

FINAL TRANSCRIPT

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CAH - Cardinal Health, Inc. at JPMorgan Healthcare Conference - Clinical & Medical Products Presentation

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CORPORATE PARTICIPANTS

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Cardinal Health, Inc. - Vice Chairman & CEO, Clinical and Medical Products

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Lisa Gill

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PRESENTATION

Lisa Gill - *JPMorgan Chase & Co. - Analyst*

Good afternoon again. Thanks for joining us. My name is Lisa Gill, and I'm the Health Care Technology and Distribution Analyst with JPMorgan. As many of you know, three months ago, Cardinal announced they would be spinning off their CMP division to a separate entity. Going forward, I probably will not have the honor of covering the company any longer, but since I still do today, it is with great pleasure that I introduce you to Dave Schlotterbeck, who is currently Vice Chairman and the CEO of this division. Dave is going to walk you through CMP operations, through some of the challenges in the marketplace, and then we will take your questions after across the hall in the Borgia Room. With that, let me turn it over to Dave.

Dave Schlotterbeck - *Cardinal Health, Inc. - Vice Chairman & CEO, Clinical and Medical Products*

Thank you, Lisa. Welcome. Before I get started, I wanted to reiterate a few key points from our investor call last Thursday. We have seen a delay in hospital spending that is affecting the capital equipment side of our business. Most affected is the infusion business. Least affected is the respiratory business. I want to reiterate that there has been no fundamental change in the competitive landscape. We continue to see stability in our business tied to procedures and admissions, which is over 40% of our revenues in consumables. We have taken steps to mitigate the effect and now expect the segment profit to be flat or better over last year. What we are seeing is consistent with the data that you have seen, though I do expect we are faring a bit better than some segments and competitors due to our market leading products. According to the American Hospital Association, 45% of hospitals are reconsidering or delaying capital spend on technology and equipment.

Now with that out of the way, let me talk about plans to spin off CMP from Cardinal Health and why we are positioned for growth as a standalone company. Of course I will be talking about the past, the present, and most importantly the future of our business, so let me pause for a brief reminder from our legal department. This is what I would like to cover in less than 20 minutes -- why we will be a compelling investment, who we are, our scale and position in the med tech universe, what we do to effect real change in health care on a worldwide basis, and why we are well positioned for continued growth.

I believe we are a great investment because of five areas that differentiate us. First, our scale. Among pure play med tech companies, we rank number six in the world. We are focused singularly on patient safety. We have a solutions portfolio of market leading offerings. Our life blood is innovation, and we plan to introduce over 45 new and enhanced products over the next 18 months. We have a very experienced and seasoned management team.

Now, if you consider CMP as a standalone company, we have global operations with revenues in excess of \$4 billion, 13,000 employees in more than 20 countries. Our customers are primarily acute care hospitals, insurance providers, governments, and outpatient surgery centers in more than 120 countries. The markets that we serve represent approximately a \$20 billion global market opportunity. Among the largest pure play med tech companies in the world, we would rank number six in revenue and number one in growth for companies over \$2 billion. Our growth rate from FY '06 through FY '08 was 22% in revenue, 31% in earnings. We contributed nearly 40% of the total Cardinal Health segment profit for FY '08. We have scale and we are growing due to our focus on differentiated offerings.

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Now let me tell you about our focus and the solutions that we offer. We have two solutions portfolios -- critical care technologies, and medical technologies and services. Each is comprised of market leading products and services. In critical care, we are number one globally in medication and supply dispensing, number one globally in infusion, and number one supplier of acute care respiratory products to hospitals. In medical technologies and services, we are number one in infection prevention and have leading offerings in medical specialties. These solution portfolios are wrapped by a focus on medication safety and the prevention of hospital acquired infections. Today we are the gold standard in medication safety. I expect we will become the gold standard in infection prevention within the next 18 to 24 months. At the foundation of these market leading positions are household names in healthcare with strong market opportunities.

Let's take a closer look at critical care technologies. The Pyxis family brand is a brand that is synonymous with medication dispensing like Kleenex is to tissues. We safely dispense close to 3 billion doses per year. That's 100 doses every second. We can reduce the time from the physician's order to the administration of the medication by 93% and we can reduce trips the nurses make to medication locations by nearly 70%. The infusion business is anchored by the Alaris brand of smart infusion systems. We helped to safely deliver 45 million infusions in the US annually, and this equipment is used by 200,000 nurses and issues more than 400,000 alerts per year. Our respiratory business is led by our pulmonetics, Jaeger, and AVEA brands, and these are designed to help reduce acute lung injury and to minimize ventilator associated pneumonia, which causes death in 38% to 50% of the patients that develop it in the United States.

The markets for these products are large. They're growing and they're global. Medication dispensing has a market opportunity in the US of approximately \$1 billion, and is well positioned for an emerging global opportunity. Supply dispensing also has \$1 billion market opportunity annually. Infusion and associated disposables enjoys a \$3 billion annual opportunity with a strong global presence. Our respiratory business participates in a \$2.5 billion annual US market and approximately a \$4 billion global market.

Our infection prevention offering is comprised of our market leading ChloroPrep and MedMined service brands. ChloroPrep is from our acquisition last year of Enturia and is a fast acting persistent skin preparation that protects patients from multiple micro organisms, including MRSA. ChloroPrep contains a 2% CHG concentration for skin prep that is recommended by 17 professional organizations, including the CDC. MedMined services help hospitals manage hospital acquired infections and produce measurable cost savings and quality care improvements. Our experience is that by the second year of using this service, the total infection rate within our client hospital drops an average of nearly 20%.

Our medical specialties business is a leading provider of surgical instruments and instrument management services. Here we have market leading brands like V. Mueller, Snowden-Pencer, and Nicolet. Again, the markets are large, global, and growing. Infection prevention, the US market alone is approximately \$2 billion annually and is poised for strong growth outside the US. In medical specialties, the US market opportunity is approximately \$2.5 billion.

Our strategies are simple, but we consistently differentiate our results. We deliver innovative, clinically differentiated, and proven solutions that provide measurable benefits to our customers. We bring to market products that make it easy for clinicians to follow evidence based protocols, and we leverage and integrate our solutions portfolio to create unique value. We are implementing these strategies against the backdrop of change in the global health care arena.

So let me spend a minute talking to you about this environment. These are the pressures affecting our global customers. These challenges are also some of the key drivers of our business, because we can help customers improve patient safety and productivity. For example, in the US -- CMS, our largest payer, will no longer reimburse for 11 never events, five of which we have market leading solutions to address. So with reimbursement increasingly tied to quality and public transparency and awareness at all-time highs, hospitals are more focused than ever on delivering safety initiatives.

I spoke earlier about being the gold standard in medication safety, and becoming the gold standard in infection prevention. There is no coincidence that these are the top two issues facing our customers on a global basis. Together, adverse drug events and hospital acquired infections account for more than 2,500 serious adverse events in a typical 300 bed hospital on an annual

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basis. Adverse drug events and hospital acquired infections are not only dangerous, they cost the US healthcare system as much as \$23.5 billion a year. Medication errors and hospital acquired infections not only cost billions of dollars a year -- they also cause harm or cause the death of 1.5 million people each year. These top two patient safety concerns cause more harm in the US than deaths from cancer, homicides, and fatal car crashes combined. On a global basis, the World Health Organization estimates more than 1 in 10 patients are harmed while receiving hospital care in developed countries. So our singular focus on patient safety and our market leading solution portfolio really uniquely positions us to address these top two patient safety concerns.

So I would like to start where I left off, why invest in us? We have the scale to be a very successful company, ranking number six among global med tech pure plays. We are focused singularly on medication safety and infection prevention, the top two problems that hospitals have globally. Our solutions portfolio contains market leading products across the board. We focus very diligently on innovation and we will introduce 45 new products in the next 18 months. And finally, we have a very experienced and seasoned management team. So with that, I think we can break and go across the way and take questions.

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