Q2 FY25 Cardinal Health, Inc. Earnings Conference Call

January 30, 2025, 8:30AM Eastern

Operator: Hello, and welcome to the Second 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 questions towards the end of the presentation and this can be done by pressing star one on your telephone keypad. And also, we'd like to ask everyone to please limit themselves to one question each to allow the maximum of the 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 today's conference. Please go-ahead.

Matt Sims: Hello, and welcome to this morning's Cardinal Health Second-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 these statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected or implied. Please refer to our SEC filings and the forward-looking statement slide at the beginning of our investor 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: Thank you, and good morning, everyone.

Today, we reported strong second quarter results, accelerating the momentum that we've built over the last couple of years.

Overall, the performance was led by robust demand across our largest and most significant business, Pharmaceutical and Specialty Solutions, and our relentless focus on the execution of our simplification strategy to best serve our customers.

Notably, we're seeing strength in brand, specialty, generics and consumer health, as we're well-positioned within a growing market. As a result of the significant strategic and operational actions we've taken, we remain bullish about our position in the healthcare industry and confident in our strategic direction for the future.

And with this confidence, we are pleased to again raise our fiscal '25 enterprise guidance, which Aaron will cover in more detail shortly.

We see opportunities to continue building upon the resiliency of the Pharma business and drive consistent growth, particularly within Specialty. Today's closing of the acquisition of a majority stake in GI Alliance, which in conjunction with our recently completed Integrated Oncology Network transaction, will allow us to continue to expand across key therapeutic areas and generate additional value for our customers, patients and shareholders.

Later on, I'll talk more about how these investments accelerate our strategy, but for now I'd like to officially welcome both the ION and GI Alliance teams to Cardinal Health and thank them for their focus and dedication as we work together to unlock new opportunities.

In GMPD, while Q2 was below our expectations, the team remains focused on executing the GMPD Improvement Plan, with positive progress on our cost optimization initiatives during the quarter.

And across our Other businesses, Nuclear, at-Home and OptiFreight®, we see robust demand across these three faster growing and higher margin businesses. The long-term potential for growth is evident, and we intend to continue to invest across these businesses to add scale and capabilities. In summary, we are pleased with this quarter's results, which reflect our efforts to accelerate our strategy, execute with precision and drive sustainable, long-term growth.

With that, I will turn it over to Aaron to review our results and updated guidance.

Aaron Alt: Thanks Jason, and good morning.

From a financial perspective, we continued our momentum in Q2 with outstanding results from the Pharma segment, strong performance from the businesses included in Other, and continued operational progress in GMPD. We grew operating earnings by 9%, while overcoming the headwinds of the prior customer contract expiration and the as-anticipated COVID-19 seasonal timing. In summary, we had a lot going on and we are pleased to report that the profit growth across the business resulted in a much-better-than-expected EPS of $1.93.

We are raising our EPS guidance to a range of $7.85 to $8.00.

Let's review the results starting with slide 4.

Total company revenue decreased 4% to $55 billion on a reported basis. Adjusting for the contract expiration, revenue increased 16% versus the prior year, primarily reflecting strong demand across Pharmaceutical and all three of the businesses included in Other.

Total company gross margin increased 5%, with contributions from all of our operating segments. As you can see from the financials, our team continued to control our costs across the enterprise, with SGA increasing a modest 3%, covering the impact of rising healthcare costs, the ION acquisition and investments against the businesses.

This led to operating earnings growth of 9% versus the prior year.

Moving below the line, interest and other increased $45 million to $38 million, primarily driven by financing impacts related to the recent acquisitions, including the Q2 proactive debt issuance.

Our second quarter effective tax rate finished at 21.4%, flat to our rate a year ago.

Q2 average diluted shares outstanding were 243 million shares, 1% lower than a year ago due to our previous share repurchases.

The net result for Q2 was EPS of $1.93, growth of 2%.

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

Second quarter revenue decreased 4% to $51 billion due to the impact of the customer transition. Excluding that, revenue increased 17%, driven by brand and specialty sales growth from existing and new customers. This included approximately 6.5 percentage points of revenue growth from GLP-1 sales.

As we indicated at a recent industry conference, during Q2 we saw strong pharmaceutical demand across our business in brand, specialty, consumer health and generics, and from our largest customers.

The team delivered segment profit of $531 million in the second quarter, an increase of 7%, driven by growth from BioPharma Solutions, including contributions from Specialty Networks, and a higher contribution from brand and specialty products, only partially offset by the customer contract expiration.

In Specialty, we saw strong performance across Specialty Distribution. We also continue to be pleased with the progress of integrating Specialty Networks, which is benefitting our overall specialty strategy and tracking consistent with our original expectations.

As expected, the distribution of COVID-19 vaccines was a headwind in the quarter as we compared to last year's peak during Q2. We do not expect a meaningful contribution from COVID-19 vaccines for the remainder of the fiscal year.

Our generics program continued to see positive performance, including strong volume growth and consistent market dynamics.

Operationally, our large customer onboardings and expansions are in progress. While each customer's needs are unique and timelines vary, we are pleased with the performance of our Pharma business and how that business has prepared for the future.

Let's turn now to our turnaround business, the GMPD segment, which continues to advance the GMPD Improvement Plan.

Revenue increased 1% in Q2, to $3.2 billion, driven by volume growth from existing customers. As previewed earlier this month, volume growth was less than we expected, in part driven by softness with respiratory products in our Lab business.

GMPD segment profit increased to $18 million, slightly below our initial expectations for the quarter, reflecting the softer volumes I just referenced and an unanticipated $15 million impact in our WaveMark business largely from the write-off of uncollectible receivables. While we were disappointed with the Wavemark adjustments this quarter, the business model is resonating with customers as they continue to realize substantial benefit from the products and value creating services we provide.

On the positive side, it should be noted that the GMPD team managed to mostly offset the shortfall to expectations in the quarter with aggressive SG&A management and a better-than-expected impact from our cost optimization initiatives.

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

Second quarter revenue increased 13% to $1.3 billion due to growth across all three businesses: at-Home Solutions, Nuclear and Precision Health Solutions and OptiFreight® Logistics.

The businesses collectively grew segment profit in the quarter by 11%, driven by OptiFreight® and Nuclear. I'm especially pleased that our Nuclear business managed through the Moly-99 shortage astutely and posted better than expected results. We are looking forward to talking about at-Home's progress against its automation and efficiency efforts in future quarters.

Now, turning to the balance sheet.

We ended the quarter with a cash position of $3.8 billion, which included $2.8 billion which was used today to close the acquisition of 73% of GI Alliance.

Adjusted free cash flow was a use of approximately $250 million for the quarter, primarily reflecting unfavorable quarter-end day of the week timing.

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

We invested nearly $100 million in capex back into the businesses to drive organic growth. We returned approximately $125 million to shareholders through dividends. And we closed on the ION

acquisition and obtained the financing that we're using to complete the GIA acquisition today. Now, let's turn our gaze forward. Some context notes before we begin.

We have reached the mid-year point and are now focused in the back-half on significant customer onboarding and expansions, the third element of our large customer non-renewal mitigation plans. We have closed our acquisitions of ION and GI Alliance, and early positive views of those businesses are incorporated into today's update to guidance. We do not yet have visibility to a closing date on ADSG given customary closing conditions, so will wait to incorporate ADSG into our guidance until after closing.

Together, ION and GIA, while positive profit generators, are not meaningful to our fiscal '25 EPS given the partial remaining year, the increased interest expense to fund the transactions and the timing of our investments and synergy achievement plans. We will provide more details beyond this fiscal year when providing fiscal '26 guidance on future calls.

With that out of the way, let's talk about fiscal '25 guidance.

After another strong quarter, we are raising our fiscal '25 EPS guidance to a range of $7.85 to $8.00, a 10-cent increase at the mid-point from our prior guidance of $7.75 to $7.90. This is primarily driven by strong growth in the Pharma segment, offset by GMPD and higher interest costs.

Reflecting our acquisitions, interest and other is increased to a range of $200 million to $230 million, driven by the new debt financing and foregone interest income.

Moving on to our segments, starting on slide 10.

For Pharma, we are improving our revenue outlook to a decline of 1% to 3%, reflecting the additions of GI Alliance and ION into our guidance and the strong year-to-date utilization we've seen.

Normalizing for the customer transition and our acquisitions, fiscal '25 revenue growth at the mid-point would now be approximately 20%.

For segment profit, we are raising our Pharma segment profit guidance for the full year to 10% to 12% growth. Excluding the contributions of GIA and ION, this would equate to high single-digit underlying segment profit growth. You should note that GIA holds meaningful minority equity positions in many of the Ambulatory Surgical Centers in which their procedures are conducted. The ASC-tied profit streams in GIA will not show up in our Pharma segment but will rather show up as a positive item in I&O's Other Income. For reference, we expect about $15 million of Other Income coming from GIA's equity method investments in fiscal '25.

Regarding Pharma's cadence, we continue to expect significant incremental volume over the back half of the year from new customer wins and expansions, and we also continue to expect Q3 to be the highest profit dollar quarter of the year driven by the timing of manufacturer price increases, which have trended generally consistent with our expectations.

For GMPD, our revenue outlook remains unchanged at 2% to 4% growth, which is also what we now expect for Cardinal Brand revenue growth.

As we think about the GMPD improvement plan and the efforts I referenced earlier, while we are pleased with the progress the team is making, the efforts do take time. For the rest of this year, we recognize the impact of the healthcare costs, the Wavemark write-offs and Q2 soft volume headwinds that we have experienced. As a result, we are adjusting our GMPD guidance on segment profit to be in the $130M to $150M range, still a significant improvement from last year. As I have commented before, we continue to expect improvements in profit in the back half of the year with Q4 being the high point of the fiscal year, similar to last year.

We are not providing an update to our fiscal '26 or long-term profit guide on GMPD today. While our financial objectives are clear, we are scrutinizing volume trends and the current highly-fluid tariff environment in Mexico and the United States and are awaiting clarity on whether there will be industry-wide dislocations or exceptions, which may present both risks and opportunities for us. This is a highly fluid situation. The one certainty is that our GMPD team continues to aggressively work to improve our business.

In Other, we are reiterating our expectations for 10% to 12% revenue growth and approximately 10% segment profit. One note on Other's cadence, we expect stronger year-over-year profit growth in Q4 than in Q3 due to the timing of our growth-oriented technology investments and associated benefits.

Before I wrap up, a couple comments on capital deployment. We remain committed to creating continued shareholder value over the long term. Nothing is changing regarding our disciplined capital allocation strategy.

Invest in the business, protect our investment grade rating, return a baseline of capital and assess additional M&A and return of capital opportunities.

Following the closures of our deals, we will take a disciplined approach to paying down debt. We anticipate retaining our BBB/Baa2 investment grade rating by quickly getting back within Moody's post-deal updated targeted leverage range for us of 2.75 times to 3.25 times adjusted debt to EBITDA.

We will also execute on our previously committed fiscal '25 additional share repurchases of $375 million.

As for M&A, we are focused on executing against the integration and improvement plans that surround the acquisitions we have announced in the last year. We will continue to evaluate high-quality assets in strategic areas of importance but will focus on integration and tuck-in acquisitions to the multi-specialty and oncology platforms that we have just acquired.

To close, Cardinal Health continues to benefit from our disciplined focus on our core while also making important investments securing our growth for the long-term. Our shareholder value creation efforts span our enterprise and both the progress to date and the roadmap of what we have in front of

us gives Jason and I confidence to raise our guidance again for the remainder of this year. We look forward to updating you on this in coming months. With that, I will turn it back over to Jason.

Jason Hollar: Thanks, Aaron.

In Pharmaceutical and Specialty Solutions, the positive second-quarter performance is a direct result of our rigorous focus on prioritizing core operational execution and simplification. The team's efforts have resulted in commercial gains, including new distribution business and renewals with key customers. We successfully onboarded a couple of notable acute health systems this quarter, and consistently aim to provide them and all of our customers with industry-leading service. In fact, our service levels have continued to increase off of last quarter's multi-year high and are now up over 10% over the last two years. Of note, our team has navigated severe storm activity this winter, while maintaining above-target, on-time delivery metrics.

Our efforts to build a strong foundation and increase our exposure to higher growth and higher margin areas are working to drive growth and continued momentum across the business.

As I've consistently indicated, Specialty is our most important growth area where we've been investing both organically and inorganically in areas where there's not only the greatest opportunity for future business growth, but also where we can create value for our customers and patients.

Our specialty strategy, as seen on slide 12, is centered upon the community provider, and is our ambition to deliver clinical and economic value for specialty physicians across key therapeutic areas, enabling them to focus on providing high-quality and cost-effective patient care.

We are excited about the suite of services and capabilities we are building, beyond our heritage in distribution and contracting, including today's closing of GI Alliance. This acquisition is a key component of our strategy to continue driving meaningful growth over the long term in the larger 60% of the specialty market consisting of non-Oncology therapeutic areas.

GI Alliance, the largest gastroenterology managed services platform in the country with over 900 physicians across 345 practice sites and 20 states, will serve as the foundation of our multi-specialty platform, enabling further national expansion in GI and areas like urology, rheumatology and neurology. This team brings best-in-class support capabilities such as revenue cycle management, and a physician-led leadership team headed by founder and CEO Dr. Jim Weber that is highly regarded in the industry and will continue to operate the business as a stand-alone platform within Cardinal Health.

In Oncology, the work to integrate the ION team and providers into our Navista™ platform is progressing as planned. The combined leadership team is in place and has visited key sites where it is easy to see how joining Navista's™ clinical expertise with ION's operational strengths will be a big win for independent community oncologists. The team has created its consolidated leadership structure, defined the Navista™ go-to-market strategy and is engaging with a growing pipeline of opportunities as a result of our expanded offerings.

A multitude of data is created while treating patients, and thanks to the capabilities of Specialty Networks' PPS analytics, providers can generate actionable insight to improve patients' clinical outcomes, while manufacturers can leverage its SoNaR capabilities for research purposes to improve future therapies.

We've completed the integration of the legacy Specialty Networks and Cardinal Health processes and established the go-forward execution roadmap, including extending Specialty Network's capabilities to Navista™ so providers on both our Oncology and Multi-Specialty platforms can enhance their ability to provide exceptional patient care and grow their practices.

Aaron highlighted our strong performance from BioPharma Solutions, which in addition to Specialty Networks includes our leading specialty 3PL and Sonexus™ patient access among its offerings. We continued to see strong 3PL performance during the second quarter, with revenue growth of over 20%. And Sonexus™, which has seen steady growth, is executing a number of key product implementations, with a strong pipeline of opportunities ahead.

We've previously highlighted our Advanced Therapy Solutions offering, which supports 15 cell and gene therapy manufacturers across 450 sites of care and has already processed over 18,000 cell and gene therapy orders. In the quarter, we launched Advanced Therapy Connect, a first-in-class cell and gene therapy ordering solution, which allows our customers to efficiently consolidate their ordering processes onto our singular platform. Our business is partnering with biopharma innovators and many of the top academic medical centers to bring cell and gene therapy products more efficiently to patients.

Turning to GMPD, where the team is focused on executing our GMPD Improvement Plan initiatives.

Stepping back, while we had some additional non-recurring impacts with WaveMark in the quarter, we are pleased with the continued improvement in the GMPD business. Combined with last year's significant growth, this year's guidance reflects a nearly $300 million improvement from fiscal '23, driven by progress on inflation mitigation, cost reductions, and a return to growth with our Cardinal branded products.

But we recognize work remains in this transformation. We have an aggressive set of service, profit, and cash flow improvement efforts in-flight across the business that will continue to power the turnaround.

For example, we are modernizing our distribution network and bringing innovative solutions to the market, including the opening of a new distribution center in Massachusetts that will increase U.S. warehouse capacity and expand specialized handling capabilities. At the same time, we reached an agreement to sell the legacy distribution facility in the area, which will contribute to our stated value creation initiatives, along with some recent inventory improvements we've driven.

Our business is committed to getting our customers the right product, at the right place and time, and remain focused on doing so as we navigate the existing trade environment, monitoring the potential impact of new trade policies and their effect on pricing. Our geographically diverse manufacturing

network supports our ability to balance supply resiliency, service and cost for our customers. As an example, with our recent investments to expand domestic syringe production, 90% of our syringe product category is now manufactured in the United States.

And now finishing with our Other businesses, which are becoming a greater growth driver for us and an area where we intend to continue to invest in the future.

In Nuclear and Precision Health Solutions, we see continued strength in both our core business and theranostics, along with an expanding pipeline.

We are now the first company to offer Actinium-225 at commercial scale spearheaded from our collaboration with TerraPower, offering a significant milestone in increasing access to potential new cancer treatments for patients. New therapies containing the isotope Actinium-225 have the potential to become the next generation of cancer treatment due to their less invasive impact to the patient. This is an example of innovation in action and reaffirms our commitment to making meaningful investments to help address some of the most pressing health issues facing patients today.

We've also grown production of GE Healthcare's Vizamyl™, an Alzheimer's PET diagnostic, by nearly 70% since last quarter. Investments are underway to nearly double our Vizamyl™ manufacturing sites by the end of fiscal year '25.

In at-Home Solutions, we have begun construction on our new distribution center in Fort Worth, Texas, to continue benefiting from the growth of home healthcare. The facility will be equipped with leading robotics and automation technologies and should be fully operational by this Summer. Our investments in advanced distribution centers will enable synergies related to our acquisition of Advanced Diabetes Supply Group. Bringing together the scale and efficiency of our at-Home business with the patient acquisition and retention capabilities of ADSG will be highly complementary, create further diversification within our diabetes business and allow us to drive significant value for customers and patients. CMS continues to make policy decisions supporting CGM access, and we are well-positioned to take advantage of future market growth as CGM utilization continues to increase.

And, in OptiFreight® Logistics, we continue to deliver action-driven insights to support our customers, many of the leading health systems in the United States, enabling them to better manage their shipping needs. The team remains laser-focused on innovative and technology-driven solutions that drive incremental value and capabilities for our customers. Recently, the team made enhancements to our TotalVue™ Insights portfolio with TotalVue™ Reporting, making it easier for customers to answer critical program performance questions and unlock decision-driving insights. With at least three product launches planned over fiscal '25 and '26, our team is constantly expanding its capabilities and exploring opportunities for new product penetration in clinical departments within hospitals where customers are looking for support, efficiency and value.

In closing, we are pleased with what we accomplished this quarter and are excited about the future. Thank you to our team for their unwavering dedication to 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, once again, if you wish to ask a question, please press star one on telephone keypad. And also, just please note that you are limited to one question each. Thank you. Our first question today will be coming from John Stansel calling from J.P. Morgan. Please go ahead, sir. Your line is open.

John Stansel: Great, thanks for taking my question. I think what I heard was a high single-digit operating profit growth in Pharma ex-M&A. I'm just thinking about the back half. I think that would imply a bit of a deceleration versus first half, you know? Can you just help kind of pick through some of the key puts and takes as we think about growth second half fiscal '25, excluding M&A and what those factors might be? Thank you.

Aaron Alt: Appreciate the question. As we called out in prepared remarks, we are really pleased with the results of the enterprise overall and certainly our Pharma business so far this year, including Q2, including the raise to our guidance. Just to restate the raise for the full year, OI up to 10% to 12%. That, of course, includes the impact of ION and the GI deal, which we closed today. You heard us correctly that the OI for the full year would be high single digits without the deals. The M&A is adding about 300 basis points to the Pharma arrays, but also don't lose sight of the fact that we have $15 million more of positive progress that is going to hit Other income, just given the equity treatment on the minority ASC's. In the first half of the year, we experienced a strong utilization environment, really across every element of the business you heard, Jason, your comment on that. In the back half, we are assuming a more normalized environment. We don't believe that utilization will be sustained at the same levels. And of course we would be happy to be wrong there. I also want to call out that we have also started the onboarding of the significant ramp of new customers. Our onboarding costs for those new customers are already built into the updated guide that we've provided. And of course, we're lapping our Specialty Networks acquisition in March. And so, we believe that the guide on the back half and indeed the guide for the year is a prudent one, reflective of the success so far. And acknowledging that, as I said in my prepared remarks, we have a lot going on and that we're looking to land the plane well.

Matt Sims: Next question, please.

Operator: Thank you. Our next question will be coming from Erin Wright calling from Morgan Stanley. Please go ahead.

Erin Wright: Great, thanks for taking my question. So, could you talk a little bit about what you're seeing across Specialty right now? Just the key drivers that you're thinking about, how the integration of some of these assets is progressing relative to your expectations and, just how we should think about that progressing throughout the year. Thanks.

Jason Hollar: Sure, yeah. Specialty was absolutely a driver of revenue and profit for the quarter. We've talked about the broad-based specialty growth over the last several years, ex a large customer non-renewal. We've seen mid-teens type of growth, 14% growth over the last several years. And we saw pretty similar growth last quarter as well as this quarter was even a little bit stronger a couple of

points faster than that. So, the specialty category continues to grow very well, which certainly gives us confidence to continue to invest into that business, which is, of course, underpinning not just the more recent closings now of both the ION and GI Alliance. But of course, it was also a key component of the strategy that we laid out more recently and started with the inorganic investments with Specialty Networks. And we did include in the material, I believe it's slide 12, that just reminds everyone of that strategy, and I talked a little bit about it. But I think the key point here is that that community physician, specialty physician, you know, they have a lot of requirements, a lot of needs. You know, they want to take care of those patients, but they also need to run a business. And what we've done here is build up a series of support around them beyond contracting, getting into helping them manage their data, getting the administrative as well as the broader MSO services to support those physicians. And we think by putting that specialty physician at the center of how we approach them as a partner and as a customer, we'll lead to growth well beyond just distribution and into all those other services. One other area of differentiation that we've continued to clarify with this strategy is that we're going to market with two very distinct platforms. One within oncology, which is of course ION is combined with our Navista™ business, and then the other one of course is GI Alliance and getting into the other 60% of the multi-specialty part of the business. So, we're pleased with the strategy, we're pleased with the underlying momentum that we're seeing in the Specialty business. That just further gives us confidence that we should be investing into this critically important part of the market, not just for us financially, but probably more importantly for customers and ultimately patients. Next question please.

Matt Sims: Next question, please.

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

Allen Lutz: Hi. Good morning, and thanks for taking the questions. One for Aaron. How did the COVID vaccine volumes come in the second quarter versus your expectations? I think we were estimating something like a $20 million headwind year-over-year. But is there any way to size the relative contribution from vaccines in the second quarter versus the first quarter, or size of the headwind year-over-year? Thanks.

Aaron Alt: We have not provided a specific number on the impact of COVID in Q2, although what I can tell you is it came in exactly as we expected it would, and we were pleased to overcome it obviously, given the incredibly strong results from the form of business in the quarter. We had said it would be a modest headwind. And that's indeed how it played out.

Matt Sims: Next question please.

Operator: Next question today will be coming from Elizabeth Anderson of Evercore. Please go ahead.

Elizabeth Anderson: Hi, guys. Good morning, and thanks for the question. Thanks for all the color today. I was wondering if you could talk a little bit more about GMPD. Obviously, thank you for helping us to quantify the way of our contribution in the quarter. But I know you've talked about some investments, and I realized that there's, you know, tariff implications that we probably can't quantify

right now. But if we think about like just the core business ex some of these one-time items and forgetting about tariffs for a second, how do we think about sort of the cadence of investments and opportunity as we move through the back half of the year? Is that sort of ramping down? And we should think of that as a go-forward rate there or do you think there's sort of more long-term investments that you will continue to make as you continue to grow that business?

Aaron Alt: Let me let me start with some comments on the guidance, and then perhaps Jason will want to offer some strategic comments there. We started the year with a guide on GMPD of $175 million. And then as a result of the unanticipated incremental healthcare costs in Q1, we adjusted our guidance to bring that down and that was, as you recall, $17 million in Q1. In Q2, we have certainly experienced another unanticipated item, which is a $15 million charge in the Wavemark part of the business really tied to uncollectible receivables. Absent those two items, the GMPD Improvement Plan really continues as it has. And so, while we want to be prudent and reflect the realities of those two items, and of course call out that volumes were a little soft in Q2, softer than we expected. Other than that, the business continues to perform as we had expected and indeed, consistent with the guidance we provided.

We said at the start of the year that we expected sequential improvement each quarter in profitability. We still expect that to be the case. Q4 would be higher than Q3 obviously, from a sequential perspective. And what we appreciate about the team leading GMPD is that they are leaving no rock unturned relative to continuing to invest in the business and find the ways to improve the operating performance, improve our customer service so that we are achieving the plans.

We have not backed away from our long-term guidance today. We are not providing an update on long-term guidance, either for GMPD or for the overall enterprise. And you can read into that what you will. I would just observe, though, that we believe the new guidance of $130 million to $150 million, with the midpoint being the reduction of the two one-time items or non-recurring items from that original guidance is a reflection of kind of where we are. Jason?

Jason Hollar: Yeah, I'll add on some other elements here. So, I'm pleased with the performance of the team, given some other elements that Aaron didn't talk about. We we've been receiving a number of questions, of course, as it relates to international freight, all the storms, the winter activity as well. There's a lot of complexities within the supply chain that has not impacted significantly in the business. And we've not made any changes to our guidance as a result of those types of items. So, the team has managed through a challenging type of supply chain environment this year.

Now that leads us to course to, all right. So now what does it mean for the balance of the year as it relates to tariffs. I should probably also add that we had tariffs in China that did require us to resource and to pass on some of that in the form of pricing as well. But now when we're looking at potentially more significant tariffs, both in Mexico as well as in the United States, that requires us to continue to evaluate that model and manage through it. So, we are not providing any adjustments to our guidance, both current year as well as long-term as it relates to that, it's still a bit early to determine that. What I will say is that the team has done a nice job to de-risk the model from where we were before. We still have some work to do with tariffs. We're looking at both sides of it, the sourcing side as well as the customer and pricing side. On the sourcing side, we've made some fantastic

improvements to the resiliency of that supply base. As a reminder, only about a third of our business of that $12 billion-ish in revenue is in Cardinal Brand. So, the two thirds that's national brand, we largely pass through those types of adjustments. So that one third that is Cardinal Brand is where we have the most work to do there. Within that third, about a half of it is sourced out of North America which is split between the U.S. and Mexico for the most part. And then the rest of the world is quite diverse. We no longer manufacture out of China. We source a little bit, although with the more recent tariffs we've reduced that further. So, we're definitely well below 10% at that level. And we have nearshored into Latin America quite a bit of product as well. We've even brought some of it more onshore. As Aaron highlighted 90% of our syringe categories now produced in a Cardinal owned facility in the United States. So, we'll continue to do what we can to minimize the impact as it relates to tariffs. But make no mistake, if there are widespread tariffs anywhere from the 10% to 25% range, I anticipate there will be corresponding price increases. We will do what we can to minimize those, but with 1% to 2% margins, we will not absorb whatever impacts are left. And with our diverse supply base supply chain throughout the globe and what we believe is balanced, we think we're well-positioned competitively to be able to pass on those price increases. So, it's something we'll work to minimize, but it's going to be a reality if tariffs are widespread across multitude of countries.

Matt Sims: Next question please.

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

Michael Cherny: Good morning. Congratulations on another really nice quarter. Maybe if I can go back to some of the Specialty commentary. As you think about where you're now positioned with all the at least, Specialty-oriented acquisitions closed right now, Jason, you had talked a bit about some of your service expansion but how fast do you feel some of that integration resonating in the market? How much of it do you feel is a competitive driver in terms of winning new business? And how do you think about that against the backdrop of what seemingly appears to be elevated specialty market growth? Whether it's due to changes in the IRA Part D design or other areas. But how does that all factor into from an underlying specialty basis, your ability to essentially accelerate growth on top of a now larger portfolio?

Jason Hollar: Well, it certainly doesn't hurt in the marketplace. As I'm sure you can imagine there's a lot of factors that go into a customer's decision. I think our investments in Specialty, they want to see that we're competitive and that we understand their needs in that space, which that this certainly does. I wouldn't draw too many connections. It depends on what part of the market you're talking about. If you're talking about retail independent, if you're talking about a large chain, I think our investments in Specialty are a lot less relevant. What's more relevant for them is are we taking care of their needs today? Is it service levels? What other types of products and capabilities we can bring for them? Of course, when you're talking about that specialty physician, it is incredibly important for them that we take care of as many of their needs as possible of which distribution is only one of them. So it is that flywheel effect that we've talked about all the way back to our Investor Day that was the cornerstone of the strategy that is what's most important to that physician. Of course, we have to be competitive in everything else it is all bringing together. Now this quarter as I mentioned, we're seeing a little bit stronger Specialty revenue growth. You know, is that because we continue to be a partner

of choice? I think it's a little early with some of these acquisitions as well. But certainly, we're growing at least as fast as the market 16% type of growth in the quarter. So, we're holding our own and have great partners that are growing quickly as well, and we're doing what we can to further improve our capabilities to be an even better partner for them going forward.

Matt Sims: Next question please.

Operator: Next question will be coming from Eric Percher of Nephron. Please go ahead.

Eric Percher: Thank you. I'd like to return to Medical, and maybe expand to GMPD and at-Home. It sounds like the impact from macro weakness is maybe a little bit less severe than we might have thought. Can you tell us, is the Cardinal Brand still growing? Has there been any change in trajectory? And then is the impact extending to at-Home in any meaningful way?

Jason Hollar: Yeah. So, we saw a slight growth in overall for all products as well as Cardinal Health Brand products. So, there's no distinction or differentiation there of any significance. And you'll see in the queue that comes out, I think Aaron even made the comments, we have double-digit growth for each of our other businesses in terms of top-line. So, we continue to see very strong growth there that as Aaron did highlight, we saw some weakness within respiratory and lab type of products within the GMPD business. Those are not products that drive volume through our at-Home business. It is a very diverse type of product groupings within that at-Home customer, but it's different than those types of types of products. So, the other thing I just highlight is last quarter we were at 3% growth, overall market, we've predicted to be somewhere in the low single-digit range. And so, 1% growth while a little bit weaker, and we certainly wanted to call that out. We're watching it very closely. The trends are going to be important. You know, how much of this is related to what is happening on the respiratory lab side of cough, cold and flu this season is something that will determine here in the next couple of months if it's a lasting trend or if it gets more back to that typical type of longer term, lower single-digit, but better than 1% growth that we anticipate. And that's why we're watching it closely, but you need to see what kind of trends this really looks like before making any other further adjustments.

Aaron Alt: Just to reinforce some of the answers around at-Home. You will see that at-Home's revenue growth in the quarter was up 13% strong in CGM, diabetes and urology related categories. We do continue to make large investments in that business, even pre-closure of the acquisition you know we've announced. And that's why you heard me signal in my prepared remarks of how we're looking forward to talking about the profit contributions from that business in future quarters. Really driven by seeing the return on the investments we've been making in automation and efficiency as they get to multi-year record levels of productivity, quality and safety over the course of a year. And so, while we haven't spent a lot of time talking about it, and we view it as a bright spot for the future of the business.

Matt Sims: Next question, please.

Operator: We will now go to Kevin Caliendo calling from UBS. Please go ahead, sir.

Kevin Caliendo: Thanks for taking my question. I want to get to your comments around utilization and the sort of expectation that it's going to normalize or step down a little bit from what you've seen in the first half. My question is are you actually seeing this now? Is it a question of you're comping higher utilization in this fiscal second half of the year? And was the higher utilization that you saw in the first half of the year, was there anything special about it? Was it higher margin or did it contribute more to EBIT than corporate average? I'm just trying to understand what was the driver or what the higher utilization was, and sort of why you don't expect it to continue.

Jason Hollar: Yeah, let me start. And then there's a lot there to unpack and so, Aaron may have something in the back end. Let me talk to the second quarter growth that we've seen, and it does resemble quite a bit the type of growth we saw in the first quarter. So, let me just go deeper into that and give you a little bit more insight as to what's driving and when we when we say broad utilization what exactly do we mean. I'll give you a little bit more perspective there. And then that I think that will help inform, you know, the types of trends that you would expect to continue and perhaps some that would not.

So, as I step back and think about the drivers of our profitability, we have already talked about some of the headwinds, right? So, it's COVID and it's the large customer non-renewal. As Aaron highlighted our headwinds this quarter from an earnings perspective as well as from a revenue perspective, we're very consistent with our expectation. And what I'm really pleased with this particular quarter is our strength in Pharma was driven not by having less bad news. It was more good news, more strength in the underlying business. So, what drove those tailwinds that allowed us to grow that business from an earnings perspective this particular quarter. Okay, utilization is of course, one of those items. So, the 4% reduction in revenue as Aaron highlighted translates to 17% ex large customer non-renewal. And then when you adjust for GLP-1's, that's another 6% or 7%. So, you get close to 10% to 11% ex customer non-renewal ex GLP-1 type of growth. So that 10% to 11% is significant. It's not too unlike where we have been operating but it's good growth and of course we're talking revenue. But when you're looking at the underlying volume in areas that contribute less revenue, like generics, it was also a little bit stronger than what we've typically seen. So, within that, 10% to 11% adjusted type of revenue, there were no real headwinds that we had to offset. So, we did see growth across all the categories. Brand and generics were generally consistent with that type of rate, where we saw excess growth above that was Specialty. So that brings with it nice margin. It brings with it a nice mix and it's also some of our consumer health business.

Within generics, while the revenue was not a big driver of it, where we saw strength we're in the areas that do bring with it a little bit more margin, like retail independent as one example. We did have some new customers that were being onboarded, but there was a good mix by, again, Specialty, by retail independents, or the right type of volume that we saw that was a little bit stronger this quarter than what we've seen before. Now that's just one of the components of our earnings drivers. We also had very good productivity. It was a quarter that had great volume. And we translated that volume to very strong earnings and that's based upon some of the actions that we put into place beginning almost a year ago when we learned of that large customer non-renewal that we will start to lap. And then, of course, the Specialty networks will be lapping here in the third quarter as well. And that's the third component.

Our biopharma solutions business was very strong this quarter, that is Specialty Networks, but it's also our 3PL. We saw higher than usual type of growth, so 3PL is growing over 20%. So, there's a lot of growth drivers like that that while we've invested into it and while we have confidence, will continue to grow the level of growth in that positive mix of Specialty, of generics, of retail independent, of categories like that are more of the areas that we would expect to be more normalized going forward. And of course, Specialty Networks we begin to lap at in the third quarter as well. Aaron, anything I missed there?

Aaron Alt: No, I would add was just the [indiscernible] that our back half, if you adjust if you normalize out for Optum we are expecting the profit to grow, above our long long-term target of 4% to 6%. And so, I appreciate the pushback on, the number there, but we are expecting higher than our targeted growth in the back half in Pharma.

Matt Sims: Next question, please.

Operator: Yes, sir. Next question now will be coming from Eric Coldwell calling from Baird. Please go ahead.

Eric Coldwell: Thanks very much. I was hoping to touch on GI Alliance a bit. When investors see MSO deals in a drug distribution industry, they tend to think of distribution contracts, they think of bio-similars, etc. But is there not also a med-surg opportunity, particularly in this segment? And if so, could you talk about that and where you might see some opportunities to further help those physicians with your med-surg package and or any other solutions that you, that you provide. You know, are there tie ins to something in the other segment, for example, as well?

Jason Hollar: Yeah. Thanks for the question, Eric. And, the short answer is yes, there's opportunities but I'd rather stress what I talked about before. I think the problem with answering your question in that manner is it puts us first and not the physician first and their biggest problem isn't getting med-surg items. And it's relatively small relative to, of course, across the industry that's a big part of it. But when you look at even a 1,000 physicians, it's just not a significant relative to the broader industry. And certainly, that could be, less than one health system customer on that side.

So, it's something that we're not ignoring but it's also clearly not the cornerstone of what we're doing here. Specifically on GI Alliance, we're most focused on that physician, and we're specifically most focused on that other 60%, the other non-oncology therapeutic areas where not only is it an area that hasn't been invested into near their extent as oncology, there's not nearly the options and support out there. But what's so exciting for us is what we believe is the best of the best is, Dr. Jim Weber and team and GI Alliance. We did scour the industry to look for the best possible partner in the other 60% and we're confident it's that team and that organization that fits well with us culturally but also fits well with being able to solve the needs of so many of those physicians in both GI as well as other therapeutic areas.

Aaron Alt: Just to emphasize this is both GI Alliance and ION they are platforms for future growth which come with higher margin service opportunities and capabilities that we will look at as a basket of opportunities as we continue to drive our progress in Specialty going forward.

Matt Sims: Next question, please.

Operator: Our next question will be coming from Daniel Grosslight of Citi. Please go ahead. Your line is open.

Daniel Grosslight: Hi, guys. Thanks for taking the question. I wanted to go back to some of the comments you made on tariffs, and you provided some great detail there. Namely the 50% of Cardinal branded products that are made in North America. I'm wondering if you could help kind of segregate that out between the United States and Mexico? And then also help us to think about how, what percent of your products are made in Central and South America. And finally, if all of this tariff noise volatility is making you kind of rethink your onshoring strategy, so perhaps more of your branded product will look like syringes versus how it has traditionally looked. Thank you.

Jason Hollar: Sure. So again, let me just walk it from the top. Two thirds is national brand, one third Cardinal Brand. Of the Cardinal Brand, about fifty-fifty North America versus rest of the world. That 50% that's North America, it's pretty well balanced between Mexico and the U.S., so think about it as another fifty-fifty. And as it relates to Central and South America, I would say that other 50% outside of North America is very diverse. So, I'm not going to break it down further into that. We do have Southeast Asia, that remains a component of that. But it's quite diverse where we have very little. Not a significant concentration in any one country outside of that, so it is truly broad and diverse there.

The other data point that I highlighted in the past and maybe again today, I can't remember, but we do have product capabilities of manufacturing 50% of Cardinal Brand in the United States, so we don't manufacture that, but we have up to 50% today of those categories where we're already manufacturing that product, where we can bring more of it onshore. Now, that's not something that can be done overnight, but we have the capability, the expertise to be able to do so over time. And when I think about tariffs, that element of time is an important one because it is something that, you know, beyond the cost impact, the FDA is going to be very busy helping the industry resource significant amounts of product if there is no exclusion. Remember, in the first Trump administration, there were widespread exclusions that included a lot of medical and healthcare products. But if those exclusions are not existing this time around, there will be strong incentives to resource a lot of products quickly. And that's something that we'll have to do what we can but we're going to have to look at that cost trade off and there are plenty of products that will still not make sense to transition to the United States. The cost differential is many times greater than that. But then there's also just the natural capacity to build a resource, products that must be tested rigorously before changing suppliers, before changing sites and manufacturing that will cause for a lot of effort, but also a lot of volatility that will want to make sure we keep the patient and safety in mind as well.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question today will be coming from Steven Valiquette calling from Mizuho. Please go ahead.

Steven Valiquette: Great, thanks. Good morning, guys. Thanks for taking the question. So, I think you briefly touched on the cough cold for the GMPD segment, but really for the overall company, my question is separate from the timing of your revenue recognition related to the COVID vaccines. There was some discussion among some of your peers that the flu and or illness season was pretty soft in the December quarter, but then more recent data shows it actually picked up a lot in January, which I think should bode well on a net basis for your upcoming fiscal 3Q. So, I guess I'm curious whether you have any further color just from your own point of view in relation to these “quote, unquote” illness season dynamics for the December quarter and March quarter, really across all your segments and the overall company. Thanks.

Jason Hollar: Yeah. Thanks, Steve. It's an interesting question because on the one hand we're talking about strong utilization, on the other hand we're talking about weaker utilization. And so, understanding the distinction is important. And we use cough, cold and flu illnesses in general as a centerpiece of that discussion. I think there you know; this is a hypothesis. You know, we're not – what we're seeing is, again, on the GMPD side is more lab and respiratory. So, perhaps what we're seeing in this last quarter, because we didn't see the same weakness within our Pharma business. So, people are getting treated for illnesses at a rate that seems to be at least as consistent as it was last year. So, we're not seeing weakness there now. It's not a huge margin driver for us anyways. On the Pharma, it's a higher margin products on the GMPD side. So, this could be one of less testing versus less treatment. So, our treatments aren't seeing a whole lot of difference, but where testing is a bit lower.

I've heard anecdotally some of the same that you just referenced that perhaps January will be a little stronger because there seems to be a little bit of resurgence. I won't say that I've seen that yet. If it has happened, it's just too early to have a great perspective on that. And so, I think for the time being that's about as much as I can give you.

Matt Sims: Next question please.

Operator: Thank you, sir. We'll now move to Charles Rhyee of TD Cowen. Please go ahead.

Charles Rhyee: Yeah. Thanks for taking question. I just wanted to go back a little bit on the issue of sort of onshoring products, understanding the complexity of that. But with this administration coming in, I think last quarter you did talk about expanding domestic products in response to sort of disruptions, et cetera. Does the new administration and sort of their kind of wielding of tariffs kind of all over the place here, is that looking to accelerate sort of your plans here in terms of bringing more products to be manufactured domestically or sort of given the uncertainty, does that maybe give you a little bit pause and just kind of make you want to wait and see?

And then, secondly, you talked about sort of a stable generics kind of environment. But when we look at – I'm sorry, you said consistent dynamics here in the second quarter. But if we look, we're seeing consistently in the data, moderation in deflation, just curious if you think that can persist going forward, if there's any dynamics you're seeing as you look out in the next few quarters? Thanks.

Jason Hollar: Yeah, there's a lot of variables in decisions that go into where we source product. And short-term, I think it'll be very difficult. Like I said, not only are there the constraints of us getting the capability, but there's also the regulatory compliance requirements too ensuring that we have the ability to through FDA approvals and such. So that will be a natural limiter on how quickly those moves can be made. And it's just too early to tell if we're talking about, like in the case of China with PPE at 50% tariffs, that was a no-brainer. It needed to be moved out of China. There's no way for there to be a business case for staying there. But to be clear, those products did not come to the U.S., they went to Southeast Asia. And I'm not convinced that even at a 50% tariff throughout the world, that those products would come back onshore, given the cost differential that is there between domestic manufacturing versus low-cost countries in general.

So, there's a big delta there for some commoditized products. There's less of a delta for more highly complex products. And the highly complex products often have more manufacturing investments. And so, when we have to make those decisions, whether or not we bring them onshore, we have to look at the timeline and say, is it worth the investment and the uncertainty to make those types of investments today, get enough of a payback to justify doing that, or will the next administration have a different view? So those are all elements that will have to come together. And we'll always be looking at what makes the most sense. As it relates to the second part of the question, I'll turn over to Aaron.

Aaron Alt: Sure. You're right. We did see a consistent market dynamic environment, and when asked about deflation or not on the quarter, we always point to the fact that we manage both sides of the equation. We have the benefit of working with Red Oak to do that. And so, we're managing the business to a consistent average margin per unit, which means it doesn't make as much of an impact for us, right? Because we're managing the portfolio as a basket there with rising volume, which we saw in generics as well that leads to goodness in the P&L.

Matt Sims: Next question, please.

Operator: Yes, sir. We do have one question left in the queue and the question is coming from Brian Tanquilut of Jefferies. Please go ahead.

Jack Slevin: Hey, thanks for taking the questions. Jack Slevin on for Brian. I think you guys have run through in detail most of the stuff we wanted to ask. Just want to do maybe a more nitty-gritty one on the cash flow side and some of the comments you had. I appreciate the talking points on wanting to maintain the credit rating and giving some of the ranges there. Can you just run back through exactly sort of what that means for the next, call it six quarters? I guess on my quick math, you look at the acquisitions, dividends, buybacks that are left in the back half of this year versus the free cash guide, you've got something like a $1.5 billion to $2 billion hole that you need to fill. Is the right way to think about that, that that needs to be debt paid on until that sort of hole is filled, and then you can get back to sort of pushing excess into buybacks and tuck-ins? Or just any thoughts on what that might mean for ‘26 capital allocation? Thanks.

Aaron Alt: Sure. I appreciate the question. I always like talking about capital allocation, given my role. We have confirmed a couple of things over time before today and today. The first is, is that we have a disciplined capital allocation strategy, which is unchanged post M&A. And that in order is first, we're

going to invest against the business and we'll invest more than $500 million in CapEx against the business this year. Second, then we'll protect our investment-grade rating. I'll come back to that in a second, because there is some change there. Third, that we will provide a baseline return of capital to investors. Historically, that's been $500 million. This year, we have reconfirmed that we will complete $750 million of return of capital to shareholders through the share repurchase. And then we look for further opportunities for M&A or additional return of capital to shareholders.

With respect to the debt, we've taken on in connection with the acquisitions, we were pleased that when we presented our plans to the rating agencies that they confirmed for us that they saw the industrial logic that we did. They saw the value creation opportunities and they appreciate the fact that we continue to be committed to paying down our debt over time. They actually raised our degrees of flexibility as part of commenting on the deals. And so having announced four acquisitions, we actually have a different leverage metric now. It's gone up. It was before 2.5 times to 3 times, now it's 2.75 times to 3.25 times. And so, we will manage our leverage ratio over time to get back within the new Moody's ratio consistent with that. That will take us a lot of time as you're doing the math, as we carry forward, given I believe we also reconfirmed our adjusted free cash flow guidance for the year. So, while we won't get there this year, the rating agencies aren't expecting us to get there within fiscal year ‘25. But as you look as our debt stack, the towers we have coming in the near term, you'll see we have eminent flexibility to be able to continue to do what we said we were going to do, which is invest in the business, pay down some of that debt quickly while continuing our return of capital plans to shareholders.

Now we have an important day coming. June 12th is our next Investor Day. And if you look back at our comments, Jason and my comments from our Investor Day two years ago, what you will see is we were very focused on laying out the long-term algorithm for shareholder value creation, not just on the income statement, but also on the cash flow. And we will provide further detail on that. The opportunities we see as we carry forward into ‘26 and beyond as we get to that June 12th Investor Day.

Matt Sims: Alright, thank you.

Operator: And we do not have any other questions in the queue. I'd like to turn the call back over to you, Mr. Hollar, for any additional closing remarks. Thank you.

Jason Hollar: Yeah, thank you for joining us again this morning. Just a quick summary here. Very pleased with the second quarter. Another very strong quarter for Cardinal Health. Driven by really strength across the enterprise, but most especially by our largest, most significant business within Pharma, very pleased with that 7% growth. Considering some of those headwinds to still be above the long-term target is fantastic progress. And that certainly gives us the confidence for the year ahead and pleased that we were able to raise our guidance yet again to that $7.75 to $7.90. But probably most exciting for me is that we're doing that while progressing our strategy. The strategy that is progressing through the organic investments, but further accelerated by the significant steps we've taken here with the ION close in December and the GI Alliance close that occurred today. And that just gives us confidence to continue to drive our business going forward. And as Aaron just indicated,

we look forward to going into those strategies even further come our Investor Day in June. Until then, and until the next quarter, talk to you then.

Operator: Thank you. Ladies and gentlemen, that will conclude today's conference. Thank you very much for your attendance. I wish you a very good day.