

CARDINAL HEALTH INC  
Form DEF 14A  
September 26, 2018  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant Filed by a party other than the Registrant

**Check the appropriate box:**

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

**CARDINAL HEALTH, INC.**

*(Name of Registrant as Specified In Its Charter)*

N/A

*(Names of Person(s) Filing Proxy Statement, if other than the Registrant)*

**Payment of Filing Fee (Check the appropriate box):**

**No fee required.**

**Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.**

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- (4) Date Filed:



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Letter to Cardinal Health Shareholders

Gregory B. Kenny

Independent Lead Director and  
incoming Chairman of the Board

September 26, 2018

Your Board of Directors is firmly committed to high standards of governance and oversight to assure Cardinal Health remains focused on building and delivering long-term shareholder value. One of my responsibilities as independent Lead Director is facilitating close coordination and communication between the Board and the management team. We also have established a practice of shareholder engagement that provides for good communication between the Board and shareholders, and I look forward to continuing that practice as non-executive Chairman of the Board of Directors.

We have made important progress in a number of areas over the past year, and I want to share the Board's perspective on some of the changes now underway.

#### Successful Leadership Transition

Last fall, the Board implemented an orderly leadership transition, which will be completed at the Annual Meeting of Shareholders and positions the company well for the future. On January 1, 2018, Mike Kaufmann, previously our Chief Financial Officer, became Chief Executive Officer and joined the Board. Mike is a 28-year veteran of Cardinal Health and has held senior leadership positions in both the Pharmaceutical and Medical segments, in addition to serving as Chief Financial Officer. Mike has brought broad knowledge of the company's operations and deep experience to his new role. We are very pleased with the initial progress the company is making under his leadership.

Jorge Gomez succeeded Mike as Chief Financial Officer. Jorge was Chief Financial Officer of the Medical segment and previously served as Chief Financial Officer of the Pharmaceutical segment, in addition to roles as both the company's Treasurer and Corporate Controller. His extensive experience and familiarity with our businesses gave him a strong head start in his new role.

George Barrett, who had served as our Chairman and Chief Executive Officer since 2009, has continued as Executive Chairman of the Board and will do so until the Annual Meeting. George also has actively and effectively represented Cardinal Health in the healthcare public policy arena this past year. We are grateful to George for his strong leadership and commitment to Cardinal Health during his tenure.

Effective at the Annual Meeting, I will assume the role of non-executive Chairman of the Board, having served as Lead Director for the past four years and as a director since 2007. I look forward to continuing to work closely with the full Board and our leadership team to assure that our corporate governance practices continue to be aligned with the best interests of shareholders.

In my current role as Lead Director, I work closely with management in developing Board agendas, schedules and topics, including discussions regarding long-term strategies and capital deployment. I also have devoted significant time during my tenure to engagement with our large investors, have been active in overseeing our senior leadership transition and am leading our Board refreshment process described below. As Chairman, I will continue to carry out

these responsibilities, working closely with Mike and your Board.

#### Comprehensive Review of the Business

To establish a foundation for future growth, the Board and management have initiated a comprehensive review of our business focused on our portfolio, cost structure and capital deployment. This review will allow us to more sharply focus on our business and strategy in order to deliver value to our stakeholders. The Board is actively engaged in this process. Three of our directors have been meeting regularly with senior management to discuss the progress of this review. The full Board receives regular updates, and we have extensive discussions about it.

One of the outcomes of this review was the creation of a valuable partnership with Clayton, Dubilier & Rice to jointly invest in our naviHealth business and accelerate its growth. Earlier in the fiscal year, we exited distribution operations in China, which were management and capital intensive. We also have begun significant cost reduction initiatives and will continue to be disciplined and thoughtful in our capital deployment approach.

#### Board Refreshment

As noted above, George Barrett will step down from the Board as part of our succession plan. Dave Anderson, Clay Jones and Dave King also are leaving the Board after many years of valuable service. I want to thank them for their leadership and significant contributions. We wish them well.

Our Nominating and Governance Committee is responsible for identifying and recommending director candidates to the Board, consistent with criteria that assure a balanced mix of relevant skills, tenure and diversity of experience and perspective. Earlier in the year, the committee identified, and the Board elected, Akhil Johri as a new director. Akhil has brought additional deep financial expertise and a broad global business background to our Board. The Nominating and Governance Committee has been actively engaged in a search to identify additional directors to complement the expertise and experience of our current directors.

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## Board Oversight and the Opioid Epidemic

The Board is deeply concerned by and attentive to the devastating impact on our communities of the over-prescribing of opioid pain medications and the abuse of pain medications as well as illegal “street” narcotics. The Board has sought to position Cardinal Health as a leader in helping to solve this complex national public health crisis, including through our long-standing Generation Rx program and more recent initiatives, such as those aimed at educating patients and prescribers regarding these medications. While we do not prescribe medications, we understand and take seriously our responsibility as a pharmaceutical distributor to maintain a rigorous anti-diversion program and ensure that medications are available for patients who need them.

The Board has been and remains active in overseeing Cardinal Health’s response to the nationwide opioid epidemic, including our opioid anti-diversion program. In February 2018, the Board formed an Ad Hoc Committee of independent directors to build upon the Board’s earlier work in this area and further assist the Board in its oversight of opioid-related issues. The Ad Hoc Committee, which consists of myself and three other independent directors, meets regularly and reports at every Board meeting.

## Looking Ahead

Cardinal Health has made significant progress in many areas in fiscal 2018, and the Board is committed to building on this progress in fiscal 2019. We are well underway implementing initiatives to position the company for the future, and we are confident about Cardinal Health’s prospects to create value for our shareholders and our other important stakeholders.

On behalf of our Board of Directors, we thank you for your share ownership in Cardinal Health and your continued support of the company. I look forward to continuing our ongoing and active dialogue.

Sincerely,

**Gregory B. Kenny**  
*Independent Lead Director and  
incoming Chairman of the Board*



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Notice of Annual Meeting of Shareholders

Wednesday, November 7, 2018

**8:00 a.m. Eastern Time**

**Cardinal Health, Inc.**

7000 Cardinal Place

Dublin, Ohio 43017

Important notice regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on November 7, 2018:

This Notice of Annual Meeting of Shareholders, the accompanying proxy statement and our fiscal 2018 Annual Report to Shareholders are available at [www.edocumentview.com/cah](http://www.edocumentview.com/cah). These proxy materials are first being sent or made available to shareholders commencing on September 26, 2018.

Purpose

To vote on the following proposals:

(1)

To elect the nine director nominees named in the proxy statement;

(2)

To ratify the appointment of Ernst & Young LLP as our independent auditor for the fiscal year ending June 30, 2019;

(3)

To approve, on a non-binding advisory basis, the compensation of our named executive officers;

(4)

To vote on two shareholder proposals described in the accompanying proxy statement, if properly presented at the meeting; and

(5)

To transact such other business as may properly come before the meeting or any adjournment or postponement.

Who may vote:

Shareholders of record at the close of business on September 10, 2018 are entitled to notice of, and to vote at, the meeting or any adjournment or postponement.

By Order of the Board of Directors.

September 26, 2018

**Jessica L. Mayer**  
*Executive Vice President, Deputy General Counsel  
and Corporate Secretary*

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Proxy Summary

This summary highlights information contained elsewhere in our proxy statement. This summary does not contain all the information that you should consider, and you should carefully read the entire proxy statement and our fiscal 2018 Annual Report to Shareholders before voting. References to our fiscal years in the proxy statement mean the fiscal year ended or ending on June 30 of such year. For example, “fiscal 2018” refers to the fiscal year ended June 30, 2018.

Fiscal 2018 Highlights

In fiscal 2018, we positioned the company for future growth, making a number of changes. In November 2017, we announced our succession plans for Chief Executive Officer and Chief Financial Officer, followed by other senior leadership changes later in the fiscal year. These transitions have gone very well.

- In January 2018, Michael C. Kaufmann became our Chief Executive Officer, succeeding George S. Barrett, who had served as Chairman and Chief Executive Officer for nine years. Mr. Kaufmann is a 28-year veteran of Cardinal Health who has held a range of senior leadership roles in both segments. He was most recently Chief Financial Officer and also oversaw Global Sourcing.

- Mr. Barrett became Executive Chairman of the Board in January 2018 and will retire from the Board at the 2018 Annual Meeting of Shareholders. Following Mr. Barrett’s retirement, Mr. Kenny, the Board’s independent Lead Director, will become the non-executive Chairman of the Board.

- Jorge M. Gomez succeeded Mr. Kaufmann as Chief Financial Officer. Over his 12-year career with Cardinal Health, Mr. Gomez has served as Chief Financial Officer for both segments, as well as Treasurer and Corporate Controller.

- In February 2018, Jon L. Giacomini transitioned to Chief Executive Officer — Medical Segment from Chief Executive Officer — Pharmaceutical Segment. During his nearly 17 years at Cardinal Health, Mr. Giacomini has served in a variety of operational leadership positions.

The following are fiscal 2018 performance highlights:

- Revenue increased 5% to \$136.8 billion, in line with the Board-approved budget.

- GAAP operating earnings were \$126 million, reflecting a non-cash Medical segment goodwill impairment charge. Non-GAAP operating earnings of \$2.6 billion would have been in line with budget, except for disappointing performance by our Cordis business and an incremental 401(k) plan contribution for all U.S. employees.

- GAAP diluted earnings per share (“EPS”) was \$0.81. Non-GAAP EPS was \$5.00, in line with budget. Non-GAAP operating earnings underperformance was offset by the benefits of U.S. tax reform that arose after we had set our budget.

- Operating cash flow was \$2.8 billion due to working capital changes.

To establish a foundation for future growth, we initiated a comprehensive review of our business focused on our portfolio, cost structure and capital deployment. Fiscal 2018 accomplishments and future areas of focus include:

- We divested our China distribution business and created a partnership with Clayton, Dubilier & Rice to jointly invest in naviHealth and accelerate its growth. These moves allow us to more sharply focus on our other businesses and strategy.

- We achieved our fiscal 2018 goal of at least \$0.21 accretion in non-GAAP EPS from the Patient Recovery business and are focused on successfully integrating and operating the business.

- We installed a new management team in the Cordis business that is addressing operational issues, while maintaining sales momentum.

- Using new tools and analytics, we have launched significant cost reduction initiatives.

- We returned \$1.1 billion to shareholders, including \$581 million in dividends and \$550 million in share repurchases, and we will continue to be disciplined and thoughtful in our capital deployment approach.

See Annex A for the reasons why we use non-GAAP financial measures and reconciliations to the comparable GAAP financial measures.

Governance and Board Highlights

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Our 2018 Board Nominees

<p>Colleen F. Arnold</p> <p>Retired SVP, Sales and Distribution, IBM</p> <p>Age: 61</p> <p>Director since <b>2007</b></p> <p><b>Independent</b></p> <p>Committees:</p> <p>N</p>	<p>Carrie S. Cox</p> <p>Retired EVP and President, Global Pharmaceuticals, Schering-Plough and retired Chairman and CEO, Humacyte, Inc.</p> <p>Age: 61</p> <p>Director since <b>2009</b></p> <p><b>Independent</b></p> <p>Committees:</p> <p>H, AH</p>	<p>Calvin Darden</p> <p>Retired SVP of U.S. Operations, UPS</p> <p>Age: 68</p> <p>Director since <b>2005</b></p> <p><b>Independent</b></p> <p>Committees:</p> <p>H, AH</p>
<p>Bruce L. Downey</p> <p>Retired Chairman and CEO, Barr Pharmaceuticals and Partner, NewSpring Health Capital II, L.P.</p> <p>Age: 70</p> <p>Director since <b>2009</b></p> <p><b>Independent</b></p> <p>Committees:</p> <p>A, AH</p>	<p>Patricia A. Hemingway Hall</p> <p>Retired President and CEO, Health Care Service Corporation</p> <p>Age: 65</p> <p>Director since <b>2013</b></p> <p><b>Independent</b></p> <p>Committees:</p> <p>A, N</p>	<p>Akhil Johri</p> <p>CFO, United Technologies</p> <p>Age: 57</p> <p>Director since <b>2018</b></p> <p><b>Independent</b></p> <p>Committees:</p> <p>A</p>
<p>Michael C. Kaufmann</p> <p>CEO, Cardinal Health</p> <p>Age: 55</p> <p>Director since <b>2018</b></p>	<p>Gregory B. Kenny</p> <p>Retired President and CEO, General Cable</p> <p>Age: 65</p> <p>Director since <b>2007</b></p> <p><b>Independent Lead Director</b></p>	<p>Nancy Killefer</p> <p>Retired Senior Partner, Public Sector Practice, McKinsey</p> <p>Age: 64</p> <p>Director since <b>2015</b></p>

Committees:

**Independent**

N, AH

Committees:

H

A: Audit    AH: Ad Hoc N: Nominating and Governance    H: Human Resources and Compensation

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## Addressing the Opioid Crisis

Our Board of Directors (“Board”) and the entire Cardinal Health team care deeply about the devastating impact on our communities of the over-prescribing of opioid pain medications and the abuse of pain medications and illegal “street” narcotics. We are working to help solve this complex national public health crisis. Like so many others across this nation, we have family members, friends and colleagues who have been impacted by the devastating consequences of opioid overuse and abuse. We also have family members, friends and colleagues who rely on these medications to address suffering associated with terminal illnesses, painful neurological conditions, severe injuries and recovery from surgeries.

One of the key public policy issues that must be solved in addressing the opioid epidemic is the challenge posed by the over-prescribing of opioids. As a pharmaceutical wholesale distributor, we do not control either the supply of, or the demand for, opioids, since we do not manufacture medications or write prescriptions. We understand and take seriously our responsibility to maintain a rigorous anti-diversion program, while ensuring that medications are available for patients who need them. And, of course, we do not have any involvement with the serious problem of dangerous illegal street drugs.

## Role in Pharmaceutical Supply Chain and Supply Chain Integrity

### Anti-diversion Program

We distribute all types of medications, including those used to treat high blood pressure, diabetes and cancer, as well as those used to treat acute and chronic pain. With respect to opioid pain medications, we are industry leaders in implementing state-of-the-art controls to combat the diversion of these medications from legitimate uses. Our program includes advanced analytics, technology and on-the-ground deployment of investigators to evaluate our pharmacy customers, scrutinize their orders and block and report orders that do not meet our strict anti-diversion criteria. We continuously improve our program, while remaining committed to our critical role in supplying pharmacies the medications that they need for their patients.

### Knowing our customers

We use a multi-factor process to evaluate pharmacies before they become our customer, including taking steps to understand their business and historical prescription drug ordering patterns.

### Site visits

We have a team of experienced investigators, including former DEA and state investigators, who regularly conduct customer site visits, both announced and unannounced.

### Electronic monitoring and analytics

Every order for a controlled substance passes through our order monitoring system, which tracks the order against statistical benchmarks for signs of potential diversion. If an order is deemed suspicious, it is canceled and reported to the DEA and applicable state regulators.

### Management Committee

We have a committee of senior anti-diversion and regulatory experts and supply chain integrity staff that meets regularly to evaluate customers with large-volume orders of controlled substances.

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## Board Engagement and Governance

The Board is committed to ensuring that Cardinal Health is a positive force in solving the opioid epidemic. The Board and its committees regularly review our anti-diversion and controlled substance monitoring systems and our ethics and compliance program with members of management who are responsible for the day-to-day operation of these systems and program. The Board also has supported the company's Opioid Action Program and its initiatives aimed at addressing the crisis.

In 2012, the Board appointed a special committee of independent directors to conduct a review, utilizing independent counsel, of our anti-diversion program. The committee produced reports in 2013 and 2014 that found that we had implemented and maintained a robust system of controls to detect and report suspicious orders and that our Board was well-informed about those controls. More details about this special committee and its reports are found on our website at [www.cardinalhealth.com](http://www.cardinalhealth.com) under "About Us — Corporate Citizenship — Addressing the Opioid Crisis: Board Engagement and Governance."

In February 2018, the Board formed an Ad Hoc Committee of independent directors to assist the Board in its oversight of opioid-related issues. The Ad Hoc Committee is responsible for assisting the Board in overseeing the company's multifaceted response to the opioid epidemic and providing advice, regular reports and recommendations to the Board on these issues. The members of the Ad Hoc Committee are:

<p><b>Bruce L. Downey, Chair</b></p> <p>Retired Chairman and CEO of Barr Pharmaceuticals</p> <p>Began career at U.S. Department of Justice and was later a partner at Winston &amp; Strawn</p> <p>Director since <b>2009</b></p>	<p><b>Greg B. Kenny</b></p> <p>Independent Lead Director</p> <p>Incoming Chairman of the Board</p> <p>Retired President and CEO of General Cable</p> <p>Director since <b>2007</b></p>	<p><b>Carrie S. Cox</b></p> <p>Retired EVP and President Global Pharmaceuticals, Schering-Plough</p> <p>Director since <b>2009</b></p>	<p><b>Calvin Darden</b></p> <p>Retired SVP of U.S. Operations, UPS</p> <p>Director since <b>2005</b></p>
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The Ad Hoc Committee met seven times from February 2018 through September 2018 and will continue to meet regularly. During its meetings, the Ad Hoc Committee receives and discusses reports from management and the company's external advisors (as appropriate) and provides input and direction. For example, the Ad Hoc Committee receives updates regarding:

- anti-diversion and controlled substance monitoring programs;
- potential solutions to alleviate the opioid epidemic;
- risks posed by the opioid epidemic to Cardinal Health from a legal, financial and reputational perspective;
- litigation, including the Multi-District Litigation before Judge Polster in Ohio and related settlement discussions;



- the investigations and negotiations led by the State Attorneys General “Multistate” Group;
- changes in the regulatory and legislative environment;
- Cardinal Health’s Opioid Action Program; and
- corporate governance and engagement with key stakeholder groups, including shareholders, customers, employees and others.

#### Generation Rx and Opioid Action Program

Cardinal Health has been a leader for nearly a decade in pioneering and supporting impactful prevention and education programs to combat opioid abuse and diversion under the umbrella of Generation Rx. In November 2017, we began our Opioid Action Program with four elements, each cited by leading experts as critical to the fight to reduce opioid abuse and casualties:

#### Medical school training

With our support, more than 90 medical school faculty members from 30 schools recently gathered to begin work on a curriculum for medical schools across the country to teach future physicians better prescribing practices to manage pain and how to respond to prescription opioid misuse and abuse. The participants are developing a white paper detailing an opioid-management curriculum that can be adopted and implemented by medical schools nationwide.

#### Prevention education and better prescribing practices

We have awarded over 70 grants, including prevention education grants, prescriber grants and community grants, to non-profit organizations fighting opioid abuse and misuse and providing education, advocacy and support.

#### Narcan donation program

We have provided more than 75,000 dosage units of overdose-reversing Narcan free of charge for use by first responders and law enforcement.

#### Drug take back

In partnership with a customer, we supported drug take-back events at over 100 locations in 26 states during 2018, with more than 100 Cardinal Health employee volunteers and local law enforcement and DEA officials providing safe, secure disposal of medications.

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## Attending the Annual Meeting of Shareholders

See page 55 for instructions on how to gain admission to Cardinal Health’s 2018 Annual Meeting of Shareholders (the “Annual Meeting”).

## Roadmap to Voting Matters

Shareholders will be asked to vote on the following proposals at the Annual Meeting:

Proposal	Board Recommendation	Page Reference
<b>Proposal 1:</b> to elect the nine director nominees named in this proxy statement	<b>FOR</b> each director nominee	9
<b>Proposal 2:</b> to ratify the appointment of Ernst & Young LLP as our independent auditor for the fiscal year ending June 30, 2019	<b>FOR</b>	24
<b>Proposal 3:</b> to approve, on a non-binding advisory basis, the compensation of our named executive officers	<b>FOR</b>	26
<b>Proposal 4:</b> shareholder proposal on a policy to not exclude legal and compliance costs for purposes of determining executive compensation	<b>AGAINST</b>	49
<b>Proposal 5:</b> shareholder proposal on the ownership threshold for calling a special meeting of shareholders	<b>AGAINST</b>	51
How to Vote		

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Corporate Governance

Proposal 1 —  
Election of Directors

Our Board of Directors currently has 12 members. Nine of our directors are standing for election at the Annual Meeting to serve until the next Annual Meeting of Shareholders and until their successor is duly elected and qualified. Other than Messrs. Kaufmann and Johri, who joined the Board in January and February 2018, respectively, all nominees were elected at last year's Annual Meeting of Shareholders. Given his retirement at the Annual Meeting, Executive Chairman of the Board Barrett is not standing for re-election. In addition, Clayton M. Jones and David P. King, directors since 2012 and 2011, respectively, have decided not to stand for re-election at the Annual Meeting. The size of the Board will be reduced to nine at that time.

David J. Anderson, a director since 2014, resigned from the Board in September 2018 in light of his new responsibilities as Chief Financial Officer of Nielsen Holdings plc.

Each director nominee agreed to be named in this proxy statement and to serve if elected. If, due to death or other unexpected occurrence, one or more of the director nominees is not available for election, proxies will be voted for the election of all remaining nominees and any substitute nominee the Board selects.

The Board recommends that you vote FOR the election of the nominees listed on pages 10 to 14.

Board Membership Criteria: What we look for

The Nominating and Governance Committee considers and reviews with the Board the appropriate skills and characteristics for Board members in the context of the Board's current composition and objectives. Criteria for identifying and evaluating candidates for the Board include:

- business experience, qualifications, attributes and skills, such as relevant industry knowledge (including healthcare, supply chain and logistics), operations, management, information technology, accounting and finance, strategic planning and international markets;
- leadership experience as a chief executive officer, senior executive or leader of a significant business operation or function;
- independence (including independence from the interests of a particular group of shareholders);
- judgment and integrity;
- ability to commit sufficient time and attention to the activities of the Board;
- diversity of age, gender and ethnicity;

- absence of potential conflicts with our interests; and
- such other criteria as the Board may determine relevant.

#### Our Director Nominees

The Board seeks members that possess the experience, skills and diverse backgrounds to perform effectively in overseeing the company's current and evolving business and strategic direction and to properly perform the Board's oversight responsibilities. All of our director nominees bring to the Board a wealth of executive leadership experience derived from their diverse professional backgrounds and areas of expertise. As a group, they have business acumen, healthcare and global business experience and financial expertise, as well as public company board experience. Each of our director nominees has sound judgment and integrity and is able to commit sufficient time and attention to the activities of the Board. All director nominees other than our Chief Executive Officer are independent.

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**Colleen  
F.  
Arnold**

Senior Vice President, Sales and Distribution, International Business Machines Corporation (retired)

**Director Qualification**

**Highlights**

- Information Technology
- International and Global Leadership
- Operations

**Other Public Boards:**

WestRock Company, a multinational provider of paper and packaging solutions (since July 2018)

**Biography**

Ms. Arnold was Senior Vice President, Sales and Distribution of International Business Machines Corporation (“IBM”), a provider of systems, financing, software and services, from 2014 until 2016. From 1998 to 2014, she held a number of senior positions with IBM, including: Senior Vice President, Application Management Services, IBM Global Business Services; General Manager of GBS Strategy, Global Consulting Services, Global Industries and Global Application Services; General Manager, Europe; General Manager, Australia and New Zealand Global Services; and CEO, Global Services Australia, an IBM joint venture.

**Age 61**

**Director since: 2007**

**Board Committees:**

Nominating and Governance

**Skills and Qualifications of Particular Relevance to Cardinal Health**

**Independent Director**

A former senior executive of IBM for over 15 years, Ms. Arnold’s significant experience in the areas of information technology and global leadership contributes to the Board’s discussions regarding our business and strategy. Given her extensive international business experience, including leadership of international commercial operations at IBM, Ms. Arnold provides valuable insights for our presence in international markets. She also brings to the Board more than 30 years of relevant experience in the areas of executive leadership and strategic planning.

**Carrie  
S. Cox**

Executive Vice President and President of Global Pharmaceuticals, Schering-Plough Corporation (retired); Chairman and Chief Executive Officer of Humacyte, Inc. (retired)

**Director Qualification**

**Highlights**

- Healthcare

**Other Public Boards:**

Texas Instruments Incorporated, a developer, manufacturer and marketer of semiconductors (since 2004); Celgene Corporation, a biopharmaceutical company (since 2009); electroCore, Inc., a commercial-stage bioelectronic

- Regulatory / Public Policy medicine company (since June 2018); Array BioPharma Inc., a commercial-stage biopharmaceutical company (since August 2018)

- Board Leadership

- International

- Operations

### **Biography**

Ms. Cox serves as Executive Chairman of Humacyte, Inc., a privately held, development stage company focused on regenerative medicine, where she previously served as Chairman and Chief Executive Officer from 2010 to June 2018. She was Executive Vice President and President of Global Pharmaceuticals at Schering-Plough Corporation, a multinational branded pharmaceutical manufacturer, from 2003 until its merger with Merck & Co. in 2009. She was Executive Vice President and President of the Global Prescription Business of Pharmacia Corporation, a pharmaceutical and biotechnology company, from 1997 to 2003.

**Age 61**

**Director since: 2009**

#### **Board Committees:**

Human Resources and Compensation, Ad Hoc

#### **Skills and Qualifications of Particular Relevance to Cardinal Health**

**Independent Director**

Through her roles as an executive of Schering-Plough, President of Pharmacia's Global Prescription business, Chief Executive Officer of Humacyte and a licensed pharmacist, Ms. Cox brings to the Board substantial expertise in healthcare, particularly the branded pharmaceutical and international aspects. She worked in the global branded pharmaceutical industry for over 30 years, giving her relevant experience with large, multinational healthcare companies in the areas of regulatory compliance, global markets and manufacturing operations. She also brings to the Board valuable perspectives and insights from her service on the boards of directors of Celgene, including its Compensation and Development Committee, and Texas Instruments, including its Compensation Committee, as well as her former service as Texas Instruments' Lead Director.

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**Calvin Darden**

Senior Vice President of U.S. Operations of United Parcel Service, Inc. (retired)

**Director**

**Qualification**

**Highlights**

- Operations
- Distribution / Supply Chain
- Labor Relations

**Other Public Boards:**

Target Corporation, an operator of large-format general merchandise discount stores (since 2003); Aramark Corporation, a global provider of food, facilities and uniform services (since February 2018); Coca-Cola Enterprises, Inc., a marketer, manufacturer and distributor of nonalcoholic beverages in selected international markets (2004 – 2016)

**Biography**

Mr. Darden was Senior Vice President of U.S. Operations of United Parcel Service, Inc. (“UPS”), an express carrier and package delivery company, from 2000 until 2005. During his 33-year career with UPS, he served in a number of senior leadership positions, including developing the corporate quality strategy for UPS and leading the business and logistics operations for its Pacific Region, the largest region of UPS at that time.

**Age 68**

**Director since: 2005**

**Board Committees:**

Human Resources and Compensation, Ad Hoc

**Skills and Qualifications of Particular Relevance to Cardinal Health**

A former executive officer of UPS, Mr. Darden has expertise in supply chain networks and logistics that contributes to the Board’s understanding of these important aspects of our business. He has over 30 years of relevant experience in the areas of operations, distribution and supply chain, efficiency and quality control, human resources and labor relations. He also brings to the Board valuable perspectives and insights from his service on the boards of directors of Target and Aramark Corporation, including their respective Compensation Committees, as well as his prior service on the board of directors of Coca-Cola Enterprises, including its Human Resources and Compensation Committee.

**Independent Director**

**Bruce L. Downey**

Chairman and Chief Executive Officer of Barr Pharmaceuticals, Inc. (retired); Partner of NewSpring Health Capital II, L.P.

**Director Qualification**

**Highlights**

- Healthcare

**Other Public Boards:**

Momenta Pharmaceuticals, Inc., a biotechnology company (since 2009)

- Regulatory / Public Policy
- Operations
- International
- Financial Expertise
- Board Leadership

**Biography**

**Age 70**

Mr. Downey was Chairman and Chief Executive Officer of Barr Pharmaceuticals, Inc., a global generic pharmaceutical manufacturer, from 1994 to 2008. Mr. Downey has served on a part-time basis as a Partner of NewSpring Health Capital II, L.P., a venture capital firm, since 2009.

**Director**

**since: 2009**

**Board Committees: Skills and Qualifications of Particular Relevance to Cardinal Health**

Audit, Ad Hoc

**Independent  
Director**

Having spent 14 years as Chairman and Chief Executive Officer of Barr Pharmaceuticals, Mr. Downey brings to the Board substantial global experience in the areas of healthcare, regulatory compliance, manufacturing operations, finance, human resources and corporate governance. He offers valuable experience in the pharmaceutical and international aspects of our businesses. Mr. Downey brings to the Board valuable perspectives and insights from his service on the board of directors of Momenta Pharmaceuticals, including on its Audit Committee, and from his prior service as Chairman of Barr Pharmaceuticals' board of directors. Before his career at Barr Pharmaceuticals, Mr. Downey was a practicing attorney for 20 years, having worked in both private practice and with the U.S. Department of Justice.



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**Patricia A.  
Hemingway  
Hall**

President and Chief Executive Officer of Health Care Service Corporation (retired)

**Director**

**Qualification**

**Highlights**

- Healthcare

**Other Public Boards:**

- Regulatory / Public Policy

ManpowerGroup Inc., a workforce solutions company (since 2011);  
Celgene Corporation, a biopharmaceutical company (since April

- Financial Expertise 2018)

- Information Technology

- Board Leadership

**Biography**

Ms. Hemingway Hall served as President and Chief Executive Officer of Health Care Service Corporation, a mutual health insurer (“HCSC”), from 2008 until 2016. Previously, she held several leadership positions at HCSC, including President and Chief Operating Officer from 2007 to 2008 and Executive Vice President of Internal Operations from 2006 to 2007.

**Age 65**

**Director  
since: 2013**

**Skills and Qualifications of Particular Relevance to Cardinal Health**

**Board Committees:**

Audit, Nominating and Governance

As retired President and Chief Executive Officer of HCSC, the largest customer-owned health insurer in the United States operating through several state Blue Cross and Blue Shield Plans, Ms. Hemingway Hall brings to the Board valuable experience regarding evolving healthcare payment models at a time of change and reform in the healthcare industry. She has worked in the healthcare industry for over 30 years, first as a registered nurse and later in health insurance, and has relevant experience in the areas of healthcare reform, regulatory compliance, government relations, finance, information technology and human resources. She also brings to the Board valuable perspectives and insights from her service on the boards of directors of ManpowerGroup and Celgene, including their respective Audit Committees, as well as from chairing ManpowerGroup’s Nominating and Governance Committee.

**Independent Director**

**Akhil  
Johri**

Chief Financial Officer, United Technologies Corporation

### Director Qualification Highlights

- Financial Expertise (Current CFO)

#### Other Public Boards:

- International

None

- Acquisitions

- Information Technology

### Biography

Mr. Johri has served as Chief Financial Officer of United Technologies Corporation (“UTC”), a provider of high technology products and services to the building systems and aerospace industries, since 2015. From 2013 to 2014, he served as Chief Financial Officer and Chief Accounting Officer of Pall Corporation, a global supplier of filtration, separations and purifications products, and from 2011 to 2013, he was Vice President of Finance and Chief Financial Officer of UTC Propulsion & Aerospace Systems, which included Pratt & Whitney and UTC Aerospace Systems. Mr. Johri’s prior roles with UTC include leading investor relations, as well as holding senior financial roles with global business units, including 12 years in the Asia Pacific Region.

Age 57

#### Director

since: February 2018

#### Board Committees:

Audit

#### Independent Director

### Skills and Qualifications of Particular Relevance to Cardinal Health

Having spent more than 25 years in financial leadership positions with UTC and Pall Corporation, Mr. Johri brings to the Board substantial experience in the areas of global finance and accounting, international markets, mergers and acquisitions, information technology and investor relations. Drawing upon his financial expertise, he provides valuable insights in the areas of financial reporting, accounting, internal controls and capital markets, as well as international tax and finance. Through his experience in senior leadership roles with UTC’s businesses, he provides a deep understanding of financial and strategic implications impacting a publicly-traded multinational company.

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**Michael C.  
Kaufmann**

Chief Executive Officer, Cardinal Health, Inc.

**Director Qualification**

**Highlights**

- Cardinal Health Operations
- Healthcare
- Financial Expertise (Former CFO)
- International
- Acquisitions
- Regulatory / Public Policy

**Other Public Boards:**

MSC Industrial Direct Co., Inc., a distributor of metal working, maintenance, repair and operations products and services (since 2015)

**Biography**

Mr. Kaufmann has served as Chief Executive Officer of Cardinal Health since January 2018. From 2014 to December 2017, he served as Chief Financial Officer and from 2009 to 2014, he served as Chief Executive Officer – Pharmaceutical Segment. Prior to that, he held a range of other senior leadership roles at Cardinal Health across operations, sales and finance, including in both the Pharmaceutical and Medical segments.

**Age 55**

**Director**

**since:** January 2018

**Skills and Qualifications of Particular Relevance to Cardinal Health**

As our Chief Executive Officer and a 28-year veteran of Cardinal Health, Mr. Kaufmann draws on his deep knowledge of our daily operations and our industry, customers, vendors, employees and shareholders to provide the Board with a unique and very important perspective on the company and a conduit for information from management. Prior leadership positions across the company provide him with expertise in the areas of healthcare, distribution operations, finance, international markets, mergers and acquisitions and regulatory compliance. He also provides the Board with an understanding of the strategic and financial implications impacting our company from having played an important role in key strategic initiatives, including the Red Oak Sourcing joint venture with CVS Health. In addition, Mr. Kaufmann brings relevant experience and perspectives to the Board from his service on the board of directors of MSC Industrial Direct, including its Audit and Compensation Committees.

**Gregory  
B.  
Kenny**

President and Chief Executive Officer of General Cable Corporation (retired)

**Director**

**Qualification**

**Highlights**

- Board Leadership **Other Public Boards:**
- Operations      Ingredion Incorporated, a corn refining and ingredient company (since 2005); AK Steel Holding Corporation, an integrated producer of flat-rolled, carbon and electrical stainless steels and tubular products (since 2016); General Cable Corporation (1997 – 2015)
- International
- Financial Expertise

**Biography**

Mr. Kenny served as President and Chief Executive Officer of General Cable Corporation, a global manufacturer of aluminum, copper and fiber-optic wire and cable products, from 2001 until 2015. Prior to that, he was President and Chief Operating Officer of General Cable from 1999 to 2001 and Executive Vice President and Chief Operating Officer from 1997 to 1999. Mr. Kenny previously served in executive level positions at Penn Central Corporation, where he was responsible for corporate business strategy, and in diplomatic service as a Foreign Service Officer with the U.S. Department of State.

**Age 65**

**Director since: 2007**

**Board Committees:**  
Nominating and Governance, Ad Hoc

**Independent Lead Director and Chairman of the Board, effective November 2018**

**Skills and Qualifications of Particular Relevance to Cardinal Health**

Mr. Kenny, who has been selected as our non-executive Chairman of the Board effective at the Annual Meeting, brings to the Board significant experience in the areas of Board leadership, manufacturing operations, international markets, finance, human resources and corporate governance. He provides the Board with a deep understanding of the strategic and financial implications impacting a global business with manufacturing and distribution operations. He also draws upon his Board governance and leadership experience as Chairman of our Nominating and Governance Committee, the past Chairman of our Human Resources and Compensation Committee and Chairman of the Board and Chairman of the Corporate Governance and Nominating Committee at Ingredion. As our independent Lead Director, Mr. Kenny has promoted strong independent Board leadership during our recent senior leadership transitions and a robust, deliberative decision-making process among independent directors. He also meets with shareholders and represents their perspectives in Board discussions. Mr. Kenny also brings to the Board valuable perspectives and insights from his service on AK Steel’s board of directors and his prior service on General Cable’s board of directors.



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**Nancy  
Killefer**

Senior Partner, Public Sector Practice, McKinsey & Company, Inc. (retired)

**Director  
Qualification  
Highlights**

- Strategic Planning

**Other Public Boards:**

- Healthcare
- Regulatory / Public Policy

Avon Products, Inc., a global manufacturer and marketer of beauty products (since 2013); Computer Sciences Corporation, a global provider of information technology services (2013 – 2015); The Advisory Board Company, a provider of software and solutions to the healthcare and education industries (2013 – 2017); CSRA, Inc., a provider of information technology services to the U.S. federal government (2015 – April 2018)

- Financial Expertise

- Board Leadership

**Biography**

Ms. Killefer served as Senior Partner of McKinsey & Company, Inc., a global management consulting firm, from 1992 until 2013. She joined McKinsey in 1979 and held a number of key leadership roles, including serving as a member of the firm’s governing board. Ms. Killefer founded McKinsey’s Public Sector Practice in 2007 and served as its managing partner until her retirement. She also served as Assistant Secretary for Management, Chief Financial Officer and Chief Operating Officer for the U.S. Department of Treasury from 1997 to 2000.

**Age 64**

**Director  
since: 2015**

**Board  
Committees:**  
Human Resources  
and Compensation

**Skills and Qualifications of Particular Relevance to Cardinal Health**

Having served in key leadership positions in both the public and private sectors and provided strategic counsel to healthcare and consumer-based companies during her 30 years with McKinsey, Ms. Killefer brings to the Board substantial experience in the areas of strategic planning, including healthcare strategy and marketing and brand-building. Her extensive experience as managing partner of McKinsey’s Public Sector Practice and as a chief financial officer of a government agency provides valuable insights in the areas of government relations, public policy and finance. Ms. Killefer also brings to the Board valuable perspectives and insights from her service on the boards of directors of Avon Products, including its Compensation and Management Development Committee, The Advisory Board and CSRA, Inc., including as its independent Chair.

**Independent  
Director**

## Director Skills Matrix

Our director nominees possess relevant experience, skills and qualifications that contribute to a well-functioning Board that effectively oversees the company's strategy and management.

### Director Nominee Qualifications and Experience

Arnold Cox Darden Downey Hemingway Johri Kaufmann Kenny Killefer  
Hall

**Board leadership** as a board chair, lead director or committee chair equips directors to lead our Board

**Financial expertise** as a finance executive or CEO brings valuable experience to the Board and our management team

**Healthcare expertise** as a leader of a healthcare company or a consulting firm with a healthcare practice provides industry experience

**Operations experience** increases the Board's understanding of our distribution and manufacturing operations

**Regulatory/public policy experience** helps management assess and respond to an evolving business and healthcare regulatory environment

**International experience** brings critical insights into the opportunities and risks of our international businesses

**Information technology experience** provides critical insights into the information technology aspects of our business

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## Our Board's Composition and Structure

### Our Board Leadership Structure

Our Board is currently led by an Executive Chairman of the Board and an independent Lead Director with a separate Chief Executive Officer. The Board has selected Mr. Kenny to serve as the non-executive Chairman of the Board effective at the Annual Meeting when our Executive Chairman retires.

Our Corporate Governance Guidelines provide that the Board is responsible for selecting the Chairman of the Board and the Chief Executive Officer. While historically, these roles have been combined, the Board decided to separate the roles when it appointed Mr. Kaufmann as Chief Executive Officer. In making this change, the Board considered a wide range of factors, including current market practice and the views of shareholders, and selected the leadership structure that the Board determined most appropriate at the present time. The Nominating and Governance Committee periodically reviews and assesses the Board's leadership structure.

Mr. Kenny has served as independent Lead Director (elected annually by the independent directors) since November 2014. In that role, he

- works closely with the Executive Chairman of the Board and the Chief Executive Officer in developing the agenda and materials for Board meetings and approves the agenda and information sent to the Board,
- consults with and advises the Executive Chairman of the Board and the Chief Executive Officer on matters arising between Board meetings,
- sets the agenda for and leads all executive sessions of independent directors,
- holds governance discussions with large investors and attends a major healthcare investor conference with management, at which he also meets with many of our investors, and
- performs the other duties set forth in our Corporate Governance Guidelines.

### Board Diversity

Our Corporate Governance Guidelines provide that the Board should be diverse, engaged and independent. In identifying and evaluating candidates for the Board, the Nominating and Governance Committee considers the diversity of the Board, including diversity of skills, experience and backgrounds, as well as ethnic and gender diversity. We believe that our Board nominees appropriately reflect a diversity of skills, of professional, gender, ethnic and personal backgrounds, and of experience. We also believe that they strike the right balance of longer serving and newer directors.





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### How We Identify, Add and On-Board New Directors

The Nominating and Governance Committee is responsible for identifying, reviewing and recommending candidates for Board membership. Our Board is responsible for selecting candidates for election as directors.

While the process may vary depending on the director candidate, a search firm identified Mr. Johri and the Nominating and Governance Committee recommended him using the following approach:

Upon joining the Board, Mr. Johri participated in a comprehensive, full-day director orientation program, which included meetings with senior management. This orientation program helps new directors become familiar with our businesses and strategy, significant financial matters, ethics and compliance program, corporate governance practices, risk management, human resources and investor relations.

### Director Attendance

The Board held nine meetings during fiscal 2018. Each director attended 75% or more of the meetings of the Board and Board committees on which he or she served during the fiscal year.

Ten of our 11 directors at the time attended the 2017 Annual Meeting of Shareholders. Absent unusual circumstances, each director is expected to attend the Annual Meeting of Shareholders.

### Board Committees

The Board has an Audit Committee, a Nominating and Governance Committee and a Human Resources and Compensation Committee (the “Compensation Committee”). Each member of these committees is independent under our Corporate Governance Guidelines and under applicable committee independence rules.

The charter for each of these committees is available on our website at [www.cardinalhealth.com](http://www.cardinalhealth.com) under “About Us — Corporate — Investor Relations — Corporate Governance — Board Committees and Charters.” This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department.

In February 2018, the Board formed an Ad Hoc Committee of independent directors to assist the Board in its oversight of opioid-related issues.

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Audit Committee

**Members:**<sup>(1)</sup>

Clayton M. Jones (Chair)<sup>(2)</sup>

Bruce L. Downey

Patricia A. Hemingway Hall

Akhil Johri<sup>(3)</sup>

The Audit Committee's primary duties are to:

- oversee the integrity of our financial statements, including reviewing annual and quarterly financial statements and earnings releases and the effectiveness of our internal and disclosure controls;
- appoint the independent auditor and oversee its qualifications, independence and performance, including pre-approving all services by the independent auditor;
- review our internal audit plan and oversee our internal audit department;
- approve the appointment of our Chief Legal and Compliance Officer and oversee our ethics and compliance program and our compliance with applicable legal and regulatory requirements; and
- oversee our major financial and information technology risk exposures and our process for assessing and managing risk through our enterprise risk management program.

**Meetings in fiscal 2018: 7**

The Board has determined that each member of the Audit Committee is an "audit committee financial expert" for purposes of the Securities and Exchange Commission ("SEC") rules.

Nominating and Governance Committee

**Members:**

Gregory B. Kenny (Chair)

Colleen F. Arnold

Patricia A. Hemingway Hall

The Nominating and Governance Committee's primary duties are to:

- identify, review and recommend candidates for the Board, including recommending criteria to the Board for potential Board candidates and assessing the qualifications, attributes, skills, contributions and independence of individual directors and director candidates;
- make recommendations to the Board concerning the structure, composition and functions of the Board and its committees;
- 

**Meetings in fiscal 2018: 4** advise the Board on Board leadership and leadership structure;

- review our corporate governance guidelines and practices and recommend changes;
- conduct the annual Board evaluation and oversee the process for the evaluation of each director; and
- oversee our policies and practices regarding political expenditures.

(1)

David J. Anderson served on the Audit Committee from September 2017, when he was re-appointed to the committee after his employment with Alexion Pharmaceuticals, Inc. (“Alexion”) ended, until he resigned from the Board in September 2018.

(2)

Mr. Jones has decided not to stand for re-election at the Annual Meeting and his term will expire at that time.

(3)

Mr. Johri was appointed to the Audit Committee in February 2018.

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Human Resources and Compensation Committee

**Members:**

The Compensation Committee's primary duties are to:

David P. King (Chair)<sup>(1)</sup>

- approve compensation for the Chief Executive Officer, establish relevant performance goals and evaluate his performance;

Carrie S. Cox

- approve compensation for our other executive officers and oversee their evaluations;

Calvin Darden

Nancy Killefer

- make recommendations to the Board with respect to the adoption of equity and incentive compensation plans and to administer such plans;

**Meetings in fiscal 2018: 8** review our non-management directors' compensation program and recommend changes to the Board;

- oversee the management succession process for the Chief Executive Officer and senior executives;

- oversee workplace diversity initiatives and progress;

- oversee and assess material risks related to compensation arrangements; and

- assess the independence of Compensation Committee's consultant and evaluate its performance.

The Compensation Discussion and Analysis, which begins on page 27, discusses how the Compensation Committee makes compensation-related decisions regarding our named executive officers.

Ad Hoc Committee

**Members:**

The Ad Hoc Committee assists the Board in its oversight of Cardinal Health's response to the nationwide problem of prescription opioid abuse by providing advice, regular reports and recommendations to the Board. During its meetings, the Ad Hoc Committee receives and discusses reports from management and the company's external advisors (as appropriate) and provides input and direction. For example, the Ad Hoc Committee receives updates regarding:

Bruce L. Downey (Chair)

Carrie S. Cox

Calvin Darden

- anti-diversion and controlled substance monitoring programs;

Gregory B. Kenny

- potential solutions to alleviate the opioid epidemic;

**Meetings from February 2018** risks posed by the opioid epidemic to Cardinal Health from a legal, financial and reputational perspective;

**formation through September**

- litigation, including the Multi-District Litigation before Judge Polster in Ohio and related settlement discussions;
- the investigations and negotiations led by the State Attorneys General “Multistate” Group;
- changes in the regulatory and legislative environment;
- Cardinal Health’s Opioid Action Program; and
- corporate governance and engagement with key stakeholder groups, including shareholders, customers, employees and others.

**2018: 7**

(1)  
Mr. King has decided not to stand for re-election at the Annual Meeting and his term will expire at that time.

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## Our Board's Primary Role and Responsibilities and Processes

### Our Board's Primary Role and Responsibilities

Our Corporate Governance Guidelines provide that our Board serves as the representative of, and acts on behalf of, all the shareholders of Cardinal Health. In that regard, some primary functions of the Board include:

- reviewing, evaluating and, where appropriate, approving the company's major business strategies, capital deployment and long-term plans and reviewing its performance;
- planning for and approving management succession; and
- overseeing the company's policies and procedures for assessing and managing risk.

### How our Board Oversees Our Performance, Strategy and Capital Deployment

The Board receives regular updates on company performance and regularly discusses our strategy in light of our performance, the competitive environment, developments in the rapidly changing healthcare industry and the global business and economic environment. The Board reviews and approves capital deployment, including dividends, share repurchase plans and significant acquisitions and divestitures.

At least annually, the Board conducts a dedicated strategy session with in-depth discussions of the healthcare industry, specific businesses and new business opportunities. These sessions include external speakers, such as business partners and advisors, as well as off-site visits to company facilities and customer locations. At these sessions, the Board discusses risks related to our strategies, including those resulting from possible competitor, customer and supplier actions, the changing healthcare industry and new technologies. The Board also discusses various elements of strategy at each regular quarterly meeting. The collective backgrounds, skills and experiences of our directors, including broad healthcare experience, contribute to robust discussions of strategy and the related risks.

The following are some recent examples of our Board's oversight and engagement in these areas:

- To establish a foundation for future growth, the Board has worked with management to initiate a comprehensive review of our business focused on our portfolio, cost structure and capital deployment. The Board discussed the business review at four meetings during fiscal 2018 and fiscal 2019 to date. In May 2018, the Board designated three independent directors to discuss the progress of this review with senior management between Board meetings.
- At each in-person meeting during fiscal 2018, the Board reviewed the performance of, and management's plans to address, the Cordis business and received an update on integration of the recently-acquired Patient Recovery business.
- The Board reviewed and discussed strategic alternatives for our China distribution business at seven meetings during fiscal 2017 and 2018, approving the sale of the business in November 2017.
-

The Board reviewed and discussed strategic alternatives for our naviHealth business at three meetings later in fiscal 2018. In June 2018, the Board approved the sale of our ownership interest in the business for cash proceeds and a 44% interest in a new partnership with Clayton, Dubilier & Rice that now owns naviHealth.

#### How our Board Engages in Management Succession

The Board is actively engaged in our talent management program. The Compensation Committee oversees the process for succession planning for the Chief Executive Officer and other senior executives, and management provides an organizational update at each quarterly Compensation Committee meeting.

The full Board holds a formal succession planning and talent review session annually, which includes succession planning for the Chief Executive Officer and other senior executives. These sessions include identification and development of internal candidates and take into account desired leadership skills and key capabilities and experience in light of our current and evolving business and strategic direction.

Directors interact with our leaders through Board presentations and discussions, as well as through informal events and interactions throughout the year in small group and planned one-on-one sessions.

As a result of our succession planning process, effective January 1, 2018, the Board appointed Mr. Kaufmann as Chief Executive Officer and Mr. Gomez as Chief Financial Officer. Mr. Kaufmann succeeded Mr. Barrett, who had served as Chairman and Chief Executive Officer for nine years. The Board considered both Mr. Kaufmann's deep understanding of the company and healthcare industry and his strong performance in senior leadership roles in selecting him as Cardinal Health's next Chief Executive Officer.

- Mr. Kaufmann is a 28-year veteran of Cardinal Health who has held a range of senior leadership roles in both segments. He was most recently Chief Financial Officer and also oversaw Global Sourcing.

- Prior to the Chief Financial Officer role, Mr. Kaufmann was Chief Executive Officer — Pharmaceutical Segment from 2008 to 2014. In that role, he was instrumental in the negotiation of the company's Red Oak Sourcing joint venture with CVS Health.

- Over his 12-year career with Cardinal Health, Mr. Gomez has served as Chief Financial Officer for both segments, as well as Treasurer and Corporate Controller.

The Board maintains an emergency succession plan, as well as a long-term succession plan for the position of Chief Executive Officer.



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### How our Board Oversees Risk

Management has day-to-day responsibility for assessing and managing risks, and the Board is responsible for risk oversight. Management has developed and administers an enterprise risk management process, which the Audit Committee oversees. Through this process, management identifies and prioritizes enterprise risks and develops systems to assess, monitor and mitigate those risks. Management reviews and discusses with the Board significant risks identified through this process.

The Audit Committee is responsible for discussing with management major financial risk exposures, our ethics and compliance program and compliance with legal and regulatory requirements. The Board and Audit Committee receive regular updates on our ethics and compliance and cybersecurity programs. In connection with its risk oversight role, the Audit Committee meets regularly with representatives from our independent auditor and with our Chief Financial Officer, Chief Legal and Compliance Officer and the head of our internal audit function. See also pages 6 and 7 addressing the opioid crisis.

### Our Ethics and Compliance Program

Our Board has adopted written *Standards of Business Conduct* that outline our corporate values and standards of integrity and behavior. The *Standards of Business Conduct* are designed to foster a culture of integrity, drive compliance with legal and regulatory requirements, and protect and promote the reputation of our company. The full text of the *Standards of Business Conduct* is posted on our website at [www.cardinalhealth.com](http://www.cardinalhealth.com) under “About Us — Who we are — Ethics and Compliance.” This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department.

Our Chief Legal and Compliance Officer has responsibility to implement and maintain an effective ethics and compliance program. He provides quarterly updates on our ethics and compliance program to the Audit Committee and an update to the full Board at least once a year, or more frequently as needed. He reports to the Chairman of the Audit Committee and to the Chief Executive Officer, and meets in separate executive sessions quarterly with the Audit Committee.

### Our Board Evaluation Process

Each year, our Board conducts a rigorous self-evaluation process, which includes individual director evaluations. This process is overseen by the Nominating and Governance Committee, led by our independent Lead Director and conducted by an outside facilitator with corporate governance experience. The outside facilitator interviews each director to obtain feedback regarding the Board’s performance and effectiveness, as well as feedback on each director. This feedback, which is compiled anonymously, helps the Board identify follow-up items and provide feedback to management.

The Board evaluation process includes an assessment of both Board process and substance, including:

- the Board’s effectiveness, structure, composition, succession and culture;
- the quality of Board discussions;
-

the Board's performance in oversight of business performance, strategy, succession planning, risk management, ethics and compliance and other key areas; and

- agenda topics for future meetings.

The outside facilitator also compiles feedback regarding each individual director, which is provided to each director in individual discussion. The Board believes that this annual evaluation process supports its effectiveness and continuous improvement.

#### Director Independence

The Board has established director independence standards based on the New York Stock Exchange ("NYSE") rules. These standards can be found in our Corporate Governance Guidelines on our website at [www.cardinalhealth.com](http://www.cardinalhealth.com) under "About Us — Corporate — Investor Relations — Corporate Governance — Corporate Governance Documents." The standards address, among other things, employment and compensation relationships, relationships with our auditor and customer and business relationships.

The Board assesses director independence at least annually, based on the recommendations of the Nominating and Governance Committee. The Board has determined that each of Messrs. Darden, Downey, Jones, Johri, Kenny and King, and each of Mses. Arnold, Cox, Hemingway Hall and Killefer, is independent and that Mr. Anderson, who resigned from the Board in September 2018, was independent after his employment with Alexion ended in August 2017.

In determining that Mr. King is independent, the Nominating and Governance Committee considered that he is Chairman, President and Chief Executive Officer of LabCorp. We sell medical and laboratory products to LabCorp in the ordinary course of business. LabCorp's payments to us were less than 1% of our, and less than 2% of LabCorp's, revenue for each of the last three years.

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## Shareholder Engagement

It has been our long-standing practice to actively engage with our shareholders throughout the year so that management and the Board can better understand shareholder perspectives on governance, executive compensation and other topics. We strive for a collaborative approach to shareholder engagement and value the variety of shareholders' perspectives. Throughout his tenure, our independent Lead Director, Mr. Kenny, has participated in outreach discussions with shareholders and also has attended and met with investors during a leading healthcare conference. He provides shareholder feedback gathered through these discussions to the Board.

During fiscal 2018, we engaged with governance professionals from our largest shareholders collectively representing approximately 50% of our outstanding shares. We also held constructive discussions with representatives of Investors for Opioid Accountability. Our engagement discussions covered a number of topics including our Board's leadership, composition and governance practices and the Board's oversight of strategy and risk and oversight of our response to the opioid crisis.

An overview of our engagement process is below.

After considering feedback from shareholders in recent years, we have:

- adopted a proxy access right for shareholders;
- enhanced our disclosures about the Ad Hoc Committee and the Board's oversight of our anti-diversion program;
- enhanced our disclosures regarding the Board's role in strategy and risk oversight;
- formalized our annual individual director evaluation process and expanded our disclosure about the annual Board evaluation process;
- enhanced our executive compensation clawback provision; and
- enhanced our disclosures regarding how we identify, add and on-board new directors.

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## Director Compensation

## Overview

Decisions regarding our non-management director compensation program are approved by our Board of Directors based on recommendations of the Compensation Committee. The Compensation Committee receives comparative market data and recommendations from its compensation consultant with regard to the structure and amounts of our non-management director compensation. Total non-management director compensation is targeted at the median amount among our Comparator Group, which is discussed in detail on page 33.

Following the Compensation Committee's most recent review of non-management director compensation, and based on the recommendation of its compensation consultant, the Compensation Committee recommended to the Board, and the Board approved, increases to the annual retainers and the annual restricted share unit ("RSU") grants effective in November 2018. The new compensation aligns with median director compensation for the fiscal 2019 Comparator Group, which is described on page 33. Prior to this change, director compensation arrangements were last changed in November 2015.

## Compensation Arrangements

The table below shows the elements and amount of compensation that we pay to our non-management directors.

Compensation Element	Amount until	Amount on and after
	November 6, 2018	November 7, 2018
	(\$)	(\$)
Annual retainer <sup>(1)</sup>	100,000	105,000
RSUs <sup>(2)</sup>	160,000	175,000
Committee chair annual retainer <sup>(1)</sup>		
Audit Committee	20,000	25,000
Compensation Committee	15,000	20,000
Nominating and Governance Committee	10,000	15,000
Lead Director compensation		
Annual retainer <sup>(1)</sup>	20,000	–
RSUs	20,000	–
Non-executive Chairman of the Board compensation		
Annual retainer <sup>(1)</sup>	–	125,000
RSUs	–	125,000

(1)  
Retainer amounts are paid in cash in quarterly installments.

(2)  
Each non-management director receives an annual RSU grant on the date of our Annual Meeting of Shareholders. We value the RSUs based on the closing share price on the grant date. RSUs vest one year from the grant date (or on the date of the next Annual Meeting of

Shareholders, if earlier) and settle in common shares. We accrue cash dividend equivalents that are payable upon vesting of the RSUs. All unvested RSUs become fully vested upon a “change of control” (as defined under “Potential Payments on Termination of Employment and Change of Control” on page 45) unless the director is asked to continue to serve on the board of directors of the surviving entity or its affiliates and receives a qualifying replacement award.

Directors may receive additional compensation for performing duties assigned by the Board or its committees that are considered beyond the scope of the ordinary responsibilities of directors or committee members. During fiscal 2018, the Board approved additional compensation of \$10,000 per year for each of Messrs. Darden and Kenny and Ms. Cox for service on the Ad Hoc Committee and \$25,000 per year for Mr. Downey for service as the chair of the Ad Hoc Committee.

Directors may elect to defer payment of their cash retainers into the Cardinal Health Deferred Compensation Plan (“DCP”). For directors, deferred balances under the DCP are paid in cash upon termination from Board service, death or disability in a single lump sum or annual installment payments over a period of five or ten years. A director also may defer receipt of common shares that otherwise would be issued on the date that RSUs vest until termination from Board service.

Our directors may participate in our matching gift program. Under this program and subject to certain restrictions, the Cardinal Health Foundation (our philanthropic affiliate) will match contributions for eligible non-profit organizations.

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## Director Compensation for Fiscal 2018

The non-management directors received the following compensation during fiscal 2018:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	All Other Compensation (\$)	Total (\$)
<b>David J. Anderson</b>	100,000	159,977	–	259,977
<b>Colleen F. Arnold</b>	100,000	159,977	–	259,977
<b>Carrie S. Cox</b>	103,600 <sup>(2)</sup>	159,977	–	263,577
<b>Calvin Darden</b>	103,600 <sup>(2)</sup>	159,977	3,000 <sup>(3)</sup>	266,577
<b>Bruce L. Downey</b>	109,028 <sup>(2)</sup>	159,977	–	269,005
<b>Patricia A. Hemingway Hall</b>	100,000	159,977	–	259,977
<b>Akhil Johri<sup>(4)</sup></b>	39,722	–	–	39,722
<b>Clayton M. Jones</b>	120,000	159,977	–	279,977
<b>Gregory B. Kenny</b>	133,600 <sup>(2)</sup>	179,981	13,000 <sup>(3)</sup>	326,581
<b>Nancy Killefer</b>	100,000	159,977	–	259,977
<b>David P. King</b>	115,000	159,977	–	274,977

(1)

These awards are RSUs granted under the Amended Cardinal Health, Inc. 2011 Long-Term Incentive Plan (the “2011 LTIP”). We valued the RSUs by multiplying the closing price of our common shares on the NYSE on the grant date by the number of RSUs awarded. As of June 30, 2018, the aggregate number of shares underlying unvested RSUs held by each director serving on that date was 2,623 shares, except for Mr. Kenny, which was 2,951 shares. Mr. Anderson forfeited these RSUs when he resigned from the Board in September 2018.

(2)

Includes compensation for service on the Ad Hoc Committee.

(3)

Represents a company match attributable to a charitable contribution under our matching gift program.

(4)

Mr. Johri joined the Board in February 2018.

Related Person Transactions Policy and Process

#### Related Person Transactions Policy

The Board follows a written policy that the Audit Committee must approve or ratify any “related person transactions” (transactions exceeding \$120,000 in which we are a participant and any related person has a direct or indirect material interest). “Related persons” include our directors, nominees for election as a director, persons controlling over 5% of our common shares, executive officers and the immediate family members of each of these individuals.

Once a related person transaction is identified, the Audit Committee will review all the relevant facts and circumstances and determine whether to approve the transaction. The Audit Committee will take into account such factors as it considers appropriate, including the material terms of the transaction, the nature of the related person’s interest in the transaction, the significance of the transaction to the related person and us, the nature of the related person’s relationship with us and whether the transaction would be likely to impair the judgment of a director or

executive officer to act in our best interest.

If advance approval of a transaction is not feasible, the Audit Committee will consider the transaction for ratification at its next regularly scheduled meeting. The Audit Committee Chairman may pre-approve or ratify any related person transactions in which the aggregate amount is expected to be less than \$1 million.

#### Related Person Transactions

Since July 1, 2017, there have been no transactions, and there are no currently proposed transactions, involving an amount exceeding \$120,000 in which we were or are to be a participant and in which any related person had or will have a direct or indirect material interest, except as described below.

David J. Anderson, who resigned from the Board in September 2018, served as Chief Financial Officer of Alexion, a biotechnology company, from December 11, 2016 until July 31, 2017, and as an employee of Alexion until August 31, 2017. When Mr. Anderson joined Alexion, we had a preexisting commercial relationship with Alexion, which was negotiated at arm's length and in the ordinary course of business and which has continued since Mr. Anderson ended his employment with Alexion. From July 1, 2017 through August 31, 2017, we purchased \$67 million of Alexion product for distribution to our customers. Mr. Anderson was not involved in any decisions or activities directly associated with the transactions between Alexion and us. These transactions were approved by our Audit Committee in accordance with the Related Person Transactions Policy.

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Audit Committee Matters

Proposal 2 —

Ratification of Appointment of Ernst & Young LLP as Independent Auditor

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of our independent auditor and approves the audit engagement letter with Ernst & Young LLP and its audit fees. The Audit Committee has appointed Ernst & Young LLP as our independent auditor for fiscal 2019 and believes that the continued retention of Ernst & Young LLP as our independent auditor is in the best interest of Cardinal Health and its shareholders. Ernst & Young LLP has served as our independent auditor since 2002. In accordance with SEC rules, lead audit partners are subject to rotation requirements, which limit the number of consecutive years an individual partner may serve us. The Audit Committee oversees the rotation of the audit partners. The Audit Committee Chairman interviews candidates for audit partner and the Audit Committee discusses them.

While not required by law, we are asking our shareholders to ratify the appointment of Ernst & Young LLP as our independent auditor for fiscal 2019 at the Annual Meeting as a matter of good corporate governance. If shareholders do not ratify this appointment, the Audit Committee will consider whether it is appropriate to appoint another audit firm. Even if the appointment is ratified, the Audit Committee in its discretion may appoint a different audit firm at any time during the fiscal year if it determines that such a change would be in the best interest of the company and its shareholders. Our Audit Committee approved, and our shareholders ratified with 98% support, the appointment of Ernst & Young LLP as our independent auditor for fiscal 2018.

We expect representatives of Ernst & Young LLP to be present at the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and to respond to appropriate questions from shareholders.

The Board recommends that you vote FOR the proposal to ratify the appointment of Ernst & Young LLP as our independent auditor for fiscal 2019.

Audit Committee Report

The Audit Committee is responsible for overseeing: the integrity of Cardinal Health's financial statements; the independent auditor's qualifications, independence and performance; Cardinal Health's internal audit function; Cardinal Health's ethics and compliance program and its compliance with legal and regulatory requirements; and Cardinal Health's processes for assessing and managing risk. The Audit Committee currently consists of five members of the Board of Directors. The Board of Directors has determined that each current Committee member is an "audit committee financial expert" for purposes of the SEC rules and is independent. The Audit Committee's activities are governed by a written charter, which is available on Cardinal Health's website at [www.cardinalhealth.com](http://www.cardinalhealth.com) under "About Us — Corporate — Investor Relations — Corporate Governance — Board Committees and Charters."

Management has primary responsibility for the financial statements and for establishing and maintaining the system of internal control over financial reporting. Management also is responsible for reporting on the effectiveness of Cardinal Health's internal control over financial reporting. Cardinal Health's independent auditor, Ernst & Young LLP, is responsible for performing an independent audit of Cardinal Health's consolidated financial statements and for issuing a report on the financial statements and a report on the effectiveness of Cardinal Health's internal control over financial reporting based on its audit.

The Audit Committee reviewed and discussed the audited financial statements for the fiscal year ended June 30, 2018 with management and with Ernst & Young LLP. The Audit Committee also reviewed and discussed with management and Ernst & Young LLP the effectiveness of Cardinal Health's internal control over financial reporting as well as



management's report and Ernst & Young LLP's report on the subject. The Audit Committee discussed with Ernst & Young LLP the matters related to the conduct of its audit that are required to be communicated by auditors to audit committees under applicable requirements of the Public Company Accounting Oversight Board (the "PCAOB") and matters related to Cardinal Health's financial statements, including critical accounting estimates and judgments. The Audit Committee received from Ernst & Young LLP the written disclosures and letter regarding Ernst & Young LLP's independence from Cardinal Health required by applicable PCAOB requirements and discussed Ernst & Young LLP's independence.

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The Audit Committee meets regularly with Ernst & Young LLP, with and without management present, to review the overall scope and plans for Ernst & Young LLP's audit work and to discuss the results of its examinations, the evaluation of Cardinal Health's internal control over financial reporting and the overall quality of Cardinal Health's accounting and financial reporting. In addition, the Audit Committee annually considers the performance of Ernst & Young LLP.

In reliance on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended June 30, 2018 be included in Cardinal Health's Annual Report on Form 10-K for filing with the SEC.

Submitted by the Audit Committee of the Board of Directors on August 20, 2018.

Clayton M. Jones, Chairman  
David J. Anderson<sup>(1)</sup>  
Bruce L. Downey  
Patricia A. Hemingway Hall  
Akhil Johri

## Fees Paid to Ernst &amp; Young LLP

The following table sets forth the fees billed to us by Ernst & Young LLP for services in fiscal 2018 and 2017.

	Fiscal 2018	Fiscal 2017
	(\$)	(\$)
Audit fees <sup>(1)</sup>	12,696,980	9,546,537
Audit-related fees <sup>(2)</sup>	1,480,461	2,722,451
Tax fees <sup>(3)</sup>	588,408	841,082
All other fees	—	—
<b>TOTAL FEES</b>	<b>14,765,849</b>	<b>13,110,070</b>

(1) Audit fees include fees paid to Ernst & Young LLP related to the annual audit of consolidated financial statements, the annual audit of the effectiveness of internal control over financial reporting, the review of financial statements included in Quarterly Reports on Form 10-Q and statutory audits of various international subsidiaries. Audit fees also include fees for services performed by Ernst & Young LLP that are closely related to the audit and in many cases could only be provided by the independent auditor, such as comfort letters and consents related to SEC registration statements. The year-over-year increase in audit fees was due primarily to services provided by Ernst & Young LLP in connection with the recently-acquired Patient Recovery business and a multi-year project to replace certain Pharmaceutical segment finance and operating information systems.

(2) Audit-related fees include fees for services related to acquisitions and divestitures, audit-related research and assistance, internal control reviews, service auditor's examination reports and employee benefit plan audits.

(3) Tax fees include fees for tax compliance and other tax-related services. The aggregate fees billed to us by Ernst & Young LLP for tax compliance and other tax-related services for fiscal 2018 were \$588,408 and \$0, respectively, and for fiscal 2017 were \$797,514 and \$43,568, respectively.

Policy on Pre-Approval of Services Provided by Ernst & Young LLP

The Audit Committee must pre-approve the audit and permissible non-audit services performed by our independent accountants in order to help ensure that the accountants remain independent from Cardinal Health. The Audit Committee has adopted a policy governing this pre-approval process.

Under the policy, the Audit Committee annually pre-approves certain services and assigns specific dollar thresholds for these types of services. If a proposed service is not included in the annual pre-approval, the Audit Committee must separately pre-approve the service before the engagement begins.

The Audit Committee has delegated pre-approval authority to the Audit Committee Chairman for proposed services up to \$500,000. Proposed services exceeding \$500,000 require full Audit Committee approval.

All audit and non-audit services provided for us by Ernst & Young LLP for fiscal 2018 and 2017 were pre-approved by the Audit Committee.

(1)

Mr. Anderson resigned from the Board in September 2018.

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## Executive Compensation

### Proposal 3 —

#### Advisory Vote to Approve the Compensation of Our Named Executive Officers

In accordance with Section 14A of the Securities Exchange Act of 1934 (the “Exchange Act”), we are asking our shareholders to approve, on a non-binding advisory basis, the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in this proxy statement.

We urge shareholders to read the Compensation Discussion and Analysis beginning on the next page of this proxy statement, which describes in more detail how our executive compensation program operates and is designed to achieve our compensation objectives, as well as the Summary Compensation Table and related compensation tables, notes and narrative appearing on pages 35 through 47, which provide detailed information on the compensation of our named executive officers.

Although this advisory vote is not binding on the Board, the Board and the Compensation Committee will review and consider the voting results when evaluating our executive compensation program.

The Board has adopted a policy providing for annual say-on-pay advisory votes. Accordingly, the next say-on-pay advisory vote will be held at our 2019 Annual Meeting of Shareholders.

The Board recommends that you vote FOR the approval, on a non-binding advisory basis, of the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in this proxy statement.

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Compensation Discussion and Analysis

Executive Summary

This Compensation Discussion and Analysis focuses on the compensation of the following current and former executive officers (the “named executive officers” or “named executives”) for fiscal 2018 and describes the executive compensation program and the Compensation Committee’s decisions under it.

**Michael C. Kaufmann** Chief Executive Officer

**George S. Barrett** Executive Chairman of the Board

**Jorge M. Gomez** Chief Financial Officer

**Jon L. Giacomini** Chief Executive Officer — Medical Segment

**Craig S. Morford** Chief Legal and Compliance Officer

**Patricia B. Morrison** Retired Executive Vice President, Customer Support Services and Chief Information Officer

**Donald M. Casey Jr.** Former Chief Executive Officer — Medical Segment

**Fiscal 2018 Highlights**

In fiscal 2018, we positioned the company for future growth, making a number of changes. In November 2017, we announced our succession plans for Chief Executive Officer and Chief Financial Officer, followed by other senior leadership changes later in the fiscal year. These transitions have gone very well.

•

In January 2018, Mr. Kaufmann became our Chief Executive Officer, succeeding Mr. Barrett, who had served as Chairman and Chief Executive Officer for nine years. Mr. Kaufmann is a 28-year veteran of Cardinal Health who has held a range of senior leadership roles in both segments. He was most recently Chief Financial Officer and also oversaw Global Sourcing.

•

Mr. Barrett became Executive Chairman of the Board in January 2018 and will retire from the Board at the Annual Meeting. Following Mr. Barrett’s retirement, Mr. Kenny, the Board’s independent Lead Director, will become the non-executive Chairman of the Board.

•

Mr. Gomez succeeded Mr. Kaufmann as Chief Financial Officer. Over his 12-year career with Cardinal Health, Mr. Gomez has served as Chief Financial Officer for both segments, as well as Treasurer and Corporate Controller.

•

In February 2018, Mr. Giacomini transitioned to Chief Executive Officer — Medical Segment from Chief Executive Officer — Pharmaceutical Segment. During his nearly 17 years at Cardinal Health, Mr. Giacomini has served in a variety of operational leadership positions.

•

Ms. Morrison retired from the company in August 2018 after nine years as Chief Information Officer.

•

Mr. Casey, formerly Chief Executive Officer — Medical Segment, left the company in February 2018.

The following are fiscal 2018 performance highlights:

- Revenue increased 5% to \$136.8 billion, in line with the Board-approved budget.
- GAAP operating earnings were \$126 million, reflecting a non-cash Medical segment goodwill impairment charge. Non-GAAP operating earnings of \$2.6 billion would have been in line with budget, except for disappointing performance by our Cordis business and an incremental 401(k) plan contribution for all U.S. employees.
- GAAP EPS was \$0.81. Non-GAAP EPS was \$5.00, in line with budget. Non-GAAP operating earnings underperformance was offset by the benefits of U.S. tax reform that arose after we had set our budget.
- Operating cash flow was \$2.8 billion due to working capital changes.

To establish a foundation for future growth, we initiated a comprehensive review of our business focused on our portfolio, cost structure and capital deployment. Fiscal 2018 accomplishments and future areas of focus include:

- We divested our China distribution business and created a partnership with Clayton, Dubilier & Rice to jointly invest in naviHealth and accelerate its growth. These moves allow us to more sharply focus on our other businesses and strategy.
- We achieved our fiscal 2018 goal of at least \$0.21 accretion in non-GAAP EPS from the Patient Recovery business and are focused on successfully integrating and operating the business.
- We installed a new management team in the Cordis business that is addressing operational issues, while maintaining sales momentum.
- Using new tools and analytics, we have launched significant cost reduction initiatives.
- We returned \$1.1 billion to shareholders, including \$581 million in dividends and \$550 million in share repurchases, and we will continue to be disciplined and thoughtful in our capital deployment approach.

See Annex A for the reasons why we use non-GAAP financial measures and reconciliations to the comparable GAAP financial measures.

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Results of 2017 Advisory Vote to Approve Executive Compensation and Shareholder Engagement

At the 2017 Annual Meeting of Shareholders, our say-on-pay advisory vote received 96% support, our sixth straight year of over 90% shareholder support. The Compensation Committee considered this vote — as well as shareholder feedback from our shareholder engagement — as demonstrating strong support for our executive compensation program and maintained the structure of our executive compensation program when making compensation decisions for fiscal 2018.

It has been our long-standing practice to actively engage with our shareholders throughout the year so that management and the Board can better understand shareholder perspectives on topics like executive compensation. During fiscal 2018, we engaged with governance professionals from our largest shareholders collectively representing approximately 50% of our outstanding shares. (See page 21 for further detail about shareholder engagement.)

Compensation Philosophy and Practices

Our compensation program is designed to support our long-term growth, with accountability for key annual results. It has the following key objectives:

- **Reward performance.** We tie our executive pay to financial, operational and individual performance.
- **Drive stock ownership.** We use long-term incentive grants combined with stock ownership guidelines to provide executives with meaningful ownership stakes and align their interests with shareholders.
- **Emphasize long-term incentive compensation.** We emphasize performance and retention through the use of long-term incentive compensation, which supports sustainable long-term shareholder return.
- **Maintain a competitive program that will attract and retain critical talent.** We have designed our compensation program to be competitive in the marketplace and to invest in and reward talent, driving the long-term growth of the company while holding employees accountable to our strategy and our values.

Executive Compensation Governance Features

What We Have	What We Do Not Have
Significant portion of executive pay “at risk”	No dividend equivalents on unvested PSUs or RSUs
Different metrics for annual cash incentives and PSUs	No repricing of underwater options without shareholder approval
Caps on annual cash incentive and PSU payouts	No hedging or pledging of company stock
Minimum vesting period for long-term incentive awards	No executive pensions or supplemental retirement plans
Stock ownership guidelines for directors and executive officers	No “single trigger” change of control arrangements
Enhanced compensation recoupment (“clawback”) provision	No excise tax gross-ups upon change of control

Long-standing, proactive shareholder  
engagement program

No employment agreements with  
current executive team



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Elements of Fiscal 2018 Compensation for Executive Officers

We have three elements of total direct compensation: base salary, annual incentives and long-term incentives. For fiscal 2018, long-term incentives consisted of an equally-weighted mix of performance share units (“PSUs”), stock options and RSUs. A significant portion of executive compensation was performance-based and at-risk (annual incentives, PSUs and stock options). As discussed below, at the beginning of each fiscal year, the Compensation Committee sets performance goals under our annual incentive plan and PSUs. After the performance period, the Compensation Committee evaluates actual performance and determines payouts.

<b>Pay Element</b>	<b>Description and Purpose</b>	<b>Links to Business and Talent Strategies</b>
<b>Base salary</b>	<ul style="list-style-type: none"> <li>Fixed cash compensation, which is reviewed annually and adjusted when appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Competitive base salaries support our ability to attract and retain executive talent</li> </ul>
	<ul style="list-style-type: none"> <li>Set based on qualifications, experience, role, performance in the role, career progression, market data and internal pay equity</li> </ul>	
<b>Annual incentives</b>	<ul style="list-style-type: none"> <li>Variable cash compensation based on achieving annual financial goals and operational and individual performance</li> </ul>	<ul style="list-style-type: none"> <li>Primary financial measure reflects our focus on operating earnings, with tangible capital modifier promoting efficient use of capital</li> </ul>
	<ul style="list-style-type: none"> <li>Target as a percentage of base salary reflects market data and internal pay equity</li> </ul>	
<b>Long-term incentives</b>	<ul style="list-style-type: none"> <li>Equally weighted between PSUs, stock options and RSUs</li> </ul>	<ul style="list-style-type: none"> <li>Executives are assessed on their individual performance and the alignment of their behavior with our <i>Standards of Business Conduct</i>, values and leadership essentials, balancing the “what” and the “how” of individual performance</li> <li>Supports sustainable long-term shareholder return and closely aligns management’s interests with shareholders’ interests</li> </ul>
	<ul style="list-style-type: none"> <li>PSUs vest based on achieving non-GAAP EPS goals over three years, subject to a total shareholder return (“TSR”) modifier; stock options and RSUs vest ratably over three years</li> </ul>	
	<ul style="list-style-type: none"> <li>Target annual grant value reflects market data and internal pay equity</li> </ul>	<ul style="list-style-type: none"> <li>PSU performance measure is a primary measure for evaluating our performance and is closely followed by the investment community</li> <li>Long-term incentives retain executive talent and promote focus on stock price appreciation</li> </ul>

Base Salary

In connection with Mr. Kaufmann’s appointment to Chief Executive Officer, Mr. Gomez’s appointment to Chief Financial Officer and Mr. Giacomini’s appointment to Chief Executive Officer — Medical Segment, the Compensation Committee set their base salaries at \$1,150,000, \$550,000 and \$775,000, respectively. At the beginning of fiscal 2018, the Compensation Committee increased each of the named executives’ base salaries between 2% and 6%.

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## Annual Incentive Compensation

**Fiscal 2018 Goal Setting and Results**

At the beginning of fiscal 2018, the Compensation Committee set the annual incentive target, which called for us to achieve the Board-approved budget of 2.9% non-GAAP operating earnings growth for a 100% payout. As in past years, the Compensation Committee set the fiscal 2018 earnings goal based on non-GAAP operating earnings — one of our primary measures of operating performance. Once we achieve the threshold earnings performance, tangible capital management continues to be a modifier because it focuses on the efficient use of capital. We describe how we calculate these measures under “Annual Cash Incentive and PSU Performance Measure Calculations” on page 40.

	Actual	Threshold	Target	Maximum
	(\$)	(\$)	(\$)	(\$)
<b>Adjusted non-GAAP operating earnings</b>	2,655	2,393	2,850	3,377
<b>Tangible capital modifier<sup>(1)</sup></b>	1,085	2,812	2,344	1,874
<b>Enterprise funding percentage</b>	102 %	40 %	100 %	200 %

(1) Tangible capital below \$2,344 million increased the enterprise funding percentage (which is the funding as a percentage of the target payout for the entire company) by up to 10 percentage points until it reached \$1,874 million. Tangible capital above \$2,344 million reduced the enterprise funding percentage by up to 10 percentage points until it reached \$2,812 million. Decreases below \$1,874 million and increases above \$2,812 million had no further impact on the enterprise funding percentage. Actual fiscal 2018 tangible capital performance increased the enterprise funding percentage by 10 percentage points.

**Fiscal 2018 Annual Incentive Targets and Payouts**

The Compensation Committee annually reviews our named executives’ annual incentive targets as a percentage of base salary. At the beginning of fiscal 2018, the Committee determined to maintain our named executives’ targets as a percentage of base salary at the same levels as fiscal 2017. The Compensation Committee set the targets for Messrs. Kaufmann and Gomez at 150% and 100% of their respective base salaries (the same percentages as their predecessors) effective January 1, 2018 in connection with the appointment to their new roles. Prior to becoming Chief Executive Officer, Mr. Kaufmann’s target was 100%.

Name	Target (Percent of Base Salary)	Target Amount (\$)	Actual Amount (\$)	Actual (Percent of Target)
<b>Kaufmann</b>	(1)	(1)	1,518,780 <sup>(1)</sup>	(1)
<b>Barrett</b>	150	2,031,559	2,072,190	102
<b>Gomez</b>	(1)	(1)	387,356 <sup>(1)</sup>	(1)
<b>Giacomin</b>	100	697,055	853,195	122
<b>Morford</b>	85	497,425	608,848	122
<b>Morrison</b>	80	424,285	432,771	102
<b>Casey</b>	100	744,521	—	—

(1) Actual amounts for Messrs. Kaufmann and Gomez reflect the different roles they held during the fiscal year.

Mr. Kaufmann's annual incentive was based on his successful transition into the Chief Executive Officer role, including his strong efforts in establishing and leading an executive team with new finance and Medical segment leaders. He also was instrumental in launching the comprehensive review of our business and its initial workstreams. His final incentive award reflects his target as Chief Financial Officer during the first half of the fiscal year and as Chief Executive Officer during the second half.

Mr. Barrett's annual incentive was based on enterprise performance, as well as the successful transition of the Chief Executive Officer role to Mr. Kaufmann and Mr. Barrett's advocacy work on healthcare policy.

Mr. Gomez's annual incentive was based on his successful transition into the Chief Financial Officer role and his efforts in building out his finance leadership team with critical talent. He also assumed a key leadership role in our comprehensive business review. His final incentive award reflects his target as Chief Financial Officer — Medical Segment and that segment's performance during the first half of the fiscal year, and his target as Chief Financial Officer and enterprise performance during the second half.

Mr. Giacomini's annual incentive was based on his efforts toward the successful divestiture of our China distribution business, which he led, as well as his strong transition into his new role leading our Medical segment. In that role, he installed new segment leaders and was instrumental in overseeing the initial action steps taken to stabilize the Cordis business.

Mr. Morford's annual incentive was based on his continued strong leadership of our overall legal and compliance programs in a rapidly evolving landscape, as well as his efforts overseeing the legal and compliance aspects of the Patient Recovery business integration and his work on the successful leadership transitions.

Ms. Morrison's annual incentive was based on enterprise performance, as well as her efforts in leading the project to integrate systems within the recently-acquired Patient Recovery business.

Mr. Casey departed from the company in February 2018 and did not receive an annual incentive payout.

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## Long-Term Incentive Compensation

For fiscal 2018, we equally weighted our long-term incentive grants between PSUs, stock options and RSUs. We may adjust annual grants from target to reflect individual performance, retention or succession planning. As discussed later in this section, we made changes to our long-term incentive mix for the fiscal 2019 annual grant.

**Fiscal 2016-2018 PSU Payouts**

We had no payout of the PSUs granted for the fiscal 2016 through fiscal 2018 performance cycle (the “Fiscal 16-18 PSUs”). Actual performance in non-GAAP EPS compound annual growth rate (“CAGR”), excluding the benefits of U.S. tax reform, and average annual dividend yield was 3.1%, below the threshold performance of 7.0% required for a payout.

The following table shows the target and earned Fiscal 16-18 PSUs for our named executives other than Mr. Gomez and Ms. Morrison, who were not named executives when these grants were made, but also earned no shares.

Name	Target Number of Shares	Number of Shares Earned
	(#)	(#)
<b>Kaufmann</b>	8,900	0
<b>Barrett</b>	37,578	0
<b>Giacomin</b>	8,307	0
<b>Morford</b>	4,747	0
<b>Casey</b>	8,307	0

**Fiscal 2018 Long-Term Incentive Grants**

Name	Fiscal 2018	Fiscal 2018 Actual Grants		Target		Total
	Annual Grant Target	Stock Options	RSUs	PSUs		
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Kaufmann</b>	(1)	950,000 (1)	3,950,000 (1)	950,000 (1)		5,850,000
<b>Barrett</b>	9,500,000	3,166,667 (2)	3,166,667 (2)	3,166,667 (2)		9,500,001
<b>Gomez</b>	(3)	163,750 (3)	1,163,750 (3)	131,000 (3)		1,458,500
<b>Giacomin</b>	2,850,000	950,000	1,950,000 (4)	950,000		3,850,000
<b>Morford</b>	1,550,000	594,167	594,167	516,667		1,705,001
<b>Morrison</b>	1,200,000	400,000 (5)	400,000 (5)	400,000 (5)		1,200,000
<b>Casey</b>	2,850,000	950,000 (6)	950,000 (6)	950,000 (6)		2,850,000

(1)

Mr. Kaufmann’s fiscal 2018 annual grant was made while in his former role when he had target of \$2.85 million. In addition to his annual grant, he received \$3.0 million in RSUs in connection with his appointment to Chief Executive Officer. In November 2017, the Compensation Committee set his target at \$8.0 million.

(2)

Mr. Barrett received \$9.5 million in long-term incentive awards consistent with the target value in his employment agreement. A prorated portion of these awards will vest when he retires at the Annual Meeting and he will forfeit the remainder.

(3)

Mr. Gomez's fiscal 2018 annual grant was made while in his former role. In addition to his annual grant, he received \$1.0 million in RSUs in connection with his appointment to Chief Financial Officer. In November 2017, the Compensation Committee set his target at \$1.75 million.

(4)

In addition to his annual grant, Mr. Giacomini received \$1.0 million in RSUs in connection with his appointment to Chief Executive Officer — Medical Segment.

(5)

A prorated portion of these awards vested when Ms. Morrison retired in August 2018 and she forfeited the remainder. These amounts do not include the value of previously-granted awards that were modified in connection with her retirement.

(6)

Mr. Casey forfeited these grants following his departure from the company in February 2018.

#### **Fiscal 2018-2020 PSU Grants**

When granting PSUs for the fiscal 2018 through fiscal 2020 performance cycle (the "Fiscal 18-20 PSUs"), the Compensation Committee made a change to payouts in each of three annual periods and added a modifier based on TSR relative to the Standard & Poor's ("S&P") 500 Healthcare Index. A payout level between 50% and 200% is earned for each annual period based on achieving non-GAAP EPS of \$4.70 at threshold, \$5.00 at target and \$5.30 at maximum for the first year and pre-established growth goals over the prior fiscal year's non-GAAP EPS for the second and third years. The TSR modifier is then applied to the three-year average payout level, which decreases the payout by 20% if TSR is below the 20th percentile of the peer group and increases it by 20% if TSR is above the 80th percentile of the peer group.

The Compensation Committee aligned the non-GAAP EPS target for the first year of the Fiscal 18-20 PSUs with the Board-approved budget and has indicated that it intends to exclude the benefits of U.S. tax reform when evaluating fiscal 2018 performance for the named executives' awards, resulting in below-threshold performance. The Compensation Committee believes that the earnings growth measures for the second and third years provide very challenging goals.

The Compensation Committee retained non-GAAP EPS as the primary performance measure because it is one of our primary measures of operating performance and is an important measure used by the investment community to evaluate our performance. The Compensation Committee adopted the change to payouts in each of three annual periods to better address significant industry-wide challenges and uncertainties.

The Compensation Committee added a relative TSR modifier based on its goal of linking a portion of long-term incentive compensation directly to relative shareholder returns, a recommendation by its consultant and feedback from shareholders. The Compensation Committee selected the S&P 500 Healthcare Index as the peer group because it is an objective, widely available index with broad representation in the healthcare sector.



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We describe how we calculate these measures in more detail under “Annual Cash Incentive and PSU Performance Measure Calculations” on page 40. We do not disclose the non-GAAP EPS goals for the second and third annual periods of the Fiscal 18-20 PSUs because it is competitively sensitive information. We will disclose the goals after the end of the three-year performance period.

### **Fiscal 2019 Program Change**

As part of its annual review of our long-term incentive program, the Compensation Committee changed our long-term incentive mix for the fiscal 2019 annual grant, increasing the proportion of PSUs to 60% and eliminating stock options for named executives. The Compensation Committee made the decision after considering factors such as market data, emerging best practices, incentive and retentive value of awards, the recommendation of its compensation consultant and shareholder feedback.

### **Other Elements of Compensation**

#### **401(k) Savings and Deferred Compensation Plans**

Our 401(k) Savings Plan and DCP allow most of our employees based in the United States to accumulate value on a tax-deferred basis and to be competitive in recruiting and retaining talent. Our DCP permits certain management employees, including the named executives, to defer payment and taxation of a portion of their salary and annual incentive compensation into a variety of different investment alternatives. We make matching contributions subject to limits discussed under “Deferred Compensation” on page 43. We also may make additional contributions to the 401(k) Savings Plan and DCP on the same basis for all employees. Named executives also may elect to defer payment and taxation of PSUs and RSUs.

#### **Other Benefits and Perquisites**

The Compensation Committee encourages use of our corporate aircraft for the personal travel of our Chief Executive Officer and Executive Chairman of the Board as it increases the time available for business purposes and enhances safety and security. The Compensation Committee has set each of Messrs. Kaufmann and Barrett’s personal travel allowance at \$150,000 per fiscal year. They do not receive tax reimbursement for any imputed income associated with personal travel. Both Messrs. Kaufmann and Barrett have an aircraft time-sharing agreement, under which they may reimburse us for incremental costs when they use the aircraft for personal travel. Reimbursed travel does not count against their allowances.

#### **Severance and Change of Control Benefits**

We discuss our limited severance payments and benefits in detail under “Potential Payments on Termination of Employment or Change of Control” beginning on page 45. We do not have any agreements to provide change-of-control excise tax gross-ups.

Mr. Casey, our former Chief Executive Officer — Medical Segment, left the company in February 2018. He did not receive severance and was not retirement-eligible upon his departure. Accordingly, he did not receive a fiscal 2018 annual incentive payout and forfeited his unvested long-term incentive awards.

The Board, upon the recommendation of the Compensation Committee, adopted a Senior Executive Severance Plan (the “Severance Plan”), which plan will be effective as of October 1, 2018 and under which our named executives (other than Mr. Barrett) will be eligible for severance benefits under certain circumstances. Under the Severance Plan,

- if prior to a change of control or following the second anniversary of a change of control, we terminate a named executive without “cause,” or

- during the two-year period commencing upon a change of control (the “change of control period”), we terminate a named executive without “cause” or a named executive resigns for “good reason,”

then, the named executive will receive:

- in the case of the Chief Executive Officer, cash severance equal to 2.0 times (or 2.5 times, if the termination occurs during the change of control period) the sum of annual base salary and target bonus;

- in the case of other named executives, cash severance equal to 1.5 times (or 2.0 times, if the termination occurs during the change of control period) the sum of annual base salary and target bonus; and

- a prorated annual bonus for the year of termination based on actual performance (or the greater of target performance and actual performance if the termination occurs during the change of control period) and up to 18 months of health insurance premiums.

Receipt of these amounts is conditioned upon execution of a general release and compliance with certain restrictive covenants.

We believe that the Severance Plan is competitive with market practices and provides appropriate levels of compensation and terms and conditions related to executive separations. These benefits are an important component of our compensation packages designed to attract and retain top caliber talent in senior leadership roles and define terms and conditions of separation events. The Compensation Committee consulted with its compensation consultant before recommending the Severance Plan to the Board.

### **Retirement Benefits**

At retirement, Mr. Barrett, like other company retirees, will be eligible for a prorated fiscal 2019 annual incentive award, prorated vesting of his long-term incentive awards and continued exercisability of vested stock options for their full term.



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To ensure an orderly transition of Ms. Morrison's responsibilities, we amended her long-term incentive awards to provide that upon her retirement in August 2018, she received prorated vesting of awards and continued exercisability of vested stock options for their full term, in both cases consistent with benefits that would be provided to retirees under the 2011 LTIP.

Our Policies, Guidelines and Practices Related to Executive Compensation

**Role of Compensation Committee's Compensation Consultant**

The Compensation Committee engaged Korn Ferry Hay Group, Inc. ("Hay Group") as its independent executive compensation consultant in February 2018. Prior to that, it had retained Frederic W. Cook & Co., Inc. ("Cook") as its consultant during fiscal 2018.

The nature and scope of the consultant's engagement consists primarily of:

- participating in meetings of the Compensation Committee;
- providing compensation data on the Comparator Group; and
- providing advice and recommendations related to compensation for our executive officers, the design of our executive compensation program, the composition of our Comparator Group and director compensation.

Early in fiscal 2018, Cook advised the Compensation Committee on compensation decisions made for fiscal 2018 with respect to base salaries and annual long-term incentive awards. Hay Group advised the Compensation Committee with respect to fiscal 2018 annual incentive payouts. The Compensation Committee made assessments of its compensation consultants under factors set forth in NYSE rules and concluded that each of Hay Group and Cook was independent and that the firms' work for the Compensation Committee did not raise any conflicts of interest.

**Role of Executive Officers**

Our Chief Executive Officer and Chief Human Resources Officer participate in Compensation Committee meetings to make recommendations regarding design and compensation amounts, to present performance assessments of the named executives (other than our Chief Executive Officer and Executive Chairman of the Board) and to discuss our financial and operational performance. The Compensation Committee delegates to our executive officers authority to administer equity and incentive compensation plans for participants who are not officers subject to Section 16 of the Exchange Act.

Our Chief Executive Officer reviews performance objectives with the Compensation Committee at the beginning of the fiscal year. At the end of the fiscal year, the Compensation Committee reviews and discusses the performance and compensation of the Chief Executive Officer in executive session and with the Lead Director. The Chief Executive Officer does not participate in decisions regarding his own compensation.

**Comparator Group**

The Compensation Committee establishes target compensation levels based on a variety of factors, including data from a "Comparator Group" of similarly situated public companies, which helps the Compensation Committee to assess

whether our executive pay remains reasonable and competitive in the marketplace. Developed with the assistance of the Compensation Committee's compensation consultant, our Comparator Group reflects the industry in which we primarily compete for executive talent and includes direct competitors and other companies in the healthcare field. Our Comparator Group also includes air/freight and logistics companies because of their similar business models.

The following companies comprised the Comparator Group for fiscal 2018 executive pay decisions:

Aetna	CVS Health	Owens & Minor
AmerisourceBergen	Express Scripts	Quest Diagnostics
Anthem	FedEx	Sysco
Baxter International	Henry Schein	Thermo Fisher Scientific
Becton Dickinson	Humana	United Parcel Service
Boston Scientific	LabCorp	UnitedHealth Group
CIGNA	McKesson	Walgreens Boots Alliance

The Compensation Committee, working with its compensation consultant, periodically reviews the group's composition to ensure that the companies remain relevant for comparison purposes. The Compensation Committee used the following screening criteria when it reviewed the Comparator Group's composition prior to fiscal 2018:

- revenue ranging from 0.2 to 2 times our annual revenue;
- market capitalization ranging from 0.2 to 5 times our market capitalization;
- inclusion in the peer group of 5 or more of the other companies in our Comparator Group; and
- inclusion in our Global Industry Classification Standard (GICS) sub-industry group, Health Care Equipment and Services.

At the time of the review, our revenue was in the top quintile of the Comparator Group, while our market capitalization was in the fourth quintile.

Our Compensation Committee compares total direct compensation (base salary plus annual and long-term incentives) against the 50th percentile of the Comparator Group as a reference point in setting target compensation levels. In addition to competitive market data, the Compensation Committee also considers internal pay equity and an executive's experience and scope of responsibility, individual performance, potential and unique or hard-to-replace skills, as well as retention considerations.

In May 2018, the Compensation Committee again reviewed the Comparator Group's composition with the assistance of Hay Group and, after considering various factors, made several changes effective for fiscal 2019. The Compensation Committee added Abbott Laboratories, Danaher, Johnson & Johnson, Medtronic and Stryker to better reflect our investments in the Medical segment, including Cordis and the Patient Recovery business, and added

Kroger and Target as companies generally similar in size to us and operating in related businesses. It removed Aetna and Express Scripts, which are being acquired, and also removed Humana and Quest Diagnostics.

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## Risk Assessment of Compensation Programs

Management has assessed our compensation programs and concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on Cardinal Health. This risk assessment included reviewing the design and operation of our compensation programs, identifying and evaluating situations or compensation elements that could raise more significant risks and evaluating other controls and processes designed to identify and manage risk. The Compensation Committee reviewed and discussed the risk assessment and Hay Group reviewed the risk assessment and concurred with management's conclusion.

## Stock Ownership Guidelines

We have stock ownership guidelines to align the interests of executive officers and directors with the interests of our shareholders. The guidelines specify a dollar value (expressed as a multiple of salary or cash retainer) of shares that executive officers and directors must accumulate and hold while serving in these positions.

	Multiple of Base
	Salary/Annual
	Cash Retainer
Chief Executive Officer	6x
Chief Financial Officer and Segment Chief Executive Officers	4x
Other executive officers	3x
Non-management directors	5x

We count common shares, RSUs and phantom shares held through the DCP under the stock ownership guidelines. Executive officers and directors must retain 100% of the net after-tax shares received under any equity awards until they satisfy the required ownership levels.

## Potential Impact on Compensation from Executive Misconduct (“Clawbacks”)

Our incentive plan and equity award agreements provide that we may require repayment of cash incentives and gains realized under equity awards and cancel outstanding equity awards in specified instances of executive misconduct, including a material violation of law or of our *Standards of Business Conduct* that causes material financial harm to us.

We will disclose publicly the incentive compensation forfeitures or repayments from our executive officers if required by law or if we have already disclosed publicly the underlying event triggering the forfeiture or repayment and the disclosure would not violate any individual's privacy rights, is not likely to result in or exacerbate any existing or threatened employee, shareholder or other litigation, arbitration, investigation or proceeding against us and is not otherwise prohibited.

We discuss these provisions in more detail under “Potential Impact on Compensation from Executive Misconduct (“Clawbacks”)” on page 40.

## Hedging and Pledging Shares

Our Board has adopted a policy prohibiting all employees and directors from entering into short sales, publicly traded options, puts and calls, forward sale contracts and other swap, hedging or derivative transactions relating to our

securities. The Board also has adopted a policy prohibiting our executive officers and directors from holding our securities in margin accounts or pledging our securities as collateral for a loan.

### **Equity Grant Practices**

The Compensation Committee typically approves the annual equity grant in August of each year and sets August 15 as the grant date. The Compensation Committee expects the annual grant date to follow the release of earnings for the prior fiscal year in early August, without regard to whether we are aware of material nonpublic information.

### **Equity Dilution Practices**

Our fiscal 2018 annual equity run rate was 1.1%. We calculate our equity run rate as the total number of shares subject to equity awards granted in the fiscal year divided by the weighted average number of our common shares outstanding during the fiscal year.

### **Tax Matters**

Section 162(m) of the Internal Revenue Code (“Code”) limits our ability to take a tax deduction for non-performance-based compensation in excess of \$1 million paid in fiscal 2018 to our Chief Executive Officer and three other most highly compensated executive officers (other than the Chief Financial Officer). “Performance-based” compensation was excepted from this limit, so we generally structured our incentive compensation arrangements in a manner intended to comply with these tax rules. The Compensation Committee has, however, always maintained the flexibility to pay nondeductible incentive compensation as it determines in its business judgment.

### **Human Resources and Compensation Committee Report**

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on that review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in Cardinal Health’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Submitted by the Human Resources and Compensation Committee of the Board.

David P. King, Chairman  
Carrie S. Cox  
Calvin Darden  
Nancy Killefer

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Executive Compensation Tables

The table below summarizes fiscal 2018 compensation for:

- the Chief Executive Officer, who also served as Chief Financial Officer through December 31, 2017;
- the Executive Chairman of the Board, who also served as Chairman and Chief Executive Officer through December 31, 2017;
- the Chief Financial Officer, who was promoted to that position effective January 1, 2018;
- the three other most highly compensated executive officers as of June 30, 2018, the end of our fiscal 2018; and
- Mr. Casey, who was an executive officer through February 2, 2018 and would have been one of the three other most highly compensated executive officers as of June 30, 2018.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$)	Change in	All Other Compensation (\$) <sup>(3)</sup>	T
							Pension Value and Nonqualified Deferred Compensation Earnings (\$)		
<b>Michael C. Kaufmann</b> <sup>(4)</sup>	2018	955,699	–	4,900,007	<sup>(5)</sup> 948,690	1,518,780	–	100,404	8
	2017	746,438	186,609	1,947,561	997,432	–	–	14,979	3
Chief Executive Officer and Former Chief Financial Officer	2016	721,311	–	1,575,006	826,402	880,723	–	27,251	4
<b>George S. Barrett</b> <sup>(4)</sup>	2018	1,354,374	–	6,333,303	3,162,297	2,072,190	–	189,722	1
	2017	1,320,000	–	6,333,255	3,166,434	–	–	165,488	1

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Executive Chairman of the Board and Former Chairman and Chief Executive Officer	2016	1,320,000	–	6,491,739	3,330,665	2,386,755	–	131,928	1
<b>Jorge M. Gomez</b> <sup>(4)</sup>	2018	478,149	–	1,294,742	(6) 163,519	387,356	–	37,527	2
Chief Financial Officer	2018	697,055	–	2,900,011	(7) 948,690	853,195	–	36,131	5
<b>Jon L. Giacomini</b> <sup>(4)</sup>	2017	567,151	141,788	1,900,060	949,930	–	–	14,966	3
Chief Executive Officer — Medical Segment	2016	542,623	–	1,400,062	701,196	602,314	–	27,770	3
<b>Craig S. Morford</b>	2018	585,205	–	1,110,842	593,341	608,848	–	31,514	2
	2017	552,151	117,332	1,033,386	516,631	–	–	14,967	2
Chief Legal and Compliance Officer	2016	531,311	–	1,620,055	420,707	576,487	–	37,579	3
<b>Patricia B. Morrison</b> <sup>(8)</sup>									
Retired Executive Vice President, Customer Support Services and Chief Information Officer	2018	530,356	–	1,095,811	(9) 734,839	(9) 432,771	–	30,705	2
<b>Donald M. Casey Jr.</b> <sup>(4)</sup>	2018	440,411	–	1,900,031	(10) 948,690	(10) –	–	3,051	3
	2017	705,014	176,253	1,947,561	997,432	–	–	10,800	3
Former Chief Executive Officer — Medical Segment	2016	671,311	–	1,505,062	806,369	894,188	–	22,830	3

(1)

The amounts reported represent the aggregate grant date fair value of PSUs (at target) and RSUs granted during each fiscal year. The amounts reported in each fiscal year do not represent amounts paid to or realized by the named executives. See the Grants of Performance Awards for Fiscal 2018 table on pages 37 and 38 and the accompanying footnotes for information on the grant date fair value of the award granted in fiscal 2018. The value of the PSUs granted during fiscal 2018 assuming achievement of the maximum 200% would be: Mr. Kaufmann — \$1,900,031; Mr. Barrett — \$6,333,303; Mr. Gomez — \$262,000; Mr. Giacomini — \$1,900,031; Mr. Morford — \$1,033,385; Ms. Morrison — \$1,368,136; and Mr. Casey — \$1,900,031. The named executives may never realize any value from

(2)

The amounts reported represent the grant date fair value of nonqualified stock options granted during each fiscal year and do not represent amounts paid to or realized by the named executives. See the Grants of Plan-Based Awards for Fiscal 2018 table on page 37 and 38 and the accompanying footnotes for information on the grant date fair value of stock options granted during fiscal 2018 and the assumptions used in determining the grant date fair value. The named executives may never realize any value from these stock options and to the extent they do, the amounts realized may be more or less than the amounts reported above.

(3)

The elements of compensation included in the “All Other Compensation” column for fiscal 2018 are set forth in the table below.



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(4)

Mr. Kaufmann succeeded Mr. Barrett as Chief Executive Officer effective January 1, 2018. Mr. Gomez succeeded Mr. Kaufmann as Chief Financial Officer effective January 1, 2018 and was not previously a named executive. Mr. Giacomini succeeded Mr. Casey as Chief Executive Officer — Medical Segment effective February 5, 2018 following Mr. Casey's departure from the company.

(5)

The amount shown in this column includes RSUs with a grant date fair value of \$2,999,976 granted to Mr. Kaufmann in connection with his appointment to Chief Executive Officer.

(6)

The amount shown in this column includes RSUs with a grant date fair value of \$999,992 granted to Mr. Gomez in connection with his appointment to Chief Financial Officer.

(7)

The amount shown in this column includes RSUs with a grant date fair value of \$999,980 granted to Mr. Giacomini in connection with his appointment to Chief Executive Officer — Medical Segment.

(8)

Ms. Morrison was not previously a named executive.

(9)

The amounts shown in these columns include the incremental fair value of previously granted long-term incentive awards that were modified in connection with Ms. Morrison's retirement in August 2018. These modifications provided for prorated vesting of awards upon Ms. Morrison's retirement and continued exercisability of vested stock options for their full term, in both cases consistent with the benefits that would be provided to retirees under the 2011 LTIP.

(10)

Mr. Casey forfeited these awards following his departure from the company in February 2018.

The amounts shown for "All Other Compensation" for fiscal 2018 include: company contributions to the named executive's account under our 401(k) plan; company contributions to the named executive's account under our DCP; and perquisites, in the following amounts:

Name	Company 401(k) Savings Plan Contributions (\$)	Company		Total (\$)
		Deferred Compensation Plan Contributions (\$)	Perquisites (\$) <sup>(a)</sup>	
<b>Kaufmann</b>	24,723	10,500	65,181	100,404
<b>Barrett</b>	24,723	10,500	154,499	189,722

<b>Gomez</b>	27,527	10,000	–	37,527
<b>Giacomin</b>	24,723	11,408	–	36,131
<b>Morford</b>	24,723	6,791	–	31,514
<b>Morrison</b>	24,705	6,000	–	30,705
<b>Casey</b>	3,051	–	–	3,051

(a)

The amounts shown include the value of perquisites and other personal benefits if the aggregate value exceeded \$10,000. Where we report perquisites and other personal benefits, we quantify each perquisite or personal benefit if it exceeds \$25,000. The amount reported for Mr. Kaufmann included the incremental cost to us of his personal use of corporate aircraft (\$64,313) and home security system monitoring fees. The amount reported for Mr. Barrett included the incremental cost to us of his personal use of corporate aircraft (\$149,756), fees paid for services provided to him for legal review of his employment agreement modification and home security system monitoring fees.

We own corporate aircraft and lease other aircraft as needed. We calculate the incremental cost of personal use of corporate aircraft based on the average cost of fuel, average trip-related maintenance costs, crew travel expenses, per flight landing fees, hangar and parking costs and smaller variable costs. Since we use our aircraft primarily for business travel, we do not include fixed costs, such as depreciation, pilot salaries and certain maintenance costs. Messrs. Kaufmann and Barrett each receive up to \$150,000 per fiscal year in personal use of corporate aircraft. Neither receives tax reimbursement for any imputed income associated with personal travel. Both Messrs. Kaufmann and Barrett have an aircraft time-sharing agreement, under which they may reimburse us for incremental costs when they use the aircraft for personal travel consistent with Federal Aviation Administration regulations. Reimbursed travel does not count against their personal use allowances.

#### Employment Arrangements

Mr. Barrett is the only executive officer with an employment agreement. Prior to November 2017, Mr. Barrett's employment agreement provided that he would serve as Chairman and Chief Executive Officer until our 2018 Annual Meeting of Shareholders, subject to earlier termination. In November 2017, as part of the succession plans described above, we modified Mr. Barrett's employment agreement to provide that he will continue to serve as Executive Chairman of the Board until the 2018 Annual Meeting of Shareholders, at which time he will retire from Cardinal Health.

The modified agreement provides that Mr. Barrett will continue to receive the same level of compensation through the date of his retirement. He will receive medical and dental benefits for two years after retirement. He also will receive retirement treatment under our 2011 LTIP, which provides for a prorated fiscal 2019 annual bonus, prorated vesting of his outstanding long-term incentive awards and continued exercisability of vested stock options for their full term.

In connection with Ms. Morrison's retirement in August 2018, we entered into a letter agreement with her that provided for prorated vesting of outstanding long-term incentive awards and continued exercisability of vested stock options for their full term, in both cases consistent with the benefits that would be provided to retirees under the 2011 LTIP.

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## Grants of Plan-Based Awards for Fiscal 2018

The table below supplements our Summary Compensation Table by providing additional information about our plan-based compensation for fiscal 2018.

Name/ Award Type	Grant Date	Approval Date	Estimated Potential Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Potential Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>(4)</sup>	Exer or B or B Opti Awa (\$/S
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
<b>Kaufmann</b>											
Annual Incentive			496,334	1,240,834	2,481,668						
PSUs	8/15/2017	8/15/2017				7,151	14,301	28,602			
Option	8/15/2017	8/8/2017							70,102		66.4
RSUs	8/15/2017	8/8/2017							14,301		
RSUs <sup>(7)</sup>	11/8/2017	11/5/2017							49,188		
<b>Barrett</b>											
Annual Incentive			812,624	2,031,559	4,063,118						
PSUs	8/15/2017	8/15/2017				23,835	47,669	95,338			
Option	8/15/2017	8/8/2017								233,673	66.4
RSUs	8/15/2017	8/8/2017							47,669		
<b>Gomez</b>											
Annual Incentive			146,070	365,174	730,348						
PSUs	8/15/2017	8/15/2017				986	1,972	3,944			
Option	8/15/2017	8/8/2017								12,083	66.4
RSUs	8/15/2017	8/8/2017							2,465		
RSUs <sup>(8)</sup>	11/8/2017	11/5/2017							16,396		
<b>Giacomin</b>											
Annual Incentive			278,822	697,055	1,394,110						
PSUs	8/15/2017	8/15/2017				7,151	14,301	28,602			

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Option	8/15/2017	8/8/2017							70,102	66.4
RSUs	8/15/2017	8/8/2017							14,301	
RSUs <sup>(9)</sup>	2/15/2018	1/19/2018							14,684	
<b>Morford</b>										
Annual Incentive			198,970	497,425	994,850					
PSUs	8/15/2017	8/15/2017				3,889	7,778	15,556		
Option	8/15/2017	8/8/2017							43,844	66.4
RSUs	8/15/2017	8/8/2017							8,944	
<b>Morrison</b>										
Annual Incentive			169,714	424,285	848,570					
PSUs	8/15/2017	8/15/2017				3,011	6,021	12,042		
Option	8/15/2017	8/8/2017							29,517	66.4
RSUs	8/15/2017	8/8/2017							6,021	
PSUs <sup>(10)</sup>	6/29/2018	6/29/2018				1,738	3,476	6,952		
PSUs <sup>(10)</sup>	6/29/2018	6/29/2018				1,171	2,342	4,684		
Option <sup>(10)</sup>	6/29/2018	6/29/2018							34,158	51.4
Option <sup>(10)</sup>	6/29/2018	6/29/2018							24,611	71.4
Option <sup>(10)</sup>	6/29/2018	6/29/2018							21,965	84.2

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Name/ Award Type	Grant Date	Approval Date	Estimated Potential Payouts Under Non-Equity Incentive Plan			Estimated Potential Payouts Under Equity Incentive Plan			All Other Stock Awards: Number of Shares or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>(4)</sup>	Exerc or Bas or Price Option Award (\$/Sh)
			Awards <sup>(1)</sup> Threshold (\$)	Awards <sup>(1)</sup> Target (\$)	Awards <sup>(1)</sup> Maximum (\$)	Awards <sup>(2)</sup> Threshold (#)	Awards <sup>(2)</sup> Target (#)	Awards <sup>(2)</sup> Maximum (#)			
Option <sup>(10)</sup>	6/29/2018	6/29/2018								21,381	83.19
Option <sup>(10)</sup>	6/29/2018	6/29/2018								18,394	66.43
RSUs <sup>(10)</sup>	6/29/2018	6/29/2018						3,222			
RSUs <sup>(10)</sup>	6/29/2018	6/29/2018						1,092			
RSUs <sup>(10)</sup>	6/29/2018	6/29/2018						1,745			
<b>Casey</b>											
Annual Incentive <sup>(12)</sup>			297,808	744,521	1,489,041						
PSUs <sup>(12)</sup>	8/15/2017	8/15/2017				7,151	14,301	28,602			
Option <sup>(12)</sup>	8/15/2017	8/8/2017								70,102	66.43
RSUs <sup>(12)</sup>	8/15/2017	8/8/2017								14,301	

(1) This information relates to annual cash incentive award opportunities with respect to fiscal 2018 performance. Amounts actual under the annual cash incentive awards are reported in the Summary Compensation Table under the “Non-Equity Incentive Plan Compensation” column.

(2) “Equity Incentive Plan Awards” are PSUs granted during the fiscal year under our 2011 LTIP. The August 2017 grants and on Morrison’s June 2018 modified awards are eligible to vest based on payout levels of non-GAAP EPS in each of three annual p modifier based on TSR relative to the S&P 500 Healthcare Index. Ms. Morrison’s other June 2018 modified award is eligible t three-year performance period based on the sum of non-GAAP EPS CAGR and average annual dividend yield. We accrue cash equivalents that are payable when, and only to the extent that, the PSUs vest.

(3) “All Other Stock Awards” are RSUs granted during the fiscal year under our 2011 LTIP that, unless otherwise noted, vest ratal years and accrue cash dividend equivalents that are payable when, and only to the extent that, the RSUs vest.

(4) “All Other Option Awards” are nonqualified stock options granted during the fiscal year under our 2011 LTIP that, unless othe vest ratably over three years and have a term of 10 years.

(5)

The stock options have an exercise price equal to the closing price of our common shares on the NYSE on the grant date (or the grant date in the case of Ms. Morrison's modified awards).

(6)

We valued the PSUs and RSUs by multiplying the closing price of our common shares on the NYSE on the grant date by the number of PSUs (at target) and RSUs awarded. We valued the stock options granted on August 15, 2017 utilizing a lattice model with the following assumptions: expected stock option life: 6.94 years; dividend yield: 2.78%; risk-free interest rate: 2.13%; and expected volatility: 24.23%. We valued the stock options granted on June 29, 2018 utilizing a Black-Scholes model with the following assumptions: expected stock option life: between 5.04 and 9.04 years; dividend yield: 3.90%; risk-free interest rate: between 2.74% and 2.85%; and expected volatility: between 24.23% and 30.94%. The amounts reported represent the grant date or incremental fair value and do not represent amounts earned or realized by the named executives. The named executives may never realize any value from the PSUs or stock options. To realize value from PSUs or stock options, the amounts realized may be more or less than the amounts reported above.

(7)

These RSUs were granted to Mr. Kaufmann in connection with his appointment to Chief Executive Officer.

(8)

These RSUs were granted to Mr. Gomez in connection with his appointment to Chief Financial Officer.

(9)

These RSUs were granted to Mr. Giacomini in connection with his appointment to Chief Executive Officer — Medical Segment, effective full on the first anniversary of the grant date.

(10)

Reflects previously granted long-term incentive awards that were modified in connection with Ms. Morrison's retirement in August 2017. These modifications provided for prorated vesting of awards upon Ms. Morrison's retirement and continued exercisability of stock options for their full term, in both cases consistent with the benefits that would be provided to retirees under the 2011 LTIP. The amounts shown in the "Grant Date Fair Value of Stock and Option Awards" column reflect the incremental fair value of these modified awards.

(11)

There was no incremental fair value with respect to these modified awards.

(12)

Mr. Casey forfeited these grants following his departure from the company in February 2018.



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## 2011 Long-Term Incentive Plan

Our key executive employees, including our named executives, are eligible to receive annual cash incentives under our 2011 LTIP. For fiscal 2018, the Compensation Committee established the “qualifying performance criterion” of \$900 million in non-GAAP operating earnings. This qualifying performance criterion was intended to allow payments to qualify as performance-based compensation under Section 162(m) of the Code and to be fully tax-deductible by us. The named executives would not have received any payout under the 2011 LTIP unless we achieved this threshold.

As discussed in the Compensation Discussion and Analysis, the Compensation Committee also set a “performance goal” of adjusted non-GAAP operating earnings and established a matrix of potential funding percentages based upon achievement of varying levels of earnings, subject to adjustment based on tangible capital performance. The funding percentage determines the total pool for annual incentive awards. The performance goals established by the Compensation Committee may vary from year to year, and the Compensation Committee retains discretion to make annual incentive awards to named executives even if we do not achieve the minimum performance goal.

Under our 2011 LTIP, we also may grant stock options, stock appreciation rights, stock awards and other stock-based awards to employees. During fiscal 2018, we granted PSUs, nonqualified stock options and RSUs under the plan to our named executives, as shown in the Grants of Plan-Based Awards for Fiscal 2018 table on pages 37 and 38. The plan provides for “double-trigger” accelerated vesting in connection with a change of control, under which the vesting of awards will accelerate only if there is a qualifying termination within two years after the change of control or if the surviving entity does not provide qualifying replacement awards.

During fiscal 2018, we added one-year minimum vesting provisions to our 2011 LTIP. Under these provisions, stock options and stock awards are subject to a one-year vesting condition, except upon a change of control or the death or disability of the grantee or for up to an aggregate not to exceed 5% of the total number of shares provided for in the 2011 LTIP.

PSUs granted under the 2011 LTIP settle after a performance period by the issuance of shares, which may be a fraction or multiple of the target number of PSUs subject to an award. Issuance of the shares is subject to both continued employment and the achievement of performance goals established by the Compensation Committee (which may vary from award to award).

For the Fiscal 18-20 PSUs, the Compensation Committee established the “qualifying performance criterion” of non-GAAP EPS for our fiscal year ending June 30, 2020 equal to or greater than \$1.00 per share. This qualifying performance criterion was intended to allow the PSUs to be performance-based compensation under Section 162(m) of the Code and to be fully tax-deductible by us.

As discussed in the Compensation Discussion and Analysis, the Compensation Committee also established a “performance goal” for the Fiscal 18-20 PSUs based on payout levels of non-GAAP EPS in each of three annual periods, with a modifier based on TSR relative to the S&P 500 Healthcare Index. A participant can receive 50% of target PSUs if we attain threshold performance and up to 200% of target PSUs for over-performance before the 20% TSR modifier is applied.

We describe how we calculate the measures referred to in this section under “Annual Cash Incentive and PSU Performance Measure Calculations” below.



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## Annual Cash Incentive and PSU Performance Measure Calculations

Award	Performance Measure	Calculation
<b>Annual Cash Incentive</b>	Adjusted non-GAAP operating earnings, with a modifier based on tangible capital	Adjusted non-GAAP operating earnings is non-GAAP operating earnings <sup>(1)</sup> adjusted to exclude annual cash incentive expense to the extent below or above target performance, contributions to the 401(k) Savings Plan and DCP and income or expense related to the performance of our DCP assets that is included within distribution, selling, general and administrative expenses in our consolidated statement of earnings. <sup>(2)</sup>  Tangible capital is 12-month average of total assets, less total liabilities (other than interest-bearing long-term obligations), goodwill and other intangibles, net, and cash and equivalents. <sup>(2)</sup>
	Sum of non-GAAP EPS CAGR and average annual dividend yield	Non-GAAP EPS CAGR is non-GAAP EPS <sup>(3)</sup> for the last fiscal year of the performance period divided by non-GAAP EPS for the last fiscal year preceding the performance period; the quotient is then raised to the power of one divided by the number of years in the performance period.  Average annual dividend yield is the sum of all cash dividends paid per share during a performance period divided by the number of years in the performance period; the quotient is then divided by our closing share price on the grant date.
<b>Fiscal 2016-18 PSUs</b>	Payout levels of non-GAAP EPS in each of three annual periods, with a modifier based on TSR relative to the S&P 500 Healthcare Index	Payout levels of non-GAAP EPS in each of three annual periods is the sum of the payout level based on non-GAAP EPS <sup>(3)</sup> in the first year, the payout level based on non-GAAP EPS in the second year and the payout level based on non-GAAP EPS in the third year, divided by three. A payout level is earned for each annual period based on achieving set levels of non-GAAP EPS for the first year and growth over the prior fiscal year's non-GAAP EPS for the second and third years.  TSR is cumulative total shareholder return for the performance period assuming dividend reinvestment and determined based on the average daily closing stock prices for the 20 trading days ending immediately prior to the first day and last day of the performance period, respectively.

(1)  
Non-GAAP operating earnings is operating earnings excluding LIFO charges/(credits), restructuring and employee severance, amortization and other acquisition-related costs, impairments and (gain)/loss on disposal of assets and litigation (recoveries)/charges.

(2)  
For fiscal 2018, we excluded an incremental 401(k) plan contribution from the adjusted non-GAAP operating earnings calculation. Historically, we have also excluded the results of acquired or divested businesses from the adjusted non-GAAP operating earnings and tangible capital calculations if they were not included in our Board-approved annual budget. During fiscal 2018, we did not adjust for the divestiture of the China distribution business, so the divestiture had an unbudgeted negative effect on the fiscal 2018 annual incentive payout. The Compensation Committee also may make other adjustments for purposes of determining whether we achieved our performance goals, although none were made for fiscal 2018.

(3)

Non-GAAP EPS is non-GAAP net earnings attributable to Cardinal Health, Inc. divided by diluted weighted average shares outstanding. Non-GAAP net earnings attributable to Cardinal Health, Inc. is net earnings attributable to Cardinal Health, Inc. excluding LIFO charges/(credits), restructuring and employee severance, amortization and other acquisition-related costs, impairments and (gain)/loss on disposal of assets, litigation (recoveries)/charges, net, and loss on extinguishment of debt, each net of tax, and transitional tax benefit, net, related to the U.S. Tax Cuts and Jobs Act of 2017. For purposes of the PSUs, the Compensation Committee may approve adjustments to how we calculate non-GAAP net earnings attributable to Cardinal Health, Inc. to reflect a change by us to the definition of that measure as presented to investors, exceptional acquisitions or divestitures, changes in accounting principles or other exceptional items that are not reflective of our operating performance. We adjusted the Fiscal 16-18 PSUs to remove all benefits of U.S. tax reform.

In addition to determining incentive compensation, we use the non-GAAP financial measures referenced above internally to evaluate our performance, evaluate the balance sheet, and engage in financial and operational planning 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.

#### Potential Impact on Compensation from Executive Misconduct (“Clawbacks”)

The 2011 LTIP authorizes us to seek repayment of incentive awards from a participant if that participant engages in misconduct that causes or contributes to the need to restate previously-filed financial statements and the payment was based on financial results that we subsequently restate. In addition, incentive awards granted under the 2011 LTIP may be subject to repayment if a participant commits misconduct, including a breach of our *Standards of Business Conduct* or violation of an applicable non-competition or confidentiality agreement.

Under our stock option, PSU and RSU agreements, unexercised stock options, unvested PSUs and RSUs and certain vested PSUs and RSUs are forfeited if the holder breaches our *Standards of Business Conduct*, discloses confidential information, commits fraud, gross negligence or willful misconduct, solicits business or our employees, disparages us or engages in competitive actions while employed by Cardinal Health or during a set time period after termination of employment. We also may require the holder to repay the gross gain realized from any stock option exercises or the value of the PSUs and RSUs settled within a set time period prior to such conduct.

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## Outstanding Equity Awards at Fiscal Year-End for Fiscal 2018

The table below shows the number of shares underlying exercisable and unexercisable stock options and unvested PSUs and RSUs held by our named executives on June 30, 2018. Mr. Casey departed from the company in February 2018 and had no outstanding equity awards to report in the table.

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards Number of Units, Shares, Units and Other Rights Have Not Vested <sup>(3)</sup>
	Option Grant Date	Number of Underlying Securities Unexercised Options <sup>(#)</sup>	Number of Underlying Securities Unexercised Options <sup>(#)</sup>	Option Exercise Price (\$/Sh)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested <sup>(#)</sup>	Market Value of Shares or Units of Stock That Have Not Vested <sup>(2)</sup> (\$)	
<b>Kaufmann</b>	8/15/2011	76,909	–	41.60	8/15/2021			
	8/15/2012	96,291	–	39.81	8/15/2022			
	8/15/2013	68,316	–	51.49	8/15/2023			
	8/15/2014	53,698	–	71.43	8/15/2024			
	8/15/2015	31,378	15,689	84.27	8/15/2025			
	8/15/2016	19,885	39,770	83.19	8/15/2026			
	8/15/2017	–	70,102	66.43	8/15/2027			
						74,196	<sup>(4)</sup> 3,622,991	12,861
<b>Barrett</b>	8/15/2011	308,302	–	41.60	8/15/2021			
	8/15/2012	330,738	–	39.81	8/15/2022			
	8/15/2013	279,770	–	51.49	8/15/2023			
	8/15/2014	212,020	–	71.43	8/15/2024			
	8/15/2015	126,463	63,232	84.27	8/15/2025			
	8/15/2016	63,126	<sup>(6)</sup> 126,254	<sup>(6)</sup> 83.19	8/15/2026			
	8/15/2017	–	<sup>(6)</sup> 233,673	<sup>(6)</sup> 66.43	8/15/2027			
						86,199	<sup>(7)</sup> 4,209,097	42,868
<b>Gomez</b>	8/15/2014	5,862	–	71.43	8/15/2024			
	8/15/2015	5,730	2,865	84.27	8/15/2025			
	8/15/2016	2,872	5,746	83.19	8/15/2026			
	8/15/2017	–	12,083	66.43	8/15/2027			
						20,612	<sup>(9)</sup> 1,006,484	1,774
<b>Giacomin</b>	8/15/2012	26,166	–	39.81	8/15/2022			
	8/15/2013	21,349	–	51.49	8/15/2023			

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	8/15/2014	14,650	–	71.43	8/15/2024			
	9/15/2014	24,037	–	74.96	9/15/2024			
	8/15/2015	26,624	13,312	84.27	8/15/2025			
	8/15/2016	18,938	37,876	83.19	8/15/2026			
	8/15/2017	–	70,102	66.43	8/15/2027			
						39,368	(11) 1,922,339	12,861
<b>Morford</b>	8/15/2011	12,795	–	41.60	8/15/2021			
	8/15/2012	37,444	–	39.81	8/15/2022			
	8/15/2013	39,038	–	51.49	8/15/2023			
	8/15/2014	25,570	–	71.43	8/15/2024			
	8/15/2015	15,974	7,987	84.27	8/15/2025			
	8/15/2016	10,299	20,600	83.19	8/15/2026			
	8/15/2017	–	43,844	66.43	8/15/2027			
						19,426	(13) 948,572	6,995

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Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(3)</sup>
	Option Grant Date	Number of Underlying Securities Unexercised (#) Exercisable	Number of Underlying Securities Unexercised (#) Unexercisable <sup>(1)</sup>	Option Exercise Price (\$/Sh)	Option Expiration Date	Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(2)</sup>	
<b>Morrison</b>	8/15/2013	34,158	–	51.49	8/15/2023			
	8/15/2014	24,611	–	71.43	8/15/2024			
	8/15/2015	14,643	7,322	84.27	8/15/2025			
	8/15/2016	7,974	(15)					