

Q4 FY25 Cardinal Health, Inc. Earnings Conference Call

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

Matt Sims: Good morning, and welcome to Cardinal Health's Fourth 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: Thanks Matt, and good morning, everyone.

We closed fiscal '25 with momentum, delivering excellent fourth quarter results in what was a transformative year for Cardinal Health.

Our consistent performance, with all five operating segments delivering double-digit profit growth for both the year and Q4, reflects the significant progress we've made against our strategic priorities. As we outlined at Investor Day, our strategy is clear, and we continue to deliver on our commitments, reflecting disciplined execution across each of our operating segments. Our relentless focus on driving simplification and operational efficiencies in our core, along with strategic investments for

growth, are enabling us to evolve to meet the needs of our customers and drive long-term value creation.

Before I get into the specifics, and Aaron takes us through the financials, I want to recognize the hard work and dedication of our teams around the world. Their commitment to our mission and our customers is essential to strengthening our position as healthcare's most trusted partner at a time when reliability, resiliency and access are more important than ever.

Within Pharmaceutical and Specialty Solutions, our largest and most significant business, we continue to see robust pharmaceutical demand and strong underlying performance. Our path forward remains well-defined and consistent. Prioritize the growth and resiliency of this business by building upon our strong core foundation and further expanding in Specialty, as you saw in our press release this morning.

We're thrilled to announce the acquisition of Solaris Health, the country's leading urology managed services organization. This greatly accelerates our progress in building The Specialty Alliance's multi-specialty MSO platform, significantly expanding the reach of our Urology Alliance physician network. We see substantial opportunity ahead with Cardinal Health positioned as the multi-specialty leader, and I'll elaborate on this shortly.

In GMPD, our Improvement Plan initiatives are driving results, delivering \$70 million in profit for the fourth quarter. The team continues to navigate the current environment to optimize our global footprint and increase supply chain resiliency for our customers. We see further opportunities ahead to continue to drive the GMPD Improvement Plan.

Our differentiated growth businesses within Other made substantial contributions this quarter, capping off a year of meaningful momentum. The performance was broad-based, with strong growth across at-Home Solutions, now including the acquisition of ADS, Nuclear and Precision Health Solutions and OptiFreight® Logistics.

As we close out fiscal '25 and look ahead, we have great optimism in what we will achieve in fiscal '26. We continue to make strategic investments to optimize the business and position us for success. I'll dive deeper into these and other updates shortly, but will now turn it over to Aaron to take us through the financials.

Aaron Alt: Thank you, Jason, and good morning. I am delighted to share more details on our Q4 financial results and the significant year that we have had at Cardinal Health. Here are some of the key financial headlines. At the enterprise level, we grew operating earnings 19% in the quarter and 15% on the year. We grew EPS by 13% in the quarter and over 9% on the year. We delivered \$2.5 billion of Adjusted Free Cash Flow on the year, \$500 million ahead of our increased expectations from Investor Day.

We invested nearly \$550 million in Capex, returned to shareholders nearly \$500 million for our growing dividend, repurchased \$750 million of shares at an average price of \$117 per share, and completed four strategic acquisitions, three in Specialty and one in at-Home Solutions to drive our

future growth. And we got all of this done, in parallel with the previously announced customer contract expiration, a significant focus on cost mitigation, the onboarding of new customers and managing through regulatory uncertainty and the implementation of tariffs.

Let's go through the Q4 results.

Total company revenue was relatively flat at \$60.2 billion on a reported basis. Adjusting for the contract expiration, revenue at the enterprise level increased 21% versus the prior year, led by strong demand across Pharma and the growth businesses in Other.

Gross profit grew 17% to \$2.2 billion, with rate improving by approximately 50 basis points, reflecting favorable product, customer, and business mix. Gross profit growth again outpaced consolidated SG&A growth, which increased 16% to \$1.5 billion in the quarter, primarily driven by the inclusion of our acquisitions of ION, GIA and ADS in our results. On an organic basis, SG&A increased a more modest 4%, reflective of both our investing for the future and our continued focus on efficiency, with GMPD and Pharma in particular successfully executing against significant cost improvement projects.

Overall, our efforts resulted in total company operating earnings of \$719 million, up 19% versus last year.

Below the line, Interest and Other increased by \$34 million versus prior year to \$44 million, due to acquisition-related financing costs. Interest and Other finished better than our expectations due to several factors, including the strong cash performance and the quarterly revaluation of our company's deferred compensation plan, which as a reminder, is offset as an expense in Corporate SG&A above the line.

Our fourth quarter effective tax rate was 26.3%, 1.7 percentage points higher than the prior year and modestly higher than our expectations due to earnings mix at the state level and abroad.

Fourth quarter average diluted shares outstanding were 240 million, 2% lower than a year ago due to our share repurchase efforts earlier in the year.

The net result was fourth quarter EPS of \$2.08, growth of 13%.

One quick note on Q4 EPS. We acquired a majority position in GI Alliance and other physician support organizations in the back-half of this year, culminating with our just-announced acquisition of Solaris Health, which will not close until at least the second quarter of fiscal year '26. We have determined that the minority equity positions owned by physicians and management in GI Alliance, now part of The Specialty Alliance, represent a liability to Cardinal Health, whereas our Investor Day guidance assumed a non-controlling interest reduction to EPS. As a result, we are showing a higher-than-expected EPS contribution from The Specialty Alliance in fiscal year '25, or approximately \$0.05 more than anticipated.

Moving onto our segment results, beginning with the Pharma segment on slide 5.

Fourth quarter revenue was relatively flat at \$55.4 billion. Excluding the customer contract expiration, revenue increased a robust 22%, driven by brand and specialty pharmaceutical sales growth from existing and new customers. This included approximately 6 percentage points of revenue growth from GLP-1 sales.

During Q4, as we have in prior quarters this year, we saw strong pharmaceutical demand across the entire business, within brand, within specialty, within generics, and within consumer health. This strength came from both our largest existing customers and new customers.

Segment profit increased 11% to \$535 million in the fourth quarter, driven by contributions from our MSO platforms and brand and specialty products, in particular. This growth was partially offset by the customer contract expiration.

At this point I will repeat the point that we saw strong demand and volumes across the business. However, Q4 Pharma segment profit was a touch lighter than we expected due to the impact of a few individually immaterial expenses, including bad debt adjustments and the resolution of some routine contractual open items with customers and vendors. If not for these items, our results would have been above the midpoint of our Pharma profit guidance.

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

Turning to GMPD on slide 6.

Fourth quarter revenue grew 3% to \$3.2 billion, driven by volume growth from existing customers. As we saw last quarter, Cardinal Health Brand continues to trend positively, with over 6% revenue growth in the US.

GMPD delivered Q4 segment profit of \$70 million, its highest profit quarter, driven by volume growth from existing customers and reflecting the team's notable progress against the GMPD Improvement Plan, particularly cost-containment efforts. While we continue to invest in the business and are pleased with the continued quarter by quarter significant improvements to profitability and cash flow presented by the segment, we have more work to do.

The team also continued to make progress on mitigating tariff impacts, which Jason will touch on shortly.

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

Fourth quarter revenue increased 37% to \$1.6 billion, and segment profit increased 44% to \$160 million. As we highlighted at Investor Day, these businesses are becoming an increasingly important part of our overall growth, and this quarter was no exception. These growth businesses contributed over 40% of the growth in our enterprise operating earnings for the quarter.

Revenue and segment profit were driven by strong growth across all three businesses, at-Home Solutions, including contributions from the ADS acquisition, Nuclear and Precision Health Solutions, and OptiFreight® Logistics.

We closed the ADS acquisition at the start of the fourth quarter and are very pleased with the integration and synergy capture efforts. The at-Home Solutions management team has a synergy realization plan which is specific and achievable, with opportunities for over-performance over time.

All three businesses saw strong organic growth. These businesses continue to benefit from their leading value propositions, efficient operations and alignment with favorable long-term secular trends.

Turning briefly to full year enterprise commentary.

Fiscal '25 revenue decreased 2% to \$223 billion, driven by the customer contract expiration. Excluding the contract expiration, full year revenue increased 18%. Gross margin increased 10% to \$8.2 billion, while SG&A increased 8% to \$5.4 billion, reflecting the acquisitions and our continued focus on driving operating leverage. Together, this resulted in fiscal '25 total operating earnings growth of 15% to \$2.8 billion.

Below the line, Interest and Other increased to \$174 million, primarily due to financing costs related to acquisitions.

Our annual effective tax rate finished at 23.3%.

Average diluted shares outstanding were 242 million, 2% lower than a year ago due to share repurchases.

The net result was fiscal '25 non-GAAP EPS of \$8.24, growth of over 9%, again despite the large customer contract expiration and our significant investments for future growth.

Now before I turn to fiscal '26, let's cover the balance sheet.

For fiscal '25, our ending cash balance was a robust \$3.9 billion, reflecting \$2.5 billion of adjusted free cash flow driven by the strong performance of our businesses and a continued focus on working capital management across our management team. This is an area of both further focus and further opportunity.

Now, let's look forward to our updated fiscal '26 guidance.

Before I start, a reminder that our fiscal year '26 guidance does not yet include the benefit of Solaris Health. While we expect the acquisition to be slightly accretive to EPS within the first 12 months post-close, as is our practice, we will update guidance following the close of that acquisition.

Today, we are increasing our fiscal year '26 EPS guidance to a new range of \$9.30 to \$9.50, which reflects growth of 13% to 15%. This is a 20-cent increase from the guidance provided at Investor Day,

driven by the benefit to net earnings of the liability classification I referenced earlier as well as increased contributions from Pharma and increased contributions from our Other growth businesses.

Slide 15 shows our updated fiscal '26 outlook for our segments.

Beginning with Pharma, on revenue, we continue to expect an increase of 11% to 13%, as we annualize the new customer wins we had in fiscal year '25 in the first half of fiscal '26, resulting in an approximate \$7 billion revenue tailwind.

For Pharma segment profit, we are raising our guidance and now expect between 11% and 13% growth.

We're expecting 2% to 3% generics market volume growth and continued consistent market dynamics in our Red Oak-enabled generics program.

In Specialty, we're expecting double-digit revenue growth, including in our higher-margin BioPharma Solutions business where we expect at least 20% revenue growth fueled in part by the strong momentum in our Sonexus™ hub that Jason will touch on shortly.

We anticipate strong growth in our MSO platforms and increasing contributions from biosimilars. With respect to the MSO platforms, we can now confirm that Cardinal Health will be picking up distribution for the Specialty Alliance gastroenterology portfolio, starting in April 2026. We've also begun transitioning the oncology distribution tied to ION, with the majority of volume shifting over during Q2 of this year, consistent with the expiration of existing agreements.

Additionally, with respect to the evolving policy environment, we remain confident in our resilient business model that creates tremendous value for the U.S. healthcare system.

In terms of Pharma segment profit cadence, we anticipate first half growth to be a bit stronger than second half growth driven by the annualization of new customer wins from fiscal '25 and the acquisitions of GIA and ION. Nevertheless, Q3 will remain the highest dollar profit quarter, as it has been in prior years.

Moving on to GMPD. On the top line, we're updating our guidance to growth between 2% and 4% aided by low-single digit utilization growth, as well as accretive Cardinal Brand growth.

On the bottom line, we continue to expect segment profit of at least \$140 million, which continues to assume a net \$50 million to \$75 million headwind to our results in fiscal '26 from tariffs. While the tariff environment continues to evolve, we are not communicating any changes to our exposure or actions today.

In addition to market growth and modest increases in Cardinal Health Brand penetration, our results will continue to be aided by ongoing execution of simplification and cost optimization projects in our distribution operations, in our manufacturing operations, and in our central functions.

In terms of cadence, we expect GMPD's segment profit to be weighted to the second half of the year as we've seen in both fiscal '25 and fiscal '24, driven by seasonality and the timing of tariff mitigation. We expect this profit split to be roughly one third in the first half and two thirds in the second half, and Q4 should again be the high point of the year. Q2 is the quarter in which the earlier rounds of fiscal year '25 tariff expenses will be realized. As a result, that quarter may have the lowest profit in absolute dollar terms.

Turning to our Other growth businesses. We continue to expect robust revenue growth of 26% to 28% and profit growth of 25% to 27%, but on top of a higher jump-off point relative to our Investor Day expectations. This reflects contributions from ADS and continued strong demand overall. Altogether, we expect normalized profit growth of approximately 10% on an organic basis.

In at-Home Solutions, we will benefit from our ongoing distribution capacity expansions and automation efficiencies, double-digit revenue growth, and the integration of ADS' distribution volumes.

In Nuclear, we expect above-market core growth and approximately 20% growth from PET and theranostics, while investing in additional capacity to service the substantial pipeline in areas like oncology, urology, and neurology.

In OptiFreight® Logistics, the team will drive strong core volume growth as well as incremental growth driven by our expansion into the hospital pharmacy.

With the ADS acquisition having closed at the start of our Q4, our growth rates will be strongest in the first three quarters until we begin lapping the acquisition in Q4.

Stepping back, we feel well positioned to deliver another strong year of operating earnings growth.

Moving below the line, we expect Interest and Other of about \$275 million driven by a step up in interest expense from the annualization of our acquisition debt financing. Our interest expense guidance does not yet take into account the anticipated financing costs for our proposed acquisition of Solaris Health. Cardinal will fund the cash component of the purchase price through a relatively even mix of new bond financing and use of cash on hand. We will provide more details upon closing, but recall that I commented that the deal should be slightly accretive in the first 12 months.

We continue to expect our fiscal year '26 effective tax rate to be in the range of 22% to 24%.

As announced at Investor Day, our new baseline of annual share repurchases is \$750 million, which we are confirming even with the assumed closure of the Solaris Health acquisition during the year. This leads to diluted weighted average shares outstanding between 238 million and 240 million for the year.

Finally, we expect fiscal '26 adjusted free cash flow between \$2.75 billion and \$3.25 billion driven by our growing profit, improving working capital efficiency, and lapping of the customer unwind last year.

Our strong cash flow generation will enable us to de-lever back to our targeted leverage range of 2.75 to 3.25 times adjusted gross debt to EBITDA by the end of fiscal year '26, even with the Solaris acquisition.

To close, fiscal year '25 was a terrific year showcasing the resilience and power of our enterprise. As we embark on building upon our growth, we are well-positioned with strong cash flows and a robust balance sheet to support our strategic plans. We look forward to updating you on our progress throughout the year.

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

Jason Hollar: Thanks, Aaron. Now, let's take a closer look at our strategic progress across the businesses.

Our Pharmaceutical and Specialty Solutions strategy centers on strengthening our core and expanding in Specialty, both of which are essential for unlocking long-term value. Our execution of this strategy was evident in our strong fiscal '25 performance.

Our focus on customer experience continues to be a key differentiator. In fiscal '25, as we previously confirmed, we successfully on-boarded new customers contributing approximately \$10 billion dollars in new business and have made significant strides in streamlining and accelerating the onboarding process.

Our sustained core distribution growth has allowed us to finalize our multi-year plan for expanding and modernizing our distribution footprint. We are making great progress on our multi-state search for our new fully automated Pharma distribution center, as we announced at Investor Day. Our new Consumer Health Logistics Center, the first-of-its-kind hub for consumer health and over-the-counter healthcare products, has successfully launched and is now fully operational.

These strategic investments, along with the modernization of our core technology platforms, enhance the service and capabilities we can provide to customers and support our long-term growth trajectory. This includes our new ordering platform, Vantus™ HQ, where we continue to seamlessly migrate customers, offering them new capabilities to create value for their business.

Last month, we hosted our 33rd Annual Retail Business Conference, the largest in the industry, signaling our continued strong role as a trusted partner to retail pharmacies through our commitment to providing solutions, consultative support and advocacy. As an example, during this year's conference, we announced the formation of our One Voice Initiative to support state advocacy efforts for independent pharmacies, reinforcing our commitment to their success and the vital role they play with patient care in their communities.

Turning to Specialty, which remains central to our long-term growth strategy, and was again a meaningful contributor for the quarter. We continue to see outsized opportunities to drive meaningful value, with a long runway for future growth ahead.

Today's announcement of the acquisition of Solaris Health and the recent momentum we've seen with The Specialty Alliance and Navista™, are clear indications that we are well-positioned to grow the impact of our MSO platforms across three related, high-priority areas: autoimmune, urology and oncology.

These therapeutic areas continue to benefit from robust product pipelines and ongoing innovation efforts, but importantly in the areas of autoimmune and urology, also provide diverse revenue streams for our MSO platform due to the breadth of ancillary services such as pathology and laboratory testing, administering anesthesia and diagnostic imaging. The addition of Solaris Health further bolsters the strength and resiliency of this business model by adding scale and expanding our reach to patients and providers in new communities.

As the nation's leading urology MSO, Solaris Health adds over 750 providers across 14 states to The Specialty Alliance, led by Dr. Jim Weber, and solidifies our leadership in the urology therapeutic area. Coupled with the acquisitions of Urology America, Potomac Urology, and most recently, Academic Urology & Urogynecology, our Urology Alliance team will be better positioned to meet the comprehensive needs of community urologists in even more communities through the robust combined capabilities of The Specialty Alliance, Cardinal Health and Specialty Networks. Our comprehensive suite of services empower physicians so that they can spend their time where it matters most, caring for patients with the absolute highest standards of care.

In addition to Solaris Health, we continue to attract providers to our MSO platforms and were pleased to add additional providers to Navista™.

Of note, the expansion of our MSO platforms, including The Specialty Alliance and Navista™, positions us to support approximately 3,000 providers across 32 states following the completion of the Solaris Health transaction.

Additionally, we have seen strong and growing demand across our upstream BioPharma Solutions businesses, expecting 20% revenue growth in fiscal '26 and beyond.

This includes our Sonexus™ patient access business, where the team's excellent patient and provider experience is leading to 40 expected launches in calendar year 2025, growth of over 30%, driven by our investments in product innovation and technology. This success is due to the implementation of our next generation hub that is digitizing and automating the patient support process, which combined with our team of experts, is getting more patients on therapy faster, helping them stay on therapy longer and driving great feedback from our manufacturer partners. We plan to share more on this in the coming quarters.

We've also seen momentum with Specialty Networks' data and insights platforms, PPS Analytics and SoNaR. These platforms leverage advanced AI capabilities to abstract and curate patient information from unstructured data. This enables the creation of a comprehensive 360-degree patient view, empowering healthcare professionals to make clinically appropriate decisions for optimal patient outcomes. Specialty Networks' platforms were recently launched into oncology, and the strategy is resonating, evidenced by the first signed oncology customer agreement this quarter.

Turning to GMPD, which delivered operational and profit improvements in Q4 and fiscal '25, reflecting the continued progress we're making against our Improvement Plan initiatives.

In addition to our cost optimization efforts, we are also encouraged by the stronger growth of our Cardinal Health branded products, with another quarter of strong volume growth in the United States. Our team continues to prioritize the execution of our plan focused on customer service, product availability and innovation of our product portfolio to meet the evolving needs of our customers. During the quarter, we launched the Kendall DL Multi System, a multi-parameter, single patient use monitoring cable and lead wire system that enables the continuous monitoring of cardiac activity, blood oxygen level and temperature with one point of connection to simplify patient monitoring and drive efficiencies for providers.

As it relates to further details about the impacts of tariffs, our views remain largely unchanged since Investor Day, supported by our proactive and aggressive implementation of mitigation actions to reduce the burden on our customers as much as possible. This includes increasing U.S. manufacturing capacity, which is now our largest country of origin, proactively diversifying the supplier network and reducing our dependency on higher-risk jurisdictions. We have also implemented pricing adjustments as we previously communicated and continue to work with our customers to identify win-win opportunities to help offset the impact of tariffs by growing Cardinal Health Brand penetration.

And now closing with our Other businesses. With strong performance and execution across each of these three, momentum is accelerating, and we continue to view these businesses as a high-potential engine of growth.

Nuclear and Precision Health Solutions continues to outpace the market, driven by our highly differentiated offerings, leading positioning and early investments. We are strategically expanding our PET cyclotron capacity in 11 key markets and enhancing our Center for Theranostics Advancement to support a strong pipeline of products targeting oncology, urology and neurology.

We continue to see strong demand for Theranostics products, which grew revenue over 30% in fiscal '25. Notably, the Urology portfolio of products that we support, which includes both diagnostic and therapeutic PSMA drugs for Prostate cancer, experienced even greater growth. Recently, we've seen momentum for certain radioligand therapies to move earlier in the regimen of treatment, in advance of even chemotherapy, which is exciting for patients and a long-term opportunity for our business. Furthermore, we are uniquely positioned to support our Specialty strategy, benefitting from significant customer and product overlap in therapeutic areas like oncology as well as urology, where we are establishing a leading position.

In at-Home Solutions, our investments in distribution capacity and automation are yielding tangible results. Q4 revenue grew nearly 50%, and double-digits on an organic basis, significantly outpacing the increase in our freight and warehousing costs. This includes strong growth in urology products which grew revenue over 20% on the year.

We are continuing our investments, with a new, state-of-the-art distribution center on the West Coast planned to break ground in fiscal '26. This facility, like our new facilities in Texas, South Carolina and

Ohio, will leverage the latest robotics and technology to further enhance supply chain efficiency, quality and employee safety, beyond the record levels we've seen to close this fiscal year.

We anticipate continued growth, fueled by the secular tailwinds in home health care and synergies from the full integration with ADS. This integration positions us well to build on this year's momentum and manage through potential changes in the reimbursement environment.

ADS excels in multi-channel patient acquisition and user experience, leading to exceptional patient retention and customer satisfaction. Our strong operational foundation, will support ADS and enable us to achieve greater growth and operating leverage. We've already begun transitioning the ADS volume into our DC network, and we expect full conversion by the end of Q1.

OptiFreight® Logistics continues to demonstrate its value, providing strategic logistics support to our customers as an extension of their teams. Thanks to ongoing investments in our proprietary technology-driven platform TotalVue Insights, we continue to see long-term potential to deliver cost savings, transparency and operational efficiency for customers. Our efforts continue to resonate with the market, with the renewal of some notable key contracts in Q4 as a direct reflection of our leading value proposition.

In summary, I am pleased with the progress and execution across all five of our operating segments. Our strong results speak to the strength of our foundation, the talent of our teams, and the consistent demand for value we bring to the market. We've accelerated our momentum, and are well-positioned to carry it forward.

We will wrap up in a moment and take your questions, which I know will include the current and anticipated regulatory environment. While this remains fluid, we continue to be confident in our resilient business model across the enterprise and continue to believe that policymakers and stakeholders are aligned with our goals of increasing access, affordability and innovation in healthcare. We are uniquely positioned to support these efforts with the products and services that are absolutely indispensable to our customers and patients. We work tirelessly to provide fantastic service and significant benefit for the margin we earn and are confident these capabilities will continue to be valued.

As we enter fiscal '26, we are operating from a position of strength. We remain focused on executing our strategy, serving our customers and patients, and delivering value creation, and look forward to the year ahead.

And with that, we will take your questions.

Operator: Thanks very much, sir. Ladies and gentlemen, once again, if you'd wish to ask a question, please press star one on your telephone keypad and just make sure your line is unmuted to allow your line to reach our equipment. And once again, please limit yourselves to one question each to allow the maximum attendees to ask a question. Our very first question today is coming from Lisa Gill calling from J.P. Morgan. Please go ahead.

Lisa Gill: Hi, thanks very much. Good morning, and thanks for all the detail. I just have a numbers question. If I look at the updated guidance for the Pharmaceutical and Specialty Solutions division, it's up by 100 basis points. And Aaron, I think you talked about \$0.05 coming from the change in NCI, so that would be about half of that. Can you talk about where [indiscernible].

Operator: I'm very sorry, but it appears that her line has dropped. Can we just wait for her to dial back. Please go ahead, sir.

Aaron Alt: I'll proceed, thank you. Lisa, thank you for the question. You're right to call out that we did raise our guide for the year by \$0.20. Roughly half of that is tied to the liability classification, and roughly half of that is tied to higher expectations for both Pharma and the Other business. It's a higher percentage of a lower base in Pharma, and the same percentage of a higher base in Other. And so, we are pleased with what we saw in Q4, as you took from Jason in my comments on the demand we're seeing across the business, and that's reflected in our raise to the guide.

Matt Sims: Next question, please.

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

Allen Lutz: Good morning, and thanks for taking the question. One for Aaron. SG&A was up a bit quarter-over-quarter. And I know there's a lot of moving pieces here. You just had the closing of ADS, there's some R&D investments you talked about at the Investor Day. But can you talk about or frame the high-level drivers of that quarterly step-up and then how we should think about SG&A heading into fiscal '26? Thanks.

Aaron Alt: Really appreciate the question. First, I want to point out that we actually saw gross margin improvements as well. And so, we're pleased with the benefits we're seeing really across the mix of the business, whether it's product, customer, or part of the business. SG&A is really a story of us investing for the future, offset by extensive efforts to simplify and optimize our operating costs, but you're right, we are making investments in technology, et cetera, that's hitting expense. But I do want to point out that the vast majority of the increase in SG&A is tied to the inclusion of the recent acquisitions. And as you can imagine, when you have acquisitions, we also have synergy opportunities that develop over time. And so, we see opportunity there as well.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will be coming from Elizabeth Anderson of Evercore ISI. Please go ahead.

Elizabeth Anderson: Hey, guys. Good morning, and thanks so much for the question. Maybe just a follow up on what Allen was asking. Can you just confirm that when you were talking about the things that moved the Pharma numbers versus, I think, your expectations of above that high end of the AOI guide for 4Q. You talked about bad debt and routine contractual items. Those items do not include the things you called out in your Investor Day about like the consumer health logistics center, MSO

investments. And then two, could you maybe double-click a little bit more on the Pharma AOI guidance increase and sort of the specific drivers that kind of caused you to go from your prior guide of a month and a half ago to the new guide? Thanks.

Aaron Alt: Sure, let me take it in reverse order. What I would observe is we are really pleased with the Pharma business performance in the fourth quarter and indeed for the entire year. And while the numbers came in a little bit lighter than what we had expected when we issued our updated guidance three weeks before the end of the fiscal year, the practical reality is we are seeing strong demand really across the business, and that was why we were comfortable raising our guide for next year for Pharma as well. And then on your point about what led to the Pharma results for Q4, there were a number of individually immaterial items like bad debt, some contract resolution points with vendors and suppliers that aren't terribly exceptional. They were individually immaterial, and they all happened as we approach the year-end. And so, I don't want people to read too much into it. What you should focus on is the strong demand we are seeing across the business from a go-forward perspective.

Jason Hollar: Yes. And the only thing I'd add within that is, when you dive down deeper into all the different KPIs, metrics, and operational performance of not only the Pharma business, but rest of the enterprise, it's reflective of these updates that we saw confidence that we have a lot of momentum exiting fiscal '25 that we expect to continue into fiscal '26. And that increase in confidence allowed us to tweak that up just a little bit.

Aaron Alt: And Elizabeth, those items did not include the investments that you referenced either.

Matt Sims: Next question, please.

Operator: Yes, sir. Next question is coming from Michael Cherny of Leerink Partners. Please go ahead. Your line is open, sir.

Michael Cherny: Good morning, and thanks for taking the question. If I can just dive in a little bit on the gross profit performance in the quarter, you talked about the margin expansion. Obviously, some of that is mix driven because of MSOs. How are you thinking about the gross margin trajectory you're seeing within your core distribution business? And what are some of the moving pieces, particularly in the quarter that drove some of the performance, if it did increase on an underlying basis?

Aaron Alt: We are very focused on driving profit improvement across the enterprise. And so, we look at it on a total enterprise and total business segment perspective. And so, while I'm not going to comment on the gross margin elements just to the core distribution business, I do want to point out that our emphasis on Specialty distribution, which is a higher-margin business, growing double digits, our emphasis on the additional revenue streams coming out of our MSO acquisitions like Solaris, all of those things are helpful to our overall gross profit profile. And of course, we can't lose sight of the rapidly growing Other parts of the business, the Nuclear and Precision Health, the At-Home, the OptiFreight®, et cetera. Those are also helping our overall profit profile.

Matt Sims: Next question, please.

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

Erin Wright: Great, thanks. So, I'll switch to GMPD, and just more broadly, what are you seeing in terms of utilization trends across the segment? And then on the tariff front, I think you said no change to your expectations there, but just speak to how maybe some of the mitigation efforts are playing out relative to your expectations on that front. You spoke a little bit about that quarterly cadence, is that how you were thinking that it would play out for the year? And just can you remind us how meaningful of a component is some of the mitigation efforts around price increases across that segment? Thanks.

Jason Hollar: Sure. Overall, there's not a lot of new news as it relates to the GMPD business overall, whether we're talking utilization that remains relatively consistent. We've always said we're targeting the overall market growth and then a little bit of extra as it relates to increasing the penetration of our Cardinal Health branded products, and that's exactly what you saw in the quarter. So not much is changing there. Within the tariffs, also not much is changing there. Absolutely, there's some puts and takes in terms of the different changes to the tariff rates by country, but they've been relatively small in that regard. The overall aggregate gross impact as it relates to the tariffs remains in that around \$450 million that we've referenced before. We continue to anticipate that we can mitigate \$250-\$300 million of that. So up to two-thirds of that, we are working through mitigation actions, operational mitigation actions, that do not impact either us or our customers. And it's that that remainder then, that \$150 million to \$200 million that we're working through. Part of is included in this guidance. That remains also the same of that \$50 million to \$75 million. And then the remainder is in the form of pricing that we only take as a last resort for those items that are under particular pressure and are unique to where it's sourced that we feel that that's appropriate. So, we'll continue to work that. What's really important is that when we had the incremental inflation three years ago or so, three, four years ago, it took us about three years to get to a run rate that was acceptable. As it relates to this, we're targeting trying to get our run rate to be back to much closer to parity as we exit fiscal '26, and we're making really good progress on that. I'll turn it over to Aaron here to walk through a little bit more on the cadence as it relates how to think about all this over the course of fiscal '26.

Aaron Alt: Thanks, Jason. Hi Erin. Look, Jason and I are really proud of what the GMPD team has accomplished this year and for them to deliver a \$70 million profit number in Q4 is an excellent result for that business given how it's evolved over the last couple of years. From a quarterly cadence perspective though, I do want to point out that in each of the fiscal year '24 and '25, they were very back half-weighted years. And that's what we anticipate happening again in fiscal year '26. In my prepared remarks, I called out that we expect the profit to be roughly one third H1, two thirds H2. Q2 may well be the low point from an absolute dollar perspective because of when we'll realize the impact from the early rounds of tariffs as well. And Q4, again, we expect to be the high point of the year. And so very similar profile for the last two years as we look from a cadence perspective as we look ahead.

Matt Sims: Next question, please.

Operator: We'll now go to Eric Percher of Nephron Research. Please go ahead.

Eric Percher: Thank you. A question on Solaris. So, I think at 750 providers, this is about double what you started with not so long ago, I know you've been adding. So, I'd be interested to hear what they may be adding in terms of capabilities or opportunities versus what you're adding. And then, Aaron, what I'd ask you, I know we don't have accretion beyond the initial view, but what is your view on where accretion will ultimately come from relative to the MSO share, versus distribution, versus new revenue streams?

Jason Hollar: Okay. So let me go in and start, and then Aaron can clean up here afterwards. So, really pleased with the partnership and acquisition we see here Solaris. It fits very well to what we laid out at Investor Day. You're right, Eric, that this is 750 providers and you add it to the other recent acquisitions in urology for, Urology America, Potomac Urology and Academic Urology and Urogynecology, those combined to nearly a thousand providers with within urology. And specifically, what are we bringing on the Cardinal Health side. Urology is a real sweet spot for this enterprise. When you think about our leadership and our strengths across the enterprise, so much of it fits well within autoimmune and Urology, which is why we laid out the strategy. Think Specialty Networks, you know, our first acquisition in the specialty space in quite some time, nearly now, what, two years ago? They were born and their strength remains in urology while they're expanding quickly into other therapeutic areas like oncology. Think about our Nuclear business, long known for strength and leadership in oncology, but urology is more and more an area of strength and growth. As you heard this quarter, we're growing our theranostics business more than 30% and even faster in the urology space. At-Home Solutions, it's a real strength. We have a key role within delivering those urology products to people's homes. And then, of course, the addition of all that. So, we really like how it fits into our portfolio. And when you think about what they're bringing beyond 750 fantastic specialty providers, specialty physicians and providers throughout the United States, what they're able to bring is that diverse revenue stream. So, while there's a drug component spend to this, it's pretty similar to the ratios we've talked about before. So, this is an additional \$1.5 billion of revenue and less than a third of that being in the drug spend. And so that real breadth of revenue and strength of providers fits nicely into the MSO structure that we have at GI Alliance. A lot of those, capabilities will carry over. This will be managed by a common leadership team, but having a very specific, focus on the urology space to ensure that those physicians have the added attention and specialization they need for their practices. So, what did I now miss here?

Aaron Alt: Let me offer up a couple of additional insights. First some data points for you, Eric. Jason called out the revenue for Solaris as being about a \$1.5 billion, for modeling purposes, you assume EBITDA of call it \$125 million. We've got some questions on purchase price, our cash out the door will be \$1.9 billion as you see in our press release that, we get about a 75% stake. The enterprise value or transaction headline value is \$2.4 billion, and as we call that we will fund our portion of that through a combination of cash on hand, as well as some incremental financing that will follow in coming days, and we expect to close it by the end of the year. Last thing I observe, really to build on Jason's point about accretion, is coming from a couple different places. One, scale, right? This is the fifth business now that is urology MSO related that'll be part of our portfolio. We have efficiencies across the various businesses that are being added to the Specialty Alliance, the Urology Alliance, part of the Specialty Alliance. And don't forget there are also opportunities across, the Cardinal portfolio as well. We started our acquisition efforts in support of our strategy by acquiring Specialty Networks, which had a very strong urology platform as well.

Matt Sims: Next question, please.

Operator: Yes sir. Thank you. We'll now move to Kevin Caliendo of UBS. Please go ahead.

Kevin Caliendo: Hey, guys. Just want to confirm one thing. On the non-controlling interest is that being added back to AOI or is it just \$0.05 less below the line? I'm just trying to understand if it actually impacts the operating income -- the change of accounting on this actually changes the operating income increase in guide in the Pharma segment or not. It was just unclear to me.

Aaron Alt: The liability classification is exactly what we called it, so it will adjust.

Jason Hollar: But no. No direct impact to the above the line operating income.

Matt Sims: Next question, please.

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

George Hill: Hey guys. And I appreciate the question. Aaron, can you walk us through I guess two things I wanted to follow up on. One, I think, was Kevin's question on the accounting treatment and are there any marks on the liability that will run through the income statement in future periods? Kind of like what's the offset for the NCI going away. And are you able to quantify the value of the assets from Specialty Networks either from a revenue or earnings perspective that are being contributed to the new JV that you guys will own 75% of?

Aaron Alt: On your last point, Specialty Networks is not being contributed into the broader whole. It's a core part of our operation. And indeed, as we've highlighted on earlier calls, Specialty Networks has become a much larger piece of the overall Cardinal profile.

Jason Hollar: If I could jump in there to make sure I connect all the dots. When I was referencing what we bring to the relationship with Solaris Health, it's we bring these capabilities. We're not contributing anything to that business. It's the broader infrastructure of everything that we have as it relates to, what Specialty Networks brings, which we bring for distribution and what we bring more broadly with the relationship with the GI Alliance, which is now the Specialty Alliance. Keep going, Aaron.

Aaron Alt: Great. And then with respect to the liability classification, I think you just heard me call out that from an update to our overall guide perspective, we raised it by \$0.20. And roughly half of that is tied to the liability classification, and half of it's tied to our expectations for the underlying new business. You will see further details in our 10-K, which we encourage you to take a look at, and if you have more questions on that, Matt and team are happy to take them.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will be from Daniel Grosslight of Citi. Please go ahead. Your line is open, sir.

Daniel Grosslight: Hi, guys. Thanks for taking the question. Can you talk about some of the potential pricing headwinds in Home Solutions? Particularly I'm thinking about competitive bidding coming back, maybe in a couple of years from now. Can you just help size what percent of your at-Home revenue is subject to competitive bidding and how you're thinking about potential CGMs and pumps being included in that program? Thank you.

Jason Hollar: Yeah. Well, first of all, we feel very good about our overall product portfolio and our payer portfolio. When you think about the payer mix, it's quite diverse. We had relatively little of Medicaid type of reimbursement within the prior portfolio. It is higher with the government payers within the recent acquisition. But overall, we have a very diverse product as well as payers that overall, we feel quite comfortable with. As it relates to where we think the administration is going, we are uniquely positioned to help support that in terms of our capabilities, and you think about where the only scaled distributor and provider together. So, we provide that unique capability. And what's really important to the administration, as well as to us, is ensuring that that access for patients to those products that are clearly creating a lot of value for them. So that overall is a nice setup, and we feel like we will be indispensable in any solution or changes going forward. In fact, Daniel, I read your note. And I think there's some elements within that that are pretty consistent with what I'm going to say here. Overall, I think the setup for the CGMs is one where, while there was likely to be this competitive bidding process is a category that is already seeing fairly low rates relative to commercial rates, and we see it as a fairly concentrated just two manufacturer type of environment. So, the setup feels a little bit different than some of the other historical precedents. And to answer your question, specific to the CGMs across our at-Home Solutions portfolio, it represents for Medicare only about less than 15% of our total revenue for at-Home Solutions. So overall, something that is important to us is important to our customers and to patients, and we'll be managing very tightly and closely and advocating for them with the administration. But still pretty good about the overall setup. And when you think about what they're really trying to accomplish, it's the, taking out the fraud, waste and abuse. And we run a pretty tight ship, and we are very focused on compliance and running strong processes. And so, the more pressure there may be, I think the more opportunities we may have to pick up an even greater leadership role within this important category.

Matt Sims: Next question, please.

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

Steve Baxter: Hi, thanks. Just a couple of quick numbers ones. I just wanted to see if you might be willing to size a cumulative impact of the Pharma items that you called out in the quarter. I think your commentary was potentially above the midpoint of the range ex those items. So, I think it essentially implies \$10 million to \$15 million, but interested if you potentially could speak to that. And then Other income in the quarter was elevated and, you know, heard the call out on revaluation, but I think there's also some impact from GIA as well in Other income. Would love to just try to think about what the impact from revaluation was so we could maybe have a cleaner look at the EBIT line in the quarter. Thank you.

Aaron Alt: I think you heard me correctly on your estimate, around the impact of the Other items. I did say in the prepared remarks that it would have been above the midpoint of the guide we called on June 12th, just before the end of our fiscal year relative to that. And then on the revaluation points, as I pointed out earlier, there'll be a lot of detail on our 10-K, which is about to be filed. You can take a look at the accounting disclosures there.

Matt Sims: Next question, please.

Operator: Our next question will be coming from Charles Rhyee of TD Cowen. Please go ahead.

Charles Rhyee: Yeah, thanks for taking the questions. Maybe just a couple of clarification. I think Aaron, to Elizabeth's question earlier I kind of missed your answer at the end. Maybe to follow up with this last question, which is the extra expenses, these were not part of the kind of investments that you talked about at Analyst Day. And then secondly, when we think about the \$0.05 change for the liability, does that also include like the catch up from the fiscal third quarter since GI Alliance was closed back then? So, it's really think of it as maybe like roughly \$0.25 per quarter. And that's why we're only seeing about \$0.10 in fiscal '26. Thanks.

Aaron Alt: There was a lot there. Let me attempt to catch the pieces, and the team will tell me what I miss. At Investor Day, we provided an updated guide and that included the impact of a variety of look forward investments we're making across our portfolio. Those are not what, I'm referencing today when calling out that there were a number of individually immaterial items that it took us to the bottom end of our Pharma guide. Had those individually immaterial items like, some bad debt adjustments or some other ordinary course contractual resolutions, not occurred in the last couple of weeks of our quarter, we would have been above the midpoint. And so, you can I think you can size it from there. I lost track of the second piece.

Jason Hollar: Just the \$0.05 as it relates to the [indiscernible].

Aaron Alt: Oh right, the qualification. And really the best way to think about that is to look forward. And, you know, we've called out a \$0.20 increase to our guide for fiscal year '26. And I said roughly half of that is tied to the liability classification, and half of it's tied to our adjustments on higher percentage on Pharma on a lower base and a same percentage on a higher base on Other. And so that that will give you a view of how to roll it across the year. GIA closed in February.

Matt Sims: Next question please.

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

Steven Valiquette: Thanks. Yeah, most of the questions have been answered here, but really, just a quick confirmation just on that last topic again. Given the change in the liability classification, what should we expect for just the total net earnings or loss attributable to non-controlling interest on the P&L for FY '26? Is that going to be pretty close to zero now? Just want to make sure I'm understanding the mechanics of that properly. Thanks.

Aaron Alt: I guess all I can reference you to is the fact that we believe the business is set up for great success, continued growth as we carry into fiscal year '26. We have raised our guidance overall, reflective of the liability classification as well as the updates into our views of the underlying business. And so, while there are some puts and takes across the P&L, you'll see the details of that within the 10-K, which is about to be filed.

Matt Sims: Next question please.

Operator: Thank you much, sir. We have one more question in queue and today's last question will come from Brian Tanquilut of Jefferies. Please go ahead, Brian.

Brian Tanquilut: Hey, good morning. Maybe just heading onto Sonexus™. Specifically, can you talk about the services that are driving the growth in that segment right now? Is it prior authorization, or is there any other call out on what's pushing Sonexus™ higher? Thanks.

Jason Hollar: There's not any particular area I would call out other than the breadth of new products that we're supporting. It is within the biopharma solutions piece of the business that we called out at Investor Day that has 20% expected growth CAGR over the next three years, which takes that overall business from \$550 million in '25 to about \$1 billion by fiscal '28. And we called out Sonexus™, is currently growing faster than that type of rate and is why we called it out. We'll provide more color as to some of those drivers and future quarters.

Operator: Thank you for your question, Brian. So, ladies and gentlemen, we have no further questions at this time. I'll turn the call back over to Mr. Jason Hollar for any additional or closing remarks. Thank you.

Jason Hollar: Yes, thanks everyone, for joining us. And thanks to Cardinal Health Team for another great year and the fantastic momentum we have exiting '25. As we've laid out here today, we have a clear plan in place for '26, very consistent with the Investor Day strategies that we laid out just a month or so ago. And importantly, we see the momentum taking us to at least those levels in the near-term, which is why we felt comfortable in raising our broader operational and EPS targets for today, and just looking forward to providing additional updates over the course of the year.

Operator: Thank you very much, sir. Ladies and gentlemen, that will conclude today's conference. We'd like to thank for participation. You may now disconnect. Have a good day and goodbye.