

Q1 FY25 Cardinal Health, Inc. Earnings Conference Call

November 1, 2024, 8:30AM Eastern

Operator: Hello, and welcome to the First Quarter Fiscal Year 2025 Cardinal Health, Incorporated Earnings Conference Call. My name is George, and I'll be 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 question at 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 attendees to ask a question. If you require any 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 First-Quarter Fiscal '25 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 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.

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.

Overall, Cardinal Health delivered a terrific start to fiscal '25, with strong operational and financial performance, led by Pharma and Specialty Solutions.

The ongoing strength and resiliency of our largest and most significant business was evident, delivering 16% segment profit growth, reflecting the team's advanced preparations and excellent execution in managing through the previously communicated large customer transition.

We continue to operate in a stable industry environment with positive utilization trends underpinning our growth. We saw particularly strong and broad-based pharmaceutical demand this quarter across brand, specialty, consumer health and our generics program.

We were pleased to again support our customers with commercial distribution of the COVID-19 vaccines in preparation for the fall immunization season. And, as I alluded to, the team executed our customer transition plans with urgency, realigning operational processes to address inefficiencies, facilitate the ongoing growth of the business and support new customer implementations.

In GMPD, while the Q1 financial results were below our expectations due to some unanticipated health and welfare costs that Aaron will cover in detail, our team continues to make progress against the GMPD Improvement Plan, which is unchanged, and take actions to enhance our supply chain resiliency. We're confident in our plans to accelerate the performance of the GMPD business over the next two years, while also continuing our near-term value creation focus as we outlined last quarter.

Across our Other businesses, Nuclear, at-Home and OptiFreight®, we continue to be encouraged by the strong demand and underlying performance we are seeing as these businesses continue to expand and benefit from positive industry trends.

In summary, we're pleased to be in a position to raise our enterprise guidance for fiscal '25 after the first quarter. Our business is strong and we're confident as we look ahead.

With that, let me turn it over to Aaron to review our results and updated guidance in more detail.

Aaron Alt: Thanks Jason, and good morning.

Q1 delivered an excellent start to Cardinal Health's fiscal 2025, with outstanding results from the Pharma segment, accompanied by solid operational performance from GMPD and the businesses included in Other. As an enterprise, we grew operating earnings by 12% and EPS by 9%, despite the recent customer transition. At the same time, the team adeptly managed through an anticipated negative working capital unwind, over-delivering on our Q1 cash flow expectations and enabling us to continue to both invest in the business and execute on an early accelerated share repurchase program.

With the solid start to the year, I'm delighted to share the headline that we are raising our EPS guidance to an EPS range of \$7.75 to \$7.90 and raising our adjusted free cash flow outlook for fiscal '25 to a range of \$1 billion to \$1.5 billion. More on that shortly.

Let's review the results starting with slide 4.

Total company revenue decreased 4% to \$52 billion, better than we expected. Adjusting for the customer transition, total company revenue increased 15% versus the prior year, reflecting our strong organic revenue growth across the rest of our business. We also started to successfully onboard the first of the new customers that make up the over \$10 billion of incremental revenue in Pharma that we've referenced in our guidance for the year.

Total company gross margin increased 9%, driven by positive trends in both brand and generics in the Pharma segment.

While we tightly controlled discretionary spending during the quarter, on the face of our financials, SG&A grew by \$91 million or 8% versus prior year. Approximately half of this increase was driven by incremental Health & Welfare employee costs. This included substantially higher employee plan utilization costs, both numbers of claims and cost per claim, as well as a one-time catch-up charge resulting from our third-party actuary, on whom we rely, notifying us of a mistake in their calculation of our health and welfare plan liabilities from prior years.

Even with that impact, we delivered operating earnings of \$625 million, 12% higher than last year.

Moving below the line, interest and other increased \$15 million to \$27 million, primarily driven by lower interest income due to the anticipated lower cash balances.

Our first quarter effective tax rate finished at 23%, up two percentage points, due to the non-repetition of some positive discrete items in the prior year.

As a result of our share repurchases, Q1 average diluted shares outstanding were 245 million, 2% lower than a year ago.

The net result for Q1 was EPS of \$1.88, growth of 9%.

Now, turning to the segments, beginning with Pharma and Specialty Solutions on slide 5.

First quarter revenue decreased 5% to \$48 billion due to the impact of the customer transition. Excluding that, revenue increased 16%, driven by brand and specialty pharmaceutical sales growth from existing customers. This included five percentage points of revenue growth from GLP-1 sales.

During Q1, we saw strong pharmaceutical demand across product categories: brand, specialty, consumer health and generics, and from our largest customers.

Segment profit increased 16% to \$530 million in the first quarter, driven by a higher contribution from brand and specialty products, including a favorable impact from the earlier seasonal launch of COVID-19 vaccine distribution, and positive generics program performance. This more than offset the profit impact from the customer transition.

In Specialty, we saw strong, broad-based performance across Specialty Distribution and BioPharma Solutions. Notably, Specialty Networks contributed to this performance as expected and we are pleased with the progress on the integration.

With COVID-19 vaccines, recall last year, the FDA's original approval for commercial distribution came on September 11th, and our demand peaked in October. This year, we've seen distribution peak within the first quarter.

While the demand for COVID-19 vaccines in the second quarter is difficult to predict, trends tell us that we should continue to expect a modest headwind for the full year, with the tailwind we saw in Q1 more than offset by lower year-over-year COVID-19 vaccine sales in Q2. This overall impact is consistent with our prior guidance for the year.

Our generics program continued to see volume growth, coupled with consistent market dynamics, including strong performance from Red Oak.

We also need to give our team significant credit for planning ahead and executing quickly on our plans to optimize our cost structure and operations following the customer transition. We found incremental opportunities to improve our overall business as a result of the flexibility created by the contract transition.

So overall, we are very proud of the Pharma team navigating a large, complex change to the business while delivering a tremendous quarter of 16% segment profit growth in Pharmaceutical and Specialty Solutions.

Turning to the GMPD segment on slide 6.

Revenue increased 3% in Q1, to \$3.1 billion, driven by volume growth from existing customers.

The solid operational progress made in the quarter was obscured by a \$17 million year-over-year increase in the previously mentioned Health and Welfare costs and resulted in GMPD segment profit decreasing to \$8 million in Q1.

As previewed last quarter, our results were also impacted by increased manufacturing costs, including some start-up costs related to expanding domestic manufacturing to enhance our supply chain resiliency, which we expect to also impact Q2.

On the positive, an improvement in net inflationary impacts, including our mitigation initiatives, and growth from existing customers mostly offset the decline in the quarter.

And we also again saw year-over-year growth in Cardinal Brand volumes during the quarter.

Finishing with the businesses reported in Other as seen on slide 7.

First quarter revenue increased 13% to \$1.2 billion due to growth across all three businesses: at-Home Solutions, Nuclear and Precision Health Solutions and OptiFreight® Logistics.

I'm pleased with the underlying performance of all three of our businesses in Other, as they collectively grew segment profit in the quarter by 8%, driven by the performance of OptiFreight® Logistics. OptiFreight® had another strong quarter as demand for healthcare logistics technology and services continues to grow.

Now, turning to the balance sheet.

We ended the quarter with a cash position of \$2.9 billion, which includes \$200 million earmarked for the November debt maturity, with an additional \$200 million to be paid through the time deposits held in prepaid assets and other on the balance sheet.

Adjusted free cash flow was a use of \$1.4 billion for the quarter, better than our expectations, and as guided reflected the large contract unwind and the unfavorable quarter-end day of the week timing we previewed on our Q4 call.

During the first quarter, we continued to deploy capital according to our disciplined capital allocation framework.

We invested \$90 million in capex back into the businesses to drive organic growth.

We returned approximately \$500 million to shareholders through share repurchase and dividends, including a \$375 million dollar accelerated share repo program.

We continued to invest in Specialty by reaching an agreement to acquire Integrated Oncology Network for \$1.1 billion, a deal which has not yet closed. Jason will elaborate on that shortly.

Now, for our updated fiscal '25 guidance on slide 9, beginning with the enterprise.

After the strong start to the year, we are raising our fiscal '25 EPS guidance to a range of \$7.75 to \$7.90, a \$0.20 increase at the mid-point from our prior guidance of \$7.55 to \$7.70, primarily reflecting our improved Pharma segment profit expectations.

We are raising our adjusted free cash flow guidance to a range of \$1 billion to \$1.5 billion.

We are also adjusting our guidance for our individual segments, as seen on slide 10.

For Pharmaceutical and Specialty Solutions, we are improving our revenue outlook to a decline of 2% to 4%, reflecting the strong broad-based pharmaceutical demand trends we've seen so far, including increased expectations for GLP-1 sales. Our full-year COVID-19 vaccine expectations are unchanged.

Normalizing for the customer transition, fiscal '25 revenue growth at the mid-point would now be between 18% to 20%. Our expectations for incremental volume from new customers and customer expansions is generally unchanged from what we outlined a quarter ago, over \$10 billion of revenue in fiscal '25.

For segment profit, following the strength of the first quarter, we are raising our Pharma segment profit guidance for the full year to 4% to 6% growth, which I'll note is consistent with our long-term target, despite the contract transition.

In terms of Pharma's segment profit cadence, given the earlier COVID-19 vaccine season, along with the contract expiration, we continue to expect Q2 segment profit to be slightly down year over year, with growth resuming in our third and fourth quarters.

Turning to GMPD.

We are updating our GMPD segment revenue outlook to 2% to 4% growth to reflect the recent notification of lost lower-margin VA government distribution contracts, which will partially offset some of the new distribution volume we are onboarding in fiscal '25. We do continue to expect 3% to 5% Cardinal Health Brand revenue growth for the year.

For segment profit, we are updating our fiscal '25 guidance, primarily to reflect the impact from the health and welfare costs I referenced.

We are still in the fight to hit \$175 million in segment profit for the year, and the GMPD team is executing on additional initiatives to recover the gap arising from Q1 results. Nevertheless, given the unanticipated health and welfare impacts and other externalities impacting the business, we think it pragmatic in the near-term to adjust our GMPD segment profit outlook to a range of \$140 million to \$175 million.

I want to emphasize that while the timing and impact of specific incremental actions identified by the team to support the GMPD strategy and profit growth may be pressed to fully impact our fiscal '25, those efforts continue to support our focus on \$300 million as our profit goal for fiscal '26.

Regarding GMPD's segment profit quarterly cadence, we continue to expect profit to be back-half weighted with sequential improvements each quarter driven by the ongoing commercial and operational improvements in the business, as well as seasonality. We continue to expect Q2 to be impacted by higher manufacturing costs, along with some carry-over from the higher health and welfare plan utilization we saw in Q1.

In Other, we are reiterating our prior guidance of 10% to 12% revenue growth for the full year and approximately 10% segment profit growth. One note on Other's cadence, we are expecting an industry-wide raw material shortage of Molly-99 to impact the Nuclear business volume and profitability in Q2. As a result, we expect Q2 segment profit growth for Other to moderate to the low-to-mid single digits for the quarter. However, we expect these volumes to generally return in subsequent quarters as delayed procedures are rescheduled.

With those details on the table, let's return to the Enterprise guidance for a second. On the positive side we have the combination of a raise to our Pharma full year guidance, which is reflective of our anticipated offset in Q2 from the earlier COVID-19 contribution, and anticipated efficiencies in corporate for the rest of year. Those positive trends are partially offset by a wider full-year profit range we are today providing on GMPD. The combination gets us to our \$0.20 raise to guidance at the mid-point, following our first quarter.

Before I wrap up, a couple comments on capital deployment. Our disciplined capital allocation strategy continues to be our north star. Invest in the business, protect our investment grade credit rating, provide baseline return of capital and assess additional M&A and return of capital opportunities. Of note, even with our announced investment and return of capital plans, we expect to be at the bottom end of our targeted leverage range of 2.5 times by the end of fiscal year '25. As I hope you can tell from our fiscal year '24 and Q1 fiscal '25 announcements, our eyes remain firmly focused on delivering shareholder value creation over the long term.

To close, we started fiscal '25 strong. I am especially pleased to see the performance in our Pharma segment. Raising segment guidance in our largest and most significant business to our long-term target, while managing through quite a large change, is further proof of the strength and resilience of this business.

Across all of our businesses, I am excited for the value creation opportunities in front of us and look forward to updating you on that in the coming months.

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

Jason Hollar: Thanks, Aaron.

The strong first-quarter results build upon the momentum we've established over the past couple of years by ruthlessly prioritizing simplification and core operational execution to serve our customers and their patients with essential products, and industry-leading service. They are also a testament to the actions we've taken to solidify our core foundation and increase our exposure to higher-growth and higher-margin areas.

In Pharma and Specialty Solutions, we've been consistently focused on execution in the core and expanding in Specialty.

This quarter we made further progress on both fronts.

We delivered strong operational performance across our distribution network.

During the quarter, we achieved multi-year highs in productivity and our service levels reached their highest level in over a year.

A key part of our ability to maximize service delivery for customers is our generics program. Red Oak continues to effectively execute its dual mandate managing both cost and available supply, which supports the positive volume growth and performance that we've seen and continue to expect.

On the business's commercial front, we've seen successful renewals and extensions of key customers and a couple of recent customer onboardings that have gone smoothly due to our team's continual customer focus.

In Specialty, we've seen strong continued momentum both downstream and upstream.

We're thrilled to have reached an agreement to acquire Integrated Oncology Networks as we announced in September.

Together, Cardinal Health and ION will continue to push forward in our joint mission to improve cancer care in underserved communities. We will drive innovation through the Navista™ and Specialty Networks platforms to offer community oncologists who seek to remain independent a suite of clinical and economic offerings to improve patient care and enhance practice performance.

Integrated Oncology Network adds immediate scale to our offering. Across its 10-state footprint, ION's more than 100 providers deliver broad-reaching care in medical and radiation oncology, urology, diagnostic testing and provide other ancillary services.

It brings to Navista™ additional proven, in-house MSO solutions, such as revenue cycle management, payor relations and formulary management. When combined with Navista's™ tech solutions, focused on supporting the clinical and operational needs of independent community oncologists, and Specialty Networks PPS analytics platform, we can offer a powerful combination for independent physicians to lower costs, improve outcomes and drive success in value-based care.

While we are pleased with the suite of services and capabilities we are building, we will continue to invest organically and actively evaluate additional inorganic opportunities to further accelerate our growth strategies across the specialty therapeutic areas.

Upstream with manufacturers, our BioPharma Solutions and Advanced Therapy Solutions businesses continue to develop new offerings. For example, we launched our Advanced Therapy Connect provider ordering solution in the quarter. This streamlined provider portal enables treatment centers to access their contracted cell and gene therapy products in one place to ensure seamless patient care and efficient product availability.

Turning to GMPD, where we're continuing to execute our GMPD Improvement Plan initiatives.

Our team is operating with urgency, driving positive operational progress across key priorities, implementing significant distribution wins, taking actions to drive our Cardinal Health Brand pipeline, strengthening our offerings, and mitigating the impact of macro challenges while enhancing our supply chain resiliency.

During the quarter, we secured key distribution renewals and remain on track to implement some notable new distribution wins during the year.

Overall utilization trends remain stable and we're seeing consistent growth across our customer base. With Cardinal Health Brand, our leading indicators remain healthy. Service levels have continued to trend positively, back-orders remain near multi-year lows, and we're maintaining industry-leading customer loyalty index scores for U.S. Distribution.

We're constantly striving to provide our customers and their patients with the right products, at the right place and time. On that note, demand for the newest Kangaroo™ OMNI enteral feeding pump

has continued to build in fiscal '25 with onboarding of thousands of patients in the U.S. and Canada in Q1. We look forward to expanding patient access to this pump globally throughout this fiscal year with launches into EMEA and APAC regions. Additionally, we are preparing for the launch of our next generation Kendall compression device in the back half of the fiscal year. The next generation platform is designed for optimal outcomes to prevent deep vein thrombosis and pulmonary embolisms by enhancing blood circulation.

We're also adapting our operations to the macro environment, while leveraging the diversity of our global supply chain. During the quarter, we significantly expanded domestic syringe production at two U.S.-based manufacturing facilities in response to industry-wide disruptions and tariffs.

We're managing through external challenges, such as the impacts of the East Coast port strike and Southeastern hurricanes, with minimal disruptions to our service. And as we've exited the quarter, we've seen a decline in international freight costs from the recently elevated levels.

We're continuing to take an aggressive approach to managing our cost structure and evaluating opportunities to accelerate planned initiatives in support of our goals.

In short, with the significant progress we've achieved to-date, we remain confident in our turnaround plan and the opportunities for GMPD on the horizon.

Turning to our Other businesses.

In Nuclear and Precision Health Solutions, the business has continued its double-digit revenue growth, with above-market growth in the core categories and theranostics.

As Aaron indicated, we are anticipating that an industry-wide shortage will have an adverse impact on second quarter volumes for many of our core low-energy products. We have been working closely with suppliers to maximize available doses to minimize disruptions as much as possible.

With PET, we're investing to increase our cyclotron capacity and geographic reach to meet increasing demand for diagnostic imaging agents such as GE Healthcare's Vizamyl™ used for early detection of Alzheimer's and dementia.

Outside of the core, we've continued to see significant demand for theranostics products, which again grew revenue over 20% in Q1, most predominantly in the areas of oncology with products such as Telix's Illuccix.

In at-Home Solutions, we're also continuing to see double-digit revenue growth and deliver a leading customer experience. We've seen strong growth across key categories such as CGM and urology, which supports our ongoing focus on driving positive operating leverage. The benefits of our investments in additional distribution capacity and increased automation are beginning to take hold. In Q1, our primary operational metrics have achieved the highest levels on record for service, quality and efficiency. We expect to continue investing in the growth and capability of this business.

And, in OptiFreight® Logistics, we're continuing to invest in tech-forward platforms such as our TotalVue™ Insights and evolve our capabilities to unlock decision-driving insights and value for our customers. For example, our recent product launches include enhancements to our limited liability shipment product that provides coverage on critical shipments and makes it easier for customers to view spending trends and tracking on these shipments. We're always working to add incremental value and capabilities to satisfy the needs of our customers.

At an enterprise level, the actions we've taken to strengthen our balance sheet over the past several years, along with our team's relentless attention to optimizing our working capital, has positioned us with significant financial flexibility. We're continuing to invest in the business, return capital to shareholders and prioritize the right strategic choices to accelerate our long-term growth. We are in an active M&A environment and will continue to pursue inorganic activity to those areas that fit with our strategic priorities of investing primarily in Specialty, as well as the other growth areas of at-Home, Nuclear and OptiFreight®.

Before I wrap up, I'd like to acknowledge all of those affected by the devastating Southeastern hurricanes. Our priority is always the well-being of our employees and our customers. I'm proud but not surprised at how the Cardinal Team has navigated challenges to continue delivering for our customers and their patients.

To close, we had a great start to fiscal '25 and are excited to continue building upon our momentum. Thank you to our team for their many tireless efforts fulfilling our role as healthcare's most trusted partner.

With that, we will take your questions.

Operator: Thank you very much, Mr. Hollar. Ladies and gentlemen as a reminder, if you wish to ask any question, please press star one on your telephone keypad and also, please 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. I just want to focus on the drug distribution side of your business, which had great results. Just a few questions. First, when I think about the about the vaccine, thank you for calling out the revenue component. Jason or Aaron, can you talk the margin? Is that materially better? Or is there something else that was driving the margin improvement when we think about the quarter?

And then secondly, when you called out the revenue improvement around Specialty, what we've heard from some of the managed care companies is that changes in IRA as potentially driving incremental volumes, especially around specialty drugs. And those changes will increase as we think about calendar 2025. So, I'm just curious as to how you're thinking about volumes there, margins there. So just overall, my two questions in a single question would just really be around that segment. First being, how to think about the vaccine and contribution to the margin? And then secondly, how do we think about what's happening on the Specialty side? Thanks so much.

Jason Hollar: Yes. Thanks, Lisa. And I'm glad you asked that question first because that's, I think, very much the highlight of this quarter is what's driving the Pharma segment. We gave a lot of color in the script but let me go a little bit deeper and just put some additional commentary behind it. It was a strong quarter for the Pharma segment, and you referenced a couple of the key components, and I'll get into those, but let me just kind of back up and talk about the key drivers overall because what you're going to hear from me is there's not any one thing in particular that drove the success this quarter. I'll bucket it into three key buckets. First of all, and I think it's the essence of your question is, we did see very strong and very broad demand utilization across various customers, across various products, classes of trade. Really, all corners of the Pharma business was strong from a utilization perspective. Again, whether we're talking about brands or consumer health or generics, you call out Specialty, within Specialty, we saw strength in distribution as well as biopharma services solutions. And so, have across that spectrum, some really good strength. Specifically, with COVID, yes, the volume was stronger this quarter because the FDA approval, of course, was about a month earlier than last year. So, September 11th last year, middle-to-late August this year. So, we had the peak of COVID volumes clearly was in Q1 this year. It was clearly in October in Q2 of last year. So that is a difference. However, I would highlight that the actual contribution to year-over-year earnings for the Pharma segment was a small tailwind, a slight tailwind associated with COVID. So higher and better than what we thought for the first quarter, but not a significant driver of those year-over-year results. It was the other breadth and depth of the strength of the utilization that was a bigger driver.

One last comment on the COVID vaccines as while we see the timing difference for Q1 and Q2, for the full year we still anticipate it being the same, a modest headwind year-over-year, but that will be all that headwind will be in the second quarter. So that's the first point, the primary point. Strong volume across the board. Second point is the volume that we did see, we did see some favorable mix. So, the types of customers across the trade was more favorable. But I would highlight that, that's really on the back of that broad strength in underlying utilization. And then the final leg of the stool is the fact that with that volume, we had fantastic service levels multi-year productivity enhancements. In a quarter in which we had a lot of change, a lot of transition of customers, we performed incredibly well. Meaning that the volume that we did have we're able to deliver it efficiently. And to some degree, we were able to actually even deliver it, right, having good service levels, improved service levels in the quarter, strong levels that allowed us to actually execute upon that. So, those are the drivers. It's more than just vaccines, it's more than just specialty.

Within your question around IRA and perhaps there may be some dynamics there. We did see Specialty grow faster than the overall when we look at our overall enterprise growth, our Pharma growth ex the large customer transition that was 16%. When you look at Specialty in the same way, it was a little bit higher than that. So, we did see some strength there. But I wouldn't say that this was driven by that. It was a component of that underlying growth.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will be coming from Michael Cherny of Leerink Partners. Please go ahead.

Michael Cherny: Good morning, and thanks for taking the question. Maybe I'll try a similar approach to Lisa, one question but a couple of pieces tied into it. I just want to bridge the gap on the 300-basis point uptick in Pharma guidance for the year. Is there any way, Jason, I heard you talk a lot about utilization improvements, but any way you can give us a sense of what were the biggest drivers that led to the full year improvement? And specifically, within there, you mentioned the COVID headwind being modest year-over-year, I just want to make sure it's the same level of modest. And then, anything you can say on GLP-1 economics, whether that played any role in the guidance uptick or not? Thank you.

Aaron Alt: Good morning. Happy to talk and provide some perspective on the updates to guidance for Pharma. And, of course, starting where Jason left off, we are really pleased with the Q1 performance, leading to the raise to our guide to actually to our long-term target of 4% to 6% new profit growth for the year. It's really driven by the strength and the resiliency of the business in Q1 that we see continuing as we carry forward.

Now part of this is just execution. You heard Jason reference the strong broad-based demand. That certainly assists in the raise to our guidance. It's also the case that as we walk into Q1, we were very focused on how we were going to execute as part of the customer transition. And the good news is, is that we managed, the team managed that very well, both from an income statement perspective and from a working capital perspective. The impact that we were anticipating in Q1 was offset by significant simplification. We got more done there than we had anticipated. Specialty Networks contributed the new customers, you heard me say we've started to onboard those as well. And so, the pieces are really coming together, helping to give us more confidence then as we carry forward through the year as well, and how the offset of that business will continue.

Now our guidance assumes consistent market dynamics in our generics portfolio. We saw strength Q1 in generics, and we anticipate those consistent market dynamics are continuing. Our guidance also continues to see increased contributions from brand and specialty products. I won't repeat what Jason just had to say about that category. COVID-19, we did guide at the start of the year. And indeed, our guidance continues that it will be a modest headwind for us through the year, notwithstanding, that it was a modest tailwind for us during Q1.

On the revenue side of the house, of course, we did call up our overall guide there. And that's driven in part by the strength from the existing customers and strength from the new customers, and GLP-1s are continuing to contribute and grow more so than we had originally expected, and that's about four percentage points of the revenue increase.

Now from a cadence perspective on the guide, anticipating perhaps your next question. Q2, we are guiding to be slightly down due to the headwind from COVID-19. Second half, we are expecting to be consistent with the guide of 4% to 6% that we have for the long-term. And as I frequently say, Q3 will be the highest dollar profit quarter just given that's when we see the impact of brand inflation over the course as well.

One final note to the guide. Our guide does not include the impact of ION, of the Integrated Oncology Network acquisition, we will provide that update to our guidance when we close. Although I am

pleased to report that the HSR waiting period on that transaction has now expired. And subject to the completion of some other customary closing conditions, we are anticipating that we're going to close that deal by the end of the calendar year.

Matt Sims: Next question, please.

Operator: Our next question is from Erin Wright of Morgan Stanley. Please go ahead.

Erin Wright: Great, thanks. Yes, Pharma was strong, but I do want to ask on Medical here. So how do we think about the quarterly progression in Medical at this point for the balance of the year? And then how are you thinking about kind of just underlying demand trends, excluding some of those dynamics that you were talking about in your prepared remarks, but just underlying utilization across that Medical segment?

Aaron Alt: Appreciate the question. Let me offer some perspective on both the quarter and the year as we carry forward. I want to start with the headline that we are still in the pipe to hit the \$175 million that was our original guide for the year. And it is absolutely the case that we continue to make progress against the GMPD improvement plan and our fiscal '26 target of \$300 million, which is unchanged, notwithstanding the results in Q1. We did update our guide for the year to be \$140 million to \$175 million, primarily reflecting some unanticipated health and wellness costs. And just a little bit more context on that. At the enterprise level, that was around \$45 million. I think, I called out about half of the \$91 million increase in overall SG&A. About a third of that was an error buyer actuaries tied to in prior years. The rest was tied to notable number of claims as well as a notable increase in the cost per claim at an unusual level for us. That's really what was driving the Q1 performance. We are otherwise quite pleased with the GMPD progress against the plan, the tenacity they showed and continue to find additional opportunities to help drive the plan.

Now, the health and wellness challenges we aren't anticipating they'll be the same level in Q1, certainly, given the breakdown I just gave you, they will modestly carry into Q2. But the team continues to accelerate as we knew they would, as we planned they would, against the execution of the GMPD improvement plan for fiscal '25. And we are seeing increased contributions from the plan initiatives, the mitigation of the supply chain cost inflation is well within progress, right? Significant year-over-year growth from the fiscal '24 inflation mitigation that we've already experienced. We are anticipating the Cardinal Health Brand revenue growth, it will continue following the 3% fiscal '24 revenue growth there. And the team has proven tenacious in finding additional ways to simplify and cost to optimize their business as we carry forward.

From a cadence perspective, the cadence for our guide remains unchanged from our prior guidance. We've always said the GMPD Improvement Plan will be back half weighted and indeed, that continues. There's no change to the overall seasonality of the business from what we've described previously, but we are expecting sequential improvement quarter-over-quarter as we push ahead.

Jason Hollar: The only thing I would add is there's an element of utilization, I think, in your question, Aaron. You certainly didn't see the same level of strength on the Medical side that we have seen on Pharma products. But with that said, it's fairly consistent utilization than what we've seen more

recently, historically in the last year or two. So, we're not seeing big changes there, which to me is partly positive just given when you think about all the macro factors and the hurricanes and, of course the disruptions with saline that we're not seeing big changes. Some smaller health systems we do see there being some deferral or cancellation of some procedures. But overall, we've not seen wide aspects throughout the industry on that. So, cautiously optimistic that we as well as our customers are doing a fantastic job of managing through some disruptions that at this point, we don't see materially impacting underlying utilization.

Matt Sims: Next question, please.

Operator: Our next question will be coming from Eric Percher of Nephron Research. Please go ahead. Your line is open.

Eric Percher: Thank you. A question on Pharma. We heard some commentary from manufacturers of GLP-1's on inventory fluctuation. And I'd expect that the DSA agreements do not allow you to build inventory in Pharma as pretty good visibility. So, can we check that assumption? And then relative to GLP-1 inventory, have you been able to optimize as growth stabilizes? And was that at all a factor in improving cash flow?

Jason Hollar: Yes. So, I'm aware of some comments on GLP-1 inventory. Obviously, I can't speak for the broader industry. For us, specifically, we manage this very closely. You can imagine that there's a lot of volatility in terms of strong demand supply that does not meet that demand. So, we're managing it at a very detailed manual level. And we have seen very static levels of inventory, relatively low levels of inventory that have not fluctuated much at all over the last several quarters. Relatively low levels of inventory, certainly, but it is our practice, our priority to get this product in the hands of our customers and ultimately to patients as quickly as possible. So no, we have not been changing our levels of inventory in any meaningful way whatsoever.

And as it relates to our impact on our underlying financials, it is 5% of that 16% Q1 revenue growth. So, it was certainly meaningful to our top line and still that implies strong growth, ex that GLP-1 impact. But as we've always said, it is not a meaningful driver of our earnings, and that continues to be the case and is not a significant driver of the financial results other than revenue for this particular quarter. And given the inventory is now fluctuating, it's also not a significant driver of our cash flow.

Matt Sims: Next question, please.

Operator: The next question will be coming from Allen Lutz of Bank of America. Please go ahead.

Allen Lutz: Good morning, and thanks for taking the question. One for Aaron. The gross margin, really nice improvement year-over-year. Obviously, you're getting some type of benefit there from losing a low-margin customer. But is there any way to frame the puts and takes on the gross margin line, excluding that contract change? Thanks.

Jason Hollar: Actually, I'm going to take that one first. I know you give it to Aaron, I'll let him talk after me, but I'm the one that's made a lot of statements on this before Aaron arrived and after he arrived.

So, when gross margin rates were lower year-over-year, I always highlighted that's not how we manage our business. We manage our business on gross margin dollars. And so, I'm not going to take credit for gross margin rate improvements when we lose a low-margin, large customer. So, I appreciate the fact that we like the direction of those metrics. And all things being equal, I would love to have higher margin rates, especially if revenues are growing higher. But in a business like this that has negative working capital, very slim overall margins, what's important is how we manage the balance between our SG&A and our gross margin. And this is another great example of it this quarter that regardless of the gross margin rate, we manage gross margin dollars higher than our SG&A increase, and that's what keeps this model working the way it is. And that's what we're going to continue be focused on. We'll celebrate the margin rate increases, which are largely driven by the cost reductions and the mix benefits and having more higher-margin customers, fewer lower-margin customers, but it's not a model change, and that's the key thing I want to get across. And I just realized I probably took all your talking points, Aaron, anything to add?

Aaron Alt: I thought that was incredibly well said, Jason.

Matt Sims: Next question, please.

Operator: We will now move to Kevin Caliendo of UBS. Please go ahead.

Kevin Caliendo: Thanks, and appreciate you taking my questions. So, I just want to make sure there's been no necessarily any change in GLP-1 economics going forward at all? That's not driving in any way, the change in guidance for the full year? And two, sort of secondarily, one of the infusion companies who reported this week suggested that STELARA® pricing, brand pricing was going to get cut come 1-1-2025 when biosimilars came. And I'm just wondering, I know part of that's infusion, part of that is subcu. But I'm wondering if a brand company lowers price, to sort of a lower level, how does that impact you? Does this potentially impact you in any way? Can you just talk through the economics of how that would work and potentially impact you, if at all? Thanks.

Jason Hollar: Sure. No, the GLP-1 economics, I think basically answered that one before. So, I don't think there's much else to add there. It's not a key part of the change. Again, I highlighted that broad strength, and I didn't even mention GLP specifically when I was talking about the key drivers there. Again, we love innovation. We think that's great for the industry. It's great for us. We like the volume. It helps allow us to be even more efficient and things of that nature. But it's not something that specifically drove the underlying strength that we saw and all those other areas that I highlighted. So, it's a component, but it's definitely not the driver.

In terms of the STELARA®, comment, this is not new when it comes to price changes that we see in our industry. The model continues to work in the way that makes sense for us. We basically operate on a fixed fee basis for our service. And that concept was recently tested yet again with insulin and those dramatic price reductions that we saw at that point and not only us, but our peers, you didn't hear us talking a lot about that type of flow through. So, we continue to believe that we are, by far, the best alternative to delivering these products safely, securely and efficiently in the marketplace. And when the price levels change, the dollar fee we get for those prices from the stock and support on the

manufacturer side is unchanged. We provide the exact the exact same service and expect to get same financial compensation for that. So, we continue to expect that model to continue to evolve.

And whether you're talking about, again, insulin or STELARA®, you also have all the IRA products that will happen in phases over well, the future. In each of those cases, we would expect that model to continue to hold given how we have structured that today and how we'll continue to evolve with it.

Matt Sims: Next question, please.

Operator: Our next question will be coming from Eric Coldwell of Baird. Please go ahead.

Eric Coldwell: Thanks very much. Good morning and congrats on the good performance here. I had a couple just quick ones on GMPD. I just want to confirm that profit in the segment would have more than doubled it looks like, if not for the unexpected increase in health and wellness costs? And just so I guess a confirmation on that. And then is it possible to size the incremental manufacturing costs as you build out the syringe capacity in the U.S.? And also talk about what you're seeing with international costs across other products. We're hearing some suppliers might be raising their costs as we're seeing some of these China tariff knock-ons and then some of the other limitations to China product coming into the U.S. market for other reasons. So, I guess a multifold question around GMPD, but anything you could help us size what, if there is such a thing is underlying profit growth ex health and wellness and ex the increase in manufacturing costs would be helpful? Thanks.

Aaron Alt: Appreciate the questions. A couple of quick responses. First, your math is no doubt correct where if you add the \$17 million headwind from health and wellness to the \$8 million delivery that would put you at a mid-\$20's million profit delivery on an operating basis for the business ex that one adjustment. And then broadly, the quantification or the estimation, if you will, of the manufacturing across it was a similar dollar impact to the health and wellness impact in Q1.

Jason Hollar: Yes. And on your last part of your question related to cost, you're referencing products coming out of China, you're really getting at the tariffs that are going to go into place here beginning in January and then rolling out later. Let me make a broad statement about it that I think is consistent with how to think about it the short-term. We have a very diversified supply base. But it's given it's diversified, it's not entirely in the U.S. We've highlighted about half of our Cardinal Health Brand products come from North America, which does include a decent amount coming out of Mexico as well. We use some degree out of China, less than 10% source out of China. We don't manufacture anything in China, but we use Southeast Asia, we use Latin America quite a bit as well. And like I mentioned, U.S. and Mexico. So, we have a very diverse supply base that has served us fairly well. We had challenges, of course, during COVID, when perhaps too much was in Asia, and we continue to migrate that. But when you add tariffs on top of it that is something that will raise cost, there's no doubt about that. It will mean that we will take it from the economically optimal location to one that's less optimal. And that will raise costs not only for us, but throughout the industry. And you know our margins, you know the margins in this space that if there's a 10% across-the-board type of tariff, that will have to flow through in some way. We will do everything we can keep that from flowing through entirely to our customers, but there will be some impacts that will have to be absorbed. So, your commentary around some data points that we're already seeing it for these very short list of products,

namely syringes and PPE that's occurring here in the near-term, I think, is representative of that. Those are products that are largely sourced out of Southeast Asia and especially into China, and you are seeing some pricing changes that are coming through the marketplace anecdotally, and we think that makes sense because the low-cost alternative is being impacted with a higher cost, and that will have to flow through the supply base. Of course, we're working on solutions to minimize that impact. But I think it's something that should be expected that there will be price increases.

Matt Sims: Next question, please.

Operator: We'll now go to George Hill of Deutsche Bank. Please go ahead.

George Hill: Good morning, guys. Thanks for taking the question. I hope you'll forgive the joke, which is I have just one question, but in 27 parts. But actually, a lot of the questions that I'm getting this morning from investors focus on the Pharma OP outperformance in the quarter. And Aaron, Jason, I was wondering if you guys would either just maybe attribute, kind of, vaccine versus attempting GLP-1's weren't much versus generics and other? And you guys called out the generics program where we've seen an increase in some generic drug pricing, and we've seen an increase in generic drug shortages, which we both tend to think of as being able to contribute to Pharma margins. So again, just like outperformance vaccines versus other and would just love to hear your commentary on what's happening in the generic drug market as it relates to pricing and shortages.

Jason Hollar: Yeah. I can, kind of, force rank. I mean, what we put into our comments and within the presentation, you can see that our Brand and Specialty products together are the greatest drivers. Within that, both Brand and Specialty were good drivers. Again, I'll say it again, the vaccines were a slight year-over-year increase. I think we quantified before last year that was about \$25 million of profit in the quarter. It was a little bit higher than that, but it's not the driver of it. Generics was notable. It's not that large as Brand and Specialty, but it was also a driver of it. And that's why I answered the question the way I did is that we're seeing strength in utilization across the board, and we had strong operational and cost performance as well. That was a nice tailwind. More simple operating environment, of course, this particular quarter, even though we had a lot of change. We managed through that very well. But that's the best I can do, and again, you can do the math with the revenue growth highlights it was pretty good revenue as well with 16% ex the customer transition, five percentage points of that being GLP-1's. So still quite strong core revenue growth, which translates into all those categories I referenced.

Aaron Alt: The one thing I would add is, as we usually do, we called out the fact that generics program had consistent market dynamics, which you should really take as the sign that we saw good volumes there because there's nothing extraordinary happening on the buyer. So, we manage those two sides together.

Jason Hollar: Exactly.

Matt Sims: Next question, please.

Operator: Next question will be coming from Stephanie Davis calling from Barclays. Please go ahead.

Stephanie Davis: Hey guys, congrats on the quarter, and thanks for taking my question. I've got one that kind of dovetails on what Eric asked. I was hoping to hear how you're thinking about the puts and takes of the potential election outcome. Since you could have some easing M&A risk for Pharma, there's potential tariff risk in GMPD kind of your broader thoughts there would be helpful. Thank you.

Jason Hollar: Sure. Well, I think, the first thing I would think about is the good news is, I think most people in DC believe that affordable access to healthcare is really important. And when you've heard me talk about any of these topics, I talked about we love affordability, we love transparency, we love access because ultimately, that drives the utilization for the right products to solve those patients' needs, which has helped us be an even better provider to those that ultimately provide those services to the patients. So, I don't see that at the highest level, there's a difference in wanting what's best for the patient. Of course, there's different ways to get there. You've heard my commentary already today about tariffs being something that could impact how prices flow through to the industry, and we see that that our customers are already under a lot of reimbursement pressure and that's something that's certainly top of mind for us. But at the end of the day, there's a lot more not known about how would flow through and how Medical and Pharma products would be included that creates just some level of uncertainty with that. But ultimately, in doing what's best for the patient is something that I think will always be the North Star, and we feel that we're very well positioned to work with either party, whether we're talking about the President or either of the other elements of Congress. So, we're in a good spot, and we have a lot of momentum going into that, and we don't foresee that changing in the near, medium or long-term.

Matt Sims: Next question, please.

Operator: We'll now go to Elizabeth Anderson of Evercore ISI. Please go ahead, ma'am.

Elizabeth Anderson: Hey guys. Thanks so much for the question. Can you talk about some of the simplification efforts? I mean, obviously, this has been a longer-term trend for you guys. Where are we in that? How much of it was obviously driven by the contract change this quarter. But as we think about sort of the rest the year and beyond, help us maybe think through that a little bit more. And then just one follow-up on the nuclear supply sort of timeline, like how do you see that evolving across the rest of the year in terms of like the potential timeline for that if any kind of parameters you could help put on that would be helpful. Thank you.

Jason Hollar: Yes. Thanks. As it relates to simplification, it's not any one particular business. This is very much a core part of our broader strategy. It has absolutely served us well. And it's a bit cliché, but it is absolutely a journey and not a destination. So, I think that there's probably more opportunity relative to the size of the business for GMPD than there is for Pharma. But even within Pharma, this quarter, I think highlighted that we can do some things I'm not sure we fully understood. So, there's going to be an ongoing journey here to continue to challenge ourselves and continue to find additional ways to be even more efficient.

Throughout our whole enterprise, we don't use a ton of automation in all aspects of our business. We are absolutely testing and learning in different parts of the company that as we learn from that, we introduced it in other parts. So, I think there's a lot of opportunity there. Within GMPD, whether we're talking about our distribution network or manufacturing, manufacturing, especially is always an area that's always going to have opportunity through automation, through new and improved processes. And one little anecdote with this, it shows up in the financial numbers, all the efficiencies. We have had this last quarter, fantastic safety metrics, something we don't often talk about because it's not directly related to financials, but it's really important to our team it just shows that our underlying processes are working incredibly well. Much, much better than we have historically, which is driving improvements throughout the process. We've talked quite a bit about the investments we're making in at-Home. I referenced in some of my comments that we have best on record metrics this quarter all the way from quality to service, to efficiency to safety was also an all-time high on record for that business as well. Highlighting that the right investments where we're making more automation investments there than we are in other businesses as a percentage of the size of the business. And we're going to continue to learn from that and roll it out more broadly. So, we have received a lot of value from it. I think there's still more to come. But I would also say that's part of that continued ongoing expectation for the long-term targets that we have. We have these types of cost reductions baked into that. And of course, our customers are always, wanting to share in that. And so, we'll continue to find ways to be competitive, but also try to put some of that to the bottom line as well.

On Nuclear, so this is a bit of unfortunate timing with three of the six reactors that typically we derive our product from out of Europe for moly-99 being down simultaneously some plans, some unplanned type of downtime. The good news is we do have a pretty good line of sight as to those reactors coming back up in the next week or two. So, this seems be about a 1-month type of impact for us, pretty significant for this month of October, starting to come up over the course of next couple of weeks. And we have a pretty good line of sight to indicate that it will be resolved within this quarter then the volumes will take a couple more quarters. We believe most of that will come back because, of course, the end of this process is a patient that needs these types of scans. This is the low energy product that's usually more for cardiac type of scanning procedures. So, these are patients that we expect to reschedule this in the next couple of quarters. But I doubt it will go beyond the fiscal year, but it's still a bit early to understand the full implications of that.

Aaron Alt: Just to put a pin on that, we have not changed our guidance for the full year for the Other segments. As a result of this was a timing or cadence observation only.

Matt Sims: Next question, please.

Operator: Yes sir. Our next question is from Daniel Grosslight, calling from Citi. Please go ahead.

Daniel Grosslight: Hey guys. Thanks for taking my question, and congrats on the quarter. Just a question on GMPD and really, you mentioned the loss of a couple of regions in the VA program. I was curious if more broadly speaking you're seeing an increase in the competitive intensity within this segment, specifically as one of your competitors is rumored to be going public soon. Thanks.

Jason Hollar: Yeah. My commentary will be the same as they've been in the past. It's a competitive and stable environment. That VA business you're talking about was relatively low margin, quite low Cardinal Brand products attached to it. So, it's something that we would have liked to have kept it, but at the same time, there's not as much value associated with that as with other customers. So, I don't see that, that's anything different than what we see within this space, just normal type of customer rotation.

Matt Sims: Next question, please.

Operator: Yes sir. The next question will be coming from Charles Rhyee of TD Cowen. Please go-ahead sir.

Charles Rhyee: Yeah. Thanks for squeezing me in here. Just maybe a couple of quick clarifications, Jason, you kind of made a comment, I think, maybe is related to hurricanes about some deferrals and cancellations of procedures. Are you saying just those are just hurricane-related and has distribution kind of picked back up since? And then also related to the healthcare higher utilization costs, what are your assumptions for the level of utilization going forward? And is that already embedded into the guide? Thanks.

Jason Hollar: Yeah. So, to be clear, when I was talking about the hurricane that was GMPD. And what I indicated was we're not seeing anything meaningful at all for that, that both us and our customers are managing it quite well. What I was highlighting is that utilization is not as strong as on the Pharma side, but I wouldn't say that's because GMPD is weak, I would just say that because Pharma has been stronger. Which I think leads into the second part of your question, which is that we're guiding for a normal utilization type of environment. So, it would be more consistent with, as you heard from Aaron, our long-term guidance. That's basically effectively when you normalize for the COVID timing and things of that nature, what we're guiding for in Q2 to Q4 is much more of a normalized type of earnings growth, which would be consistent with the normalized level of utilization.

Matt Sims: Next question, please.

Operator: Thank you, sir. Our last question today will be coming from Stephen Baxter calling from Wells Fargo. Please go ahead. Sir, your line is open.

Stephen Baxter: Hi, thanks. Just one last kind of cleanup one on the Pharma guidance. So, I appreciate all the comments that the strength is broad-based and there's some differences in cadence to keep in here. I guess when we think about the \$16 million raise on the EBIT line, you're very clear that it's not driven by COVID. Do we think about this as largely just seeing the Q1 underlying favorability in business? Or should we think about this as the annualization of the favorability that we saw in the first quarter seeing that strength is largely going to continue into in the balance of year. Thanks.

Jason Hollar: Yes. So, it depends on which pieces we're talking about. For the three elements that I talked about in terms of what's driving the growth of the business, the first element I highlighted was the underlying broad volume growth. And I'd highlighted that would be for our Q2 to Q4 would be

more normalized levels of growth. I also highlighted part of this quarter's favorability was favorable mix that some quarters as positive, some is negative, some is neutral. This particular quarter, it was more favorable. So that's the type of thing that normally does not continue in one direction or the other. And then, of course, our ongoing cost reductions is the smaller of the pieces, but still relevant in all this. So, it's the combination of all that. But again, our guidance here anticipates a more normalized level, except for that COVID piece will certainly, with pretty high confidence, we've seen COVID vaccines peak and come down now. We track this very, very tightly. It will be quite a modest impact headwind in the second quarter that's baked into this. But ex-that, we expect more normalized levels of performance.

Matt Sims: Great.

Operator: Thank you very much. As there are no further questions. Mr. Hollar, I'd like to turn the call back over to you for any additional or closing remarks. Thank you.

Jason Hollar: Yes. Just thanks again for joining us this morning. Again, an excellent start to the year showing our broad strength, resiliency and momentum of our broad business, especially largest, most significant Pharma business. We're pleased to be in a position to raise our guidance after only the first quarter and looking forward to continuing to give you more updates throughout the year.

With that, thank you, and have a great day.

Operator: Thank you. That will conclude today's conference. Thank for your attendance. We wish you a very good day. Have a good day, and goodbye.