Q1 FY27 Cardinal Health, Inc. Earnings Conference Call

November 5, 2026, 8:30AM Eastern

Operator: Hello, everyone. Thank you for joining us and welcome to Cardinal Health Incorporated First Quarter Fiscal Year 2027 Earnings Release. After today's prepared remarks, we will host a question-and answer-session. I will now hand the conference over to David Frost, Vice President, Investor Relations. David, please go ahead.

David Frost: Good morning. Welcome to Cardinal Health's first quarter fiscal 2027 earnings conference call and thank you for joining us. With me today are Cardinal Health's CEO, Jason Hollar, and our CFO, Aaron Alt. You can find this morning's earnings press release and investor presentation on the Investor Relations section of our website at ir.cardinalhealth.com.

Since we will be making forward-looking statements today, let me remind you that the matters addressed in these statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected or implied. Please refer to our SEC filings and the forward-looking statements slide at the beginning of our presentation for a description of these risks and uncertainties.

Please note that during our discussion today, the comments will be on a non-GAAP basis unless specifically called out as GAAP. GAAP to non-GAAP reconciliations for all relevant periods can be found in the supporting schedules attached to our press release.

For the Q&A portion of today's call, we kindly ask that you limit questions to one per participant, so that we can try and give everyone an opportunity.

With that, I will now turn the call over to Jason.

Jason Hollar: Good morning, and thank you for joining us. I am pleased to report a strong start to fiscal 2027, with broad-based growth once again across the enterprise. This quarter's results reflect disciplined execution and continued progress against our strategic priorities. We are strengthening our core, while investing in the capabilities that will drive growth and long-term value creation.

As election results have come into focus, our priorities remain consistent. We have a long-standing record of constructive engagement with policymakers on both sides of the aisle. Our focus on better access, lower cost, and continued innovation aligns with objectives shared across the political spectrum.

Any policy changes will take time, and we would expect to be manageable as we continue to be active in our engagement with government. Our essential role across the healthcare ecosystem positions us to contribute meaningfully to those conversations, and in the meantime, our teams remain focused on delivering for customers and patients every day.

Performance demonstrates the value of Cardinal Health scale, reach, and capabilities across the healthcare ecosystem. Recently, we announced the renewal of our largest customer, CVS Health, through June 2032. This reflects our long-standing relationship, which predates CVS Health's acquisition of Aetna.

The renewal reinforces the strategic value and stability that the partnership with Cardinal Health brings to CVS' Retail Pharmacy network, something that will continue beyond the spin-off in 2028.

Just as importantly, when combined with our other recent significant renewals, it provides a steady foundation for continued investment in the business and supports the sustained execution of our growth strategies.

In Global Medical Products and Distribution, performance was stable, notwithstanding global volatility as the team continued to execute the improvement plan, including actions to optimize the network, improve efficiency, and grow Cardinal Health brand. We remain encouraged by our progress, while recognizing there's more opportunity ahead to continue to optimize this segment.

Our Other growth businesses also delivered positive results, supported by healthy demand from underlying secular trends, the investments we have made to build differentiated positions, and a firm focus on integrating the acquisitions of at-Home.

Taken together, the quarter's performance and our visibility into the balance of the year give us confidence to raise our fiscal 2027 outlook, which Aaron will walk through in more detail.

With that, I'll turn the call over to Aaron.

Aaron Alt: Good morning. The Cardinal Health team delivered a strong first quarter above and below the line on the income statement and with respect to cash flow. Our performance was characterized by strong demand across the enterprise, led by our Pharmaceutical and Specialty Solutions segment and our Other operating businesses.

Demand was matched by good operational execution by all of our teams. Given our Q1 delivery, we are pleased to raise our fiscal 2027 EPS guidance to $12.80 to $13.00 from the previous range of $12.40 to $12.60.

Moving on to our consolidated first quarter results. Total company revenue grew 5% to $67.5 billion. Consolidated gross profit increased 12% to $2.6 billion. We saw continued strength in our core distribution operations, expanded contributions from our investments in Specialty, and gross profit increases from our three growth businesses in Other.

Consolidated SG&A grew more slowly, increasing 9% to $1.6 billion. In addition to servicing growing sales, we continue to invest in capabilities for our businesses, while also remaining focused on simplification and cost optimization.

As gross profit grew faster than SG&A, our operating income grew 17% to $1 billion, achieving that milestone in a quarter for the first time and highlighting the operating leverage we are pursuing.

Moving below the operating line, interest in Other was $67 million, and our effective tax rate for the first quarter was 18.5%. We are pleased with our progress and continue to focus on building durable improvements to items below the line.

After completing a $500 million accelerated share repurchase program during the quarter, our diluted weighted average shares outstanding for the quarter were approximately 233 million shares. All-in, our efforts resulted in first quarter diluted earnings per share growth of 28%, or $3.26.

Let's turn to the specific segment results, beginning with Pharma. Segment revenue increased 6% to $62.6 billion, driven by growing brand and specialty sales from existing customers. Specialty grew at an 18% clip during the quarter.

While the business put up 6% revenue growth in the quarter, we again observed offsetting top line revenue growth dynamics. GLP-1 medications, which continue to grow on pace, drove approximately 500 basis points of revenue growth in the quarter. That was offset in large part by the impact of IRA WAC reductions, which drove a 400-basis-point revenue headwind year-over-year.

Segment profit in Pharma increased 17% to $783 million. This robust performance reflects healthy contributions from brand, specialty, and our generics program, where we continue to observe consistent market dynamics. The core distribution business remains highly resilient and our strategic sourcing initiatives, notably our Red Oak sourcing partnership, continue to drive significant value.

Pharma segment profit also reflected the contribution of our Solaris acquisition, which we will lap in the second quarter. MSOs are a part of our broader specialty strategy, and we remain focused on integration and building the capabilities needed for long-term growth.

Now, moving to our Global Medical Products and Distribution segment. Segment revenue was roughly flat to prior year at $3.2 billion. This top line result was driven by growth in Cardinal Health brand, offset by lower distribution revenue during the period.

Segment profit for GMPD was higher than expected at $33 million for the quarter. We saw steady improvement in underlying operational performance as our team continued to execute against our GMPD improvement plan.

We continue to see healthy demand for our Cardinal Health brand products, with the US growth in the low- to middle-single digits for the quarter. Foreign exchange and distribution were headwinds, while on the cost side, modest commodity pressure, primarily in transportation costs, was offset by tariff tailwinds.

Now, let's turn to Other, which encompasses our three growth businesses. As we have remarked in the past, these businesses operate in markets aligned with powerful secular trends, including the

aging population, the shift to home-based care and complex medical innovation, and our results continue to reflect these favorable trends.

Revenue for Other grew 7% to $1.8 billion and profit increased 16% to $193 million, with profit growing well above our long-term targets and at more than twice the rate of revenue, our results in Q1 demonstrate our smart growth strategy in action. All three businesses in Other delivered revenue and profit growth as we continue to invest in each business' distinct priorities.

Turning to cash and the balance sheet, we ended the first quarter with $5.3 billion of cash after generating $1.6 billion of adjusted free cash flow. We took several actions aligned to our capital allocation framework, including investing $157 million of capital into our business, executing the $500 million share repurchase program I referenced earlier, and returning approximately $125 million to shareholders through dividends. We finished the quarter near the midpoint of our targeted leverage range and preserved our strong investment grade ratings.

So, let's talk about our fiscal 2027 guidance. We are raising our non-GAAP diluted EPS guidance to a new range of $12.80 to $13.00, up from our prior range of $12.40 to $12.60. This updated guidance represents 17% to 19% growth off our ex-tariff refund adjusted fiscal 2026 EPS of $10.95 and 14% to 15% growth off our reported fiscal 2026 EPS of $11.26. This raise reflects the broad-based operating momentum we see across the business, and our confidence in continuing to deliver robust profit growth across our operating segments.

For the Pharma segment, while we continue to expect revenue growth of 3% to 5% consistent with our original guidance, we have increased our segment profit growth guidance to a range of 10% to 12% from the prior guidance of 8% to 11%.

For those wondering about our recent renewals, our original profit guidance for fiscal 2027 largely anticipated the financial impact of the CVS renewal. Recall that we provided guidance on the basis of a consistent book of business.

Our updated guidance also assumes continued strong demand and performance across our core distribution, generic sourcing, and specialty business. For modeling purposes, following strong growth in the first quarter, we expect earnings growth to moderate in the second and third quarters before strengthening in the fourth quarter to a level modestly below Q1. This is largely a result of the timing of the year-over-year impact of customer renewals and lapping the Solaris acquisition.

For the Global Medical Products and Distribution segment, we continue to expect revenue growth of 2% to 4%. While we are not changing our financial guidance for GMPD for the year, we do note that sustained high petroleum costs driven by the ongoing Iran conflict, are pushing GMPD segment profit toward the low end of our guidance range of $200 million to $220 million.

We remain highly focused on driving long-term profitability through our operational improvements plan in GMPD, and expect the segment's results to be weighted towards the back half of the fiscal year, consistent with historical trends.

For modeling purposes, we expect the second quarter to be generally consistent with the Q1 result, with sequential quarterly growth for the remainder of the year thereafter.

For Other, we anticipate revenue growth of 12% to 14%, up from our previous range of 11% to 13%, driven by strong demand across all three operating businesses. We are raising our profit guidance to 17% to 20% growth, up from our prior range of 15% to 18% growth. This reflects the favorable performance and underlying demand we are capturing. We still expect revenue and profit growth to accelerate in the second half of the fiscal year, consistent with our previous guidance.

Moving below the operating line, we continue to expect interest in Other to be between $240 million and $290 million. We expect our effective tax rate to be in the range of 18.5% to 19.5%, down from our previous guidance of 19% to 20%, and reflective of the efforts our teams have made in identifying and executing durable improvements.

Regarding capital deployment, our anticipated capital expenditure of approximately $700 million remains unchanged. We are actively investing in supply chain modernization, automation, technology, and AI infrastructure to drive future productivity. We expect diluted weighted average shares outstanding to be in the range of 231 million to 232 million shares, reflecting the timing of our recently completed $500 million share repurchase program.

Finally, we continue to expect adjusted free cash flow to be between $3.5 billion and $4 billion. This robust free cash flow generation provides us with the necessary flexibility to fund organic growth, return capital to our shareholders, and pursue accretive, targeted M&A.

To conclude, we have delivered an excellent start to fiscal 2027. We are doing what we said we would do and we are operating with clear strategic and financial priorities, strengthening our core distribution business, expanding our footprint in specialty, and accelerating our Other growth businesses.

By ruthlessly prioritizing operational excellence and maintaining disciplined capital allocation, we continue to be well-positioned for growth and long-term value creation in fiscal 2027 and beyond.

With that, I will turn it back over to Jason.

Jason Hollar: Thanks, Aaron. Beyond the strong quarter, our results continue to reinforce the durability of our business and the important role we play across healthcare. The consistency of our execution and the strength of our customer relationships position us well as we look ahead.

Over the last 12 months, we have renewed contracts representing nearly two-thirds of our enterprise revenue, the majority of which is long-term in length, demonstrating that the value we deliver to customers resonates in the marketplace and provides a stable foundation for continued investment in our business.

The commercial success spans the enterprise, including renewing our two largest customers in Pharma and our two largest customers in GMPD. During this timeframe, we've also secured

meaningful new business across the Other growth businesses. These milestones reflect the consistent service and execution our customers expect from us.

And with that backdrop, I want to highlight the progress we're making against several of our strategic priorities. Beginning with our largest, most significant segment, Pharma, once again served as the key contributor to our growth, demonstrating the underlying strength of the business and the effectiveness of the strategic investments we have made.

The core distribution business remains durable, and we continue to scale the capabilities that extend our value with providers and biopharma partners. The long-term renewal with CVS Health adds to the proof points of our commercial success, following the announced Kroger renewal and our significant new business wins in fiscal 2025, including several prominent health systems.

The combination has strengthened our core and increased the visibility into the future of the business. This strong position allows us to invest strategically, maintain or improve the high service levels our customers rely on, and advance key growth priorities.

We also continue to align closely with our manufacturer partners on the evolving pharmaceutical landscape, a collaborative focus highlighted at our recent business partners conference, which convened nearly 500 supplier partners. The breadth of participation reinforces the strategic value of these relationships and our position as the trusted partner across the supply chain.

Our Specialty strategy is focused on building connected platforms that help community-based physicians operate more effectively, while creating opportunities across data, research, and ancillary services.

The integration of Solaris and our MSO strategy continue to progress during the quarter, as we identify synergies between our platforms to strengthen the group with the best of each of the parts. We are heads down approaching this work with discipline and an emphasis on realizing the benefits of greater scale, while maintaining a high-quality experience for physicians and patients.

We are also seeing the value of the network beyond practice support. The launch of the INSIGHT-IBD study with Eli Lilly is one example of how our MSO provider relationships, combined with Specialty Networks real-world data and research capabilities, can generate actionable insights for industry partners and support innovation in patient care.

In biopharma solutions, to keep pace with the growing demand, we are expanding 3PL and cold chain capacity through our new St. Louis facility, which we anticipate will start operating by the end of calendar year 2027, increasing the breadth and scale of the services we provide.

We also continue to see success in the cell and gene market, where our 3PL business secured another new exclusive commercialization agreement this quarter to build upon the two new agreements we announced last quarter.

Further, our Sonexus Patient Hub also continued to grow organically, and we remain on track to meet our prior target of doubling the number of therapies supported by fiscal 2028, supporting our objective to deepen relationships with biopharma customers across the product lifecycle.

In our Global Medical Products and Distribution segment, we continue to execute against our improvement plan, growing Cardinal Health brand and simplifying our operations.

As part of this strategy, we recently deployed more than 100 Locus autonomous robots at our Dixon, California distribution center, building on the progress we have made over the past couple of years implementing this AI-enabled technology, which is now in a dozen of our distribution centers.

This is a tangible example of how we are using technology to simultaneously improve both efficiency and resiliency. In Cardinal Health brand, our Specialty portfolio, which includes our more clinically-differentiated products, grew above market and contributed to overall Cardinal Health brand growth in the quarter.

Across our Other growth businesses, strong industry secular growth trends combined with disciplined investment and execution are translating into excellent financial outcomes.

In at-Home Solutions, we delivered positive results and remain well-positioned for continued growth as demand for home-based care expands. We have successfully migrated all employees and volume from our recent acquisition of Strive Medical into our nationwide network, further strengthening the platform and reinforcing our strategy to build a scaled national leader in at-home care.

In addition, we began construction on our new Sacramento distribution center to support long-term capacity, efficiency, and customer service. These initiatives, together with the continued deployment of AI-enabled automation within distribution centers across the network, are critical elements for our focus on core operations.

Nuclear and Precision Health Solutions delivered solid results with continued growth in the core business and strong momentum in PET and Theranostics. We remain well-positioned to serve the growing pipeline of complex radiopharmaceutical therapies coming to market, including areas like neuroendocrine tumor therapies that we will dispense and distribute.

We also continue to invest across our network to drive growth and efficiency, including the rollout of our AI-driven route optimization tool, which is now live in 20 sites and expected to reach all of our 130 radiopharmacies by the end of fiscal 2027.

These investments ensure we continue to be an indispensable part of this cutting-edge area of medicine, building on our unmatched geographic reach and service capabilities.

Within OptiFreight Logistics, we remain focused on expanding the ways we support our customers, reinforcing and growing our leading value proposition. Within the launch of our new pharmacy solution in fiscal 2026, we are now able to provide better tracking visibility and shipping efficiencies to the over two dozen pharmacies currently utilizing the technology.

The continued improvement and broadening of this suite of services expands our role in managing our customers shipping and receiving operations, delivering cost savings for them, while also strengthening their resiliency. In addition to meeting a customer need, it also helps prevent disruptions that can ultimately affect patient care.

As we look to the balance of the year, we are confident in our outlook, supported by the long-term customer agreements we have secured, the progress we are making across the enterprise, and our disciplined execution.

With a broad and diverse portfolio and our role as the backbone of healthcare, we are well-positioned to navigate the industry's dynamic environment, while advancing our priorities around access, affordability, and innovation. Our strategy remains clear: strengthen the core, scale specialty and our growth businesses, improve GMPD, and deploy capital with discipline.

With that, we will take your questions.

Operator: We will now begin the question-and-answer session. Your first question comes from the line of Erin Wright with Morgan Stanley. Erin, your line is now open, please go ahead.

Erin Wright: Great. Thanks for taking my question. Could you unpack the momentum a little bit more on the Pharma distribution segment? Just more specifically, also on the quarterly cadence, you gave the detail on renewals and Solaris, which is helpful. But just on an underlying basis excluding some of those factors, are there any changes that you're seeing in underlying demand trends, generics or otherwise that are evolving maybe better than expected on an underlying basis? Thanks.

Aaron Alt: Good morning, Erin. Thank you for the question. We were really pleased to report the strong Q1 results for the Pharma business, really demonstrating the continued momentum that that business has. As we called out in the prepared remarks, it was really driven by the strong unit demand across key product categories, certainly specialty, certainly generics, and indeed from our largest customers.

The specialty part of our business continues to be quite strong. We saw high-teens growth in the quarter as we called out, certainly a bit above our double-digit expectations that we called from an original guide. And importantly, that strength was coming from some key priority areas, particularly urology and oncology areas of emphasis for us across the broader portfolio.

Also pleased with the positive performance in generics, we saw the strong volume growth, which was a touch above our long-term targeted levels, consistent market dynamics, and very – driven really by the resilient Red Oak performance.

I would be remiss if I didn't also call out the strong operational execution by our management team, really in service of our customers. And so we are quite pleased with how the quarter resulted.

From an M&A perspective, the Solaris integration remains on track, right? The results so far are at least as good as our business case in the quarter. And while we did do a couple of ancillary acquisitions, there was not a new contribution, so to speak. From an M&A perspective, we continue to be disciplined and focusing on the integration in the assets that we've acquired so far.

So, overall, very pleased from a first quarter perspective, which is really the basis for us then providing the updated guidance for Pharma. We saw strong demand in the first quarter and indeed, our guidance going forward assumes that strong demand persists into the rest of the year. Right now, we continue to expect some good news with respect to generics and good news with respect to the specialty growth that we called out before.

Now, we did call out a couple of factors impacting some timing. From a quarterly perspective, we need to keep in mind that the Solaris acquisition, we will lap that in the middle of the second quarter. And as Jason highlighted in his remarks, we did renew the CVS contract, and we do have the impact of the customer contract renewals baked into our guidance as well.

Operator: Your next question comes from the line of Elizabeth Anderson with Evercore ISI. Elizabeth, your line is now open. Please go ahead.

Elizabeth Anderson: Hi, guys. Good morning and thanks so much for the question. Maybe not too dissimilar to Erin's question, but maybe focusing on Other. If we think about the relative strengths, you obviously talked about Strive closing and AdaptHealth, like, how do we think about that from like a go-forward rate? Are you seeing sort of increased customer penetration, your unit volumes, like what's driving the strength exactly, is it kind of early deal synergies, like just a little bit more detail on that would be super helpful and any timing related issues as well in the year?

Aaron Alt: Thank you. Good morning, again. Appreciate the question. We are delighted with the performance of the three businesses that constitute Other for us: at-Home, Nuclear and Precision Health, and OptiFreight. And a little bit of color around each of those.

In the at-Home space, we are being very intentional to set that business up for long-term success, reflective of the secular trends, the competitive strength that we are building through our acquisitions as well. We call it smart growth. And so really pleased with how the team is executing, taking advantage of the organic investments we've been making in our supply chain capabilities, as well as then how the acquisitions we've completed, like ADSG, are now rolling into our overall progress. Those plans are on track, and we're realizing the planned synergies there.

We've completed the acquisition of Strive, emphasizing the urology part of our category. That's an important element relative to our enterprise strategy as well. And we're looking forward to completing the AdaptHealth transaction at some point after the turn of the calendar year. But overall, we are on track from an operational build perspective and from an integration perspective within at-Home.

The Nuclear business, strong revenue growth in both PET and Theranostics, areas where we are very focused. That is a key part of our strategy going forward. Again, very focused in urology another key part of our enterprise strategy. And we continue to expand our capacity and our resiliency there.

Really focused on applying the technology to make that business better, as Jason highlighted in his remarks.

And then OptiFreight, just another good business there. We are benefiting from the continued expansion of the capabilities there with existing and new customers as well. So, from a go-forward perspective from them, again, what we are predicting – or we are calling from a guidance perspective is the secular tailwinds are going to be unchanged. They're going to help us carry through the year. We are anticipating strong demand, driven by those leading positions in the investments that I referenced.

Growth will accelerate over the course of the year. That's partly driven by higher confidence in our pipeline than our original guidance as well. And I've already referenced the fact that we have a positive view of the impact of the integrations as we carry forward. So, all-in-all, a very positive story for us.

Operator: Your next question comes from the line of Michael Cherny with Leerink Partners. Michael, your line is now open. Please go ahead.

Michael Cherny: Good morning, and thanks for taking the question. I'm going to ask another specialty question, but just diving a little deeper in terms of the totality of the pieces coming together. I appreciate you called out the Strive transaction and the importance of urology.

Maybe using urology as an example, how do the pieces you have between distribution, MSO, other capabilities drive your level of outperformance? I know we're all trying to get to the bottom of what's been behind some of this recent strength. Is there anything, whether it's urology or other examples you can call out on maybe getting to a one-plus-one-plus-one greater than three dynamic? Thanks so much.

Jason Hollar: Yeah, sure. That's – we love the question and what you just described is the setup for very much the flywheel, the virtuous cycle, the ecosystem of our specialty strategy, recognizing that these very specialized therapeutic areas have wide-ranging needs and Strive is a great example of that.

You know that we are the leader in urology across many different parts of our enterprise. The obvious ones are certainly within the Pharma business, whether it's distribution or GPO or certainly more recently with our acquisition of Solaris and fitting into The Specialty Alliance.

To your point, within Strive is a great example of their leadership within urology supplies for delivery to patients in their home, of which we already had a very strong presence with urology in at-Home Solutions. And this just further expands upon that.

So, not only can it bring a greater breadth of products and services to urologists and patients who have urological needs, it also allows us to create this general ecosystem of expertise across the business.

Another area that, you know that we lead in urology is Nuclear. And – so there's some direct opportunities, like with Nuclear now being a very large provider of radiopharmaceutical products to Solaris, but it's also way beyond that. It's also the expertise that when our MSO has an opportunity or a challenge, they've got a direct line to leaders in that space that can help them quickly move to different growth and capabilities.

Of course, we do that with all of our customers, but these relationships are even tighter, even quicker. But it's even in less glamorous ways of perhaps some of the medical supplies and GMPD that also have very broad capabilities.

This list just keeps going on and on and on and, Specialty Networks is another great example of where we started. That business originated in urology. Part of the reason we acquired them first in the specialty journey was because of the breadth and the capabilities that they had to enter into new therapeutic areas, but also being the leader in both GPO and other data services for urology.

And they – now they're expanding further into oncology, where we see similar connective tissue, a little bit less mature in terms of all the different touchpoints. Urology is definitely that example that connects more broadly.

Each one of these examples I just provided you, I would say it's a series of singles and doubles and not home runs. And so when you hear us talk about it, it's a driver here and there in the enterprise and in the ecosystem, but it's rarely the driver, the primary driver. It's a component amongst many others and that's what this team is focused on is the rising tide of demand and utilization growing and making sure that we're providing solutions to customers and ultimately to patients so that we help close the loop on that service. And we can use the full value of all the components of our business to drive the business, but also to solve patient needs.

Operator: Your next question comes from the line of George Hill with Deutsche Bank. George, your line is now open. Please go ahead.

George Hill: Yeah. Good morning guys, and thanks for taking the call. And Jason, one where I might ask you to kind of dive in on some recent news, is the OPPS rule was finalized last night with the reimbursement changes to 340B. I know that you guys have called out provider strength recently as it relates to revenue growth in the North American pharma business.

Would just be interested in how you think this reimbursement change impacts the provider space and whether or not it benefits your MSOs, particularly as a result of a mix shift as volume moves in that direction? Thanks.

Jason Hollar: Yeah, it's a great question, George, because I think you teed up the right way where ultimately these are needs by patients. It's a matter of where does the volume go? And the providers at the end of the day for OPPS, the health systems, the hospitals, that's something they're going to have to work through and of course, we're doing whatever we can to help support them.

If there are instances where they find that less affordable to serve those patients then we do believe those patients will go elsewhere. And given our fair share of market across other aspects of the industry, we anticipate picking up that volume consistent with that.

That's an assumption and an expectation. We think it's a logical one. We don't know how much is – may move around within the industry. But it's something that we would anticipate participating in appropriately. But I think it's a little premature to predict how much and the qualification of that we'll certainly be watching this very closely though.

Operator: Your next question comes from the line of Allen Lutz with Bank of America. Allen, your line is now open. Please go ahead.

Allen Lutz: Good morning, and thanks for taking the questions. I want to follow-up on Mike's question around urology. It's really nice to see the strong contributions from urology to specialty growth. I know that Solaris and typical urology practices, only about 40% of revenue comes from medications.

But that's been a clear part of your strategy. Would love to dig in more about how the pipeline to add more urologists is progressing? What do they care about and how is pitching to that type of physician different than maybe an oncologist or another type of physician? Thank you.

Jason Hollar: Yeah. Let me start with where they are similar. At the end of the day, specialty community physicians do what they do for a pretty particular reason. They want to take care of patients. They want to do so in their community and have that type of relationship.

And that means that they're having the challenge of having that connection with their patients, while also running a business. And I think more and more the community physicians see that they need some type of partnership through that process.

So, we continue to see that across all of these – especially more complex therapeutic areas where you have wide-ranging needs beyond just distribution, contracting support, but really getting deep into data and analytics. And of course, all the back office and physician-specific requirements and ancillary services. This is all very difficult to run a business, while also taking care of patients.

And so that – urology I think is very similar to the other areas that we've prioritized, whether that is oncology or autoimmune. They have a complex enough business requirements and complex enough conditions that they're treating with their patients that they do need support of some sort.

We don't go into urology with a one-size-fits-all type of approach. We look at what is specific on those services. We see urology fits nicely in between oncology and autoimmune. Many of the ancillary services fit one or the other and there's not much in urology that's not also either in autoimmune or in oncology.

So, we see that the breadth of capabilities that we bring and the expertise that we bring across those different therapeutic areas, allows those urologists to have it all ways, to have it – able to take care of the patient, but also to run a successful business.

So, all along long lead up to say that the message absolutely resonates with urologists. And we have a very active robust pipeline and we, in our comments, highlighted that we're very focused on making sure we get this integration right so that we have a strong foundation to then further build well into the future.

It is a space that continues to be quite fragmented. It is much more fragmented than oncology, a little bit more consolidated than autoimmune, but more closely related to autoimmune than it is to oncology. So, there's a lot of potential opportunities for consolidation. We will have opportunities to consolidate further. Our constraint is very much on our confidence that we will integrate it very successfully, so the physicians have a fantastic experience to the process.

Operator: Your next question comes from the line of Lisa Gill with J.P. Morgan. Lisa, your line is now open. Please go ahead.

Lisa Gill: All right. Thanks very much and good morning. I appreciate your comments around 340B in the potential and change in site of care. Obviously, with the both the election a very dynamic environment right now. How should we think about any potential changes or things that you're watching from a D.C. perspective as we think about reimbursement going forward? You've highlighted WAC changes and your ability to be able to manage through that. But anything that's on your radar that, that you're looking at, from that perspective as we think about going into calendar 2027.

Jason Hollar: Yeah. Well, we're always looking at everything, I guess is probably the short answer. When I think about regulatory, I start with nearly the same starting point, no matter what particular topic we're talking about. Number one, we do not believe it's the intention and this is getting off 340B a little bit I'll get back to it in a second, but just regulatory, more general, you commented about D.C.

Where there's the most implication typically is at the provider level. And of course, where we are, the provider is, normally within the MSOs, in those community physicians. So, in those instances, we do not believe the intention of the administration is to harm that community provider.

Our goals and objectives are very aligned with the administration, very aligned with those physicians. We're looking for greater access to low-cost, innovative healthcare. And we don't think it's their intention to harm what is now the lowest cost form of care already in those communities. And of course, the access to those communities. So, first and foremost, we don't believe that that is the objective and the intent.

And then secondly, even if there are implications to those providers, those physicians, it is usually a second order effect for us. Again, while we have the direct impact for some therapeutic areas where we participate typically has a very diverse payer set, very substantial portion of our business with commercial payers, and we have very diversified drug spend and other types of revenue within those MSOs and those providers. So we have a relatively low potential impact. Even if there is legislation that ends up impacting those providers, which again, we don't think is likely to be the case. So, there's a lot of potential variables that happen with that.

And of course, where we are in D.C. a lot, we are very closely engaged both – with both sides of the aisle, the – of course we had long-standing relationships and continue to have long-standing relationships. There's some new members of Congress that we're going to now need to spend a little bit more time with. But the vast majority of the people we see are still the same people. And we'll continue to make sure that we're advocating not just for our business, but ultimately for our customers and the patients.

As it relates to 340B, I think conceptually, a lot of those things carry over with that. The only thing I'd add specifically about, any specific product category, that would be outside of the provider space now I'm thinking about us as a distributor, you've seen our consistent ability to migrate through that. Sometimes there may be a little bit of a timing differential in terms of when certain corridors are touched and when those impacts can then be passed on to customers. But at the end of the day we provide huge value for the services that we provide, and we would anticipate that the continued compensation would be appropriate for that.

Operator: Your next question comes from the line of Eric Percher with Nephron Research. Eric, your line is now open. Please go ahead.

Eric Percher: Thank you. A question on generic program performance. I believe we heard volume running a bit ahead of your expectations. And that continues on. But there was also a comment on Red Oak. And so I wanted to ask if the Red Oak benefits tend to continue to accumulate over time. Is there any change relative to extending the distribution agreement or just Red Oak continue to extend through 2029?

Jason Hollar: Yeah. Well, I will never speak for our customer, but I'm pretty confident they'd speak very highly of – I should say, our joint venture partner in this case would speak very highly of the value that we receive from Red Oak. Not just in terms of value and dollars and cents, but in terms of the service level, which we continue to believe we're best in class with.

So, yes, Red Oak is a separate contract that we'll certainly be looking to address relatively soon. It's a relationship that goes back a long way and we see that there is continued value. So, your question on ongoing value, it's an evergreen opportunity. While – and again, it goes to value in terms of dollars as well as service level, there's an opportunity for Red Oak to perform every single day.

There's always going to be opportunities in the marketplace to improve service. There will be manufacturers coming in and out of market, and it's their objective to bring us the best value, the best cost, the best service. And as those new items, which is an opportunity for the industry and for ourselves in particular, the loss of exclusivity, new items this year is pretty good.

It's fairly consistent to what we saw last year. We see an increasing pipeline building over the next couple of years. So we see additional opportunity for Red Oak to provide value to both of their parents there. And it's our expectation that that relationship certainly would transcend any spin off on the CVS side. But then certainly we would anticipate it proceeding beyond the 2029 timeframe as well. But we have a little bit of work to do to complete that step.

Aaron Alt: Just to jump on top of that briefly, Eric, from a guidance perspective. Jason referenced that the LOE benefits year-over-year for 2027, which were roughly consistent with what they were last year. We will see a nice benefit, particularly in 2029 going forward as we look at the number of LOEs that are coming. And so just want to be clear on that for the long-term perspective.

Operator: Your final question comes from the line of Kevin Caliendo with UBS. Kevin, your line is now open. Please go ahead.

Kevin Caliendo: Thanks. Thanks for taking my question. Want to talk a little bit about like future M&A plans. You highlighted specialty and the like. But when we're thinking about this, is it market share? Is it more services? Would you be interested in sort of following suit with McKesson and maybe adding some clinical trial opportunities for your urology GPO network? Or maybe there's stuff to do in the home? I guess what I'm asking is where do you feel like there's opportunity to grow? What would be a leverageable asset for you in either of these venues?

Jason Hollar: Sure. Love the question and happy to go deeper. First of all, what's really important to us with any M&As you start with, you lead with the strategy. And I think it's highly likely that anything that we do in the future, you'll see connective tissue to the broader strategy that we've laid out in good detail and somewhat at least consistent with the work that we've done before.

And that's because, not only is that the best way to create values by executing well and being tight with that strategy. There's so much opportunity within the current realm of total addressable market that we have today that I think it's highly likely that we're going to want to continue to stay focused.

So to be very clear, we're not looking for a fourth leg of this stool, but there's still a lot of additional opportunities within the other three legs that we have today. And another thing, I'll just say a little bit of an editorial on this. Our answer could be very different than our competition's answer and we all could be right. What I mean by that is we have different strengths.

We have different – of course, we all have a similar core, but we have different areas that we are leaders in. When you look at, within our specialty business, what we have with The Specialty Alliance, our focus on the multispecialty and all the investments we've made there with biopharma solutions.

They have similar types of services there, but they don't necessarily overlap in exactly the same way. And so we have some strengths there. And of course we have our other growth businesses of Nuclear, at-Home and OptiFreight that are leaders in their space. And also quite unique relative to the competition. So we could end up having a different answer.

They could go deeper in a particular area and it may or may not be where we want to focus on. So where are we going to focus? It's going to be a lot of the same themes that you've heard from us. Specialty, absolutely. Within specialty, we do see continued opportunity within the MSOs.

As I just indicated, where we have prioritized within our MSOs, it remains a more fragmented space. And we are starting to consolidate that, but there's still a lot of opportunity there. Outside of the MSOs

within biopharma solutions, we highlighted our leadership in areas like our 3PL, like our Sonexus Patient Hub. These are areas that we are the leader and we have some opportunity because it's still, in many cases, fragmented and with good opportunity, but there's a broad need by customers that's not always being satisfied in the marketplace to their desires. And we see more opportunity there.

And then within the Other growth businesses where we've been most active has been in at-Home Solutions, also very fragmented space. So, the word fragmented came up in most everything I talked about. And that just tells you that there's a lot of opportunity, a lot of potential partners there.

And it can be a partnership, doesn't have to be an acquisition, but there's enough on that list that I suspect you're going to – that's where we spend the most time. That's where we spend all of our dollars is in areas that hit those particular parameters to-date. And that's where we are most focused in our investigations and our exploratory discussions in the marketplace today.

So, our objective is consistent with the strategy. Therefore it should not be a surprise. Whatever we choose to do, we have the financial flexibility to do so. But we also have a lot of confidence in the core. So we'll be ready to execute financially and with the support of the organization when the opportunity presents itself.

Aaron Alt: I want to emphasize on that, the – Jason's use of the word flexibility is really driven by the strong cash flow generation that the business has been able to deliver for the last several quarters. You will have seen that we had another quarter of great adjusted free cash flow, $5.3 billion of cash in the bank at the end of our first quarter.

But in all of that, we will remain loyal to our disciplined capital allocation philosophy, right? We are investing all the dollars that we need to and should. From an organic CapEx perspective, we feel great about the breadth of our investments more than we ever have before across the businesses, really all five of our operating businesses.

We've got a great, strong balance sheet. We're within our targeted leverage ratio so we don't need to take actions there to protect it. You saw we repurchased half of our annual commitment of share repurchase of $1 billion. We repurchased $500 million in the first quarter and really putting us in a place where we can consider what next from that strong cash flow, whether it's the incremental M&A that Jason is just referencing or further return of capital to shareholders. So, we're in a strong place as we carry forward into the rest of the year and are really pleased with the momentum overall.

Operator: We have reached the end of the Q&A session. I will now hand the call back to Jason Hollar for closing remarks.

Jason Hollar: Yeah, just thanks for joining us and as always, reach out to David and team for any follow-ups that you may have. Have a great day.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.