



US Spinoff Report

Valuations of Corporate Divestitures

Parent: Cardinal Health Inc.

Sector: Healthcare – Drug Distribution

Spinoff Entity: CareFusion Corporation

Sector: Healthcare – Medical Devices

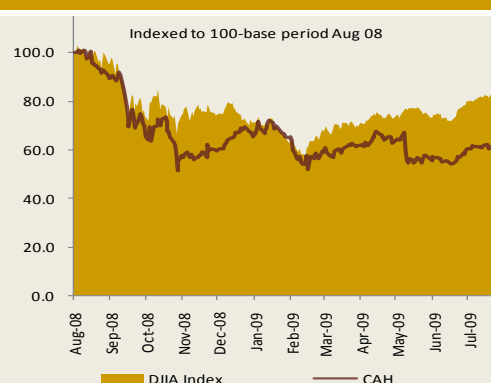
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Target price & risk-CAH

Target price(Post Spinoff)	\$33
Share price (last close)	\$35
Horizon (months)	12
Risk	Low

Performance & EV-CAH



Return 5d/YTD/1Y (%)	5.6/-0.4/-36.3
Volatility 30d/90d/200d (%)	19.8/34.7/44.3
High/Low 1Y (\$)	56.5/27.8
Avg d turn 30d/90d (\$ m)	84.7/84.5
Market Cap (\$ m)	12,559
Net IB Debt (\$ m)	2,032
Enterprise value (\$ m)	14,590

Miscellaneous-CAH

Spinoff announcement date	July 10, 2009
Forthcoming Event Date	Aug 21, 2009
Majority shareholder	Dodge & Cox
Listing Exchange	NYSE
Ticker/Bloomberg	CAH /CAH US
O/S shares m	362
Div Yield FY09 in%	2.7%
Free float in %	98%

CareFusion Spinoff to unlock value for distribution giant

Trotting along the paths of similar MedTech companies, CareFusion prepares to extricate itself from the shadows of its big brother (Cardinal Health) later this month. The Spinoff of CareFusion comes at a time of heightened activity of reforms in the Healthcare industry. We believe that this will be an appropriate time for the Spinoff to happen as it will earn time for both the companies to focus and leverage on their core strengths and prepare for post reforms era. Cardinal's Board approved the Spinoff on July 10, 2009. Accordingly, CareFusion will distribute 80.1% of its common stock to Cardinal Health shareholders in the ratio of 0.5:1 while 19.9% stake will be retained by Cardinal Health (with a commitment to dispose this stake in less than 5 years).

Cardinal Health Inc – Removal of risks through Spinoff

We recommend a Buy rating on new Cardinal Health as we see a long term value emerging from the macro trends favoring the company. An attempt to include a portion of the 50m uninsured Americans under the benefits of the new healthcare system coupled with a strong pipeline of generics launches due, will help in volume expansion and margin sustenance. The Spinoff will provide investors an opportunity to invest in a business model with less regulatory, reimbursement or pipeline risk from other sectors. Based on an average of DCF and SOTP valuation, we have arrived at a fair value of \$33 per share, an upside of 30% from the technical split price of \$25 per share.

CareFusion Corporation – Scores high on quality vs quantity

The robust business model of CareFusion catering to the infection prevention segment within hospitals abodes well with President Obama's target of reducing healthcare costs. CareFusion works for reducing hospital-acquired infections which supplements the proposal for shifting Medicare payments based on a hospital's quality versus quantity of care. Though the recent crisis led cuts, hospital capex continues to impact CareFusion. We believe this is adequately reflected in the CAH stock price. We are long term positive on the business model of CareFusion and recommend a Buy rating for the stock. Based on the average of DCF and SOTP valuation, we arrive at a target price of \$23 per share, an upside potential of 24% from the technical split price of \$19 per share

Key figures and ratios (\$ m)	CAH			CFN		
	2007	2008	2009	2007	2008	2009
Pro Forma (assuming Spinoff)						
Operating revenues	84,193	87,408	95,992	2,659	3,771	3,707
Revenue growth (%)	8.9%	3.8%	9.8%	14.5%	41.8%	-1.7%
Adj. EBITDA	1,794	1,653	1,623	691	755	691
EBITDA (%)	8.4%	-7.9%	-1.8%	20.6%	9.3%	-8.5%
Adj. EBIT	1,589	1,437	1,419	574	590	520
NOPLAT	1,184	1,091	1,071	456	498	456
Adj. Net income from cont. Operations	1,325	890	816	304	368	348
Adj. EPS from cont. operations(\$)	3.27	2.45	2.26	1.34	1.63	1.54
Return on Assets (%)	5.1%	4.7%	4.2%	3.9%	4.4%	3.8%
Return on Equity (%)	18.0%	11.5%	9.7%	6.2%	7.3%	6.3%
Return on Invested Capital (%)	14.7%	12.6%	12.1%	9.3%	9.0%	7.3%
EV/EBITDA	5.74	6.24	6.35	NA	NA	7.40
P/E	7.78	10.41	11.28	NA	NA	12.03
Dividend yield (%)	1.5%	2.0%	2.7%	NA	NA	NA