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COMPANY PROFILE

Cardinal Health, Inc.

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COMPANY OVERVIEW

Cardinal Health, Inc. (Cardinal Health or 'the company') is a US-based health care services company providing products and services to hospital systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices. The company operates in the US, Canada, Latin America, Europe, and Asia. It is headquartered in Dublin, Ohio.

The company reported revenues of (US Dollars) US$129,976 million for the fiscal year ended June 2017 (FY2017), an increase of 6.9% over FY2016. In FY2017, the company's operating margin was 1.6%, compared to an operating margin of 2% in FY2016. In FY2017, the company recorded a net margin of 1%, compared to a net margin of 1.2% in FY2016.

KEY FACTS

Head Office	Cardinal Health, Inc. 7000 Cardinal Pl DUBLIN Ohio DUBLIN Ohio USA
Phone	1 614 7576000
Fax	
Web Address	www.cardinalhealth.com
Revenue / turnover (USD Mn)	121,546.0
Financial Year End	June
Employees	37,300
New York Stock Exchange Ticker	CAH

SWOT ANALYSIS

Cardinal Health, Inc. (Cardinal Health or 'the company') is a US-based health care services company providing products and services to pharmacies, hospitals, ambulatory surgery centers, physician offices and other healthcare providers. The company's strong infrastructure helps it in distributing pharmaceuticals and medical products to its customers efficiently. Intense competition, however, is likely to put its market position under duress.

Strength	**Weakness**
Acquisitions helped Cardinal Health expand its integrated offerings Strong medical products distribution infrastructure	Heavy dependence on the US exposing the company's business to unfavorable trends in the region Customer concentration affecting Cardinal Health's performance
Opportunity	**Threat**
Cardinal Health's expansion of offerings and geographic presence Acquisitions of complementary businesses to enhance the company's portfolio Aging US population likely to spur demand for healthcare products and services	Intense competition could affect the company's market position Reforms in the US healthcare environment could negatively impact the company's business Volatile raw material, oil and gas prices could affect the company's results of operations

Strength

Acquisitions helped Cardinal Health expand its integrated offerings

Cardinal Health has been actively pursuing acquisitions of various businesses and has been successful in integrating them as well. For instance, in August 2015, the company acquired a 71% ownership interest in naviHealth Holdings, for $238 million, net of cash acquired of $53 million. The acquisition of naviHealth, a leader in post-acute care management solutions, aligned with Cardinal Health's strategic priority of offering the complete and integrated suite of services to meet the needs of its integrated delivery network, hospital and other customers. It also expanded the company's ability to help hospitals, other healthcare providers, and payers manage the complex processes of patient discharge. In July 2015, the company completed the acquisition of The Harvard Drug Group (THDG), a distributor of generic pharmaceuticals, over-the-counter medications and related products to retail, institutional and alternate care customers, for $1.115 billion. This acquisition enhanced the company's generic pharmaceutical distribution business and also expanded its existing telesales programs and capabilities, broadened the company's portfolio of over-the counter pharmaceutical products, and brought specialized packaging offerings to meet the needs of hospital systems and other institutions.

Previously, in 2014, Cardinal Health acquired AccessClosure, a US-based manufacturer and distributor of extravascular closure devices. AccessClosure manufactures and distributes vascular closure devices under the Mynx brand name in the US as well as in other countries. The Mynx product family is one of the leading extravascular solutions in the US. AccessClosure is also the exclusive distributor of the Flash Ostial System Dual Balloon Angioplasty Catheter in the US. The AccessClosure acquisition was aligned to Cardinal Health's targeted growth areas. It expanded the portfolio of self-manufactured products of Cardinal Health's medical segment. Cardinal Health acquired Sonexus Health, a privately-held US-based provider of a range of patient access and specialty commercialization services. Through this acquisition, Cardinal Health Specialty Solutions clients had access to Sonexus Health's patient services hub, which served as a patient and physician practice support center that reduces administrative burdens by working with patients, physician offices and insurance companies to facilitate treatment coverage and coordinate the medication reimbursement process, among other things. In addition, Cardinal Health Specialty Solutions clients also gained access to expanded third-party logistics services, enabling them to send higher volumes of smaller parcel shipments directly to physician offices, clinics and hospitals.

Earlier, in 2013, Cardinal Health acquired AssuraMed, a privately-held provider of medical supplies to patients in the home. AssuraMed serves more than one million patients in the US with more than 30,000 products through its 12 distribution centers. AssuraMed brought in strong brands, value-added small parcel distribution capabilities, and a leading reimbursement platform to Cardinal Health. AssuraMed also has a proprietary, regulatory compliant medical billing and reconciliation infrastructure with more than 1,000 payor contracts, and more than 6,000 patient touch points daily.

Thus, Cardinal Health’s strategic acquisitions over the period of time has been helping the company to expand its integrated offerings.

Strong medical products distribution infrastructure

Cardinal Health, currently ranked 21st on the Fortune 500, is one of the largest distributors of pharmaceuticals and medical supplies in the US. The company manufactures or sources nearly 2.8billion individual consumer healthcare, home medical and OTC products each year.

In the US, the pharmaceutical segment operates 24 primary pharmaceutical distribution facilities and one national logistics center, six specialty distribution facilities, and over 140 nuclear pharmacy and cyclotron facilities. The medical segment operates 70 medical-surgical distribution, assembly, manufacturing, and research operation facilities in the US. The company's operating facilities in the US are located in 45 states and in Puerto Rico.

The company's medical segment operates over 20 facilities in Canada, the Dominican Republic, Malaysia, Malta, Mexico, and Thailand. These facilities are engaged in manufacturing, distribution or research. In addition, the company's pharmaceutical and medical segments utilize various distribution facilities in China.

A strong infrastructure of the company helps it in distributing pharmaceuticals and medical products to its customers efficiently.

Weakness

Heavy dependence on the US exposing the company's business to unfavorable trends in the region

Cardinal Health relies heavily on its domestic market (the US) for a majority of its revenues. In FY2016, the company generated 96.1% of its total revenues from the US. High reliance on the US market exposes the company's business to country-specific factors such as lower demand, change in regulations, and economic conditions. This, in turn, can have a negative impact on the company's revenue growth.

Customer concentration affecting Cardinal Health's performance

Cardinal Health derives majority of its revenues from a few significant customers. This increases the company's vulnerability towards customer risk. The company's largest customer, CVS Health (CVS), accounted for approximately 25% of the company's revenue in FY2016. Further, the five largest customers, including CVS, accounted for approximately 40% of Cardinal Health's revenues in FY2016. Cardinal Health lost its second largest customer, Walgreens, as its pharmaceutical distribution contract with Walgreens expired in 2013.

The company also has agreements with group purchasing organizations (GPOs) that act as agents to negotiate vendor contracts on behalf of their members. Approximately 17% of the company's revenue in FY2016 was derived from its two largest GPO relationships with Vizient (formerly Novation) and Premier. Loss of an agreement with GPOs may materially affect Cardinal Health's performance.

Opportunity

Cardinal Health’s expansion of offerings and geographic presence

The company has been expanding its cardiovascular product offerings through various distribution agreements. It has also been expanding its geographic presence. For instance, in October 2016, Cardinal Health announced several new strategic distribution agreements that would enable Cordis, Cardinal Health’s interventional vascular business, to rapidly expand its product portfolio in select countries globally. Through these agreements, the company expanded its current distribution agreement with Biosensors that would enable Cordis to be the exclusive distributor for Biosensors’ coronary interventional products in Japan; signed a distribution agreement with Kaneka that would enable Cordis to distribute Kaneka’s PTCA balloon catheters in Europe, Middle East, and Africa (EMEA), and select countries in Asia Pacific and Latin America; signed a distribution agreement with Meril (TCT booth #1513) that would enable Cordis to sell Meril’s MOZEC and MOZEC NC Rx PTCA balloon dilatation catheters in the US and Canada; and signed a strategic agreement with Tryton, where Tryton is currently seeking regulatory approval for their Coronary Side Branch Stent. These strategic collaborations would strengthen Cordis’ product and solutions offering in interventional cardiology and also provide the opportunity to rapidly expand its portfolio and deliver increased value to customers around the world. During the same month, Cardinal Health also announced that it would bring its powder-free gloves product line to Hong Kong while further penetrating the disposable drapes and gowns segment as part of its expansion in Asia. In this region, aside from Japan, Australia, New Zealand and Hong Kong, approximately 70% of users are still using powdered gloves. With this launch, the company expects to help Asia move to a powder-free environment in order to improve the safety and health of patients and clinicians. In addition, during

October 215, Cardinal Health completed the acquisition of Johnson & Johnson's Cordis business, a global leader in cardiology and endovascular devices, for $1.944 billion. This acquisition is likely to provide a broader footprint for distribution of its products and services in the Asian market. It would also strengthen the company's portfolio of physician preference items, which include offerings in the cardiovascular, wound management, and orthopedics areas.

Thus, the company has been expanding its global presence and product offerings through various distribution agreements and launching new product lines across different regions.

Acquisitions of complementary businesses to enhance the company's portfolio

Cardinal Health's acquisition of complimentary businesses would be an asset to enhance its portfolio. For instance, in April 2016, naviHealth, a subsidiary of the company, entered into an agreement to acquire Curaspan Health Group, a privately held leading provider of care transition tools for hospitals and post-acute healthcare providers. Curaspan has built a technology solution for transitioning patients throughout the continuum of care. Combining the company's existing clinical decision support tools and clinical analytics with Curaspan's care transitions platform and post-acute network would create a strong and valuable customer offering. It would also provide naviHealth's customers with a comprehensive suite of solutions designed to meet many of their emerging workflow and value-based care needs. Previously, in December 2015, naviHealth announced the acquisition of RightCare Solutions, a healthcare decision support software service provider specializing in hospital discharge planning software and readmissions management. Combination of the company's post-acute decision support and clinical analytics with RightCare's integrated discharge planning capabilities would further accelerate its ability to deliver a unique value proposition to health systems and manage post-acute care in an evolving market. In addition, this acquisition would be complementary to Cardinal Health's business goals.

Therefore, RightCare's clinical decision support software, and Curaspan's technology solution for patient care transitions combined with naviHealth's post-acute care management would create a leading footprint in healthcare's post-acute space and enhance the company's product portfolio.

Aging US population likely to spur demand for healthcare products and services

The US population is aging rapidly. According to the US Census Bureau, there were approximately 48 million Americans aged 65 or older in the US who comprised approximately 14.9% of the total US population in 2015. By the year 2060, the number of elderly is expected to climb to 98.2 million of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase to 19.7 million by the year 2060. With the aging population in the US, healthcare expenditure is expected to increase significantly. This trend would benefit pharmaceutical distributors and medical and surgical product distributors such as Cardinal Health.

Thus, the strategic acquisitions of Cardinal Health are likely to enhance its portfolio by strengthening its business.

Threat

Intense competition could affect the company's market position

Cardinal Health's business segments operate in highly competitive markets. The company's pharmaceutical business competes with wholesale distributors with national reach (including McKesson and AmerisourceBergen), regional wholesale distributors, self-warehousing chains, specialty distributors and third-party logistics companies, companies that provide specialty pharmaceutical services and nuclear pharmacies, among others. The segment has also experienced competition from a number of organizations offering generic pharmaceuticals, including telemarketers.

In the medical segment, the company competes with many different distributors, including Owens & Minor, McKesson and Medline Industries. In addition, it competes with a number of regional medical products distributors and companies that distribute medical products to patients in the home as well as third-party logistics companies.

Intensifying competition is likely to put Cardinal Health's market position under duress.

Reforms in the US healthcare environment could negatively impact the company's business

The healthcare industry in the US continues to undergo significant changes designed to increase access to medical care, improve safety, and patient outcomes, contain costs and increase efficiencies. Medicare and Medicaid reimbursement levels have declined; the use of managed care has increased; distributors, manufacturers, healthcare providers, insurers and pharmacy chains have consolidated and have formed strategic alliances; and large purchasing groups are prevalent. The industry also has experienced a shift away from traditional healthcare venues like hospitals and into clinics and physician offices, and, in some cases, patients' homes.

With respect to cost containment, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act enacted in March 2010 have provisions designed to reduce costs of Medicare and Medicaid, including changing the federal upper payment limit for Medicaid reimbursement to no less than 175% of the average weighted manufacturer's price (AMP) for generic pharmaceuticals. The Centers for Medicare and Medicaid Services is also considering providing states with alternatives to traditional reimbursement measures.

Hence, Cardinal Health could be affected directly or indirectly (if its customers are affected) by these and other changes in the delivery or pricing of, or reimbursement for, pharmaceuticals, medical devices or healthcare services.

Volatile raw material, oil and gas prices could affect the company's results of operations

Cardinal Health's manufacturing businesses use oil-based resins, cotton, latex, and other commodities as raw materials in many products. Prices of oil and gas also affect the company's distribution and transportation costs. Prices of these commodities are volatile and have fluctuated significantly in recent years, so costs to produce and distribute the company's products also have fluctuated. Due to competitive dynamics and contractual limitations, Cardinal Health may be unable to pass along cost increases through higher prices. If the company cannot fully offset cost increases through other cost reductions, or recover these costs through price increases or surcharges, its results of operations could be affected.