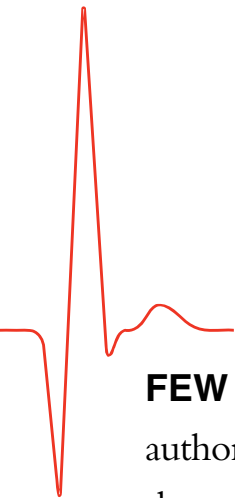




THE HEART OF THE MATTER

As the CEO of the Cardinal Health Medical Segment, Donald Casey Jr. drills down to the core of the constantly changing healthcare industry to discover the innovative ways the company can position itself for dramatic growth and success.

BY CHRIS WARREN



FEW PEOPLE CAN SPEAK WITH AS MUCH

authority about the recent changes that have convulsed the worldwide healthcare system as Donald Casey Jr. Indeed, Casey has spent the past three-plus decades working in a variety of healthcare jobs. For the first 26 years of his career, Casey was at Johnson & Johnson (J&J), where he held executive positions in the company's medical device and pharmaceutical divisions. Later, Casey was worldwide chairman of J&J's Comprehensive Care Group as well as a member of the company's executive committee, where he oversaw its global cardiovascular, diagnostic, diabetes, and vision-care franchises.

For the past three years, Casey has served as the chief executive officer of the Medical Segment of Cardinal Health, a company based in Dublin, Ohio, in the United States that ranks No. 22 on the 2014 Fortune 500 list. In his current role, Casey heads up the Cardinal Health segment that manufactures and delivers a variety of essential medical products and devices — such as extravascular closure devices and Negative Pressure Wound Therapy pumps — to hospitals, surgery centers, clinical laboratories, and other medical facilities throughout North America.

So when Casey says that healthcare has been whipsawed by dramatic change over the past few years, it's worth listening. "I have been doing healthcare for 33 years at this point. And there has been more change in the last three than at any time, and it's by a long shot," says Casey, who points to the Affordable Care Act and an aging population as the two main drivers behind what is a fundamental reshaping of American

▶ Over the last 30-plus years, Donald Casey Jr. has been witness to the changes that have overtaken the global healthcare market.

healthcare. "The fastest-growing population in all of the U.S. today is 80 and above," he says. Many of these older Americans are contending with more than one chronic disease, meaning their healthcare demands are significant and growing.

Already, he says, regulatory and demographic shifts are having a dramatic impact. For instance, individual hospitals are becoming a rarity, morphing out of necessity into what are known as integrated delivery networks that provide everything from surgery centers and physicians' offices to skilled nursing and long-term care facilities. While these genuinely seismic and fast-paced changes cause plenty of hand-wringing

and sleepless nights among healthcare executives, Casey sees real opportunity for Cardinal Health amid the tumult.

But when Casey outlines how Cardinal Health can succeed in a business environment that is anything but stable and predictable, what he is really describing is a role in which his company helps its customers adapt and flourish in what is very much a new world. Here's why: Even though more and more baby boomers and older patients are seeking care — much of it expensive treatments for serious diseases — there is little appetite for healthcare spending to catapult above its current 15 to 17 percent of America's gross domestic product. "I don't think people are comfortable with the idea that we are just going to increase that to 30 percent," says Casey. "It's

going to be much more about how are we going to provide great healthcare to people in new paradigms. And that is where we think Cardinal thrives."

That's not just Casey's opinion, either. In the company's second-quarter earnings of the



2015 fiscal year, Cardinal Health reported revenue of \$25.5 billion, an uptick of 15 percent from the previous year's second quarter. And the Cardinal Health Medical Segment also saw revenue rise 4 percent compared to 2014.

POSITIONED FOR GROWTH

To understand why Casey sees opportunity and growth where others see crisis, it's helpful to more closely examine the challenges much of the industry faces and how Cardinal Health helps solve these problems. Put simply, the future of healthcare boils down to this: Do more with less. While that is an ominous-sounding mandate for many, Casey has been in healthcare long enough to know that there is a wide spectrum of areas ripe for improvement. "Healthcare for years was almost a cottage industry. It was individual hospitals and individual doctors," he says. The evolution away from what amounts to a mom and pop business model presents enormous possibilities. "With hospital chains getting progressively larger, they are bringing modern management and efficiency into the system," says Casey. "And then the technological advances that have been kind of the mainstay in other industries are being brought to bear in healthcare because there's such an opportunity to create more efficiency."

The Cardinal Health Medical Segment has positioned itself to drive that efficiency and ultimately help its customers focus on delivering the best patient care possible. How does it do that? In part, it's by investing in and operating a sophisticated supply chain of the sort that is more or less standard in American retail. Think about it: When a case of soda leaves the shelf at Wal-Mart, how much time does it take to be replenished? Not long. But in healthcare, that sort of quick replacement has not always been the norm. Take the case of cardiology, where Cardinal Health is actively building out its information-enabled supply chain. "A doctor will get a delivery from a cardiology device company three or four times a day through UPS," says Casey. "But there's no aggregation of how you put all that demand together and use a shared distribution network, which is something Cardinal Health provides."

The benefit of the sort of efficient delivery model Cardinal brings is significant. Largely eliminated are lost and dated products, and the economic burden they represent that goes hand in hand with an antiquated process for getting vital medical products to the clinicians who need them. "Probably 10 to 15 percent more



inventory is held because there is no transparency or visibility about how to manage that inventory," says Casey. Nor is all inventory created equal. Some devices are needed to perform scheduled procedures, such as angioplasty to treat coronary artery disease, while others are genuine emergencies. "How

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many units do we really need to stock within a hospital versus how many can we store centrally and get out on an as-needed basis?" asks Casey. "If X percent are emergencies, what do you need to serve those well while at the same time understanding that how you manage inventory for



As the CEO of the Cardinal Health Medical Segment, Casey has taken an inventive approach to including the development of an information-enabled supply chain. TOP: Cardinal Health RFID-enabled Smart Wand LEFT: Cardinal Health Mynx™ Ace Vascular Closure Device



reductions of 15 to 20 percent and the near elimination of dated and lost products. “[Take a] look at pharmaceuticals that have come up with cures for hepatitis C and devices that make a profound life-saving difference to people,” says Casey. “We also think there needs to be

scheduled procedures needs to be done differently?”

Differently — that’s how Cardinal Health is working. For example, the company’s budding information-enabled supply chain uses a low-cost WaveMark RFID (radio-frequency identification) technology that will let the company know when a product leaves the distribution center, when it enters a hospital and even when it enters an operating room. It also will provide notification when a product is actually taken out of its packaging.

In other words, the information-enabled supply chain provides the kind of transparency that previously has been unimaginable in healthcare. Casey says tests through the Veterans Health Administration have seen inventory

innovation in the supply chain, and that is what we are going to do.”

MAKING CHANGES TO BENEFIT CUSTOMERS

Given that Cardinal Health sees its role — and its avenue to growth — as helping its customers adapt in ways that allow them to provide improved patient care at a reduced cost, it’s no surprise that Casey and his colleagues are always on the lookout for ways to improve the value of Cardinal Health’s own offerings. For a company that brings efficiency where it was lacking, it’s almost inevitable that Cardinal Health would pursue increased scale and even more innovation.

In March, Cardinal Health announced its plans to acquire



Cordis, J&J's global unit that manufactures cardiac and endovascular devices — think products like stents and balloons that prevent artery blockages. If the deal closes, which Cardinal Health expects will happen by the end of the year, the addition of Cordis will aid the company's strategy to better manage what are known as physician preference items (PPI) for doctors working in the cardiovascular, wound management, and orthopedics areas. In the past, as the name indicates, PPIs were medical devices that doctors opted to use in their practices, because they believed the products were the most innovative of their type.

Not surprisingly, those PPIs also come with a higher price tag. But the premium charged has recently become questionable given the influx of what are known as "clinical equivalents," which match the preferred items' quality and functionality at a lower price. "We have this physician-preferred strategy where we try to develop entries in areas of high physician preference, where there is not as much clinical differentiation anymore," says Casey. "Products have been

The Cordis INCRAFT® AAA Stent Graft System will become part of the expanded Cardinal Health cardiovascular

around for a long time and you haven't seen as much innovation." Put more simply, there's little to differentiate between the different brands of guidewires that surgeons use in orthopedic implant procedures.

By acquiring Cordis, which has operations in over 50 countries and had revenues of around \$780 million last year, Cardinal Health achieves a number of important things. Besides securing a menu of well-known interventional cardiology products, the acquisition of Cordis could quickly transform Cardinal into a manufacturer with global scale. "We felt that to compete in a lot of these new physician-preferred categories you need global scale on a manufacturing basis, so you are not at a disadvantage," says Casey, who will oversee Cordis as it is incorporated into Cardinal Health. "We believe the combination of what we can bring from an efficiency standpoint with what they can bring in product and understanding of the category will create really good value for patients as well as providers."

More generally, though, the acquisition of Cordis is

also an example of how Cardinal Health will assess new medical device markets to pursue. Areas that combine both a physician preference that has become less meaningful over time and can benefit from Cardinal Health's approach to product delivery and scale make that list. "They are ripe for us to bring a different way to get these products to market," says Casey.

A GLOBAL PERSPECTIVE

Even though Cardinal's business has long been focused on servicing healthcare providers in the United States and Canada — and, more recently, China — the acquisition of Cordis, which has an impressive global footprint, is also an indication of the company's increasingly global ambitions.

While it's easy to think provincially and imagine that America's healthcare system is the only one in the midst of great change, the reality is that many of the trends that are roiling healthcare here are also present overseas. In particular, aging populations in Europe, Japan, and elsewhere put increased strain on healthcare systems that don't have the option to continually raise prices. "Globally, healthcare is looking to provide patient care in a more fiscally responsible manner," says Casey. "We are going to have to recognize that how we do business is going to be different going forward, not only in the U.S. but everywhere around the globe."

One answer to the dilemma — at least when it comes to cardiology — is an increasing use of interventional procedures that prevent more drastic invasive and expensive surgeries. But Cardinal Health's international efforts are not likely to end with the cardiovascular market. One of the benefits of the addition of Cordis is 70 percent of its sales in 2014 came from beyond America's shores, including important markets like China, Japan, Germany, Italy, France, the United Kingdom, and Brazil.

This international reach is immediately significant for Cardinal Health's cardiovascular device business. But it also forms the backbone of a platform that can eventually be used for other Cardinal Health products and devices. Though Cardinal Health continues to operate separately from J&J and Cordis, and will do so until the acquisition closes, Casey says there is real growth opportunity internationally. "The reaction we've gotten from customers that we are now starting to talk to beyond the U.S. tells us they are looking for those solutions," he says.

NEVER FORGETTING THE CUSTOMER

It's not always the case that the mission of a company aligns more or less exactly with the personal philosophy of its executives. All of Cardinal Health's strategies, products, and investments revolve around becoming a force that allows healthcare providers to deliver the best patient care possible while keeping costs in check.

In other words, it's a service mentality. And it's that mindset that, as a leader, Casey tries to both imbue his staff with and remember himself each day. In fact, Casey hung a note on his office wall that asks a simple question: What have you done to help a customer today? And this is not a query that is exclusive to Casey. "We talk about it a ton," he

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says, "whether it's a senior leadership meeting or a meeting with our sales people, research and development people, or supply-chain people. What are we doing to help our customers with their biggest challenges everyday?"

Having that question drive all of his actions as a leader helps clarify not only how Casey spends his days but also guides strategic choices and the direction of the Cardinal Health Medical Segment he manages. A big part of knowing what his customers need and how Cardinal Health can help them simply comes down to asking them all the time. That is especially true today in such a fast-changing and dynamic business environment. "If you're not checking everyday, you won't be 100 percent sure what changes overnight," he says. "It's very rapid change."

But to be frank, Casey says that while healthcare might be in the midst of faster and more jarring change than most industries, no corporations are exempt from the often-disorienting fluidity of global business. And although the self-deprecating, instinctually modest executive is loath to give advice to others about how to successfully manage a business during times of change, he does insist that the guiding principle at Cardinal Health can translate elsewhere. "If every single day, you wake up understanding [that] your true north has to be solving customer problems, and you take that as your core mission, I think you're going to be in great shape," he says.