Cardinal Health, Inc. Special Conference Call

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Operator: Hello, and welcome to the Cardinal Health, Incorporated Special Conference Call. My name is George, and I'll be your coordinator for today's event. Please note, this conference is being recorded, and for the duration of the call your lines will be in listen-only mode. However, you will have the opportunity to ask questions towards the end of the presentation and this can be done by pressing star one on your telephone keypad to register your question. Can you also please limit yourselves to one question each to allow the maximum of people to signal or ask a question. If you require assistance at any point, please press star zero and you will be connected to an operator. I'll now hand the call over to your host today, Mr. Matt Sims, Vice President of Investor Relations, to being the conference. Please go-ahead sir.

Matt Sims: Welcome to this morning's Cardinal Health Special Conference Call and thank you for joining us. Joining me today are Cardinal Health CEO, Jason Hollar, and our CFO, Aaron Alt.

You can find the corresponding 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 the 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 statement slide at the beginning of our presentation for a description of these risks and uncertainties.

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, everyone, and thank you for joining us on short notice.

Today, we're excited to be discussing two strategic additions to our portfolio. Consistent with our recent press release, we are announcing transactions with two outstanding companies: GI Alliance, the country's leading GI management services organization, or MSO, and the Advanced Diabetes Supply Group, a leading national provider of direct-to-patient diabetes medical supplies.

Over the past two years, we have driven strong operating performance and improved our financial flexibility by executing our focused growth strategy and long-term value creation plan. You've often heard us emphasize our top enterprise priority of expanding in Specialty, and consistent with our strategic focus, we've invested both organically and inorganically to accelerate our Specialty growth across key therapeutic areas. Additionally in January, with our company reorganization, we elevated the priority of investing in our growth businesses like at-Home Solutions, while continuing to deploy capital according to our disciplined capital allocation framework.

GI Alliance and the Advanced Diabetes Supply Group are each strategic and financially compelling acquisitions for Cardinal Health. As we've gotten to know the respective teams, it's clear that we

share a common vision for the future of healthcare and an unrelenting drive to serve healthcare providers and patients with the very best capabilities of our combined organizations. We're thrilled that today's announcements not only further our strategy and ability to deliver sustainable value creation, but also enhance Cardinal Health's ability to deliver a greater value proposition for providers and patients.

Let's start with GI Alliance and begin by providing an update on our overall Specialty strategy and how our recent investments will fit together as part of our comprehensive support platform for community-based physicians, as seen on slide 7 of our investor presentation.

At Cardinal Health, we are focused on delivering clinical and economic value for specialty physicians to enable high-quality and cost-effective patient care. Specialty physicians' needs span beyond broad and reliable distribution and contracting, which is our core foundation through Pharmaceutical and Specialty Distribution and our GPO offerings, such as VitalSource, UroGPO and GastroGPO.

Additionally, for clinical insights, physicians depend upon our advanced data and technology solutions, which have been bolstered by Specialty Networks' PPS Analytics platform, and include our SoNaR and Real World Evidence offerings. Finally, across therapeutic areas, practitioners are increasingly seeking administrative support through MSO platforms so they can prioritize what they do best, which is delivering exceptional care for patients. In Oncology, where these MSO models are more established, we have been enhancing our capabilities through our differentiated Navista™ practice alliance and the previously announced acquisition of Integrated Oncology Network, which is on track to close by the end of the calendar year. In the larger, remaining 60% of the Specialty market where we have a more established footprint, the acquisition of GI Alliance will enable a platform of multi-specialty services to further pursue this vision. The resulting set of capabilities will enhance practice efficiency, expand available patient services and ensure optimal care across key Specialty therapeutic areas.

Within the handful of the key non-oncology specialty therapeutic areas, GI is a $40 billion addressable market where we see strong and growing demand for GI-related services. GI care continues to shift to community outpatient settings, and there is ample opportunity for long-term growth in a fragmented market.

GI Alliance, the recognized leader in GI, features a national organization with strong breadth backed by best-in-class management and physician leadership teams and over 900 respected physicians across 20 states and 345 practice sites, including 135 affiliated and owned ambulatory surgery centers. The organization operates a proven multi-specialty model and has a strong track record of growth and of delivering value to its affiliated practices.

Upon closing, GI Alliance's leadership team, under founder and CEO Dr. James Weber, will continue to lead the business and be supported by the full breadth and expertise of Cardinal Health in areas like supply chain, pharmacy and laboratory. We could not be more excited to welcome Dr. Weber and his team to the Cardinal family.

Next, Advanced Diabetes Supply Group, or ADSG.

Home healthcare continues to rapidly expand driven by an aging population, increased consumer expectations and the rise of chronic conditions, such as Diabetes, which is one of the fastest growing and costliest chronic diseases in the U.S. Nearly 40 million Americans have been diagnosed with diabetes and approximately 50% of American adults have pre-diabetes. As the prevalence continues to grow as the population ages, there is a significant opportunity to lower healthcare costs and improve patient outcomes by enhancing diabetes management.

By preventing complications and improving blood sugar management, continuous glucose monitors, or CGMs, reduce healthcare costs associated with diabetes and improve the lives of millions of users. With the recognition of the value of CGMs, the continuous innovation from our manufacturer partners and increasing access from favorable legislative changes, the market for these life-saving devices is significant and growing quickly at an approximate 10% CAGR annually. Additionally, we view our distribution of GLP-1s, a therapy, as complementary to our distribution of CGMs, the monitoring device and standard of care for diabetes patients.

Advanced Diabetes Supply Group is a leading national direct-to-patient diabetes medical supplies provider. ADSG is aligned with at-Home Solutions' mission to serve patients with critical products and services in the most convenient and cost-effective setting, the home. ADSG particularly excels with its strong track record of multi-channel patient acquisition and a user experience beloved by its customers, resulting in exceptional patient retention and customer satisfaction.

On our recent earnings calls, you've heard me discuss the operational investments we've made into our at-Home Solutions business to expand our capacity and increase automation. On our most recent call, I mentioned that these investments are taking hold, with our primary operational metrics achieving the highest levels on record in Q1. at-Home Solutions' foundation is strong, and we believe that this combination will be highly synergistic by drawing on efficiencies between the businesses in support of the broader platform.

Simply put, ADSG's strong commercial capabilities, paired with at-Home's operational excellence and reach, creates additional opportunities for growth, operating leverage and value creation for our company, shareholders, and ultimately our patients.

Now, let me turn it over to Aaron to provide some of the details of the transactions, as well as confirmation of our capital deployment plans.

Aaron Alt: Thanks, Jason.

Before we dive in, let me take you back about a year and a half ago to our Investor Day, as part of the disciplined capital allocation framework we announced at the time, we laid out an ambitious plan to generate $6 billion in adjusted free cash flow over 3 years while continuing to invest in our business, maintaining our investment grade rating, and returning at least $1 billion per year back to shareholders. Now fast forward 18 months with the power of our strategy, and excellent execution from our team demonstrated in our full year fiscal '24 and most recent Q1 fiscal '25 results, we are in the position to proactively take actions like the strategic investments announced today. As you've

heard from Jason, we are excited for the long-term growth and opportunities that both of these transactions bring to Cardinal Health.

Let me first speak to a few of the details.

On GI Alliance, we have entered into a definitive agreement to acquire a majority stake, 71%, from a combination of GIA physician owners and funds managed by affiliates of Apollo for $2.8 billion in cash. After close, GIA will operate as a stand-alone platform within our Pharmaceutical and Specialty Solutions segment with three groups of shareholders: Cardinal, the physicians, and management. Beginning on the third anniversary of closing and each subsequent anniversary, Cardinal Health has a call right to purchase up to 100% of the remaining outstanding equity.

We have also entered into a definitive agreement to acquire the Advanced Diabetes Supply Group for $1.1 billion in cash. ADSG will merge with our at-Home Solutions business, which is reported in Other in our financial statements.

Taken together, these profitable assets will bring at least $300 million of additional EBITDA to Cardinal Health. Combined, we expect the two deals to be accretive within the first full year of ownership. As usual, we will reflect the expected impacts of these transactions within our guidance and long-term targets after they close.

We expect both of these transactions to close in early calendar 2025, subject to customary closing conditions, including the receipt of required regulatory approvals.

Including our acquisition of Integrated Oncology Network, which remains on track to close by the end of the calendar year, we intend to finance our recently announced transactions with a combination of approximately 25% cash on hand and approximately 75% new debt financing, which will be structured to enable rapid deleveraging. We intend to finalize these plans in the coming weeks but have in the meantime executed a $2.9 billion bridge commitment financing package as we noted in our press release.

Now, let me turn to the topic of capital deployment. We possess strong financial flexibility, and nothing is changing regarding our disciplined capital allocation strategy: investing in the business, protecting our investment grade balance sheet, providing a baseline return of capital and assessing M&A and additional return of capital opportunities.

Following the completion of ION, GI Alliance and ADSG deals, we will focus on deleveraging over the next 18 to 24 months to get back within the targeted 2.5 to 3 times adjusted gross leverage range for our investment grade credit rating. However, based on our financial plans and flexibility, I am pleased to reaffirm our commitment to complete the remaining $375 million of $750 million of fiscal ‘25 share repurchases as previously stated in our guidance.

In conclusion, today is another day of us doing what we said we were going to do, perhaps with some extra firepower. Both of these acquisitions are expected to significantly expand our capabilities, leverage the suite of services we are building and acquiring elsewhere, bring new sources of higher

margin services profit growth to Cardinal Health, and ultimately better position us to deliver sustainable value creation. We look forward to welcoming the GIA and ADSG teams to Cardinal once we close.

With that, we will take your questions.

Operator: Thank you very much, Mr. Alt. Ladies and gentlemen as a reminder, if you wish to ask any question, please press star one on your telephone keypad and also, please make sure to limit yourself to one question each. Today's first question will be coming from Lisa Gill, calling from J.P. Morgan. Please go ahead.

Lisa Gill: Thanks very much, and good morning and congratulations on both these deals. Just want to make sure I understand the couple of things. One, can you maybe help me to understand the accretion? You talk about it being 12 months out. Aaron, I think I heard you say, you won't put this in guidance until after close. As we sit here today, should we expect that there will be some impact or dilutive impact in '25? And then, you know, we'll see a nice accretion in '26? And then I heard you talk about the bridge loan of $2.9 billion. Can you just remind me, what your plans are around financing that? So, you said you will come to the market. How should we think about current rates or anything else you can share from a modeling perspective?

Aaron Alt: So, as I was saying, we have a lot going on and we're excited about getting the deals closed. As part of that, let me offer a couple of thoughts. But first, we do expect that the deals will be accretive in the first 12 months. Of course, we have to sort out the actual timing of the individual closing of the deals while we're announcing them together. We're working through the anticipated timing of when all three transactions will close. The financing we referenced, the bridge facility, which has been launched, will be it will be in place starting today. And we expect in short order, to be bringing a more permanent financing structure to the street. No commentary from us today yet on interest rates or other terms, that would be premature in the context of us getting our plans out there. But we are excited for the transactions, and given the strong financial flexibility we have, we're eager to get this moving.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question is going to be coming from Eric Percher of Nephron Research.

Eric Percher: Thank you. I'd like to ask about and the motivation in terms of the purchase price and the profit pools. How do you think about the profitability generated by the provider group and your portion of that relative to the value, or profit pool, that can be generated from distribution as you add the GI distribution here?

Jason Hollar: Thanks, Eric. I'll go ahead and take that one. So, what we're excited about with this transaction is the breadth of capabilities that GI Alliance brings to their positions. So, as I highlighted on slide 7 and I'll touch on again here further. I'm probably going to reference this and all the conversations in one form or another because it highlights that when you put the physician in the center of everything, they have a lot of needs. Their needs are varied, they have a tough job.

They're trying to take care of patients, but they're also trying to run a business. When you look at that slide, what it really tells you is we're trying to take care of the business side of what they do. Yes, distribution is a component of that, and that's very much the foundation that you see, and we've added to that over time just through our organic investments, and automation, and process to make sure that we're the best distributor possible. We've scaled up inorganically with some GPOs over time, but ultimately where we need to go as an industry to take care of those physicians is in all the other areas. So, we invest organically through Navista™ with value-based care in the past, and we've augmented that more recently with advanced data and technology solutions through Specialty Networks PPS Analytics and SoNaR. So, we're really bringing in capabilities organically and inorganically to help monetize that data, help provide them the tools. But more recently and the last two acquisitions, the Integrated Oncology fitting in neatly with the Navista™ organic growth that we've seen and established here with the Navista™ Alliance through the 40% that's oncology. But what today is about is recognizing there's a need for a secondary platform. That platform is for the other 60%. And while GI Alliance is focused on GI today, what we've seen and worked with them on is that we see that that can be expanded to the other therapeutic areas. So, your question I know is very specific around financial modeling on distribution and contracting, but what we see is a value creation opportunity, and probably even more importantly, an enabler for those physicians to be an even better physician for their patients to help them manage the business and allow them to prioritize that. That creates value for the physician, and with that, we think can be scaled. That creates even more value for those physicians that are part of that alliance and that is outside of distribution and is very much focused on creating value through the other profit pools. But I would think about it more around taking care of their problems, providing them solutions as to focusing on where every single dollar is at.

Operator: Thank you, sir. Our next question will be coming from Elizabeth Anderson of Evercore ISI. Please go ahead.

Elizabeth Anderson: Hi, guys. Thanks so much for the question, and congrats on the deal. I had a question. It seems like from some of the research we were doing, that GI Alliance may have a previous relationship with your Specialty Networks. Can you confirm that? And then, how does that help in terms of like the early integration of the business? I assume that they're working together that sort of helps to de-risk sort of the integration process. So, can you talk about that relationship and just how you see their relationship evolving going forward?

Jason Hollar: Yeah, thanks, Elizabeth. And again, I'll probably go back to slide 7 yet again. So, you know, hey, it's a small world when it comes to specialty physicians. So, there is connections all over the place, Specially Networks their largest part of the market was and is urology, but they do have some business in GI and there is a relationship within the GI space with Specialty Networks. But that's precisely the point of the multi-specialties that I'm talking about: GI, rheumatology, neurology, urology, and probably many others. But the point is, this platform the GI Alliance has on the MSO side, revenue cycle management, physician recruiting, back office, all that, we believe is capable to go across all those other therapeutic areas. We're seeing it happening in small ways today, but that's because the physician has those needs.

So, there has been enough interaction between the different specialty areas. It's more than a hypothesis. It's something that we believe is where the market is going, and Specialty Networks in their ability to begin to expand outside of urology as an example of that capability in that technology, having similar use cases in other places. And we think the same is going to be true with GIs, MSO services to go into the other therapeutic areas.

And so, it really is both of those again, back to slide 7. Both of those sides of that slide, the MSO platforms with GI and Navista™ and we're including integrated oncology and the right-side being Specialty Networks. That can transcend into all the different specialty areas in different ways, but generally in a similar way.

Operator: Thanks for the question, Ms. Anderson. We will now move to Erin Wright calling from Morgan Stanley. Please go ahead.

Erin Wright: Hey, thanks. So, how would you characterize the growth and margin profile across ADSG and just the broader DME space? And how do you think about what's going on or what's going through kind of the pharmacy channel versus like DME suppliers and how that whole channel is evolving here? Thanks.

Jason Hollar: Yeah so, we talked about a 10% CAGR for the space for CGMs, specifically diabetes types of patients. And that's not too dissimilar to the overall growth that we've seen in at-Home over the last several years. So, we're excited about the space for a few reasons. And I put it into two key buckets. One, just to answer your question Erin, the space itself, we have high confidence we'll continue to grow at healthy rates for at least the medium-term. When you think about the 40 million diagnosed diabetics in the United States today, while 50% have access only about half of that number, or about 20% to 30%, actually use CGMs. So, there's a fantastic unmet need, which of course is great for business, but there's also a lot of value to that underlying patient.

Now that 20% to 30% of the addressable market today, that's actually grown quite quickly in the last five years. You go back five years ago and that was more like 5% to 10%. So, it's more than doubled over the last five years. We think it could double again in the next five years, and that's presuming the same number of diabetes patients in the U.S. today. And that what we see is really just a growth in the actual access to those patients, and most importantly, that when they have access, they actually use it. So, that 20% to 30% who use it today, we think, will get to about half in the next five years, which gives you more than a 10% CAGR to get there. And again, that's without any underlying growth in the actual market. So, that's why we're excited about the space.

Now, why are we excited about ADSG? They are a terrific fit for us. And this gets to some degree on your question on just reimbursement in the pharmacy shifts. This gives us a more balanced payer mix. So, we are overweighted commercial, they are overweighted government. And so, on average, we're going to be much more like the market than where we are today or where they are today. So, there's some level of best of the best from a payer-mix perspective.

But the other interesting part about their business is how they operate. They are also an asset-light business. We do have distribution centers, of course, and I'll get to that in a moment. But when you

look at patient acquisition and how we operate commercially, we are asset-light. Meaning, that we do not own the equipment, we do not go into the home, we do not manage the process of getting those products into the home, things of that nature. More the heavier side of the at-Home business. We are a logistics provider, and we are experts at getting that product to the home. That is entirely consistent with their model. So, their model is very similar to ours. Then when you look at the products that are to be distributed, this is $1 billion of incremental revenue, which is a nice uplift from the $3 billion that we have in our business today. And yet that $1 billion of incremental revenue will represent only about 2% of our capacity utilization, meaning we don't have to add any capacity in our distribution network to be able to deliver their $1 billion worth of products. That fits into our distribution network, which, you know, we've been investing heavily in for other purposes automation efficiency. But with that investment in automation and efficiency, we can get more product out of our distribution centers, which effectively gives us more capacity. And even irrespective of the 2%, this gives us the opportunity to free up some pretty high contribution margin synergistic type of business through these actions and why they were such a great fit for us.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will be coming from Michael Cherny calling from Leerink Partners. Please go ahead, your line is open.

Dan Clark: Great, thank you. This is Dan Clark on for Mike. I guess two quick ones. One, appreciate the color on the $300 million in EBITDA from the transitions. Can you just help us a little bit size the contribution from the two? And then secondarily, how are you thinking about your long-term growth guides given you've been fairly active buying assets that are growth and margin accretive? Thank you.

Aaron Alt: So, from a revenue basis, GIA is about $2 billion in revenue. And you just heard Jason reference that ADSG is about $1 billion in revenue and from a profitability perspective, it's roughly the same, roughly even split. Sorry, roughly similar split as when I say.

Matt Sims: Next question, please.

Operator: Yes sir. The next question will be coming from George Hill of Deutsche Bank. Please go ahead.

George Hill: Yeah, good morning. Jason, I kind of want to ask you a big-picture question here. Which is, if we kind of step back, there's still like five or six specialty deals announced in the last six months. A lot of them focused on MSO business models across the space. I guess I'd love to hear you just talk about like how many assets are left at scale in the MSO businesses? Which disease states do you see as kind of the most penetrated and the most attractive opportunities? And kind of, is there a read through here for what's going on in the core retail pharmacy space? And is this a reflection of the desire to kind of, I guess, kind of the push and pull of like expanding into specialty and leaning into where the industry is growing versus thinking about the challenges facing the regulated retail pharmacy space. I know that's kind of like an open-ended question but would just kind of love to hear

you talk about like the whitespace and where the opportunity is as people have been gobbling up these assets.

Jason Hollar: Yeah, so once again, I'm going to go back to slide 7 and talk through what we've laid out here, because I think it is a clear picture of some of the aspects of what you're talking about, George. And then there's some others, I'll get to as well. So, with GI Alliance, we felt the need to acquire a best-in-class partner that has the broad capabilities in the other 60% of specialty. And, with a platform and capability and team that's capable of growing outside of any one therapeutic area.

So, we see that the future will be very similar the way we've laid it out, that oncology has some very unique aspects to it. These physicians have unique differentiated needs, whether it's oncology or the other specialty areas. But we see the need for two very distinct platforms, one through Navista™ inclusive of integrated oncology, and the other one through GI Alliance, which will expand well beyond the GI space and will be that platform for us. So, that's a way to set up the answer to your question, George, in terms of, this is admittedly a large acquisition for us, but it's a platform acquisition. We're not just buying a cash flow stream that's far, far from it. What we're really focused on is buying and partnering on the capability for the platform so that we can jointly grow well into the future. So, I'm not here to tell you what we are or are not going to do in the future. What I'll tell you is that we're going to be more interested, I think will be more accretive to bolt-on to these two existing platforms in some way. That isn't meant to define the size of what that is, but I doubt what you're going to see is anytime soon a third MSO platform, if you will, that will come onto the sheet. We're going to be very focused on building out these two MSO platforms because we think there's, in the GI space as an example, they've done a nice job of growing that market but they're still in the single-digit market share. So, it's still just scratching the surface on what is needed by those physicians at the center of all that.

I think you're maybe going too far as a read through to the other core of our business in the other non-specialty physician parts of our business. I look at this very differently. I look at this as these specialty community physicians have very particular needs that are different than all the others. That's why we are doing it. And perhaps they have some of the most unmet needs in the marketplace. So that's why we're putting our dollars here, is that we believe we can create the most benefit to the physicians and ultimately to the patients. And of course, we think that's good business along the way as well. We'll be looking for opportunities in other parts of our business, but they are largely consolidated. What we're talking about here is actually quite similar to what the industry did decades ago with retail independents, where those retail independent pharmacists had very specific needs that we're not being met and there was a changing environment around them. And we came in and created platforms and capabilities and allow them to leverage our scale so that they could be successful in the marketplace. And what you have today are still 20,000 retail independents in the marketplace, that most likely wouldn't have been there had it not been for that the scale and capability that we brought to the marketplace. A very different type of focused customer here in the center of this with the specialty physicians, but their needs are also unique and what we're doing is building around that.

Matt Sims: Next question, please.

Operator: Yes, sir. Today's last question will be coming from Eric Coldwell calling from Baird. Please go ahead.

Eric Coldwell: Thanks very much. I have a two-parter and maybe a follow-up, if you'll allow me. So, first off, appreciate all the details and the $300 million EBITDA comment. I just want to confirm that is specific to the two deals being announced today and not incorporating the future closing on ION networks. And then secondarily, similar vein here, you previously said ION was not accretive in the first year or at least only emphasized that it would be anticipated to be accretive in the second year. The other two are accretive in the first year. There's some timing issues here on when exactly each one closes. I just want to make sure the street doesn't get ahead of its gates on fiscal '25 accretion. So, if you could perhaps walk us through the not-accretive ION when it closes, versus the other two being accretive but closing later in the fiscal year. Should we keep pulling the horns a bit in the fiscal '25 is basically what I'm getting to. I just want to make sure we're not missing something with three deals closing. Thanks very much.

Aaron Alt: Eric, happy to do it. It's a good question. You know, just a quick reference. We said at least $300 million with respect to the business and then, we are trying to be very careful to actually not have you read through to '25, because, of course, we have to get the deals closed in coming months. And so, I'm not going to walk you through individual accretion dilution details on the individual deals today just because we'll provide that guidance as is typically the case, you know, as we close each of the transactions. We expect ION to close in the next several weeks and before the end of the calendar year. We've guided that the other two deals will close here shortly or after the start of the new calendar year as well. But I wouldn't counsel to read in or start adjusting our fiscal '25 guidance until we're able to come back to you with more specific details as we push ahead. The $300 million, just to go back to your first question, that was specifically in reference to the two deals today, it does not reflect anything around ION Navista™.

Operator: Thank you so much, sir. At this stage, we do not have any further questions. I turn the call back over to Mr. Jason Hollar for any additional or closing remarks. Thank you.

Jason Hollar: Yeah. Hey, thanks again for everyone joining us on short notice. Just stepping back, and putting all this simply, both of these acquisitions are entirely aligned with our strategy and what we've told you before. And they will make us better. They'll make us better both as a business, as I've referenced a number of times in the questions, but also even more importantly, as an enabler for better patient care at the end of the day. Of course, we're going to continue to keep you informed and we are excited to dive deeper into our business even further at our next Investor Day on June 12th. And we will see you in the meantime. Thank you.

Operator: Thank you very much. Ladies and gentlemen, that will conclude today's conference. Thank you so much for your attendance. You may now disconnect. We wish you a very good day. Have a good day, and goodbye.