

Q3 FY25 Cardinal Health, Inc. Earnings Conference Call

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Operator: Hello, and welcome to the Third Quarter Fiscal Year 2025 Cardinal Health, Incorporated Earnings Conference Call. My name is George, and I'll be the coordinator for today's event. Please note this conference is being recorded and for the duration of the call, your lines will be in listen-only mode. However, you will have the opportunity to ask questions towards the end of the presentation and this can be done by pressing star one on your telephone keypad to ask your question. And can you also please limit yourselves to one question each to allow the maximum people 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'd like to now turn the call over to your host today, Mr. Matt Sims, Vice President, Investor Relations, to begin today's conference. Thank you.

Matt Sims: Welcome to this morning's Cardinal Health Third-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 third quarter results, which demonstrate the continued acceleration of the momentum we've established in recent years, the underlying strength of our business and the effectiveness of our strategy.

In today's increasingly complex macro environment, our role as healthcare's crucial link is more important than ever. We bridge the clinical and operational aspects of healthcare, delivering end-to-end solutions that touch every part of the care continuum. Customers and manufacturer partners

confidently rely on us to safely, securely and efficiently deliver essential products and services to the right place and time.

Our team continuously navigates evolving market conditions and regulatory complexities within the healthcare industry, allowing us to act with urgency and flexibility to best serve customers and patients. We create tremendous value for our partners through the breadth and scale of our offerings. With our strong competitive positioning and the positive trends underpinning our results, our business has proven to be incredibly resilient.

It should also be noted that while our industry relies upon an efficient and effective global supply chain, Cardinal Health has a strong U.S. footprint, with over 99% of our enterprise revenue generated here. Roughly 95% of our segment profit is generated from four of our five businesses which are, as yet, largely unimpacted by the tariffs or other regulatory actions. And we have invested approximately \$7 billion in the last two years in the United States, including recent acquisitions, expanded domestic manufacturing, new distribution nodes, technology and automation, which has directly supported the delivery of our country's healthcare.

As always, we proactively monitor proposed legislation and regulation, and as I've said before, we continue to support the overarching goals of increasing patient access, affordability, and innovation in healthcare.

Moving on to our results, our performance this quarter was driven by strong utilization trends and execution across our most significant business, Pharmaceutical and Specialty Solutions, and our three growth businesses reported in Other, which are becoming an increasingly important part of our overall mix.

Most notably, the broad-based performance reflected profit growth from all five of our operating segments, an indication that our relentless focus on advancing our strategic priorities is delivering real, measurable impact.

It's also worth mentioning when looking at the strong Pharma results, we are seeing the first positive benefits from the acquisitions of GI Alliance and Integrated Oncology Network, both of which, in early days, are performing consistent with our expectations. And within our higher-margin Other businesses, at-Home Solutions, Nuclear and OptiFreight®, we see continued potential to expand our capabilities and create additional value. We were pleased to complete the acquisition of Advanced Diabetes Supply Group at the beginning of April and would like to extend a warm welcome to the ADSG team.

As a result, we are pleased to again raise our fiscal '25 EPS guidance and have great confidence in our ability to generate sustainable, long-term growth for the future.

In summary, we are encouraged by the performance this quarter, which validates the strength of our strategy, the discipline of our teams and our conviction in our trajectory heading into the fourth quarter.

With that, I will turn it over to Aaron.

Aaron Alt: Thanks Jason, and good morning.

Q3 was a strong financial quarter for us, as we continued to do what we said we were going to do, invest in the businesses, drive growth in Pharma and the three Other growth businesses, and continue the turnaround of GMPD.

Overall, we grew operating earnings by 21% and EPS by 13%, even while comparing against a prior period to the customer contract expiration and while executing and integrating our recent acquisitions.

The outstanding performance of Pharma, up 14%, anchored our earnings results with further momentum provided by all three of the Other growth businesses, together up 22%, and continued profit growth in GMPD. In total, our results led to earnings per share in the quarter of \$2.35.

As a result, we are raising and narrowing our full year EPS guidance to a range of \$8.05 to \$8.15.

Let's review the results starting with slide 4.

Total company revenue was flat at nearly \$55 billion on a reported basis. Adjusting for the contract expiration, revenue increased 19% versus the prior year, with strong demand across Pharma and all three of the growth businesses in Other.

We drove strong operating leverage in the quarter. Total company gross profit dollars increased 10%, while SG&A increased a more modest 4%, notwithstanding our investments across the business and recent acquisitions. Digging deeper, SG&A actually decreased slightly year-over-year when normalizing out the additions of GI Alliance and ION, reflecting the strong cost control efforts and efficiencies pursued by the team.

This led to operating earnings growth of 21% versus the prior year.

Moving below the line, Interest and Other increased by \$38 million, to \$65 million in the quarter, primarily due to previously anticipated acquisition-related financing costs.

Our third quarter effective tax rate was 22.4%, a two and half point increase from prior year, due to the non-repetition of some positive discrete items in the prior year.

Q3 average diluted shares outstanding were 240 million shares, 2% lower than a year ago due to our share repurchase efforts.

The net result for Q3 was EPS of \$2.35, growth of 13%.

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

Third quarter revenue was relatively flat at \$50.4 billion. Excluding the customer contract expiration, revenue increased 20%, driven by brand and specialty pharmaceutical sales growth from existing and new customers. This included approximately 7 percentage points of revenue growth from GLP-1 sales.

In Q3, we saw a continuation of strong pharmaceutical demand across the business, within brand, specialty, generics and consumer health, and from our largest customers. We also saw growth from new customers and were especially pleased with the successful onboarding of Publix during the quarter, which was made possible by the collaborative effort between the Cardinal and Publix teams.

Q3 delivered segment profit of \$662 million, growth of 14%. This was driven by all of: contributions from brand and specialty products, our MSO platforms, including GI Alliance, BioPharma Solutions, including Specialty Networks, and by positive generics program performance. This growth was partially offset by the customer contract expiration.

As a reminder, we closed our acquisition of ION in Q2, and of GIA on January 30th, so the quarter included positive results from both businesses. We continue to be excited about these additional higher margin revenue streams, which as we've said are anticipated to contribute approximately 3 percentage points to our Pharma segment profit growth this year.

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

Let's turn now to our turnaround business, the GMPD segment.

Revenue increased 2% in Q3, to \$3.2 billion, driven by volume growth from existing customers. We were particularly pleased to see Cardinal Health Brand growth of 3% during the quarter, which was actually a couple percentage points higher when normalizing for billing day differences between periods and currency fluctuations.

GMPD segment profit increased to \$39 million in the quarter, driven by the net benefit from our cost optimization initiatives. The team continues to be aggressive in executing its simplification strategy to deliver operational efficiencies and best serve our customers.

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

Third quarter revenue increased 13% to \$1.3 billion.

Demand was strong for the products and services of these businesses. In at-Home Solutions we saw 12% revenue growth. OptiFreight® Logistics had 17% revenue growth. And Nuclear had 14% revenue growth, which included 30%-plus revenue growth in Theranostics.

Third quarter profit growth in Other increased 22% to \$134 million, with profit growth across all three operating segments.

Now, turning to the balance sheet.

We ended the quarter with a cash position of \$3.3 billion.

We've delivered adjusted free cash flow of \$1.2 billion year-to-date, and have continued to deploy capital according to our disciplined capital allocation framework. We've invested \$315 million back into the business so far this year. We have more than fulfilled our baseline commitment and repurchased \$750 million in shares during the year, as we completed \$375 million of accelerated share repurchases in March. The average price of our year-to-date share repurchases has been \$117 per share. And, during Q3, we deployed \$2.8 billion for the closing of our majority position in GI Alliance.

Now, let's talk about our full year guidance for fiscal year '25, with only one quarter left to go.

Reflecting the strong Q3 results, we are raising and narrowing our fiscal '25 EPS guidance to a range of \$8.05 to \$8.15, an 18-cent increase at the mid-point of our prior guidance.

Given the better-than-expected adjusted free cash flow year-to-date, we also are now expecting adjusted free cash flow at the high end of our prior guidance range, approximately \$1.5 billion.

We are narrowing our Interest and Other guidance to the lower end of our previous guidance, now \$200 million to \$215 million, primarily reflecting the strong cash flows. As a result, we borrowed less than we anticipated to complete the ADSG transaction.

This guidance implies roughly \$75 million in I&O next quarter now that we've completed our acquisitions of ION, GIA and ADSG. As a reminder, our Interest and Other line also includes the income that GIA recognizes from its minority equity positions in ambulatory surgery centers. For context, we expect about \$10 million of Other income from the ASC positions in Q4.

We are also updating our effective tax rate guidance to a range of 23% to 23.5%.

Moving on to our segments, starting on slide 10.

For Pharma, we are raising our segment profit guidance for the full year to 11.5% to 12.5% growth driven by the continued broad-based demand we've seen in core Pharma and Specialty. Of note, Q4 is expected to contain a higher than usual amount of investment-related costs as we near completion of our Consumer Health Logistics Center, continue to invest in technology and continue to add capabilities while scaling our MSO platforms.

While individual customer timelines have varied, we are confirming that we have now completed customer onboardings that make up approximately \$10 billion of new customer revenue in fiscal year '25, setting us up for further growth in fiscal year '26.

For GMPD, we are narrowing our guidance to the lower end of our prior fiscal year '25 guidance range, now \$130 million to \$140 million. Even with this narrowing of guidance for GMPD, the team is

making good progress, and the fourth quarter should reflect a meaningful step-up in profitability as a result of the actions taken in the last several quarters. There are a few factors which support our guidance. First, Q3 showed a positive change in trajectory for Cardinal Health Brand volume, including strength we saw as we exited the quarter. Second, the team has continued to respond to environmental adversity by finding incremental cost-savings actions, including a reduction in force which occurred at the end of Q3. Third, our guidance has always signaled that the fourth quarter would be our highest seasonal quarter in terms of segment profit, just like last year. I should note that while Q4 will be impacted by the earlier rounds of tariffs between the U.S., Mexico and Canada, most of that early impact will be offset in the quarter or will be recognized in future periods when the related product is sold. As a result, the onset of tariffs is not expected to have a direct material financial impact on the fourth fiscal quarter for any of our businesses.

In Other, we now expect fiscal year '25 revenue growth of 17% to 19% and segment profit growth of 16% to 18%, driven by stronger organic growth across the businesses and anticipated contributions from AD SG during the fourth quarter. We expect AD SG to be slightly accretive to EPS immediately, despite the one-time impact of an acquisition-related inventory fair value step-up which will be unique to Q4.

Now, given the highly dynamic environment in which we are all operating, today, we will provide early context on next year. We are only six weeks away from our Investor Day on June 12th, by which time we expect to have more visibility on macro events and to offer more concrete thoughts on fiscal year '26 and beyond.

In Pharma, we expect to continue to benefit from positive utilization growth, our strong core foundation, which includes our leading Red Oak-enabled generics program, and our partnerships across a diverse and growing customer base. We expect strong growth in Specialty, both in our upstream BioPharma Solutions, and our downstream services including our MSO platforms which continue to expand.

We are confident in our ability to navigate changes to the U.S. healthcare ecosystem, whether that is the Administration's section 232 review of the pharmaceutical industry or the recent drug pricing Executive Order. Based on what is known at this time, we do not currently expect meaningful changes to our economics from these actions because of our unique value proposition and ability to respond as needed.

In Other, we expect continued strong demand and organic growth fueled by the secular tailwinds of the markets, our leading competitive positions, and our investments. The addition of AD SG to at-Home Solutions will be accretive to our business as we work to quickly unlock deal synergies.

In GMPD, Jason will shortly talk about the aggressive actions we're continuing to take to reduce the burden of tariffs on our customers and our business. We remain committed to the GMPD turnaround and are relentlessly focused on ensuring GMPD retains a viable and improved financial profile. While we need more clarity on the nature, geographic reach, intended duration and resulting financial impact to our business of the reciprocal and targeted tariffs, the operational improvements the team

has made gives us confidence that GMPD fiscal year '26 segment profit will be, at least, consistent with fiscal '25 levels.

Finally, in fiscal '26, having lapped the negative working capital unwind of the customer contract expiration, we expect robust cash flow generation. We remain committed to our disciplined capital allocation framework prioritizing internal investments such as our new Consumer Health Logistics Center, strengthening our balance sheet with incremental debt paydown, returning capital to shareholders, and prioritizing tuck-in acquisitions in areas of strategic focus as you saw in our earnings release this morning.

Bringing this all together. Overall, the largest and highest growth parts of our business are resilient and well-positioned to continue growth in fiscal year '26, and we are confident in the enterprise achieving double-digit non-GAAP EPS growth next year.

In closing, our team is steadfast on pursuing operational execution while investing for long-term growth. We have a plan, we are executing against it, and we look forward to sharing more at our upcoming Investor Day on June 12th.

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

Jason Hollar: Thanks, Aaron.

Stepping back, there is a lot to be excited about with our results this quarter. Not only did we see earnings growth in each of our five operating segments, but we also saw significant growth in our high priority growth areas: Specialty, Nuclear, at-Home Solutions, and OptiFreight®. We have more work to do with GMPD, but I am pleased with the operational improvements we have achieved even in a more uncertain macro-economic environment. So, let's go a little deeper.

In Pharmaceutical and Specialty Solutions, the positive third quarter performance reflects sustained momentum across the segment, highlighting our disciplined approach to operational execution and prioritization of the core. It is our customer-focused execution that led to the successful onboarding of Publix during this quarter. We consistently aim to provide all of our customers with industry-leading support, and the team has continued to drive above-target, on-time delivery metrics with historically high service levels. Another critical component of our success in the core is our partnership with Red Oak, which continues to fulfill its dual mandate of securing product access and controlling costs. Specialty remains central to our long-term growth strategy, with compelling opportunities to drive meaningful and differentiated value, and accelerate our growth.

We were delighted to share the news about GI Alliance's recent acquisitions, furthering our mission to deliver integrated, high-quality, and patient-centered specialty care across the United States. Notably, Urology America and Potomac Urology mark GIA's expansion into urology, reinforcing its commitment to building a comprehensive, multi-specialty model.

We are encouraged by the latest additions to our portfolio and see clear evidence that our strategic approach of providing community-based physician practices with a comprehensive MSO platform is working.

Turning to GMPD, where the team's rigorous focus on executing the GMPD Improvement Plan led to solid growth for the quarter. Along with the efforts to further streamline our cost structure, we were also pleased to see stronger growth of our Cardinal Health branded products. We're also pleased with the recent commercial progress, including a new long-term distribution agreement with a notable health system.

Now, I know that you are all interested in some further color on tariffs. We understand the importance of the United States competing in a fair global market and are engaging with the Administration to try to mitigate impact to patient care. Our focus has been on GMPD, given the other four operating segments, representing 95% of our segment profit, are largely unaffected by the announcements to date, and we anticipate their robust business models will continue to minimize ongoing impacts.

Within GMPD, we have been proactive and aggressive in implementing mitigation actions to reduce the burden on our customers as much as possible. This includes increasing U.S. manufacturing capacity in key categories such as syringes and incontinence, diversifying our supplier network away from higher-risk jurisdictions, identifying and onboarding alternate sources of supply, including, in some cases, pre-stocking inventory, deploying AI in support of our tariff planning and compliance, and further reducing our internal cost structure.

Only after aggressive mitigation actions like these are accomplished, do we consider price adjustments. So far, these actions, and others, have helped us already mitigate several hundred million dollars of exposure. However, based on today's tariffs, we would still anticipate roughly two to three hundred million dollars of remaining gross tariff costs in fiscal '26, before further mitigation. We anticipate mitigating the majority of these costs through continued operational actions and price adjustments, which we are already working on with our customers. As Aaron said, we are working to ensure that GMPD retains a viable financial profile. We are all too aware of the burden that GMPD and Cardinal Health shouldered during COVID resulting in significant financial losses, and we are highly focused on ensuring that costs are minimized but also shared more equitably in this case. In proactively working with our customers, we are seeking a scenario which does not result in market scarcity of key products or disruptions to supply.

And now, finishing with our Other businesses. With strong performance across the three operating segments, this continues to be an area where we see substantial runway for growth, thanks to our differentiated offerings, supportive secular trends, strong competitive positioning and investments for the future.

Within Nuclear and Precision Health Solutions, we continue to see above-market growth in our core business and saw over 30% growth in Theranostics this quarter, reflecting meaningful growth in the demand for products within our oncology and urology portfolio, such as Illuccix and Pluvicto.

We're also excited about the potential of new therapeutics to enhance the treatment of Alzheimer's and other conditions. Our positioning as the go-to partner for radiopharmaceutical innovators is evident when we consider recent activity, including our announcement that we've entered into an agreement with GE Healthcare to manufacture and distribute Flyrcado, a first-of-its-kind PET agent for enhanced diagnosis of coronary artery disease.

In at-Home Solutions, we are delivering on our clear strategy to win in this rapidly growing part of the industry. We continue to invest in automation to bolster the productivity, quality and safety of our supply chain, which has been a driver in our all-time high operational metrics. The business is on an extremely solid foundation as we have begun the integration of ADSG, which in its early weeks is tracking as planned. We continue to expect the synergistic combination of ADSG and at-Home Solutions to create value for patients and enable us to grow profitably as the overall diabetes care market expands well into the future.

And in OptiFreight® Logistics, we're driving consistently strong performance. With the team's ability to deliver action-driving insights, more customers are expanding on our platform.

In closing, this quarter's strong results, driven by solid contributions across all five operating segments, demonstrates the clarity of our strategic direction and underlying strength of our business. The broad-based momentum we're seeing across the enterprise reinforces our confidence in the path ahead and our ability to accelerate through the remainder of fiscal year '25. While we continue to monitor the broader landscape, we are confident in the resiliency of our business and this team's ability to deliver. Our focus remains on the disciplined execution of our strategy to best serve our customers and drive long-term value creation. Thank you to our team for consistently going above and beyond to fulfill our role as healthcare's most trusted partner.

With that, we will take your questions.

Operator: Thanks very much, sir. Ladies and gentlemen, as a reminder if you have any questions, please press star one on your telephone keypad. And once again, please limit yourselves to one question each to allow the maximum attendees to ask a question. Our first question today is coming from Lisa Gill calling from J.P. Morgan. Please go ahead.

Lisa Gill: Thanks very much and thank you for all the details, Jason. I appreciate the comments around the tariffs, and I look forward to more when we get to the Analyst Day. I really want to focus my question on what you talked about in the quarter, really strong brand and specialty sales growth. Can you talk about where that's coming from? Do you think that changes due to the IRA under Part D, is that driving it? I know underlying utilization costs continue to go higher when we think about pharmaceutical costs. Just any color that you can give around what you're seeing from a volume perspective and how sustainable you think that is as we move into '26?

Jason Hollar: Yes. Thanks, Lisa, for the question. And while that out-of-pocket max reduction may have some impact, it'd be nearly impossible to determine. But I would highlight that this is very broad-based. And so, I think there are other factors at play here as well. When you think about the strength that we saw this quarter, certainly, it began well before this quarter and it's in each of the different

categories of our business. When we called out the drivers for earnings growth for the Pharma segment this quarter, we highlighted multiple different categories. Generics and just broader branded products. But especially within Specialty, we saw a broad-based strength, continued strength. We're now several years into mid-teens type of growth for our specialty distribution. And this was yet another quarter at that same type of level. We saw very good strength within our BioPharma Solutions business, obviously relatively little on the top line but in terms of the size of the business, a nice profit contributor. That did include the Specialty Networks last quarter, that we see that tailwind from a year-over-year perspective. And then we saw the addition, of course, of the MSOs, ION and GIA. So, it really is broad-based, both organic and inorganic within the quarter. And we are quite consistent with what we've seen in the prior quarters in that regard as well.

The new customers did start in our second quarter, but this is the first real full quarter associated with that \$10 billion of new customers that we anticipated for the full year. This is kind of the first full quarter of that. So that was another additional nice tailwind. Which to put that into context, while our revenue was relatively flat ex the large customer transition, that's about 20% volume revenue growth. And that was driven by all those factors that I just referenced. And of course, GLP-1s being about 7% of that growth as well. So still very solid, robust, low to mid-teens type of growth driven by all those factors.

Aaron Alt: And Lisa, to the point of your question on the carryforward, while we're not providing a specific guide on Pharma today, we'll provide more details on that at our Investor Day. It is the case that we are carrying forward in '26, assuming a positive utilization environment. We're assuming consistent market dynamics and good performance in the generics program as we move into next year as well. As well as continued strong growth in Specialty, both upstream and biopharma and downstream in the MSO platforms as well as benefiting from those customer wins that Jason referenced earlier.

Matt Sims: Next question, please.

Operator: Yes sir. Our next question is coming from Allen Lutz of Bank of America. Please go ahead.

Allen Lutz: Good morning, and thanks for taking the question. I guess I'll kind of flip Lisa's question and ask you, are you seeing any script headwinds from consumer weakness related to tariff concerns and the weaker macro? Wondering if any consumers are pulling back on prescriptions, or has the growth really been resilient across the board? Thanks, guys.

Jason Hollar: Yes. Nothing in particular, no. And while we're just into the first month of the next quarter, there's no trend changes that we see kind of real time here as well. And when you go back in time to some of, I think the more significant types of macro events like the Great Recession, to use an extreme example. Even in that environment, we saw pharmaceutical demand remain quite resilient. So, we are privileged to be in an industry that typically does not see significant volatility in the face of especially more minor types of macro events. The more significant they get, there could be some impact. But it's not consistent with what we've seen historically being a very cyclical type of industry.

And another key point with all of that is beyond just the lack of cyclical nature of it, this is an industry that does have very favorable secular trends. You've heard me talk quite a bit about whether it's the demographics or the innovation that continues to be the lifeblood of this industry. That does continue and will continue under any type of macro scenario event. And so, we're feeling really good about the setup for the industry and our role specifically.

Matt Sims: Next question, please.

Operator: We will now go to Elizabeth Anderson of Evercore ISI. Please go ahead.

Joanna Zhou: Thanks for the question. This is Joanna for Elizabeth. So, I think we know Cardinal Brand revenue is about one-third of total GMPD revenue. Can you give us an update, what's the AOI percentage? And what percentage of Cardinal Health Brand do you expect to recover by USMCA? Thank you.

Matt Sims: I think, just to make sure, it was a question around the profit mix of Cardinal Health Brand, which is talking about revenue disclosure.

Jason Hollar: Right. So, the only information that we'll provide is revenue-based and roughly \$4 billion of our GMPD revenue is from Cardinal Health Brand. It is clearly a higher margin relative to national brand, but we're not going to break out the specific pieces there.

Aaron highlighted in his comments that we did see good volume growth for Cardinal Health Brand, overall being at 3%. But when normalized for FX and a number of operating billing days, that was closer to 5%. And that was led by our most important categories within Cardinal Brand, or leader categories, that do have higher margin and the types of products that we are investing most into.

Aaron Alt: And it's also the case that our team is very focused on, wherever appropriate, pursuing the USMCA and protocol exemptions. And the team is focused there, and we've been deploying new tools to ensure that we are mitigating tariffs wherever possible based on those exemptions.

Matt Sims: Great. Next question, please.

Operator: Yes, sir. Thank you. We'll now move to Eric Percher of Nephron. Please go ahead.

Eric Percher: Thank you. I'll take the tariff question a slightly different angle. So, if we look at one-third of Cardinal Brand, could you speak to what is required there to offset the exposure that you have? And when you speak to \$200 million to \$300 million incremental, how does the action to offset for Cardinal Brand differ from national brand? And is there a general expectation of ability to pass that on, if needed, at national brand versus more responsibility for offset falling to you at Cardinal Brand?

Jason Hollar: Of the remaining \$200 million to \$300 million, the majority of that given the significant operational actions and the other several hundred million, so more than 50% being mitigated, plans are already in place. Given that is already after those mitigation actions, we would anticipate the majority of that \$200 million to \$300 million to be in the form of pricing. So, we're already kind of

working through the operational aspects and getting to that remaining component. We'll continue to look for opportunities to minimize that as much as possible, but that is the underlying assumption that we're basing that on.

Within national brand and that component of your question, that's largely a pass-through. And so there will be some short-term type of noise that goes along with that, but it's largely a fee-for-service type of relationship. And so, the pricing we're talking about, the vast majority of it would be on the Cardinal Health side of it.

Matt Sims: Next question, please.

Operator: Thank you, sir. We'll now go to Michael Cherny of Leerink Partners. Please go ahead. Your line is open.

Michael Cherny: Good morning, and congrats on a nice quarter. Just want to come back to the tariff question, especially as you think through the starting point for fiscal '26. I appreciate the update. I think it was \$200 million to \$300 million expected tariff impact at this point in time that you're obviously working to mitigate. As you think about where GMPD sits as a jumping off point, should we think about, based on what you know now at least, that being the max impact and that the new update both, A) is a framing of the downside; and B), is much more tariff oriented than anything else? It seems like everything else on the GMPD recovery still seems to be on track. So, just trying to bridge the delta from previous versus current views and figure out how much precisely of that is specifically the net impact of tariffs.

Jason Hollar: The more significant part, certainly the majority of it, will be in the form of the tariff impact that flows through. Let's just start with kind of puts and takes from '25 to '26. We would anticipate all the things that we've been talking about and the drivers of the business this year continuing. So, we anticipate continued growth with Cardinal Health Brand, largely driven by the underlying industry, but continued improvements in the underlying mix, as well as our ongoing cost reductions. You heard from Aaron that we made further reductions in our head count here in the third quarter to ensure that we are doing our part to mitigate this as much as possible. But then that will be offset to some degree with the impact in the near term that we do anticipate from the portion of the \$200 million to \$300 million that is not passed along in the form of pricing. So, those are the puts and takes that are the key contributors to that and very consistent with the prior commentary we made about the underlying drivers of the business.

Matt Sims: Next question, please.

Operator: Thank you, sir. Next question will be coming from Kevin Caliendo of UBS. Please go ahead.

Kevin Caliendo: Thanks. Thanks for taking my question. I want to shift actually over the potential Pharma tariffs and how to think about the impact to you guys and how it impacts the chain. Like do you have enough comfort contractually that you, as a distributor and a purchaser of the drug, can pass through whatever the ingredient cost tariff is to pharmacies? And is there a potential opportunity

here for you? Is there any potential risk? Just trying to understand how the process might work and how you fit into that and how it affects your financials.

Jason Hollar: Yes, certainly. I guess this is the benefit of being a 1% margin distributor, that we don't have that type of risk largely in our Pharma business. We take title typically in the United States. It is an important element to our customers and ultimately patient affordability. So, it's not lost on us that changes to the pricing for pharmaceutical products is something that we watch very closely. I feel very good about the model. The business model has evolved many times over the years. The value that we provide to safely, securely and efficiently deliver these products is unchanged. Unchanged relative to the price point, unchanged relative to any tariff add-on, whatever it may be. We've seen this in the past as it relates to when prices have gone down for certain products like insulin. You heard from us at that point in time talk about the value we are providing was unchanged, and so we expect our compensation to be unchanged. And that's exactly what's happened. So, as we look forward, we can't predict exactly what will happen and how that will look. But we feel very good about the contracts. We feel very good about this business model. And we feel very good about the historical context that has proven that the value that we provide is understood and rewarded by our customers in the form of just the ongoing arrangement. So, we'll continue to stay focused on it, but we feel good about that stuff.

Now your question was on Pharma, but I do want to take a moment to highlight the Other businesses. Individually, they each have their own different version of that same type of discussion. We largely, in the same manner, have a very similar structure and arrangement as Pharma. Some like OptiFreight® has no real direct exposure. So, we feel very good about the 95% of our segment profit that's in the form of those four out of five different businesses. We'll continue to manage through that aggressively and appropriately to make sure we take care of customers and patients. But at the same time, we feel really good about the business models of each of those four businesses, and we'll continue to work hard to mitigate any impacts on GMPD.

Matt Sims: Next question, please.

Operator: Thank you, sir. We'll now move to George Hill of Deutsche Bank. Please go ahead. Your line is open, sir.

George Hill: Hey, good morning, guys and thanks for taking the question. I just had a question on the margin expansion in Pharma. And Aaron, we've kind of continued to see this margin expansion in Pharma, despite the growth in Specialty and brand drug sales. I was just wondering if maybe you could attribute the margin expansion rank-order. You're going to have the acquisitions, the new customers, just growth in the business, generics program, to some degree offset by the client loss and which should be compression due to a mix change in Brand and Specialty. Would just be interested if there's any way that you could attribute kind of the outlay of the positive drivers versus the negative drivers of margin expansion.

Aaron Alt: Well, first, thank you for noticing. That's certainly been an intentional effort on the part of the Pharma team to grow our gross margin. And the drivers you called out are the right drivers, whereas we continue to double and triple down on growing the Specialty parts of our portfolio. That is

a higher-margin part of the business that's growing much faster than our core lower-margin business. Certainly, the additional revenue streams that are higher-margin profiles as well through the MSOs is facilitating that, although those are still early days for us given the timing of the closure of the benefits. And so, all of that is really coming together to help drive that gross margin improvement. Now I would be remiss if I didn't point out the other piece of it, though, which is we are very happy with how the team has also been controlling our SG&A position. And as a 1% business overall, we're very focused on both parts of the P&L. And I hope you noticed that I called out during my comments that if you normalize out the absolute dollar addition of the SG&A from the acquisitions, our SG&A was actually down for the quarter. And that's us trying to set the business up for long-term success as we carry forward.

Matt Sims: Next question, please.

Operator: Thank you, sir. Next question is from Eric Coldwell of Baird. Please go ahead.

Eric Coldwell: Thanks very much. Quick one here on the mention of taking advantage or at least looking at the Nairobi protocol on tariffs. I'm curious, 1) Do you have Nairobi protocol protections in place today for any of your products? 2) Could you give us a sense on what types of products you think would be most applicable? and then 3), What is the process? Do you simply say discounts, we're not going to pay a tariff? Or do you actually have to get affirmation from U.S. Customs before doing so? Thanks very much.

Aaron Alt: Eric, for a little bit of perspective without going too far, we do actually have some protections in place. As the tariff discussion has continued, as I said earlier, our team has continued to lean in into where the existing protections are and what additional products may be benefited by the Nairobi protocol. And so that is part of the team's ongoing efforts as well as we assess the broader portfolio. We're not going to identify today because it is broadly immaterial to interpret at an enterprise level for us. But just take away that the team is turning over every rock in an attempt to identify where we have those opportunities.

Jason Hollar: What I would add is consistent with what Aaron was saying, but just to give you a little more color. It is something we've used for the last couple of years, so it's not new to us, and its covered hundreds of different products SKUs that we have. So, we have a pretty good understanding of it, and we'll continue to monitor very closely any ongoing evolution and usage of it.

Matt Sims: Next question, please.

Operator: Next question will be coming from Erin Wright of Morgan Stanley. Please go ahead.

Erin Wright: Can you talk a little bit more, I guess, in detail about kind of the customer onboarding in terms of the new customer wins? Anything new to call out on that front? And sort of how we should be thinking about that in terms of the progression of Pharma growth and the quarterly cadence of this onboarding and how that's just progressing relative to your expectations at this point? Thanks.

Jason Hollar: Yes. There's always puts and takes to any new customer onboarding, but we did reaffirm the \$10 billion of incremental new customers for this year. I did comment just briefly in my earlier comments, but to repeat it here. Onboarding did begin in the second quarter, but when you look at the \$10 billion, it's spread fairly evenly between the third and fourth quarter in terms of the biggest impact. So, it started in Q2 and now has gotten to the full rollout of those customers that we anticipate for remainder of this year. But like I said, there's puts and takes, but we feel very good about certainly the benefit that we're seeing in the current year being consistent with what we thought.

Matt Sims: Next question, please.

Operator: Thank you, sir. We will now move to Daniel Grosslight of Citi. Please go ahead.

Daniel Grosslight: Hi, guys. Thanks for taking the question. I wanted to dig in a little bit more into the mechanics of taking price increases to offset some of those GMPD tariffs. If you listen to what some of the large health systems have said publicly about their supply cost there, they're all pretty confident that the vast majority of their supply costs are fixed for at least the next year. I think most of the publicly traded guys have said around 70% of supply costs are fixed. So, I'm curious from your perspective, how much of the price increases that you're going to seek to take are contractually obligated versus how much are you're going to have to basically say, hey, if you don't take these prices, we can't supply you now? And then with that, of that \$200 million to \$300 million of gross tariff costs, what percent do you think can be mitigated by price increases? Thanks.

Jason Hollar: I'll touch on the last piece first. The majority of the \$200 million to \$300 million is pricing and that's after all those other actions. And I'm not sure we're all saying anything that's too significantly different from one another. Because as I indicated, the vast majority of what we're doing here is through other non-pricing actions to minimize that impact. And we're going to work very collaboratively with our customers to find solutions. Some product categories are absolutely overweighted from low-cost overseas locations that carry with them very low margins. Those are the products that are the most difficult and costly to bring into other locations. When you think about the profile of where we take our product, as I mentioned in the past, only about 10% of our product comes out of China. Well, why that 10% still exists is that it is incredibly low-cost, more commoditized types of products or some other reason that makes it more challenging to be able to resource. That type of product cannot be resourced easily elsewhere, or we would already do that. So, there's exceptions to all that and not every product is going to see price increases, not every product is going to see the same level of price increases. And our primary focus is to find something that works for us that's not creating significant losses for the business while ensuring that we protect, most importantly, for the supply of those critical products to our customers.

Matt Sims: Next question, please.

Operator: Thank you, sir. Next question is coming from Charles Rhyee of TD Cowen. Please go ahead, sir.

Charles Rhyee: Thanks for taking the question. I just wanted to touch maybe, Aaron, on fiscal '26. Obviously, you're following out for double-digit EPS growth even with the outlook for the potential

challenging macro environment. When we think about it, because it sounds like what you're saying is, when you think about the five businesses that you're running, three of which are within the Other segment. You have four out of five really operating at a good pace. And it sounds like for the most part, should be fairly tariff resistant here. So, when we think about the components to get to that double digit, and obviously, you've kind of given an outline for GMPD a little bit here with more to come potentially. But is it fair to think that we should think predominantly that the Pharma segment is what's going to be the primary driver here in fiscal '26, given when we look at growth ex M&A or certainly the customer shifts, sort of the underlying growth and really considers that GMPD at this point isn't going to be the biggest driver here as we think about the outlook.

Aaron Alt: Great question. Let me offer some more perspective. Obviously, we're not yet done with our fiscal '25 and our budgeting efforts are still under way, and we are working hard to get ready for our Investor Day in a mere six weeks. But we thought it was important to provide some perspective on '26 today just given the broader macro environment, which is very, very dynamic. Look, if you think back to what Jason said at the start of our call, we have momentum in our business broadly at the enterprise level. The businesses tend to be very resilient as well. And as a result, we believe the basket of businesses we run are positioned to continue to grow in fiscal year '26. And we were purposeful on calling out the double-digit EPS growth next year, which is really the combination of the various profiles that our businesses have. There's not a lot terribly different between how you heard me describe Pharma: positive utilization, continued generics program performance, consistent market dynamics, strong growth in Specialty, upstream, downstream, the benefit of the customer wins, that's all contributing to that double-digit EPS growth next year.

Similarly, on the Other businesses, the three businesses that we've revealed more to the outside world in the last 18 months, right, continued strong demand there. And we continue to invest in all 3 of those businesses to certainly support and grow the revenue and profit growth within those businesses as well. And all three businesses have secular tailwinds that have contributed to their performance so far this year and that we expect to continue on into the business as well.

And as you pointed out, we can't forget about the M&A, right? GIA, they announced two acquisitions yesterday. They are doing what they said they were going to do or what we said we were going to do when we announced the deal. And with AD SG having closed 29 or 30 days ago, we're very pleased with how that integration is already operating. So that will also be a contributor there.

And so really just net-net, as we think about the puts and takes that that Jason has called off with tariffs on GMPD, we were purposeful in calling out that we expect that business to perform at least consistent with fiscal '25. We view that as a positive sign. It's driven in no small part by just the sheer operational execution and the level of detail at which team has been operating now for the last couple of years, their ability to also handle the tariff environment. When you put all those pieces together, that's what's bringing us to the double-digit EPS growth for next year. And I promise we will provide more details at our Investor Day in six weeks.

Matt Sims: Next question please.

Operator: Thank you very much, sir. We'll now move to Steve Baxter calling from Wells Fargo. Please go ahead, sir.

Steve Baxter: Hi, I appreciate all of the tariff discussion. I was hoping that you could just maybe be a little bit more descriptive about what level of tariffs are actually considered in this growth estimate that's being discussed. I mean, for example for China, is this the full 145% I guess for the rest of the world? Is it the current 10%? Or are you assuming something closer to what was proposed on Liberation Day? And how do we think about what happens if there is to be some moderation, for example, in the China tariffs at some point over the next several months? I guess, like, what happens to the price increases that you'll be putting through? Are you needing to agree to reverse those if the tariff situation changes? I'd love to just understand that dynamic a little bit better. Thank you.

Jason Hollar: Yes, there's a lot there. So, the short answer is this absolutely based upon what we understand literally today. So as everything evolves, we've got a great process and model set up to be able to manage this in real time. There's a lot of game theory that goes into trying to answer the second part of your question because it's not just the tariff rates, it's the relative tariff rates. Because the types of products that we have outside the United States tend to have a profile that are more commoditized, higher content of labor cost, things that under, I think, most likely scenarios for tariff rates would indicate that they are probably going to remain outside the United States. There's certainly some products that will continue to come into the U.S., like what we've already done with our syringes and other products. So, we'll continue to look at the relative rates to determine what that is, and of course, make sure that we're working with our customers all along the way for supply to ensure that we are protecting them with that. We made good progress in getting more to North America and the United States in particular. We're now up to about one-third of our underlying value of production is coming out of the U.S. This is the single largest country in which we operate. And then secondary to that would be Mexico, so that the combination of North America is now over 50%. So, we feel pretty good about our setup. We clearly have a very diverse global footprint that has served us well through this process. But it's not bulletproof to the extreme rates. And so, as I mentioned before, that 10% in China is the biggest driver of tariff dollars. And so that will impact the math as we go forward.

Matt Sims: Next question, please.

Operator: Thank you, sir. We will now move to Brian Tanquilut of Jefferies. Please go ahead, sir.

Brian Tanquilut: Hey, good morning, guys. Maybe I'll just circle back to Kevin's question from earlier on potential Pharma tariffs. If I think about historical trend, right, generic inflation was a benefit to drug distributors such as yourself. So just curious, I mean, if tariffs are pushed through for drugs, should that be inflationary? Or is there anything I'm missing in that thought process? Thanks.

Jason Hollar: Yes. We continue to look at it from a spread basis and it's a matter of the buy and sell side and not just any one side of that. And so there have been some instances historically that you're talking about. There's also been plenty of instances where the two have moved in tandem as well. So, we see consistent market dynamics. That continues to be in the environment today, and we think it's prudent to assume that that will continue going forward.

Matt Sims: Next question please.

Operator: Thank you. And our last question will be coming from Steve Valiquette of Mizuho. Please go ahead.

Steven Valiquette: Great, thanks. Good morning, Jason and Aaron, and thanks for taking the question here. So, the company's ending inventory level on the balance sheet seemed pretty normal for a March quarter with some typical inventory drawdown during fiscal 3Q. Can you just remind us, is there any dynamic for this year where it makes sense for the company to procure higher levels of certain product inventory ahead of potential tariffs, either in the Pharmaceutical or Medical segments? Or should we just assume fairly normal inventory levels for the company exiting fiscal '25 and into early fiscal '26 with the way things stand right now? Thanks.

Jason Hollar: Yes. I think you should assume it's fairly normal. I did the math myself. I think we're up maybe like 8% in inventory, and it's obviously fairly in line with overall growth that we're seeing in much of the business. I did make some comments around some target aspects within GMPD. That's an element of what we were managing through there. But I wouldn't think about anything extraordinary that's being done elsewhere in the enterprise because, back to your math there, at \$16 billion, that is less than one month's worth of sales. And so, if you try to escalate that quickly, it obviously creates an incredible burden on the balance sheet and cash flow. So, we have to be able to manage within that.

Aaron Alt: And to that point, I'd be a bad CFO if I didn't observe that cash flow remains a strong focus for us, and our teams are working hard to ensure that we're optimizing our cash flow both in fiscal '25 and years going forward. And we'll talk more about that at Investor Day as well.

Matt Sims: Okay. Thank you.

Operator: We have no further questions at this stage. I'd like to turn the call back over to Jason Holler for any additional or closing remarks. Thank you.

Jason Hollar: Yes, thanks. Thanks for all the great questions and attendance here. Just real quick, really pleased, obviously with the quarter, shows the continued momentum that we have as a business. But also, very pleased with the underlying strategy progression that we're seeing, bringing these new businesses underneath the Cardinal Health umbrella has been fantastic. Everything is at least what we had anticipated, the people, probably the best part of it. We see this being really great drivers of our longer-term growth. And just again, welcome the AD SG team with us, and continue to look forward to working with all the other new entrants as well. All right. Take care.

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