pressures;
- uncertainties relating to the pricing of generic pharmaceuticals;
- uncertainties relating to the timing, frequency and profitability of generic pharmaceutical launches;
- our ability to maintain the benefits of our generic pharmaceutical sourcing venture with CVS Health Corporation;
- with respect to our distribution services agreements with branded pharmaceutical manufacturers, changes in the amount of service fees we receive or, in cases where part of our compensation under these agreements is based on branded pharmaceutical price appreciation, changes in the frequency or magnitude of such price appreciation;
- changes in the timing or frequency of the introduction of branded pharmaceuticals;
- actions of regulatory bodies and other governmental authorities, including the U.S. Drug Enforcement Administration, certain agencies within the U.S. Department of Health and Human Services (including the U.S. Food and Drug Administration, Centers for Medicare and Medicaid Services, the Office of Inspector General and the Office for Civil Rights), the U.S. Nuclear Regulatory Commission, the U.S. Federal Trade Commission, the U.S. Customs and Border Protection, various state boards of pharmacy, state controlled substance authorities, state health departments, state insurance departments, state Medicaid departments or comparable regulatory bodies or governmental authorities or foreign equivalents that, in each case, could delay, limit or suspend product development, manufacturing, distribution, importation or sales or result in warning letters, recalls, seizures, injunctions or monetary sanctions;
- any compromise of our information systems or of those of a third-party service provider, including unauthorized access to or use or disclosure of company or customer information, and ancillary risks associated with our ability to effectively manage any issues arising from any such compromise;
- possible losses, damage to reputation and other effects that may arise from the defense and resolution of the lawsuits and investigations in which we have been named relating to the distribution of prescription opioid pain medication;
- risks and uncertainties relating to the acquisition of the Patient Care, Deep Vein Thrombosis and Nutritional Insufficiency businesses from Medtronic plc (the "Patient Recovery Business"), including the ability to retain the acquired business' customers and employees; the ability to successfully integrate the acquired business into our operations; the ability to achieve the expected synergies and accretion in earnings; unforeseen internal control, regulatory or compliance issues; and additional risks relating to regulatory matters, legal proceedings, tax laws or positions or foreign exchange rate volatility;
- difficulties or delays in the development, production, manufacturing, sourcing and marketing of new or existing products and services, including difficulties or delays associated with obtaining requisite regulatory consents or approvals associated with those activities;
- risks arising from possible violations of healthcare fraud and abuse laws;
- costs or claims resulting from potential errors or defects in our manufacturing of medical devices or other products or in our compounding, repackaging, information systems or pharmacy management services that may injure persons or damage property or operations, including costs from remediation efforts or recalls and related product liability claims and lawsuits, including class action lawsuits;
- risks arising from possible violations of the U.S. Foreign Corrupt Practices Act and other similar anti-corruption laws in other jurisdictions and U.S. and foreign export control, trade embargo and customs laws;
- risks arising from our collecting, handling and maintaining patient-identifiable health information and other sensitive personal and financial information, which are subject to federal, state and foreign laws that regulate the use and disclosure of such information;
- risks arising from certain of our businesses being Medicare-certified suppliers or participating in other federal and state healthcare programs, such as state Medicaid programs and the federal 340B drug pricing program, which businesses are subject to accreditation and quality standards and other rules and regulations, including applicable reporting, billing, payment and record-keeping requirements;
- risks arising from certain of our businesses manufacturing pharmaceutical and medical products or repackaging pharmaceuticals that are purchased or reimbursed through, or are otherwise governed by, federal or state healthcare programs, which businesses are subject to federal and state laws that establish eligibility for reimbursement by such programs and other applicable standards and regulations;
- changes in laws or changes in the interpretation or application of laws or regulations, as well as possible failures to comply with applicable laws or regulations, including as a result of possible misinterpretations or misapplications;
- material reductions in purchases, non-renewal or early termination of contracts, or delinquencies or defaults by key customers;

- unfavorable changes to the terms of key customer or supplier relationships, or changes in customer mix;
- risks arising from changes in U.S. or foreign tax laws, including our ability to effectively implement and account for the recently enacted Tax Cuts and Jobs Act, unfavorable challenges to our tax positions and payments to settle these challenges, or failure to permanently repeal the U.S. medical device tax;
- uncertainties due to government healthcare reform, including possible repeal or replacement of major parts of the Patient Protection and Affordable Care Act;
- reductions or limitations on governmental funding at the state or federal level or efforts by healthcare insurance companies to limit payments for products and services;
- changes in manufacturers' pricing, selling, inventory, distribution or supply policies or practices;
- changes in legislation or regulations governing prescription drug pricing, healthcare services or mandated benefits;
- changes in hospital buying groups or hospital buying practices;
- changes in distribution or sourcing models for pharmaceutical and medical and surgical products, including an increase in direct and limited distribution;
- the risks of counterfeit products in the supply chain;
- changes to the prescription drug reimbursement formula and related reporting requirements for generic pharmaceuticals under Medicaid;
- increasing consolidation in the healthcare industry, which could give the resulting enterprises greater bargaining power and may increase pressure on prices for our products and services or result in the loss of customers;
- disruption, damage or lack of access to, or failure of, our or our third-party service providers' information systems, our critical facilities, including our national logistics center, or our distribution networks;
- manufacturing disruptions, whether due to regulatory action, production quality deviations, safety issues or raw material shortages or defects, or because a key product is manufactured at a single manufacturing facility with limited alternate facilities;
- risks to our business and information and controls systems in the event that the Pharmaceutical segment's multi-year systems replacement project or other business process improvements, infrastructure modernizations or initiatives to use third-party service providers for key systems and processes are not effectively implemented;
- the results, costs, effects or timing of any commercial disputes, government contract compliance matters, product liability claims or lawsuits, patent infringement claims, *qui tam* actions or other legal proceedings;
- possible losses relating to product liability lawsuits and claims regarding products for which we cannot obtain product liability insurance or for which such insurance may not be adequate to cover our losses, including the product liability lawsuits we are currently defending relating to alleged personal injuries associated with the use of Cordis inferior vena cava filter products;
- our ability to maintain adequate intellectual property protections;
- the costs, difficulties and uncertainties related to the integration of acquired businesses, including liabilities relating to the operations or activities of such businesses prior to their acquisition, and uncertainties relating to our ability to achieve the anticipated results from acquisitions;
- increased costs for commodities and other materials used in the Medical segment manufacturing, including various components, compounds, raw materials or energy such as oil-based resins, pulp, cotton, latex and other commodities;
- shortages in commodities, components, compounds, raw materials or energy used by our businesses, including supply disruptions of radioisotopes;
- the loss of, or default by, one or more key suppliers for which alternative suppliers may not be readily available;
- bankruptcy, insolvency or other credit failure of a customer or supplier that owes us a substantial amount;
- risks associated with global operations, including the effect of local economic environments, inflation, recession, currency volatility and global competition, in addition to risks associated with compliance with U.S. and international laws relating to global operations;
- risks associated with our use of and reliance on the global capital and credit markets, including our ability to access credit and our cost of credit, which may adversely affect our ability to efficiently fund our operations or undertake certain expenditures;
- our ability to introduce and market new products and our ability to keep pace with advances in technology;
- the costs, effects, timing or success of restructuring programs or plans;
- significant charges to earnings if goodwill or intangible assets become impaired;
- uncertainties relating to general political, business, industry, regulatory and market conditions; and
- other factors described in the “Risk Factors” section of the 2017 Form 10-K.

The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “will,” “should,” “could,” “would,” “project,” “continue,” “likely,” and similar expressions generally identify “forward-looking statements,” which speak only as of the date the statements were made, and also include statements reflecting

future results or guidance, statements of outlook and expense accruals. We undertake no obligation to update or revise any forward-looking statements, except to the extent required by applicable law.