Bloomsburg Investment Group

Equity Analysis
Cardinal Health (CAH)

Analysts:
Coby Stout, Class of 2018
Andrew Freeman, Class of 2017

Bloomsburg Investment Group Opinion: Hold

After extensive and diligent analysis, the Healthcare sector recommends that Cardinal Health (CAH) should stay in the portfolio. Cardinal Health is a leader in the healthcare industry and its main business is within the distribution of medical products and supplies. The company is widely diversified though, and has many different businesses such as inventory management, data analysis, and product launch support. For about a year now, we have held Cardinal Health and since then, it has performed pretty well. The stock pays an attractive dividend which is always useful because it provides a fixed source of income to go along with capital gains. We believe that Cardinal Health is well-situated within the market and may be one of the best stocks within the healthcare industry. Because Cardinal Health is greatly diversified and does not directly rely on the sales of drugs, it is in a great position to thrive in an environment that may soon become complicated. Over the years, Cardinal Health has been a major player in M&A which is a great benefit because it provides diversification and stability going into the future. We believe that Cardinal Health will continue to perform well for years to come and reiterate our hold position.

Corporate Summary:

Cardinal Health operates within the healthcare services and products industry and is a leader in the distribution field. The company's main business provides supply chain services for branded and generic pharmaceutical, OTC, and other consumer products to various customers including individuals, hospitals, and healthcare providers. Besides distribution, Cardinal Health also provides inventory management, data reporting, new product launch support, and contract pricing to medical manufacturers; pharmacy and medication therapy management, and patient outcomes services to hospitals, other healthcare providers. There is also a segment that operates nuclear pharmacies and cyclotron facilities that manufacture, prepare, and deliver radiopharmaceuticals. Offers logistics, marketing, and other services; and repackages generic pharmaceuticals and over-the-counter healthcare products.

Corporate Details:	
Name	Cardinal Health Inc
Ticker	CAH
Domicile	United States
Sector	Healthcare
Industry	Medical Distribution
Exchange	NEW YORK STOCK EXCHANGE, INC.
Last Close	81.34
Price 52 Wk High	87.85
Price 52 Wk Low	62.70
Latest Dividend	0.45
Dividend Yield % TTM	2.13
Beta 5 Yr (Mo-End)	0.71
Avg Daily Volume (3 Mo)	2,329,153.80
Shares Outstanding (mil)	315.45
Number of Analysts	5

Cardinal Health Inc
CAH

Financial Summary, Year End 2016 (in millions)

Market Capitalization	25,659.09
Total Revenue	121,546.00
Gross Profit	6,543.00
Operating Income	2,459.00
Net Income Cont Ops	1,431.00
Net Income	1,427.00
Current Assets	21,956.00
Cash	2,356.00
Total Assets	34,122.00
Current Liabilities	19,701.00
Long-term Liabilities	7,867.00
Total Liabilities	27,568.00
Total Equity	6,554.00
Operating Cash Flow	2,971.00
Investing Cash Flow	-4,080.00
Financing Cash Flow	-1,139.00
Change In Cash	-2,260.00
EBITDA	3,100.00
Enterprise Value	29,240.09
Capital Expenditure	-465.00
P/E Ratio Forward	15.27
PEG Ratio	1.21
Dividend Yield % TTM	2.13

Financial Highlights

Cardinal Health has, by far, the largest dividend yield of 2.13% when compared to its main competitors.

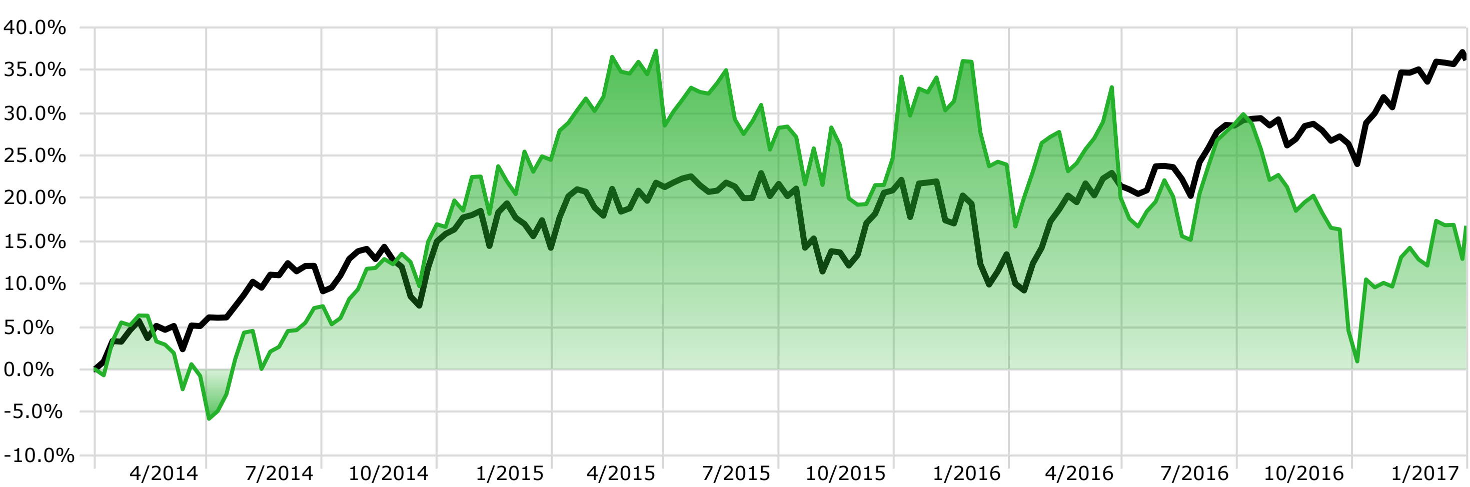
Cardinal Health has a forward P/E ratio of just 15.27 which is low when compared to the rest of the market. This means that the company is certainly not overvalued by the market's standards.

Their PEG ratio is well positioned at 1.21 which means that their share price is justified when compared to their growth rate.

With a beta of 0.71, Cardinal Health is certainly considered very low-risk when compared to the rest of the industry which is known for being somewhat high-risk at times.

Investment Growth

Time Period: 2/1/2014 to 1/31/2017



Cardinal Health Inc 16.8% S&P 500 TR USD 36.2%

Source: Morningstar Direct

Cardinal Health Inc
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"Cardinal Health CEO George Barrett elected..."

* CEO George Barret was elected chairman of the Healthcare Leadership Council in early February

* Policy advocacy group with members from large hospital systems health-care corporations

* Act as an educational resource between healthcare companies and the government for policy discussions surrounding healthcare bills

"Cardinal Health wins $2.25 bln U.S. defense contract"

* Defense contract to provide worldwide ordering and distribution of surgical supplies

"Cardinal Health Fined $64M for Opioid Reporting Abuse"

* Fined for failing to report suspicious opioid orders between 2009 and 2012 with the DEA

* Settlement was reach in 2012, but it took 4 years to finalize

* Paying $44 million for cases in Florida, Maryland, and New York as well as $20 million for West Virginia

"Cardinal Health to pay West Virginia $20M to settle..."

* Sued by West Virginia's attorney general for failing to report unusual opioid orders in the state

* The state dropped all legal actions, but will get $20 million due to negligence of reporting the large influx of prescription painkillers

Cardinal Health Inc
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Industry Environment:

The healthcare industry in general is a sensitive market with the recent election of President Trump and the direction he is going to go with healthcare policy and regulations. For pharmaceuticals, top level executives are hoping that with a Republican majority, their long-time disapproval of price controls and a free market for drug prices will continue into his presidency, allowing for companies to charge higher prices. But Trump has the ability to stop that with executive orders and his administration's actions of regulations and prices. In a recent meeting with pharmaceutical CEO's, Trump said that he favors a faster approval process for the FDA, regulation cuts, and ending freeloading on foreign price controls. In addition, Trump has stated that he would like to see lower drug prices and more domestic drug manufacturing. Because of this, recent trends in healthcare stocks have been positive. Going forward, it remains to be seen what the Trump administration will do regarding healthcare, especially regarding the "repeal and replace" discussions of Obamacare and how this will impact healthcare stocks.

Competitor Comparison

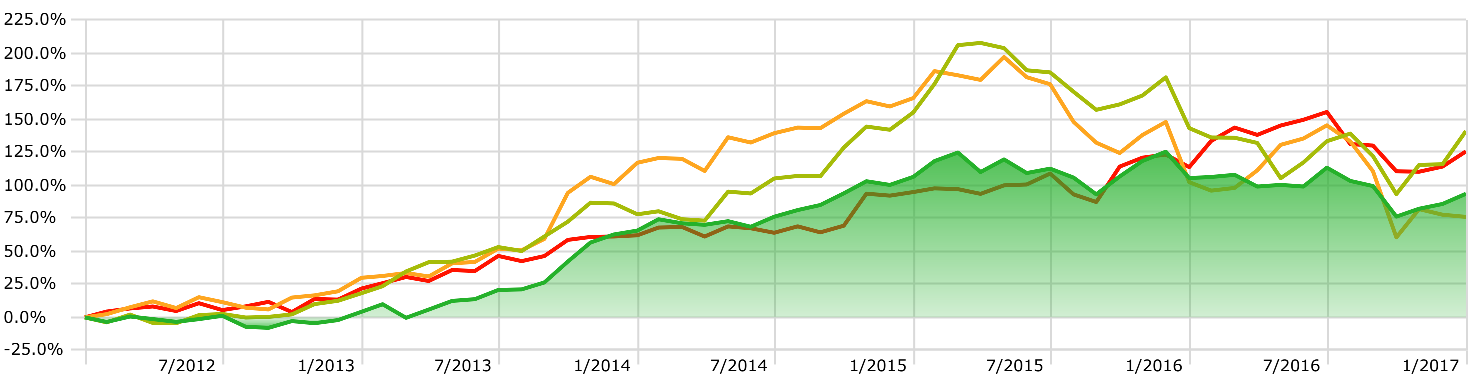
	Revenue (mil)	Revenue % Chg	Gross Profit (mil)	Gross Margin %	Net Income (mil)	Net Income % Chg	Net Margin %	Market Cap (mil) (Daily)	Current Ratio	Receivable Turnover
Cardinal Health Inc	121,546.00	18.55	6,543.00	5.38	1,427.00	17.45	1.17	25,659.09	1.11	17.45
AmerisourceBergen Corp	146,849.69	8.01	4,272.61	2.91	1,427.93		0.97	19,774.62	0.90	16.88
McKesson Corp	190,884.00	6.61	11,416.00	5.98	2,258.00	52.98	1.18	31,996.60	1.10	14.03
Henry Schein Inc	10,629.72	2.49	3,012.26	28.34	479.06	2.79	4.51	13,925.74	1.50	9.02

Competitor Comparison (Cont.)

	Asset Turnover	ROA %	Total Debt to Total Equity	ROE %	Beta 5 Yr	P/E Ratio Forward	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Free Cash Flow / Sales % TTM
Cardinal Health Inc	3.78	4.44	0.85	22.28	0.71	15.27	1.21	4.06	2.13	1.35
AmerisourceBergen Corp	4.77	4.63	2.10	104.01	0.82	15.70	1.54	9.34	1.55	1.00
McKesson Corp	3.46	4.09	0.91	26.68	1.05	12.36	1.29	4.16	0.74	2.94
Henry Schein Inc	1.68	7.58	0.28	16.82	1.01	23.87	1.82	4.73		5.18

Investment Growth

Time Period: 2/1/2012 to 1/31/2017



Cardinal Health Inc 93.5% AmerisourceBergen Corp 140.9% McKesson Corp 76.0%
Henry Schein Inc 125.5%

Cardinal Health Inc
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Strengths:

We believe that Cardinal Health is currently well-situated within the market due to several of its strengths.

Cardinal Health's businesses and operations are very diversified which substantially decreases their level of exposure and risk to certain events that may arise due to uncertain political and economic factors. Examples of diversification include their wide range of customers (individuals, hospitals and other public employers, and other healthcare providers) and wide range of services (supply chain and distribution, inventory management, and data reporting).

Cardinal Health has also proven to be a large player in the M&A business. A little over a year ago, Cardinal Health acquired Cordis, a large developer and manufacturer of medical technology. This acquisition, along with many others, has provided Cardinal Health with the ability to continuously adapt to and enter new and profitable markets. This will certainly prove to be a key strength in the coming years due to possible regulations to the healthcare industry that may become a hurdle.

Cardinal Health operates around the world and has exposure to many different countries and markets. This, similar to diversification, provides Cardinal Health with the benefit of not being too invested in one place at a time.

Weaknesses:

As with all companies, Cardinal Health has some weaknesses that it must improve on.

The healthcare industry is extremely competitive and any company who wishes to operate within it will have a tough road ahead of it. Companies like Merck, Bristol-Meyers Squibb, and Johnson & Johnson dominate the market. However, Cardinal Health mainly operates within the distribution side of the industry where it is a leader. However, the industry in general is extremely competitive.

Cardinal Health has also shown some slowing of growth in certain areas of their business. All companies eventually get to the point where they start showing signs of maturation and a leveling off in their growth but as long as the company can find ways to enter new markets and innovate (M&A), then they will stay an industry leader.

Although Cardinal Health is well-diversified, they are still extremely dependent on the healthcare industry as a whole. If the healthcare industry slows down, then naturally Cardinal Health will be affected. That being said, Cardinal Health has proven to be resistant to any major declines in the industry due to its strong management and business decisions.

Opportunities:

As with many other companies, emerging markets will be a huge opportunity for Cardinal Health to grow and expand its business. Brazil and India, both of which are two of the fastest growing economies, can be a major revenue source for the years to come.

A rapidly changing industry will also prove to be a major opportunity. Every year, new technology gets developed and new, more efficient operations are used. If Cardinal Health can be a leader of innovation, it will certainly pay off as they would continue to dominate the healthcare services industry for years.

The supply chain industry is continuing to grow each year. It is becoming more and more important and it is a service that is changing the healthcare industry. As the industry continues to grow, Cardinal Health will have a great opportunity to expand its business and grow its market share.

Threats:

Over the past several months, many threats have been thrown into the healthcare industry.

The current administration has said several times that it expects to regulate and lower large drug prices. This will not directly affect the company but as Cardinal Health's customers are forced to lower their prices, then it will not take long for Cardinal Health to be forced to lower its prices as well.

Political Unrest will also be a major threat to Cardinal Health. The threat of a tweet or statement can now more than ever affect stock prices substantially. For many companies, but especially for healthcare companies, political uncertainty will have major implications on Cardinal Health.

Valuation: Discount Cash Flow Model (DCF)

A discounted cash flow valuation attempts to value a company by discounting its future cash flows into a present value. This is a great valuation to use because it uses free cash flow as a metric to measure how much the company should be worth. Free cash flow is one of most important numbers that a company produces and it is a key number to analyze when debating whether or not you should buy a stock at its current price. For our discounted cash flow valuation, we got a price of $27 which is clearly not a correct valuation because the stock is currently around $80.

Valuation: Discount Dividend Model (DDM)

A discounted dividend model valuation attempts to value a company by discounting its future dividend payments into a present value. This is a great valuation to use because dividends are very important to investors and they are also essential when valuing a company. Dividends are the amount of profit that the company pays out to its shareholders and the estimated future dividends can be discounted to get a valuation. After using the discounted dividend model valuation, we got a price of $84 per share. We believe that this is very accurate as the price is currently around $80 and still has room to run.

Valuation: Multiple Valuation

A multiple valuation attempts to value a company using future EPS and dividends. After using the multiple valuation, we got a price of $111.15. This price is a little high and may have been distorted due to factors within the calculation process, but we still believe that the multiple valuation forecast is above its current price of $80 per share.

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Sources Cited

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- MarketWatch