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Gartner Announces Rankings of Its 2011 Healthcare Supply Chain Top 25

Cardinal Health Captures the No. 1 Slot in the Third Annual Healthcare Supply Chain Rankings

STAMFORD, Conn., December 5, 2011 — Gartner, Inc. has released the findings from its third annual Healthcare Supply Chain Top 25. The research focuses on the healthcare value chain's pursuit of high-quality patient care at optimal economic cost. The Top 25 ranking for 2011 identifies organisations using their supply chains to improve the patient care experience.

"Value chain leadership in a range of foundational and collaborative capabilities has allowed these organisations to make great strides in enabling high-quality patient care at optimal economic cost," said Barry Blake, research analyst at Gartner.

"This year we see commonality between the strategies supply chain organizations from across the different segments are pursuing," Mr Blake said. "Supply chain and customer segmentation, working capital optimisation, resiliency, talent management, standardisation and, of course, collaboration are mentioned in nearly every strategic supply chain document we've reviewed. Healthcare can learn about these capabilities from other industries, but ensuring success in execution depends on the experience and expertise of leadership within the industry."

For several years Gartner has advocated the importance of joint value creation as the force that can lead to the adoption of "patient-based moments of truth" and a more cost-effective, quality-driven value chain. While this messaging is sometimes met with scepticism by practitioners who struggle to quantify the benefits of joint value creation, Gartner's ranking highlights the leaders pursuing these goals and reaping benefits from them.

"In analysing our list this year, we see a ranking that demonstrates the importance of maintaining focus on both internal and external collaboration as the vehicle to drive industry-wide change," Mr Blake said. "Leaders here are persistent in applying smart and thoughtful pressure to persuade their organisations to adopt processes and metrics that ultimately will lead to cost and quality enhancements for the patient."

Cardinal Health captured the No. 1 spot this year. A complex combination of connected businesses, Cardinal Health combines the varied strengths of a medical surgical distributor, a pharmaceutical wholesaler and a large manufacturer. Its financials, relative to peers, remained impressive, even though its return on assets (ROA) dropped this year, and its Inventory Turn performance remained essentially the same. Cardinal made significant gains in the opinion component of the poll, a reflection of the credibility it has established with healthcare providers, manufacturers and the analyst community. Cardinal has the closest thing to a "one-stop shop" in serving providers and gets credit for having a unique ability to support its trading partners.

Table 1: The Healthcare Supply Chain Top 25 for 2011

| Rank | Company | Three-Year Weighted | Inventory Turns | Thomson Reuters 10 | Peer Opinion | Gartner Opinion | Composite Score |
|------|---------|---------------------|-----------------|--------------------|--------------|-----------------|-----------------|
|------|---------|---------------------|-----------------|--------------------|--------------|-----------------|-----------------|

| | | ROA (2008-2010) | (2010) | Top Health System Percentile Score | | | |
|----|--------------------------|-----------------|--------|------------------------------------|-----|-----|------|
| 1 | Cardinal Health | 4.0% | 13.4 | | 753 | 231 | 7.46 |
| 2 | Mercy | | | 53.7 | 693 | 220 | 7.34 |
| 3 | BD | 13.6% | | | 696 | 284 | 7.10 |
| 4 | Mayo Foundation | | | 98.9 | 483 | 181 | 7.06 |
| 5 | Owens & Minor | 5.9% | 10.2 | | 669 | 202 | 6.53 |
| 6 | Johnson and Johnson | 13.4% | 3.5 | | 707 | 211 | 6.46 |
| 7 | Intermountain Healthcare | | | 72.3 | 461 | 143 | 6.20 |
| 8 | Abbott | 9.5% | 4.6 | | 772 | 170 | 6.10 |
| 9 | Novartis | 8.7% | 2.4 | | 423 | 301 | 5.65 |
| 10 | Geisinger Health Systems | | | 79.3 | 371 | 130 | 5.56 |
| 11 | Cleveland Clinic | | | 80.4 | 500 | 75 | 5.32 |
| 12 | AmerisourceBergen | 3.7% | 14.5 | | 466 | 88 | 5.03 |
| 13 | Boston Scientific | -5.1% | 2.9 | | 574 | 245 | 4.95 |
| 14 | McKesson | 3.9% | 11.5 | | 390 | 148 | 4.93 |
| 15 | Bristol-Myers Squibb | 18.8% | 4.4 | | 239 | 121 | 4.38 |
| 16 | BJC Healthcare | | | 91.2 | 278 | 29 | 4.21 |
| 17 | CVS Caremark | 5.6% | 7.1 | | 322 | 126 | 3.94 |
| 18 | Baxter | 10.5% | 2.9 | | 454 | 72 | 3.73 |
| 19 | Pfizer | 4.8% | 1.9 | | 251 | 216 | 3.70 |
| 20 | AstraZeneca | 13.9% | 3.8 | | 305 | 79 | 3.67 |
| 21 | UPMC | | | 70.5 | 188 | 64 | 3.58 |
| 22 | Alcon | 23.3% | 2.4 | | 252 | 32 | 3.50 |
| 23 | GlaxoSmithKline | 8.1% | 2.0 | | 270 | 153 | 3.46 |
| 24 | Amgen | 11.0% | 1.1 | | 370 | 100 | 3.46 |
| 25 | Kaiser Permanente | | | 67.7 | 342 | 11 | 3.39 |

Source: Gartner (November 2011)

Mercy, which is supported by its supply chain division ROI, moved up one spot from last year to take the No. 2 position this year. It did well based on the strength of its opinion score, and it remains the highest-ranked health system for the third year in a row. Mercy's laser-like focus on supply chain excellence and the credibility it has achieved with both its clinical and business leadership is admirable by any industry's standards. Mercy's respect in the industry overcame a relatively low quality of care score compared with its peers in the Top 25.

BD, ranked No. 3, moved into the Top 5 for the first time in Gartner's ranking. Consistent financial performance in both ROA and inventory turns, along with a strong surge in peer recognition, particularly from healthcare providers, fuelled its move up the ladder.

Mayo Foundation moved up from eighth place in last year's ranking to fourth place based on the strength of its quantitative metrics and a large increase in recognition from peers and the analyst community. Mayo continued to relentlessly focus on supply chain excellence and standardisation across all its facilities.

Owens & Minor rounded out the top 5 ranking. Its drop from the top spot was driven more by the relative strength of the top four companies than any specific weakness at O&M. Its decline can be primarily attributed to a slight decrease in inventory turns and a larger drop in peer recognition over the previous year. However, recognition from analysts increased over the prior year.

Gartner advises companies aspiring to a Top 25 ranking to seek out leaders and learn key value chain lessons from Top 25 organisations.

"Build a supply chain vision and strategy that connects your current and aspirational supply chain capabilities to the pursuit of high-quality, cost-effective patient care," Mr Blake said. "Ensure your organisation can sustain the journey to more patient-centric value chain strategies by establishing the execution discipline and governance to maintain consistent momentum for your change initiatives."

More detailed analysis is available in the report "The Healthcare Supply Chain Top 25 for 2011." The report is available on Gartner's website at <http://www.gartner.com/resId=1862115>.

About the Healthcare Supply Chain Top 25 Methodology

Consistent with Gartner's Top 25 research methodologies, the Healthcare Supply Chain Top 25 ranking is derived from two main analyses: quantitative measures and opinion. Quantitative measures provide a view into how companies have performed in the past. The opinion component offers an eye to supply chain leadership and demonstrated value chain collaboration, which is a crucial characteristic of the supply chain ranking. These two components are combined into a total composite score.

Health systems have vastly different operating models compared with manufacturers, distributors and pharmacies. Therefore, Gartner utilised different quantitative assessment metrics for these two major segments of the healthcare value chain.

About Gartner

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