Q4 FY24 Cardinal Health, Inc. Earnings Conference Call

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Operator: Good day, and welcome to the Fourth Quarter FY 2024 Cardinal Health, Incorporated Earnings Conference Call. My name is George, I'll be your coordinator for today's event. Please note that this conference is being recorded and for the duration of the call your lines will be in the listen-only mode. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to ask your question. In order to allow as many people as possible to ask a question, we ask that you limit yourselves to one question each. If you require any assistance at any point, please press star zero and you will be connected to an operator. I'd now like to turn the call over to your host today, Mr. Matt Sims, Vice President of Investor Relations. Please go-ahead sir.

Matt Sims: Welcome to this morning's Cardinal Health Fourth-Quarter and Fiscal '24 Earnings conference call and thank you for joining us. With me today are Cardinal Health 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 the statements are subject to risks and uncertainties that could cause 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.

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: Thanks Matt, and good morning, everyone.

Fiscal year '24 marked a year of strong operational execution and record financial results for Cardinal Health, delivered in tandem with significant strategic progress across the portfolio.

On that note, we have three key headlines today. First, we finished the year with momentum, growing EPS 29% in both Q4 and fiscal year '24. Our results exceeded guidance, and full year EPS of $7.53 was 96 cents above the mid-point of our original outlook from Investor Day. We also delivered nearly $4 billion of Adjusted Free Cash Flow for the year, positioning us with approximately $5 billion of cash at year end, even after $1.25 billion of capital returned to shareholders this year and funding our

growth investments. Second, we have managed through the transition of a significant customer and are raising our guidance for fiscal year ‘25, while also reconfirming our long-term financial targets. And finally, we continue to advance our strategy to build upon the growth and resiliency of Pharma and Specialty, execute our GMPD Improvement Plan and accelerate our growth in key areas, while optimizing our portfolio to maximize shareholder value creation.

More on that momentarily, but first, some brief reflections.

This year we continued to take decisive actions to simplify our business and drive performance, highlighted by the reorganization of our operating and segment reporting structure to enhance management focus while enabling efficiencies, accountability, and transparency.

We grew our largest and most significant business, Pharmaceutical and Specialty Solutions, above our targeted long-term growth rate. We saw ongoing stability in pharmaceutical demand, strong performance from our generics program and our Specialty business grew revenue 14% for the year. As of fiscal year ‘24, our Specialty business is now over $36 billion, and we anticipate continued growth next year despite the large contract expiration.

We’ve prioritized key growth areas in Specialty, with organic investments across the therapeutic areas and the acquisition of Specialty Networks.

In GMPD, we executed our Improvement Plan initiatives, returning the business to profitability and delivering approximately $240 million in year-over-year segment profit improvement. Notably, we achieved our year-end inflation mitigation target, a critical milestone for the business.

Across our Other operating businesses, we collectively grew revenue 12% and segment profit 7% in fiscal year ‘24. We’ve seen strong demand across Nuclear, at-Home Solutions and OptiFreight® and our purposeful investments and focus on performance excites us about how these businesses are positioned for the future.

Overall, these results were achieved through our team’s commitment to execute against a focused set of priorities to create value for our shareholders, our customers, and ultimately for millions of patients.

As we turn the page to fiscal year ‘25, our confidence is reinforced by our strong and resilient business, with positive industry trends supporting our growth. And we continue to take actions to optimize not only the performance of our businesses, but also the financial strength of the broader enterprise.

Before I hand the call over to Aaron, let me provide an update on our business and portfolio review, which as a reminder, kicked off in September of 2022. Last June we concluded our review of the former Pharma segment, highlighted at Investor Day with our enhanced organizational focus on Specialty and decision to retain and further invest in our Nuclear and Precision Health Solutions business. Then, in January we finalized our review of the growth businesses within the former Medical segment, determining the best course of action for shareholder value creation was to invest

in and further develop at-Home Solutions and OptiFreight® for long-term growth, while also completing our re-segmentation. All along management, in collaboration with the Business Review Committee and Board, has been reviewing GMPD from every angle, as the team executes our turnaround plan. We deeply understand the business' opportunities and complexities and today, have some preliminary conclusions to share through the lens of our Portfolio Review Framework, as seen on slide 20.

In short, we remain committed to executing the GMPD Improvement Plan and our fiscal year '26 target of $300 million in segment profit. We were pleased and unsurprised to see significant interest in GMPD during our review. The business is core to the operations of so many healthcare providers and features not only our formidable distribution expertise, but a broad set of Cardinal Health Brand products that are critical to patient care. Following our extensive review, we have gained confidence that we are best positioned to continue capitalizing on the meaningful growth and operational opportunities on the horizon for this business. Ultimately, we see more value creation potential ahead for our shareholders by continuing to drive the GMPD turnaround plan.

Even more, our analysis uncovered additional opportunities to unlock near-term value through further simplification actions and working capital improvements, while continuing to drive the plan. From these initiatives we plan to generate at least $500 million in cash over the next two years, to be deployed according to our disciplined capital allocation framework. In recognition, we're raising our share repurchase expectations for fiscal year '25 to a total of $750 million, which is beyond our $500 million baseline.

In terms of the mechanics of future reviews as the business continues to improve, the Business Review Committee of our Board sunset in July as planned, and the ongoing value creation efforts are now being overseen by the Board as a whole. As always, we take a thorough, objective, and open-minded approach focused on maximizing long-term shareholder value creation, while continuing to invest in the business to ensure that our customers receive the products and service they expect.

I'll go deeper into our strategic plans for our segments later in my remarks, but first, let me turn it over to Aaron to review our results and guidance.

Aaron Alt: Thank you, Jason, and good morning.

Before discussing our Q4 success and our raised guidance, I want to highlight that today we are providing revised prior period financials for fiscal year '22 through Q3 fiscal year '24 reflecting slight net increases to non-GAAP EPS. During the preparation of our annual financial statements, management identified a long-standing accounting error in part of our at-Home Solutions business related to revenue recognition from third-party payors. As a result, we have corrected this item in prior periods and also updated the timing of other previously recognized immaterial out-of-period items, across the full enterprise. The net impact of these changes increases non-GAAP EPS by $0.07 in fiscal year '24, $0.06 in fiscal year '23 and $0.01 in fiscal year '22. To be helpful, we've included supplemental schedules in our press release, along with further detail in our fiscal year '24 10-K.

Moving to our results, I am pleased to reinforce that Q4 produced a strong finish to a year in which the Cardinal team made tremendous progress against our financial and strategic priorities.

For both Q4 and the year, our EPS results reached historical high points, with operating profit growth across Pharma, GMPD, and Other also supported by improvements below the line in the form of lower interest costs, better tax rates and lower share count.

We delivered strong gross margin growth and matched it with well-controlled SG&A, even in an inflationary environment.

In Q4, revenue increased 12% to $59.9 billion reflecting revenue growth in the Pharmaceutical and Specialty Solutions segment, the GMPD segment, and in all of the businesses making up Other.

Gross margin grew 5% to $1.9 billion, outpacing consolidated SG&A, which increased only 2% to $1.3 billion in the quarter, reflecting our disciplined cost management. This translated to total company operating earnings of $605 million, up 14% versus last year.

Below the line, interest and other improved $6 million versus prior year to $10 million, benefitting from the quarter's strong cash outperformance.

Our fourth quarter effective tax rate finished at 24.6%, 4.5 percentage points lower than the prior year.

Fourth quarter average diluted shares outstanding were 245 million, 4% lower than a year ago due to our previously announced share repurchases.

The net result was fourth quarter EPS of $1.84, growth of 29%.

Moving into our segment results, beginning with the Pharma segment on slide 11.

Fourth quarter revenue increased 13% to $55.6 billion, driven by brand and specialty pharmaceutical sales growth from existing customers. We continued to see broad-based strength in pharmaceutical demand spanning across product categories: brand, specialty, consumer health, and generics, and from our largest customers. Excluding GLP-1 sales, the segment's Q4 revenue growth would be 9%. As we have commented previously, GLP-1 sales do not meaningfully contribute to the bottom line.

Segment profit increased 8% to $482 million in the fourth quarter, driven by positive generics program performance. Within our generics program, we continued to see volume growth and consistent market dynamics, including strong performance from Red Oak.

Pharma segment profit growth in the quarter was 8%, despite an approximate $15 million margin headwind related to the unwind of the previously announced large customer transition. This unanticipated impact in the quarter was the primary difference between Pharma's Q4 results and the midpoint of our prior guidance.

Recall that we previously observed that the impact of the contract loss would be offset by new customers, Specialty Networks, and cost controls, as part of our contingency planning. Consistent with these mitigation plans, the team began implementing cost control measures and started to see offsetting savings.

We also saw strong growth from BioPharma Solutions in the quarter, including contributions from Specialty Networks.

Turning to the GMPD segment on slide 12.

We are quite pleased by the Q4 GMPD results, which confirmed our team's continued progress against the GMPD Improvement Plan.

Fourth quarter revenue grew 2% to $3.1 billion, driven by volume growth from existing customers. We again saw growth in Cardinal Brand volumes during the quarter.

GMPD delivered Q4 segment profit of $47 million, generally consistent with our expectations and our prior guidance of approximately $65 million for the year before the prior period revisions.

The $40 million year-over-year increase in Q4 was driven by an improvement in net inflationary impacts, including our mitigation initiatives, as we achieved our target of offsetting the gross impact of inflation by the end of fiscal year '24. We continue to be encouraged by the tenacity of the team in driving improved execution and customer satisfaction and service levels, while identifying additional opportunities to optimize the business.

Finishing with the businesses that aggregate into Other as seen on slide 13.

Fourth quarter revenue increased 15% to $1.2 billion, driven by growth across all three businesses, at-Home Solutions, Nuclear and Precision Health Solutions, and OptiFreight® Logistics. Segment profit grew 11% to $111 million, primarily driven by the performance of OptiFreight® Logistics. The OptiFreight® business continues to hit on all cylinders as increasing customer demand for our logistics management services is met with strong execution. In Nuclear and at-Home Solutions, we continue to invest strategically to supercharge growth. All three businesses, as key parts of our growth story have received, and will receive going forward, access to capital for expansion of their business models in support of our customers.

I will be brief on the full-year commentary. Fiscal '24 revenue increased 11% to $227 billion, with growth from all five operating segments. Gross margin increased 8% to $7.4 billion, while SG&A increased a more modest 4% to $5 billion, reflecting our year-long efforts to control costs. Together, this resulted in fiscal '24 total operating earnings growth of 16% to $2.4 billion. All in, it was an excellent year across the business.

Below the line, Interest and Other decreased 52% to $42 million, driven by increased interest income on cash and equivalents.

Our annual effective tax rate finished at 21.7%.

Average diluted shares outstanding were 247 million, 6% lower than a year ago due to share repurchases.

The net result was fiscal ‘24 non-GAAP EPS of $7.53, growth of 29%, well above our long-term target of 12 to 14% growth.

Now before I turn to fiscal ‘25, let’s cover the balance sheet.

For fiscal ‘24, our ending cash balance was $5.1 billion. The cash position includes $200 million earmarked for the November 2024 debt maturity, with an additional $200 million to be paid through the time deposits held in prepaid assets and other on the balance sheet.

To get there, we generated robust adjusted free cash flow nearly $4 billion in fiscal year ‘24. Recall that at our Investor Day last June, I commented that cash flow remained an area of opportunity for us. Our excellent adjusted free cash flow result in 2024 was almost entirely a result of the team’s year-long effort to optimize each element of our working capital, while remaining focused on our service levels. To a much lesser degree, the results reflect balanced preparation for the Q1 contract expiration, which has now occurred in July, largely as we expected. We attribute only a couple of hundred million dollars of our fiscal year ’24 cash flow to beneficial timing related to the large contract unwind. I’ll talk about the impact of the contract unwind on cash flow shortly as part of our guidance.

Also, this year, we strengthened our balance sheet and achieved our targeted leverage ratio, which resulted in three positive outlook updates from the credit rating agencies.

We also continued to deploy capital in a shareholder friendly manner, returning more than our baseline commitment of capital return to shareholders through $750 million of share repurchases and $500 million in dividend payments. And we increased our dividend for the 35th year in a row.

Now, let’s look forward, and discuss our updated fiscal ‘25 guidance on slide 15.

Today, we are increasing our fiscal ‘25 EPS guidance to a new range of $7.55 to $7.70. This is an increase from the preliminary guidance during our Q3 call of at least $7.50.

Slide 16 shows our fiscal ‘25 outlook for Pharma.

On revenue, we expect a decline between 4% and 6%, reflecting the nearly $40 billion revenue headwind from the large customer contract expiration. Normalizing for the large customer, fiscal ’25 revenue growth would be between 15% and 18%. This reflects underlying growth generally consistent with our long-term targeted rate of 10% due to strong overall pharmaceutical demand, as well as significant growth from the onboarding of new customers and existing customer expansions, primarily in the second half of the year.

We are on track to address the segment profit impact of the large contract expiration with this incremental volume, contributions from Specialty Networks and additional operational efficiencies. Note that all three of these offsets will have some level of a ramp to them throughout our fiscal ‘25.

We expect consistent market dynamics for our generics program to continue. We also expect increased contributions from brand and specialty products, including biosimilars. We are assuming a modest year-over-year headwind related to the distribution of COVID-19 vaccines. On brand manufacturer price increases, we expect an environment generally consistent with the past several years.

Summing it all up, we anticipate Pharma segment profit growth in the range of 1% to 3%, a testament to the strength and resiliency of this business. It is the case that segment profit growth will be more back-half weighted than usual. We expect first half segment profit to be slightly lower to flat versus the prior year, with profit growth in the back half. Q3 should again be the highest absolute dollar profit quarter for the business.

Turning to GMPD on slide 17.

On the top line, we expect growth between 3% and 5% aided by low-single digit utilization growth, as well as incremental volume from the onboarding of net new distribution customer wins.

On the bottom line, we are reiterating our expectation of approximately $175 million in segment profit for fiscal year ‘25, on our path to approximately $300 million in segment profit by fiscal year ‘26 by executing the GMPD Improvement Plan.

The plan is unchanged from what we shared a quarter ago. After successfully offsetting inflation at the end of this year, the annualization of these benefits will be a fiscal year ‘25 tailwind. The team remains focused on continuing to drive Cardinal Brand growth through our five-point plan. In fiscal year ‘25, we expect Cardinal Brand sales growth between 3% to 5%. Simplification and cost optimization also continue, with further opportunities in the pipeline to drive efficiencies and streamline our operations.

Recognizing that while GMPD’s plan may be simple, that does not make it easy, and we once again expect a back-half weighted profit year in fiscal ‘25, just like fiscal ‘24. The quarterly cadence will be driven by seasonality and the ongoing commercial and operational improvements in the business. Additionally, we expect unfavorable manufacturing cost timing in the first half of the year, which unlike last year, includes some start-up costs and timing associated with expanding production at Cardinal Health owned domestic manufacturing plants to enhance our supply chain resiliency.

Q1 should be the low point of the year due to these factors. Last year’s updated Q1 shows $12 million of profit and this year we expect Q1 to increase to up to $20 million, with sequential improvements thereafter.

Turning to Other on slide 18.

For each of Nuclear, at-Home Solutions and OptiFreight®, we expect profit to be aided by the continued strength in demand, execution of our growth strategies and benefits from our increased prioritization of these businesses with investments.

Collectively, we expect revenue growth in the range of 10% to 12% and segment profit growth of approximately 10% with all three businesses contributing to these targets.

Stepping back, we are pleased to see anticipated profit growth across all of our operating segments in fiscal year '25.

Moving below the line, we expect interest and other in the range of $140 million to $170 million. The large year over year increase continues to be driven by lower average cash balances, lower short-term investment rates on our cash and higher rates on our debt resulting from the refinancing of our calendar 2024 maturities.

We continue to expect our fiscal year '25 effective tax rate to be in the range of 23% to 24%.

With our near-term GMPD value creation initiatives, we have increased our fiscal year '25 share repurchase expectations beyond our baseline to $750 million in the year, leading to a share count guidance of approximately 243 million shares.

Finally, we expect fiscal year '25 adjusted free cash flow of approximately $1 billion, reflecting the Q1 negative impacts from the large contract unwind, as well as quarter-end day of the week timing. While these dynamics will significantly affect our cash flow in Q1, our strong investment grade balance sheet positions us well to manage through these fluctuations and continue making strategic investments in the business consistent with our disciplined capital allocation framework.

To close, fiscal year '24 was a standout year filled with notable milestones. With adjusted EPS growth of 29% and adjusted free cash flow of nearly $4 billion, the Cardinal Team delivered. With six weeks of fiscal '25 behind us, I'm pleased to say that the team is managing adeptly. Between the leaders we have throughout the organization, our dedicated team working tirelessly to serve our customers and our clear strategy, we are confident that we will deliver once again. With that, I will turn it back over to Jason.

Jason Hollar: Thanks, Aaron. Now, I'll go deeper into our strategic priorities, beginning with Pharma and Specialty Solutions, where we remain focused on building upon our strong core foundation and expanding in Specialty.

Everything we do starts with the customer. Recently, we hosted our 32nd annual Retail Business Conference, the largest in the industry bringing together 5,000 attendees from across the country. As the trusted partner to retail pharmacy, we understand the critical role retail independent pharmacies play in caring for their communities, as they continue to expand their services as community healthcare destinations and demonstrate their remarkable value and resiliency. We continue to invest in our full suite of clinical, business and reimbursement solutions to support our customers and provide industry advocacy to empower retail pharmacy now and into the future.

Our Consumer Health Logistics Center, slated to open in 2025, will offer a comprehensive selection of over-the-counter medications, treatments, and diagnostic solutions. Additionally, our new Vaccine Alliance program offers cost-savings and other benefits from participating manufacturers to help pharmacies engage more patients and expand their immunization programs.

We are constantly evaluating ways to bring innovative solutions to our pharmacy and manufacturer partners through the breadth of our offerings and capabilities. As part of that commitment and in collaboration with CVS Health, we have formed Averon, a joint venture to source biosimilars. Averon builds upon our companies' successful partnerships like Red Oak Sourcing, with similar overall objectives for biosimilars. Simply put, we are increasing access to additional therapy options that will provide more choice for patients at a lower cost. Averon began by contracting a couple of products, including Humira biosimilars, and we see opportunities for the program to expand over time.

Continuing in Specialty, we're pleased with how quickly Specialty Networks has integrated with our business and we continue to be impressed with the PPS Analytics platform's insights generation capabilities and the team's clinical, technology and operational expertise.

As expected, we are leveraging Specialty Networks' demonstrated capabilities in Urology, the largest area of its fully integrated model, to enhance our offering in Oncology. The fully integrated Specialty Networks market offering is directly aligned with our strategy for Navista™, our oncology practice alliance providing advanced technology and services.

Over the course of the last year, we've built a world-class Navista™ team consisting of industry experts, defined our offerings and go-to-market strategy and completed our foundational technology build. The Navista™ team is engaging with an active pipeline of customers across the oncology marketplace, demonstrating to community oncologists how Navista™ can help them remain independent for good.

Upstream with manufacturers, our leading Specialty 3PL has continued its track record of growing faster than market with nearly 20% growth during the year.

We're leveraging these services as part of our comprehensive offering that further facilitates the commercialization and delivery of critical cell and gene therapies to providers and patients. Our new Advanced Therapy Solutions Innovation Center features a specialized deep-frozen storage suite to handle the logistical challenges associated with cell and gene therapies. Additionally, the dedicated space provides opportunities for collaboration and improved process design supporting the ordering, invoicing, and accounts receivable process for pharmaceutical products.

Across classes of trade, our commitment to service and solutions-oriented commercial approach has resonated with customers. A new health system customer onboarding that we recently completed, and a few in the earlier phases of ramp up, are going smoothly, and we expect over $10 billion in total incremental revenue in fiscal year '25 from committed customer wins and expansions.

Turning to GMPD. When we originally introduced the former Medical Improvement Plan, we consistently highlighted that the first key to turning around the performance of the business was

addressing the significant impact of inflation and global supply chain constraints on our business. Our team got to work with urgency, executing various mitigation actions to cover the significant operating losses we incurred. Fast forward to today, after two years of hard work the GMPD business is on solid ground.

We delivered an approximate $240 million year-over-year improvement in segment profit in fiscal year ’24. We exited the year successfully offsetting the gross impact of inflation. We’ve seen three consecutive quarters of year-over-year segment revenue growth and four consecutive quarters of Cardinal Health Brand volume growth. We grew Cardinal Health Brand revenue 3% overall for the year, and 4% in the U.S. Our customer loyalty index score for U.S. Distribution remains up over twenty points from its pandemic low. And we’re successfully retaining key distribution customers, along with some recent new wins.

As we’ve continued to dive into the business through our portfolio review, it’s clear there are still significant opportunities to capture. I’ll highlight a few.

First, as Aaron mentioned, our progress on inflation mitigation in fiscal year ‘24 will annualize and be a significant year-over-year tailwind to our results next year, even with a slight headwind expected from the recent cost increases in international freight. Between the actions we’ve taken to improve our resiliency, the diversity of our global supply chain and some offsets across our broader portfolio of commodities, we’re confident in our ability to continue to effectively mitigate supply chain inflation.

Second, Cardinal Health Brand leading indicators remain positive and continue to predict an acceleration in growth. We’ve seen a healthy overall utilization environment for a number of quarters now and our five-point plan continues to produce encouraging results.

Third, the disciplined execution of our simplification strategy has driven improved operational performance. With the business stabilized and only recently turned free cash flow positive, we see opportunities to drive targeted working capital improvements over the next two years. Additionally, we can broaden our simplification efforts, such as further optimizing our real estate and geographic footprints, while always prioritizing the needs of our customers as our north star.

Our team is energized to execute on the next phase of the improvement journey focused on commercial excellence and continued simplification to create additional value for our customers and shareholders.

In Nuclear and Precision Health Solutions, our leading positioning with 130 Nuclear Pharmacies and 30 PET sites across the country feeds our differentiated ability to partner with manufacturers in order to bring cutting edge therapies to patients exactly when they need them. Our excitement continues to build around the opportunities to improve patient lives through the use of precision medicine, which we have been investing into heavily with our Center for Theranostics Advancement. We’re seeing the results, with our theranostics business growing over 20% in fiscal year ‘24, driven by strong demand for prostate-cancer theranostics products such as Telix’s Illucix.

In fiscal year ‘25, we expect similar theranostics growth and will continue to invest to meet the growing pipeline of opportunities, which includes cardiology and neurology but overall, is largely dominated by oncology. As an example, we will be expanding our support of novel prostate radioligand therapies with Novartis’ Pluvicto in fiscal year ‘25.

We are also investing in increasing our cyclotron capacity and PET manufacturing geographic footprint to meet increasing demand for PET diagnostics, with the majority of emerging radiotherapeutics requiring a companion PET scan.

Fiscal year ‘24 was a foundational year for our $2.9 billion at-Home Solutions business as we laid the groundwork for future growth and efficiency. This business continues to grow revenue faster than market, not only aided by care moving into the home but also our team’s commercial execution.

To drive operating leverage, we’ve been investing in our technology capabilities, such as new warehouses with state-of-the-art automation. Just last month, we opened our brand new 350,000 square foot warehouse in South Carolina, featuring the fastest order fulfillment system in the market. This system is also operational in our Central Ohio facility and planned for the new Texas distribution center we previously announced and expect to open in 2025. We’re seeing fruits from our investments, with our fill rates currently the highest they’ve been in over three years and our patient Net Promoter Score up over 16% year-over-year.

The OptiFreight® Logistics team delivered this year with exceptional performance. Our TotalVue™ Insights platform continues to help customers uncover shipping inefficiencies and optimize delivery through data-driven insights. As a result, our customer loyalty index is at an all-time high.

In fiscal year ‘25, to put it simply, we expect to continue our track record of great execution, helping our customers expand and bringing on new customers to benefit from our program and value.

Across the enterprise, we are confident in the Cardinal team to continue our momentum and deliver our targeted growth in fiscal year ‘25 and beyond.

Before I wrap up, the former CFO in me can’t help but to acknowledge our team’s tremendous progress on cash flow this year. With the record results in fiscal year ‘24, we’re positioned to exceed the adjusted free cash flow expectations we outlined at Investor Day with at least $7 billion over the fiscal ‘24 to ‘26 period, even despite the large contract expiration. We possess the financial flexibility to continue investing in our business, returning capital to shareholders and maximizing long-term shareholder value creation.

In summary, fiscal year ‘24 was another great year, and we are excited to continue driving our company and healthcare forward. I want to thank our dedicated employees who serve our customers and continue our work to be healthcare’s most trusted partner.

With that, we will take your questions.

Operator: Thank you very much, Mr. Hollar. Ladies and gentlemen once again, if you wish to ask any questions, please press star one on your telephone keypad and make sure your line is not muted in order to let the simulator reach our equipment. And also, please limit yourselves to one question each. First question is coming from Lisa Gill from JPMorgan. Please go ahead.

Lisa Gill: Thanks very much and good morning. Thanks for all the detail, Jason. I just want to better understand two key things. One, a nice driver on the margin going into next year, you had originally said roughly 1% and you're talking 1% to 3%. I think you called out a couple of things as Specialty Networks, new customer cost mitigation, but I'm just curious, especially in the new customer. Is there anything unique about that contract or anything else that you might call out as we think about the margin improvement throughout 2025?

Aaron Alt: Yes, good morning. Thanks for the question. Happy to talk about it. We are really pleased to raise our guide for the Pharma business for fiscal '25. It really reflects our continued confidence in the team and continued confidence in the resiliency of that business. And notwithstanding some of the puts and takes we've been talking about in the last couple of quarters. I'll touch on the profile in a second, but I do want to emphasize on the revenue side of the house from a guidance perspective that we guided down 4% to 6% all-in, reflecting the $40 million headwind on the low-margin on contract non-renewal. But it's really up to 15% to 18% on an adjusted basis if you take out the impact of that impact of that customer loss. Within that 15% to 18% is $10 billion of our new revenue, new customers, and expansions of service with existing customers. That's on top of the underlying, 10% underlying growth with the existing business. And so, from that, you can tell that we are growing the portfolio and doing what we said we were going to do with our existing customers and adding on both new customers and expansions of existing customer to get to that revenue base. That supports the increase in guide, the 1% to 3% on the profitability inside of the house. The things we called during the earnings call, it's consistent market dynamics, it's the generic volume growing, it's the low single-digit growth in core, the high single-digit growth in Specialty as a strong overall Rx demand. There's a lot of things going on, but we are confident in our plans as we carry forward.

We don't comment on the margin profile of any particular customer, particularly in the context of a new customer. And we were delighted to announce formally the Publix win today in our earnings release. I'm not going to comment on their profitability, but I will observe that we have you've publicly commented on a low-margin nature of the business that we lost and that certainly doesn't hurt us as we carry forward facing anything you would add that nothing then. Jason, anything you would add?

Jason Hollar: No, nothing to add.

Operator: Thank you. Our next question will be coming from Eric Percher calling from Nephron Research. Please go ahead.

Eric Percher: Thank you. I think it's fair to say there was some concern coming into the quarter on the increase in macro freight trends and other input costs, and I know you mentioned you were able to offset that. Can you give us a sense of how this looked to you in terms of the size of that increase versus what we've seen in the past. Was it material? And how it looked under the current or new contracts versus legacy contracts and the ability to pass that along to your customers?

Jason Hollar: Sure. Thanks for the question, Eric. I think it's important to just go back in time a little bit in the last 12 months. A year ago, when we were sitting here, certainly the freight costs had gone all the way back down to historic levels. So, we were enjoying really, the run-up had come all the way back down. And it was, at the beginning of the calendar year, so in our third quarter when the Red Sea issues first began, and that's when we saw the first spike. And the reason I remind you of that is that first spike was known come springtime when we gave our initial guidance for GMPD. And so, we knew about that first step up already, and that's been factored in from the guidance from day one. Yes, there has been further increases since then. But when you look at the combined two increases, the two different steps, first in January then in the spring, they still are woefully short of where we were a couple of years ago when the whole supply chain was under pressure, where even when we were spending two, three times the current levels, we were having difficulty in actually getting reasonable service. So, yes, the costs are higher, but not nearly as high as they used to be. And most importantly, the supply chain is functioning a lot more efficiently than it was before. Long way of saying Eric that yes, there is a little bit of an increase here. It's something we monitor and manage very, very tightly. But it's not to the point where it requires widespread price adjustments accordingly, at least not yet. And in an addition to that, it's important that we look at the overall inflationary environment. And we talked about this a couple of years ago at the peak, we had a lot of oil and petroleum-based products, including fuel and other type of freight, that was also a big issue. Those are actually a little bit softer in terms of the cost. So overall, net-net, we're managing through it better than we had before. And overall, we have some puts and takes that are all very manageable. We'll continue to evaluate the pricing necessary within that. But at this stage, we haven't had to exercise that lever to near the extent that we did in the past.

Matt Sims: Next question, please.

Operator: Yes. Our next question will be coming from Michael Cherny calling from Leerink Partners. Please go ahead. Your line is open.

Michael Cherny: Good morning and thank you for taking the question. Maybe if I could dive a little bit more into the underlying Pharma growth if you can. You did a good job outlining some of the moving pieces on loss contract versus new. Is there any way you can give us a bit more color on where you expect the profit streams to lie from Specialty? And then also a bit more color on the COVID hangover, just that we can have a better understanding. I guess maybe that's the simple straightforward question is, where will you be on the exit run rate on Pharma growth exiting the year, given all the moving pieces you have to start the year?

Jason Hollar: Let me try to address a few of those pieces. So, Specialty is absolutely a key part of this story and why we still anticipate being able to grow this business next year. We highlighted in our comments that in fiscal '24 for the year, we saw another year of 14% growth. You may recall at our Investor Day last year, the Specialty business CAGR over the prior three years was anticipated at that time to be 14% as well. So, another year of strong growth driven by the widespread investments that we have made and continue to make. We talk today about a couple of interesting growth drivers for the future, whether it's our Advanced Therapy Solutions business, the new venture with CVS for Averon focused on biosimilars. Biosimilars in general has been a rising high type of benefit on over the last several years. Then of course, our acquisition of Specialty Networks, which closed in March,

and has an eight, nine month type of on a year-over-year benefit tailwind. So, these are all areas that are driving our Specialty business to some degree in fiscal ‘24. But they’re all examples of where we would expect that to continue to grow over fiscal ‘25 to help mitigate for that contract non-renewal that while we think that growth will be slower in ’25 due to that, I also made the comment in the remarks that even in spite of this overall revenue reduction for the enterprise for the Pharma segment and the impact of that contract non-renewal, we still expect our Specialty business to grow in fiscal ‘25 in spite of that. So, that tells you that our run rate rates as we lap fiscal ‘25 and that non-renewal, we would anticipate it to be very consistent with the long-term algorithm that we've highlighted in the past, which from a profit perspective, has been defined as a low-single-digit type of profit growth for our PD core business and double-digit growth for Specialty. So, we'll continue to look at other opportunities to invest organically as well as inorganically to continue to feed that growth.

Matt Sims: Next question, please.

Operator: Our next question today will be coming from Erin Wright calling from Morgan Stanley.

Erin Wright: Great, thanks. So, in terms of the fiscal ‘25 guide, are there any changes in terms of how you are thinking about just the Optum unwind in terms of stranded costs or otherwise in just giving the building whether it's Specialty Networks or the new customer wins with that Optum offset. I guess how should we think about that cadence in terms of the split of first half versus second half, or however you want to define it on an EPS perspective, given some of those moving pieces in the first half. Thanks.

Jason Hollar: Yeah, I'll have Aaron walk through some of the cadence elements of your question, but I wanted to stress just up front, which you should have heard from these messages are very, very similar words and phrases that we use last quarter. The plan is unchanged. Of course we get a little bit smarter, we sharpen our pencils a little bit, and we get a better understanding of where we're exit rate is for ’24. But all the factors that we are talking about today with this business are very similar to what we walked through in the past. And of course, all the investments that we made in this last year. Aaron, a few thoughts on the cadence?

Aaron Alt: Sure. So, the way to think about it is, is Optum was an existing customer with us until the end of our Q4. And you can see the results in Q4. We don't need to go deeper on that. But what did also happen in Q4 was us being incredibly planful around the impact to our operations, as well as to our financials of that customer unwind. We've talked in the past and we talked during our last earnings call around the three offsetting actions, the contribution of Specialty Networks, of course, the new customer wins, the expansion with existing customers, as well as further cost optimization opportunities. And we're pleased that the team got on it, got ahead of it, and they've already been executing in that respect. And so, the guidance we're able to provide today, we view as relatively consistent with what we provided in Q3, but with an additional degree of confidence because the plans are behind us and now, we're acting in that way. The non-renewal will impact our Q1. There's no way to avoid that. They were a large, low-margin customer. And as we've talked about, the new customers coming on board are largely back-half loaded. And so, we will have a timing difference relative to prior years, and that will impact certainly our revenue and profitability timing over the course of the year.

There's also a cash impact, right? The unwind of the negative working capital position there is a Q1 impact for us and a key reason why we are carefully monitoring our cash flow during the first quarter, of course, balanced with the fact that we are delighted with the strong adjusted free cash flow and the strong cash balance at the end of our Q4. So, look on balance, the cost optimization is already in play, the Special Networks is already in play, and we continue to work on the customer expansions and the new customer onboarding, and we will make that successful as well.

Operator: Thank you. Our next question will come.

Matt Sims: Next question, please.

Operator: Sorry to interrupt you, sir. Our next question today will be coming from Allen Lutz calling from Bank of America. Please go ahead.

Allen Lutz: Good morning, and thanks for taking the questions. One for Aaron. Can you talk about how gross profit performed relative to your internal model? And then are you seeing any impact from insulin pricing changes or Humira share shifts to gross profit dollar growth? And then, are there any insights or thoughts around the biosimilar launch for Stelara? Thanks.

Aaron Alt: Sure, I'll start. Look, I would observe that our gross margin progression went largely as we anticipated over the course of the quarter and the year. We have a very complicated business managing between the various parts and no real surprises from my chair in that way. Second part of the question was?

Jason Hollar: So, yeah, let me take that. It was related to, I think, just the general impact of insulin pricing. And there's also a Humira element there, so probably a couple of different questions. Within the quarter, we did as Aaron highlighted before, we saw of course, the ongoing benefit of the GLP-1 growth. But we did have a similar offset as it relates to the pricing change for the WAC insulin adjustments that happened at the beginning of the calendar year. So, until we get through the second quarter of fiscal ‘25, we'd anticipate there to be a bit of an offset related to that price change.

There was also a question around Humira, and I assume just the biosimilar type of migration. So, we see that it started to move a little bit more. Certainly, some of the actions that CVS has done more broadly in the marketplace seems to have moved things along a little bit further. It's still fairly low penetration throughout the broad industry. But generally speaking, we have seen that start to pick up a little bit, I wouldn't say meaningfully within the quarter, maybe a little bit even afterwards, but it's still at fairly low penetration rates. It's one of the reasons why we're so focused on biosimilars and with our joint venture with Averon is just to continue to look for ways to increase access for patients that need that therapy at an affordable cost. So, we'll continue to do our part there. Next question, please.

Operator: Yes, sir. Our next question today will be coming from Kevin Caliendo of UBS. Please go ahead.

Kevin Caliendo: Thanks. Thanks for taking my question. I'm just trying to triangulate some of the things we've learned this quarter about the GMPD business. You're talking about winning more share

of pocket. We're seeing you make investments in domestic plants; we've seen shipping costs go higher. At the same time, we've seen Owens & Minor and Medline put up stronger than expected results in McKesson and Henry Shein put up worse than expected results and guide lower in those segments. Is it maybe fair to say that you and your peers on the hospital side are moving downstream at all, to try to capture a greater percentage of the health system business that's not just in the acute care side? Is that a trend that's happening? And I guess the second part of that is, the investments in domestic driven by the idea that now you could be more, because shipping costs are higher or costs overseas, tariffs are coming that the domestic manufacturing can be more competitive on price basis versus importing?

Jason Hollar: Yeah. So, it is certainly true that GMPD is more acute-focused customers. And we do benefit from the migration towards more of an ASC model. We do not participate widely in physician offices. So that is an element. It's nothing that we've called out as broad trends. And so, I don't have much more to go on there other than on a same-store sale basis. We're seeing the utilization on fairly consistent this past year. Generally speaking, that low single digit type of range. So, we are seeing that there's like-for-like growth. What we've highlighted fairly consistently is that this last year was, or the end of '23, beginning of '24 was the inflection point for us. We were not growing with the market at that point. Over the course of '24, we've largely grown with the market, plus or minus a point here or there. So very consistent with that low single digit type of growth over, especially after our first quarter. So, we don't think there's widespread shifts there, but we definitely have an ASC presence that we do think we benefit from, but I wouldn't call that a main driver of what we're looking at. In terms of the investments we're making, we did call out some domestic investments, but they're not limited to domestic. We believe in a very diversified, competitive geographic footprint. We've stressed that specifically we don't have manufacturing, direct manufacturing in China. That's one of the related questions here as relates to certainly the ongoing tariff risk and I can also let you know that we only source less than 10% of our total Cardinal Health branded product in China. So specifically, to China, we don't have a large exposure, but we do have exposure beyond China and Asia, near shore, Central South America. We believe a diversified broad supply base is important, as well as a domestic footprint. So, we have increased our investments across the supply chain to improve the resiliency. And there's a couple of areas within the U.S. specifically, you've seen that some of the tariffs related to syringes, is a specific area of focus. And we happen to have that capability in the United States. And so that's just one example of where we're really doubling down on that investment. So, yeah, cost and freight are always a consideration. You know, we build a financial model behind all that, and we look at the risk. But on this particular example and one, you know, example where we're really leaning in on that investment, that's more about just ensuring our customers get the products they need. This is more of a volume opportunity than a pure cost and margin opportunity. So, you got to look at all those factors.

Matt Sims: Next question please.

Operator: Yes, sir. The next question will be coming from Eric Coldwell of Baird. Please go ahead.

Eric Coldwell: Thank you very much. I wanted to ask quickly about Medicaid Disenrollment and if to the extent you've seen impacts in consumer or channel behavior as a result of that. And if so, could you specify where and possibly quantify those impacts? I think specifically I'm probably tagging on to

Kevin's question and wondering if some of the shifts we're seeing in the Medical segment could be related to, you know, roughly 25 million people coming off of Medicaid here in the last several months. Thank you very much.

Jason Hollar: Yeah, thanks for the question, Eric. You know, again, I think my answer is going to be fairly similar to what I said before, but in a different context. You know, we have a very broad base of customers, very broad base of payers behind those customers. So, we don't have necessarily even the insight all the time as to where those reimbursements are coming from. The same store sales types of information, what we see more broadly is just not a lot of fluctuations and variations. And we're not talking, again, you know, in any type of growth rate above and beyond what we believe, that underlying utilization is. So generally speaking, if there are some of those trends at this stage, I'm not seeing that as a meaningful driver to where our business is going.

Matt Sims: Next question please.

Operator: Yes, sir. Our next question today will be coming from George Hill calling in from Deutsche Bank. Please go ahead.

George Hill: Hey, good morning, guys. Thanks for taking the question. Two part-er. Is number one, I guess Aaron, would you be willing to provide any more color on earnings cadence expectation for the year? Particularly Q1 and Q2 versus the back half, given the large number of moving pieces? And then a quick one for Jason is, we know you've got the new business coming on. We've got the Optum loss. We just love an update on the competitive environment in drug distribution. This has been a pretty stable space for a while now. Just kind of want to make sure that nothing's changed or nothing should be changing in the dynamic that we should be aware of. Thanks.

Aaron Alt: Sure. I'll start. I would just observe that we're being very thoughtful in the planning we're doing for the year given the number of moving pieces we have both within the Pharma business and within the GMPD business. And then of course, keeping an eye on the three growth businesses within Other. You know, within Pharma, what we've referenced is the first half from a from a cadence perspective will be slightly down to flat versus prior year. That's only natural given the customer unwind and the back-ended nature of the new customer onboarding. Largely the drivers within the Pharma business are consistent with what have been true in previous years. Q3 will be where we see the branded inflation, you know, rolling through. And so, not a lot of new not a lot of different news there that I that I would call out. From a Med perspective, we're just very focused on executing against the plan. We've tried to be transparent every quarter about how we're doing and where we see it going, which is why we were purposeful in calling out, you know Q1 specifically. As we push ahead, we had great success during fiscal year ‘24 and accomplished what we told you we were going to do, and we plan to do that again. And I just want to be clear that we are investing in the business. And there are some, you know, near-term Q1 drivers that will make that profit number in what we call the up to $20 million as we carry forward. There's no magic there, though, I want to be clear. The plan and the cadence is generally consistent with how we've described the GMPD Improvement Plan in the past. Of course, we have the benefit of the inflation mitigation now lapping as we push ahead. And of course, we can't forget the important topic of seasonality from a Q4 to Q1

perspective. We've called that out before, and that's why you see a dip from the great results in Q4 into Q1.

Jason Hollar: Yes, as it relates to the second question, I'll say what I said before. Hey, we're 1% industry. So, it's competitive but stable. I would say that the vast majority of contracts don't change hands period-to-period. These couple several that have that are more notable, there's been several that have long-term five-year types of agreements. So, every five years, there is the chance, opportunity or risk for that to occur. But again, I'll just stress that the vast majority don't. And we feel really good about our positioning, competitive positioning. We know we're competitive. We know that our message and our work and our results resonate with customers. We're very much focused on that experience, the service levels, the value initiatives and propositions behind it, the tools and platforms. We've talked about our InteLogix and Atrix™ Platforms for health systems as one example. I'm not just going at them with price but going at them with value and having true value components to those offerings. And we feel really good about what that positioning is, and that's why we've been able to offset to the degree that we have.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will be coming from Stephanie Davis of Barclays. Please go ahead.

Anna Kruszenski: Hi, guys. This is Anna Kruszenski on for Stephanie, congrats on the quarter. Thank you for taking the question. I was hoping to hear more about your AI road map. You've highlighted AI and machine learning deployments within the InteLogix Platform, and just wondering how we should think about additional AI use cases to improve efficiency and potential cost savings'?

Jason Hollar: Yes, thanks for the question. It's broad-based. It's varied. We don't call it out in every call in all areas, but it's so broad. It really is everywhere. It's in the core of how we operate. Examples of what we talked about today without using the phrase AI, Specialty Networks, their PPS analytics is a great example of taking that data, electronic medical records and synthesizing that for manufacturers as well the providers and getting actionable insights. I mean, that is AI. When you look at some of the automation I've commented on our at-Home Solutions network. This is now over 25% of our sites that in just the last 12 to 18 months, we're launching a new footprint that is bringing in technology and automation in various forms into the manufacturing, or I'm sorry, into the distribution setting to be even more innovative, even more efficient and productive. And as you mentioned, those other platforms, InteLogix, Atrix™, working with Palantir, and other partners to create value. And then I'm not even getting into the more basic use cases like customer service and back office. I guess I don't want to just hit the same drum beat everyone else is. What we're trying to do in our communication is get beyond the buzzwords and really talk about the essence of where we're driving our business, and we feel really good about that. And it's definitely [indiscernible].

Matt Sims: Next question, please.

Operator: Yes sir. We'll now move to Elizabeth Anderson calling from Evercore. Please go ahead. Your line is open.

Elizabeth Anderson: Hey, guys. Thanks so much for the question. I was wondering if you could maybe expand on your prior comments about two things. One, you talked about customer expansions a couple of times across the course of the call. Can you talk about sort of what those are, generally speaking, are they sort of people like moving from Pharma to increase in Medical? Are they moving across different Pharma categories? How do we think about that? And then if we think about the cost cutting, obviously, there's some rightsizing for the contract change that you guys mentioned. But how do we think about some of the more, it sounds like some of those changes you're putting through are sort of more structural? How do we think about sort of the long-term benefits of those going forward? Thanks.

Jason Hollar: Yeah. I'll start. On the customer expansion, these are existing customer relationships where we are already a primary distributor for them, and they are expanding their footprint. Whether it's acquisitions or just taking on more of the business themselves, and we're supporting their growth. So, it's an existing relationship and expanding upon that. So, it's committed in that sense where we're already there. And you can use BioPlus as one of the examples of what I'm talking about there. Perhaps, Aaron, you can go into a little bit more detail on the cost?

Aaron Alt: Sure. So, as I commented earlier, the team did a great job of assessing our opportunities in the face of the customer non-renewal. But I guess I would go back and point out that at the end of the day we operate a 1% operating margin business. And so, it's important for us to always be mindful of the cost structure around us. But with a North Star of how do we continue to ensure our customer service. We've been pleased that the reviews we undertook during Q4, the actions we identified will help us to offset the near-term impact of customer loss. But more importantly, they create a more efficient operational structure for us, and the changes are broad ranging across the enterprise. With that North Star, what we're ensuring we continue our customer service focus as we push ahead. Many of the changes have already been implemented. We're operating that new framework already. We continue to assess what are the productive opportunities. And I also would emphasize that the ideas for these changes are coming from our broader teams as they look around and say, okay, how can we operate better in support of our existing customers and the new customers on the line.

Matt Sims: Next question, please.

Operator: Yes, sir. We'll now move to Stephen Baxter of Wells Fargo. Please go ahead.

Stephen Baxter: Yeah. Hi. Thanks. I just wanted to ask a couple about the restatement to GMPD. It sounds like you're saying the higher GMPD base post-restatement in 2024 doesn't change the run rate because you're removing out of period items. Is that the right way to think about it? So, there's no comparability issue with the $175 million target on that higher base? I guess that's the first question.

And then based on the restatement schedule you provided, I think the cumulative profit in the business for 2022 to 2024 is $25 million or $30 million higher than previous. I'm just trying to understand why those things don't net out if we're thinking about timing issues here. Thank you.

Aaron Alt: Yeah. Appreciate the question. The answer is there is no comparability issue. The $175 million is unimpacted by the revisions that we've derived to the financials today. The revisions we provided were for the three years, for the three-year period. There will be, there is an impact of shifting of income or expense into the prior periods as well, which is why you're not seeing direct, your comparability as we carry forward. I do want to emphasize, though, that part of our operation here is building and maintaining a strong control environment. As we identified the issue in the Edgepark part of our at-Home business, which is part of Other, it was a revenue recognition issue tied to a business which does less than 0.5% of our overall revenue base. We were careful to do the right thing and disclose, and at the same time, in part with our auditors decided that we should reflect the feedback we've received from this community and others around comments around nonrecurring adjustments in prior periods, et cetera. Now, we walk into fiscal '25 not only with comparability but with a clean set of financials, unimpacted by timing, to be able to talk about our progress as we carry forward.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will come from Charles Rhyee of TD Cowen. Please go ahead.

Lucas Romanski: Hi, this is Lucas on for Charles. Thanks for taking my questions. I wanted to ask about the Other segment. Can you talk about what's expected from OptiFreight®, Nuclear, and at-home in fiscal '25 in terms of growth? Should we be thinking about any of these businesses outperforming the 10% segment target that you've set?

Aaron Alt: Well from a guidance perspective, we provide guidance for Other on an aggregated basis. But I do want you to takeaway the enthusiasm present in Jason's comments and his tone of voice around the opportunity we think each of these three businesses presents to Cardinal Health as we carry forward. The businesses are unique, they are managed differently. We aggregate them from a financial perspective. It's also the case that we are investing in each of those businesses, we have in '24 and we are in '25. At-Home has recently opened two new distribution points and is investing in automation. OptiFreight® has continued to invest in digital platforms in service for its customer experience. The Nuclear business, we've talked at length about expanding the PET network, as well as our excitement about the theranostic opportunities that this business presents. And so, again, if I go back to the financial guide, part of what you're seeing in the Other business is, we are presenting a consistent picture on an aggregated view which reflects in some cases, we'll be investing in a year or a month, while reaping the benefit in the same year or month from other parts of the portfolio. Jason?

Jason Hollar: Yes. I would say that one thing that we did clarify in prior comments is that all three businesses are expected to contribute to that growth in fiscal '25. And we are investing, fiscal '24 was an especially heavy investment period, but we are continuing to invest across the range. Just one example to put it into perspective is, we've talked a lot about our investments in our Nuclear and Precision Health Solutions business. This is a business that we've highlighted theranostics now just with our second phase of expansion that we announced about a year ago, or this last year. And then we also have talked about some PET expansion. From a fiscal '24 to '26, that's about $100 million, mainly capital that we're investing into that business. But is representative of the big investments that we're making, in addition to the three different distribution centers and at-Home Solutions that Aaron had mentioned, are very representative of the inputs that we're putting into these businesses because

we deeply believe in their ability to continue to grow, benefit from the secular trends they each enjoy. But then also reflecting the leadership position we have in each, and that is then further bolstered by these very specific investments.

Matt Sims: Next question, please.

Operator: Thank you, sir. And ladies and gentlemen, our last question today will be coming from Daniel Grosslight of Citi. Please go ahead.

Daniel Grosslight: Hi. Thanks for taking my question, and congratulations on a strong quarter. I was hoping to get a bit more detail on Averon. Will that just be serving CVS at this point? And how does that kind of interact with Cordavis? And then, are there any purchase obligations or quarterly payments associated with that? And then lastly, when does that agreement renew?

Jason Hollar: Okay. So, you crammed in about four there. So Averon, the first specific question on Averon was.

Matt Sims: Just broadly speaking, more color.

Jason Hollar: Yeah. So, well I referenced a few different times, so I think maybe there was a more specific question behind it. But I think the question was, does it just service CVS? The answer is no. It's a consistent concept as what we did with Red Oak Sourcing, reflecting that we both have different needs, different customers, if you will, and can jointly benefit those patients through combining our capabilities in this space. So, we would expect to operate in a similar way where we have different benefits associated with that. I think what you're talking about are, there's not the same type of payment structure and schedule that we have for Red Oak Sourcing, kind of, equalization payments, if you will. So that structure does not exist with this. It is structured quite a bit differently in that regard. And then in terms of the, I think there was a renewal question there about CVS. And so, the contract goes through, the distribution contract goes through '27, and then the Red Oak agreement goes through '29. So, this is certainly outside of those agreements, and it's very much an example of the type of partnership that we look to have with any and all of our customers in various ways to ensure that we're thinking about how better to serve those underlying patients.

Matt Sims: Great.

Operator: Mr. Hollar, we don't have any further questions. I would like to turn the call back over to you for any additional or closing remarks. Thank you.

Jason Hollar: Yes. Thank you and thank you all for joining us. In addition to the usual pleasantries I have at this point in the call, I do want to step back for just a minute reflecting that, given it's our year-end as well additional guidance, I know that there was a lot to digest within this, but I hope that we clarified many of your points today. But I do want to end where I started, and just to re-emphasize those same three key points I had at the very beginning of the commentary today. First of all, we finished the year with terrific momentum. We grew our earnings per share by 29% for both the quarter and the fiscal year. You add that on top of the growth that we saw last year, that's a nearly 50%

increase in our EPS over the last couple of years, driven by performance across the board, but really strong performance in our largest, most significant business, our Pharma segment. Growing despite having some of those impacts in the quarter from that contract unwind. But we're also seeing very good utilization across the enterprise, whether it's Pharma, as well as GMPD, we see that this industry continues to have a lot of need within the marketplace. That in part, is driving our GMPD, but really that $240 million improvement that we saw for that business this year is being driven by the successful mitigation inflation. A long, hard journey but we've gotten there, and now we're able to focus on driving the business going forward. Our Other businesses, we're seeing robust demand across the board. Utilization, but secular trends as well. Really excited about the ongoing growth there, double-digit 10% growth in ’25, while continuing to invest in the business. Our cash flow, really strong, not only $4 billion nearly this year, but when you take last year and this year in combination, that's nearly $7 billion that positions us very well for financial flexibility going forward.

All right. The second point was, because of that momentum, we feel very confident about our fiscal ‘25, and that's why we raised our guidance, both in our largest business with Pharma, but also driving EPS growth in fiscal ‘25 despite that customer transition. And then thirdly, and lastly, we're doing all that operational and cash flow focus, while also driving our strategy going forward, optimizing our portfolio. Very consistent, transparent dialogue we've had with you. This management team is focused on those key priorities, and we'll continue to communicate. We're excited about the progress across the number of areas that we talked about, whether it's furthering our partnership with our largest customer or the ongoing integration of our largest acquisition of Specialty Networks that we've done in quite some time. We're well positioned to continue to grow the business even in spite of any type of headwinds that we've identified. And of course, behind all that, we will continue to responsibly prioritize shareholder value creation. And we've communicated some additional near-term actions, specifically within the GMPD business today. And that is translating to even more opportunistic share repurchases in fiscal year ‘25. So, a lot there, but a lot to be excited about. And we appreciate your time and attention and look forward to keeping you updated on our progress.

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