IOPA INVESTORS FOR OPIOID AND PHARMACEUTICAL ACCOUNTABILITY

P.O. Box 14309
Detroit, MI 48214
734.929.5789

In 2020 the State Treasurers of Connecticut and Rhode Island, members of the Investors for Opioid Accountability coalition ("IOPA"), led a "Vote No" against Cardinal Health Inc.'s Say-on-Pay proposal over the failure to tie executive pay to the $6.7 billion in opioid litigation charges booked by the company.[i] As a result, 38 percent of shares were cast against Say-on-Pay at Cardinal Health in 2020. Following this result, members of the IOPA have undertaken an extensive engagement with Cardinal Health over how the Company should respond to last year's vote and how to address the IOPA's underlying concerns with excluding compliance related litigation settlements from executive compensation calculations.

Having reviewed Cardinal's 2021 proxy statement in which the company again excluded opioid litigation related charges but offered a one-time discretionary cut to the CEO's incentive pay, the IOPA offers this reaction:

The discretionary cuts to executive pay appear limited relative to overall pay and magnitude of charges

The 65 percent, or $1.4 million, discretionary cut to CEO Michael Kaufmann's annual incentive payout, though a step in the right direction, represents just 11 percent of his targeted compensation for the year.[ii] The cuts to the other named executive officers' payouts represent an even smaller proportion of their respective target pay.[iii]

This is concerning. Cardinal Health's $6.7 billion in opioid-related charges is equivalent to the Company's total earnings generated between FY 2014 through FY 2019, a period in which the Company's top executives received tens of millions of dollars in short-term incentive payouts based on the earnings generated during that period.[iv]

Moreover, in eliminating any payout for the earnings component of this year's annual incentive program for CEO Kaufmann, but still paying out the remainder of the award (ultimately worth $780,000), Cardinal Health's Compensation Committee has effectively limited the impact of the opioid litigation on his pay to the $1.2 billion in charges taken in fiscal 2021. This seemingly ignores the $5.6 billion booked in fiscal 2020 and the $2.5 million annual cash incentive award to CEO Kaufmann for 2020 that was largely only payable after this charge was excluded from the bonus calculation.

Additional structural reforms are necessary to mitigate compliance risks

Although we welcome the Company's decision to include a deferral period for a portion of the FY 2022-2024 performance share units ("PSUs"), there is no indication in the proxy statement that this decision represents a permanent shift, rather than a one-time modification. There is also no discussion about how this deferral period relates to the challenges that Cardinal Health faces. For example, would late-arriving information about compliance failures that occurred during the initial performance period be factored into any final payouts following the deferral period?

Furthermore, we believe the decision to continue automatically excluding legal settlement charges from the earnings metrics used in the incentive programs is misguided. We strongly favor including all costs that stem from compliance or other regulatory or safety failures in the payout

IOPA INVESTORS FOR OPIOID AND PHARMACEUTICAL ACCOUNTABILITY

P.O. Box 14309
Detroit, MI 48214
734.929.5789

calculations, with the provision that the Board has discretion to make one-off exclusions, if it deems costs to have stemmed from actions pre-dating the current management team. This is certainly preferable to the position that such costs are always to be excluded. Ensuring that costly compliance failures are reflected in pay metrics provides a crucial incentive to Company executives to ensure the highest standards of compliance.

Please feel free to reach out to the IOPA if you have questions about our concerns. We hope this information is helpful to Cardinal Health shareholders as they consider their proxy voting decisions.

---

[i] *See* 2020 Solicitation from Rhode Island General Treasurer, Seth Magaziner, and Connecticut State Treasurer, Shawn T. Wooden (https://www.sec.gov/Archives/edgar/data/721371/000121465920008832/r1022202px14a6g.htm).

[ii] *See* Cardinal Health 2021 Proxy Statement, at 6, 10, 53-54, 59 (Showing before and after deduction payout, the difference represents $1.4m.).

[iii] Cardinal Health 2021 Proxy, at 53-54 (The 20 percentage point deductions for the other NEOs represents approximately $150k in pay reduction. Compare this to their base pay, short-, and long-term incentive opportunities in the CD&A, showing that these deductions represent a lot less of the total direct compensation that was targeted, - circa 3 to 4%.).

[iv] Compare these reductions with those taken at drug distributor McKesson Corporation, where CEO pay was cut by $2.9 million in connection with its opioid charges. McKesson's total NEO deductions represent more than 3x the deductions taken by Cardinal Health.