Q2 FY26 Cardinal Health, Inc. Earnings Conference Call

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Operator: Hello and welcome to the Second Quarter Fiscal Year 2026 Cardinal Health, Incorporated Earnings Conference Call. My name is Serghei and I will be your coordinator for today's event. Please note that this conference is being recorded and for the duration of the call, your lines will be on a listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. Can you also please limit yourself to one question each to allow the maximum attendees to ask the question. If you require assistance at any point, please press star zero and you will be connected to an operator. I will now hand you over to your host, Matt Sims, Vice President, Investor Relations, to begin today's conference. Thank you.

Matt Sims: Good morning, and welcome to Cardinal Health’s Second Quarter Fiscal '26 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 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 are pleased to report that the Cardinal Health team has delivered another excellent quarter, driven by broad-based performance across the enterprise. I am encouraged by our results, which are a direct reflection of our continued operating momentum and relentless commitment to serving our customers and driving our strategy forward. We have continued to prioritize strengthening our core and expanding in Specialty, accelerating our Other growth businesses, and executing our GMPD turnaround.

What stands out to me most in this quarter's performance is the balance of results across our portfolio, as we achieved strong profit growth of at least double-digits from all five of our operating segments.

Our performance was again led by strength in our Pharmaceutical and Specialty Solutions segment, where we continue to see a robust demand environment, coupled with strong operational execution. Our strategic focus on Specialty is delivering tangible results. As we shared at a recent industry conference, we expect our Specialty revenues will surpass $50 billion in fiscal '26, a testament to our progress in this high-growth, higher-margin space.

Our MSO platforms continue to be a meaningful driver of our growth, in particular led by The Specialty Alliance's leading multi-specialty platform. With the acquisition of the country's leading Urology MSO, Solaris Health, officially completed in early November, we are positioned to further expand as we add additional practices and capabilities to our platform.

Turning to our GMPD segment, we are pleased to report continued progress against our Improvement Plan initiatives. The team remains focused on driving Cardinal Health Brand growth, where we continue to see positive results, and simplification, which is driving improved operational health.

Our Other growth businesses, at-Home Solutions, Nuclear and Precision Health Solutions, and OptiFreight® Logistics, also again delivered a strong quarter. The performance of these businesses is driven by secular tailwinds, the strength of their value propositions and our focused long-term investments.

Our second quarter performance gives us confidence as we move forward, and as a result, I'm pleased to share that we are again raising our outlook.

With that, I will turn it over to Aaron to go through the financials.

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

We provided an interim update at a recent industry conference but noted at the time that our books were still open for the second quarter. I am now pleased to share the final details of our second quarter results, which reflect another period of exceptional execution and broad-based demand strength across our enterprise. Our performance demonstrates the resilience of our business model and the tangible benefits of our diversified portfolio as demonstrated by the significant earnings growth in all five of our operating segments.

As a result of this momentum and factoring in our updated forecast for the remainder of the fiscal year, I'm also pleased to note that we are raising again our fiscal year 2026 earnings per share guidance. Our new range is $10.15 to $10.35, up from the at least $10 interim guidance update. This updated outlook represents year-over-year EPS growth of 23% to 26%.

Let us begin with the second quarter consolidated results, which are most easily explained with the observation that when revenue and gross margin grow faster than SG&A, positive progress is the result.

Total revenue for the second quarter increased 19% to $66 billion. This top-line expansion was primarily driven by continued strong demand within the Pharmaceutical and Specialty Solutions segment, as well as Other.

Gross margin dollars increased 24% to $2.4 billion, driven by favorable mix across our businesses. We remain disciplined with our cost structure even as we expand our capabilities and invest for the future. While SG&A expenses increased 16% to $1.5 billion, it is important to note that excluding the impact of recent acquisitions, our organic SG&A growth was more modest, in the low single digits, and that the turnaround part of our business, GMPD, actually saw lower SG&A year-over-year from optimization efforts.

The combination of robust growth and disciplined expense management resulted in operating earnings of $877 million at the total enterprise level, an increase of 38% compared to the prior year period.

Moving below the operating line, interest and other expense increased to $77 million, compared to $38 million in the prior year. This increase was driven primarily by the financing costs associated with our announced acquisitions, including the Solaris Health transaction which we were excited to close during the quarter.

Our effective tax rate for the quarter was flat at 21.4%.

Average diluted shares outstanding were 237 million, a decrease of 2% from the prior year. In the quarter, we repurchased $375 million in shares reaching our full year fiscal '26 target for baseline share repurchase of $750 million. Our weighted average price on these repurchases has been $173 per share.

The net result for the quarter was non-GAAP diluted EPS of $2.63, an increase of 36% compared to $1.93 in the second quarter of last year.

Now, let us turn to the segment results, starting with Pharmaceutical and Specialty Solutions.

Revenue for the segment increased 19% to $61 billion. This growth was driven by both existing and new customers, and we observed a continuation of strong pharmaceutical demand across the portfolio. This included approximately 6 percentage points of revenue growth from GLP-1 sales.

Segment profit increased 29% to $687 million. This significant profit expansion was driven by contributions from brand and specialty products, our MSO platforms and positive results within our generics program.

We experienced consistent market dynamics in our Red Oak-enabled generics program, and once again, we saw healthy generic unit growth that exceeded our long-term expectations.

Furthermore, these results benefited from our continuous focus on efficiency initiatives across our distribution network. Our teams are leveraging our investments in technology infrastructure, such as the Vantus HQ e-commerce platform, to drive customer efficiency and streamline our operations, which directly supports our margin profile.

Moving to the GMPD segment.

Revenue increased 3% to $3.3 billion, driven by volume growth from our existing customer base. We were particularly pleased with the performance of our Cardinal Health Brand portfolio, which saw revenue growth of 10% in the United States. It is worth noting that we estimate that 3 to 4 percentage points of this growth in the quarter was driven by the timing of inventory restocking by other distributors, which we anticipate offsetting in Q3.

Segment profit for GMPD increased to $37 million, compared to $18 million in the prior year period. This improvement was driven by volume growth from existing customers and the realization of benefits from our cost optimization initiatives. These positive drivers were partially offset by the adverse net impact of tariffs.

Despite the tariff headwind, the segment's transition from past challenges to solid profitability is evident, and we remain committed to the improvement plan initiatives that focus on growing Cardinal Health Brand, enhancing our supply chain and simplifying operations.

Now, let us discuss our Other growth businesses: Nuclear and Precision Health Solutions, at-Home Solutions, and OptiFreight® Logistics.

Revenue increased 34% to $1.7 billion, driven by strong demand across all three businesses and the contribution from the acquisition of Advanced Diabetes Supply, or ADS.

Segment profit increased 52% to $179 million. This impressive growth was driven by strong underlying performance across all three businesses, as well as the acquisition of ADS.

The integration of ADS into our at-Home Solutions business continues to progress well. This combination has created a powerful platform for patients with chronic conditions, and we are seeing the benefits of our dual strategy as both a direct-to-home distributor and a direct provider.

In Nuclear and Precision Health Solutions, we were pleased to see continued momentum in our theranostics offerings, with revenue growth exceeding 30%. Our leadership in the radiopharmaceutical space and our end-to-end service capabilities continues to resonate with pharmaceutical partners and providers alike.

OptiFreight® Logistics also delivered an exceptional quarter. Welcoming new customers to our logistics management program and helping current customers succeed in expanding utilization of our program drove significant growth in inbound and outbound shipments. As a result, the business was able to grow revenues by over 30% this quarter, further validating our position as the leader in healthcare logistics management.

Turning to the balance sheet and cash flow.

Year to date, we've now generated $1.8 billion in adjusted free cash flow. Our teams continue to focus on working capital efficiency to support our capital deployment priorities.

We ended the quarter with a cash position of $2.8 billion.

Regarding capital allocation, we deployed significant capital during the quarter to drive value for shareholders and invest in our future. Year to date, we have invested approximately $240 million back into the business through capital expenditures to support our organic growth initiatives.

We have also returned $1 billion to shareholders so far this year, comprised of approximately $250 million in dividends and as mentioned $750 million through accelerated share repurchase programs. We accomplished all of this and still closed the quarter with a Moody's adjusted leverage ratio of 3.2 times, which is back within our targeted range of 2.75 times to 3.25 times. We achieved this target well ahead of schedule, and that provides us with flexibility to assess opportunities consistent with our disciplined capital allocation framework.

I will now highlight our updated fiscal year '26 guidance.

With two strong quarters behind us and signs of continued momentum across our portfolio, we are raising again our outlook for the full year to a new range of $10.15 to $10.35.

In the Pharma segment, our revenue guidance remains unchanged. Our prior guidance had already contemplated an anticipated impact from manufacturer list price decreases associated with IRA.

For Pharma segment profit, we are pleased to raise our outlook to a range of 20% to 22% growth, up from the prior range of 16% to 19%. This increase reflects the strength we have seen year-to-date and the confidence we have in the continued performance of our largest operating segment.

As we've previously highlighted, in the second half of fiscal '26 we annualize the $10 billion of new customer revenue that we onboarded last year, as well as the prior acquisitions of ION and GIA, while also benefitting from Solaris contributions this year. Although we aren't assuming the same level of outsized demand to persist for the balance of the year, we have incorporated some of the recent strength, and anticipate mid-teens profit growth in the second half of the year.

In the GMPD segment, we are updating our revenue outlook to 1% to 3% growth. On GMPD segment profit, we are raising our guidance to approximately $150 million. This raised outlook reflects the continued progress our team is making against the GMPD Improvement Plan, including with Cardinal Health Brand.

As I mentioned when reviewing the GMPD Q2 results, some of the outperformance in Q2 was attributed to the timing of Cardinal Health Brand distributor buying patterns, which we anticipate will normalize in Q3. We continue to anticipate sequential profit growth from Q3 to Q4.

In our Other growth businesses, our revenue guidance remains unchanged at 26% to 28% growth. We are increasing our segment profit guidance for Other to a range of 33% to 35% growth, up from the prior range of 29% to 31%. This revision is driven by the strong performance across all three growth businesses to date. As you model the remainder of the year, please remember that we will lap the acquisition of ADS in our fourth quarter. Additionally, we will face more difficult comparisons in our Nuclear business in the third quarter as we begin to lap some of the robust theranostic growth that we experienced a year ago.

Moving below the operating line, we are lowering our outlook for our effective tax rate by one percentage point to a range of 21% to 23%, down from the prior outlook of 22% to 24%. This improvement reflects our first half performance and the expectation of positive discrete items in the back half of fiscal 2026.

We are also updating our share count assumptions. Reflecting our Q2 accelerated share repurchase program, we are lowering our outlook for diluted weighted average shares to a range of 237 million to 238 million shares, from approximately 238 million shares.

Finally, regarding adjusted free cash flow, we continue to anticipate robust-adjusted free cash flow generation between $3 billion and $3.5 billion for the year.

In conclusion, our second quarter results demonstrate that Cardinal Health is executing effectively on its strategy.

We are strengthening our core distribution business while aggressively expanding in higher-margin areas such as Specialty and our Other growth businesses. We remain focused on operational excellence, simplification, and delivering value to our customers and partners.

Our updated guidance reflects our confidence in the remainder of the fiscal year and our ability to navigate the dynamic healthcare environment. We are well-positioned to deliver sustainable growth and long-term value for our shareholders.

With that, I will turn the call back over to Jason.

Jason Hollar: Thanks, Aaron.

Our strategy within Pharmaceutical and Specialty Solutions remains clear, and the team's consistent execution gives us confidence in the long-term potential ahead.

We continue to prioritize the core, and the investments in our footprint and technology have contributed to improved service levels, including a 10% improvement over the past two years, setting a new benchmark for product availability.

In Specialty, we are seeing growing contributions across Specialty Distribution, our MSO platforms and BioPharma Solutions. Our acquisition of Solaris Health is already gaining momentum in the market with the addition of our first urology practice under this new structure in Michigan.

Moving upstream to a key part of our Specialty growth, BioPharma Solutions. We were pleased to highlight that a number of key manufacturer partners have recently selected our Sonexus™ Access and Patient Support business to support their hub programs, totaling over 1 million new patients served. These wins were enabled by our significant investments to digitize the patient support journey.

We are seeing similar momentum in our leading 3PL business, where we continue to partner with manufacturers in the commercialization of their specialty therapies. As an example, in calendar ‘25, our business supported roughly half of all new product launches that utilized a 3PL.

Turning to GMPD, our Improvement Plan initiatives are yielding tangible results. We remain focused on simplification, while continuing to invest in our network, and are encouraged by the positive trends within the Cardinal Health branded portfolio. This is particularly evident in our more clinically differentiated product categories, where innovation remains central to our product portfolio. For example, the Smart Flow Intermittent Pneumatic Compression device, designed to reduce the risk of Deep Vein Thrombosis, has had a very positive market response, with volume exceeding our launch expectations.

Now turning to our Other growth businesses, where we remain encouraged by both the momentum in their results and strong positioning for future growth. Increasingly, we see additional points of connectivity across Nuclear, at-Home Solutions and OptiFreight® and an ability to leverage the full strength of our enterprise portfolio.

Nuclear and Precision Health Solutions continues to outpace the market, backed by our differentiated offerings and our team's deep expertise. I am pleased to share that Nuclear recently conducted their 2025 customer survey and again earned a Net Promoter Score well above the industry average, a clear reflection of the reliability, adaptability, and cutting-edge technology we deliver to customers.

Our performance is driven by our unique end-to-end capabilities and strong demand for theranostics, which again delivered over 30% revenue growth for the quarter. The expansion of these products has meaningful impacts for our customers and the patients they serve, and we will continue to invest to support the business’ growth of the more than 70 products in our pipeline, which is largely dominated by novel theranostics in the areas of Oncology and Urology.

We continue to see opportunities for greater connectivity between our Nuclear business and our MSO and Specialty businesses aided by industry shifts driving greater demand for precision medicine. We are uniquely positioned to equip community practices with the know-how to establish and manage a theranostics program to accelerate adoption.

Within at-Home Solutions, the demand environment continues to be strong, supported by the shift of care to the home. We are executing a smooth and efficient integration of ADS, positioning us for long-term growth.

We see synergistic opportunities with our large core Pharma and Specialty Solutions business, with the latest example seen in the announcement of our ContinuCare Pathways program. This program leverages the full Cardinal Health portfolio to simplify diabetes supply management for partner pharmacies and patients, which is already supporting over 11,000 pharmacies today with more opportunities in the pilot testing phase. We were pleased to announce a key partnership with Publix Super Markets, a recent new customer in our Pharma business, to further expand our reach.

Finally, OptiFreight® Logistics continues to demonstrate its market leading value proposition. With ongoing investments in our proprietary technology-driven platform, TotalVue Insights, we see long-term potential to deliver cost savings, transparency, and operational efficiency for our customers. We are also making strong progress with new customer-centric technology to expand our presence in the pharmacy space, as we continue to drive core growth and tech-forward transformation.

In closing, we have great confidence in the resilience of our business model and our essential position as the backbone of the U.S. healthcare system, delivering daily to tens of thousands of locations with product sourced from several thousand manufacturers. This vital role was on full display during the recent storms that impacted much of the United States, where the Cardinal Health team demonstrated its extraordinary commitment to ensuring critical products and services reach customers and patients. The team's commitment and actions are instrumental to our success, and we're deeply grateful for their contributions.

As we move into the back half of the fiscal year, the momentum across our business reinforces our belief in the opportunities in front of us and gives us confidence in our ability to continue delivering sustainable value creation.

With that, we will take your questions.

Operator: Thank you. As a reminder, if you have any questions, please press star one on your telephone keypad. Once again, can you please limit yourself to one question each to allow the maximum attendees to ask a question. Our first question is from Erin Wright from Morgan Stanley. Please go ahead.

Erin Wright: Great, thanks for taking my question. So, can you unpack or break down some of the components of the profit performance in Pharma Solutions? And can you break down what's organic versus inorganic and for the balance of the year, what's implied in terms of that underlying organic growth in the second half and just that underlying demand trend. I think you commented on that in your prepared remarks. How do you think about that continued underlying strength and stability of the business from a utilization term perspective, as well as strength and specialty? Thanks.

Aaron Alt: Good morning, Erin. Thank you for the question. We saw momentum in the quarter within the Pharma business, as we've seen in the last several quarters, with strong demand really across all categories and parts of the business brand, specialty, consumer, and generics. You saw the significant revenue growth and profit growth as well. It's really driven in particular by the profit line by Specialty, right? Trending above historical levels. As we talked about at J.P. Morgan, where we're going to be above the $50 billion for the year there, seeing strength in the key priority areas urology, oncology, and nice strength within the BioPharma parts of the business as well. You've heard us talk about Sonexus™. We saw the contributions we expected from the MSOs, and we're pleased to close the Solaris transaction in November. So, we got two months of benefit in the quarter there. But I want to emphasize the contributions in the quarter from the MSOs were consistent with our expectations. We really saw strong core growth. Generics is always a positive, or recently has always been a positive story for us. When we see growing volumes, which we saw, and consistent market dynamics, which we saw, right? That is certainly a nice contributor to the underlying business. And of course, you can't get past just strong execution by our operations teams in the quarter as well. As we think about where Pharma goes from there and the guide for the rest of the year, I guess I've observed that the raise to our guide is really driven by both reflecting the strong Q2 performance and improved expectations as we carry forward, particularly in the core part of the business. We do have higher growth in H1 than we have called. We called mid-teens profit growth in the back half. And that's not a deceleration of expectation on demand. It's rather the observation that as part of our guidance all along, we've referenced the fact that we'll be lapping $10 billion of new customers in the back half from last year and lapping, of course, ION and GIA which we acquired in the second half last year with some benefit from Solaris not being in the portfolio. We are assuming strong, stronger demand if you will, as we call that in my prepared remarks, we did raise our expectation in part based on the demand we're seeing. But we are not calling outsized demand. You know, that would be an opportunity, and that's consistent with our guidance philosophy from prior year quarters as well. And lastly, I would observe that we are not assuming, as is our practice, that the Solaris distribution moves over to Cardinal Health. That if it were to come to us, it would be toward the end of our fiscal year so, that is not baked in. Jason, anything you want to add?

Jason Hollar: Yeah, I would just, I know this question will probably come up a variety of different ways. I think it is helpful to remind you all what we said in the last call. It's still pretty consistent with our current expectations that M&A for the Pharma business is expected to be about 8% of our total growth for the full year. So, that's the same ballpark that we're anticipating today and can help you kind of piece together all those different elements. But definitely very pleased with the core performance of the business, not just the Pharma business, but throughout the other operating segments. So, while M&A has been a nice accelerator of our strategy, what we've continued to demonstrate is that the core is strong and that our organic core investments and priorities continue to drive the business forward as well.

Matt Sims: Next question, please.

Operator: The next question is from Elizabeth Anderson from Evercore ISI. Please go ahead.

Elizabeth Anderson: Hi, guys. Good morning, and congrats on the quarter. I was wondering if you could maybe parse apart other the Other segment a little bit. Is ADSG sort of performing ahead of your expectations in terms of how you thought that sort of full first year performance would be? Is it improved competitive position? You talked about some of the underlying dynamics in nuclear. So, I'm just maybe trying to parse apart on the three underlying business levels, some of that outperformance there, as that was obviously a very nice result in the quarter.

Jason Hollar: Yeah, this is Jason. I'll go ahead and start and have Aaron add in any additional details. I'd say it's a very similar type of commentary that Aaron and I just provided for our Pharma business. The core was strong for each of the three businesses within our Other segment. We saw good double-digit growth, irrespective of the M&A and the ADS acquisition as well. That acquisition has gone at least consistent, perhaps a little bit better than what we had anticipated. It's still early in terms of all the integration and synergy opportunities, but the core business remains strong overall for at-Home business, but also for our Nuclear and OptiFreight® businesses. Each one of these three businesses are very much focused on core organic investments, making sure that that core is strong and that we're taking care of customers and patients that we have today. We are investing organically in each of these three businesses in different ways to further propel their capabilities and their growth going forward. And then as it relates to at-Home, of course, we are also doing the inorganic investments, but it's really important for us that we keep those organic investments and that organic growth going. Each one of those three businesses have a little bit of a different story within us at-Home business organically, we're very much focused on the distribution network continuing to build out the automation and the technology there. We've completed three of the 11 DCs. We have another three to go for the next three years. Nuclear, it's very much a story around the continued growth of aeronautics and the innovation that we're seeing in that space, and we're investing into our capabilities and our cyclotron capacity to get there. And OptiFreight® it's to take the leadership and the capability that we already have a long history of in the medical side, and expand that into a greater share of wallet with those medical customers, but also expanding over time into the pharmacy side of that. So, each are operating very well, very consistent growth right now. And we'll continue to evaluate the right type of M&A to further accelerate that as appropriate. But for the time being, you know, we're still wanting to make certain we're taking care of the at-Home customers and making sure that this integration goes flawlessly. Aaron, anything I missed there?

Aaron Alt: I would just emphasize strong positioning, positive secular trends, double-digit core profit growth in each of the three businesses, setting aside the positive impact of the ADS acquisition. Jason did reference the theranostics point. I would point out that we will be lapping a strong Q3 in theranostics as the product launches from last year, and so that will be part of our guidance already as well.

Matt Sims: Next question, please.

Operator: The next question is from Eric Percher from Nephron Research. Please go ahead.

Eric Percher: Thank you. A question on capital allocation. I believe your prior commentary was somewhat predicated on returning to the low threes. You're back there maybe earlier than we expected, significant cash flow over the balance of the year. Can you give us a bit more on capital allocation and maybe also the capacity or opportunity for further transactions? Do you need some time on MSOs, and do you see opportunities in the Other segment?

Aaron Alt: Thank you for the question, Eric, I would observe two things. First, we try very hard to tell you what we're going to do and then go do it and report back. And we are very disciplined into following the aptly named disciplined capital allocation framework that we have. And so, two quarters into the year, we are on track to make the $600 million to $650 million of CapEx investments that we talked about before. We have protected our balance sheet and gotten us back within our targeted leverage range at the end of Q2. So that's, good news as well. And two quarters in, we've fulfilled our baseline share repurchase commitment of $750 million. And what that means for a business that is continuing to generate strong cash is that we have flexibility to assess how will we create the most shareholder value as we carry forward. As you can tell from Jason's comments, we are investing for growth in the businesses really across the portfolio, whether it's in the Pharma business with Specialty within the other three parts of the Other business we just highlighted, or indeed continuing the progress against the turnaround plan for GMPD. Now, part of that as well is, we are looking at the landscape and saying, where can we derive more growth or where should we be returning additional capital shareholders? And while we have nothing to provide today from a commitment in that respect, we are very mindful of the flexibility that the business is generating for us to ensure that we are relentlessly focused on creating the shareholder value.

Jason Hollar: Yeah. What I would add is, we've worked real hard. The team has done a fantastic job and worked very hard to generate a lot of cash. And we're going to be very careful as how we deploy that. And when you think about in our industry, where there's been some of the greatest operational challenges, it's very much on this poor decisions on where to allocate capital. So, we have learned from that and are very intentional around where we put that to work. As I already mentioned, we're really focused on the core of the business, and the strategy is not predicated on any significant M&A. With that said, I think the word opportunistic will come up, whether we're talking about repurchases or whether we'll talk about additional M&A. I don't see that there's a large gap or anything that we're going to be really leaning into. We're really pleased on the MSO side with the three different platforms that we have now acquired and or built: oncology, autoimmune and neurology. And we're going to want to look at how we can create more value with each of those partnerships and those assets. And we think that there's opportunities probably to do more, but smaller types of acquisitions and that type of space, the at-Home space and Other in general remains quite fragmented. So, there will be opportunities if we so choose. But we're going to make certain that we protect the core with any of those additional acquisitions to ensure that it truly does create synergistic value, helps build capabilities, and that, we're not going to be doing anything defensively here. We'll be looking to see if some offensive actions take place. And while we're pleased with the leverage, our cash is at a little bit of the lower side where it's historically been. And that's something that will be having a lot of flexibility with all of our other levers that are in place to continue to have the flexibility as needed when those opportunities do arise. So, we'll continue to evaluate all that, and we'll certainly report back as we get better clarity on it.

Aaron Alt: Yeah, just to summarize, I guess what I would say is we're pleased that both internally and externally there is competition for our capital.

Matt Sims: Next question, please.

Operator: The next question is from Michael Cherny from Leerink Capital. Please go ahead.

Michael Cherny: Good morning and thanks for taking the question. Maybe if I can build on that a little more. Clearly, the last couple of years the story in many eyes has been about the improvement on Specialty both from an MSO as well as the distribution capability the scaling you've done. As you think about that prioritization of internal capital and external capital, how is the experience you've had with Specialty, combined with the pipeline for a variety of different new launches and biosimilars, impacted your thought process of where strategic advancement should be as you continue to push for driving towards your LRP and potentially higher?

Jason Hollar: Yeah, great question. I'd love to go into that deeper. Our view has changed very little. If you go back to, not this last Investor Day, but the one before that, we talked about the Specialty flywheel effect and benefits that we anticipate that while distribution is important to us, the MSO strategy, the BioPharma Solutions strategy, all of these capabilities, both upstream with the manufacturers and downstream with our customers and ultimately patients, all work together. And I don't think it's a surprise that what we're seeing in Specialty is across the board performance improvements. The MSO certainly help bring it all together in different ways. Our BioPharma Solutions strength has absolutely improved our credibility in the distribution space. And we have a fantastic relationships both upstream and downstream. So, we're executing very well both directions and that then creates additional opportunities. Having really referenced our Other businesses, of Nuclear, at-Home, and OptiFreight®, all three of which plug into pharmacy capabilities in different ways, one of which we've talked about a little bit this last month with our ContinuCare Pathways program with at-Home and connecting the dots with those large pharmacy customers. So, we see a lot of opportunity to continue to bring that together. And that's why we're less focused on expanding into new and different areas because there's still a lot of opportunity to expand within the customers, within the products, within the platforms, and within the capabilities that we already have. And I think when you look at those opportunities, there's more than enough there that we just don't need to get distracted and grow in other ways because we just don't have a gap in that portfolio that currently we're worried about. So, that means we can just, again, be more offensive and take on, additional growth factors within what we already have.

Matt Sims: Next question, please.

Operator: The next question is from Alan Lutz from Bank of America. Please go ahead.

Allen Lutz: Good morning and thanks for taking the questions. The Cardinal Health Brand in GMPD continues to accelerate, even if you net the timing issue that you mentioned. Is there anything specific to call out there around that strength? And then a second question on GMPD, lower SG&A in the quarter around optimization efforts. Can you talk a little bit about what you're seeing there, specifically where those savings are coming from, and then what's implied in the GMPD guide for the remainder of the year? Thanks.

Jason Hollar: Yeah. Great. Yeah, I'll start and then hand it over to Aaron for the SG&A question. As it relates to Cardinal Brand growth it's really not all that sophisticated. It goes back similar to my last commentary. You have to go back at least a few years, probably more like several years to when that the GMPD team really started to not only focus on, but really invest into their core. So that's the five-point plan that we walked through before, really focused on the basics of the business. We had to invest in some capacity and capability at the manufacturing sites. We have fantastic products and we had great demand, but we weren't always getting product to the customer at the right time and place. So, getting those capabilities right. Our back orders, I don't think it's ever been lower. Our service levels have never been higher. I mean, we're at levels of operational excellence that we've just not seen before, and that creates lots of opportunities. It was hard for us to expand into new customers, new categories with those constraints we had before. Those constraints are largely off, and we're really executing quite well to those customer requirements. It's nice that the underlying utilization is still relatively robust it's not like what we see in the Pharma side, but that low-single digit consistent type of market growth. So, it allows us to have enough underlying volume that we're then able to come in and take care of more of our customers' needs. I'll now turn it over to Aaron for the SG&A.

Aaron Alt: On the SG&A topic, certainly, GMPD is a highlight there which will come to in a second. But I want to emphasize that Jason and I are really pleased with the focus that the entire enterprise has been putting on. How do we both invest for the future and relentlessly optimize our cost structure to, of course, reinforce that flywheel. The GMPD business, in the face of executing against the GMPD Improvement Plan has been relentless and looking for opportunities on how do we both, consistent with the five-point plan, raise our game and service our customers better, but do it at a much more efficient and a much more efficient way? And this quarter is testament to the progress they've been making, and that their overall SG&A cost, both direct and from an enterprise perspective, really came down in ways that we were pleased to see in support of that business.

Matt Sims: Next question, please.

Operator: The next question is from George Hill from Deutsche Bank. Please go ahead.

George Hill: Yeah. Good morning guys, and thanks for taking the question. I guess, Jason, I'd like to ask about the macro pricing environment as we're seeing some brand drug manufacturers take price increases as 2026 starts. But doesn't seem to have impacted your guys guidance at all. But as you look forward, I guess I'm wondering, should we expect to see manufacturer brand drug price decreases? I'm sorry that not increases, decreases impact either the revenue line or the operating income line as we think about calendar ’26. And maybe also if you could talk about the offsets that you guys have used to preserve your operating earnings on the income statement. Thanks.

Jason Hollar: Sure, yeah. When you talk about prices, I don't think your question was around the contingent inflation, but that piece of it has been pretty consistent with what we've anticipated as it relates to IRA, MFN and all those types of discussions. There's really no new news as it relates to this. You've heard from us quite consistently that we anticipate that whatever changes do occur to that top line will be adjusted within our cost structure and with the DSA fees with the manufacturers to preserve that margin. We communicated at that recent industry conference that we indeed were successful with that for all the ‘26 items. And there's nothing at this moment that we see with the ‘27 and ‘28 items that would make us believe it would be any different than that. You are right, George, that revenue is a different story. So, as the WACC levels come down, that will adjust through revenue as well as our cost of goods sold so that our margins remain stable. But that's all been factored in for ‘26. We didn't see anything that came through as it relates to WACC level adjustments. That was significantly different than our original guidance. And so, we've not adjusted our revenue meaningfully for any changes there. We would anticipate that, like what we've seen in ’26, in the future we anticipate something similar that some manufacturers will choose to just WACC and some will choose to utilize more of a rebate structure. And it's our expectation as we think about longer term that while that should not impact our margin in any meaningful way, it could impact revenue a little bit differently than what's anticipated. But we don't see that being, again, very impactful across those years at this point in time, but still need to get a little bit more information before we can solidify any of that.

Matt Sims: Next question, please.

Operator: The next question is from Stephen Baxter from Wells Fargo. Please go ahead.

James Lemmis: Hi, this is James on for Steve. Thanks for taking the question. As far as GLP-1s, we're seeing a lot of change in the market between pricing changes, channel changes, the introduction of orals. Is there any way you're any difference in how you're modeling revenue or earnings for GLP-1s this year? Or maybe how you're thinking about it in the long-term?

Jason Hollar: No, the oral contribution that we see so far is slow. We anticipate it growing quickly, but it's not something I would expect to be material for this fiscal year. And the underlying economics behind it, we've talked before that the cost to serve, we anticipate being a little bit better on the oral versus the injectables but, it's just too early to determine what the volume contributions will be for the different pieces. Irrespective of all that, I've been fairly consistent on this point, what you seen is a massive increase in volume growth over the last couple of years, and you just haven't heard us call it out as a meaningful driver. And I do not anticipate that you're going to hear us call out as a meaningful driver going forward, irrespective of how strong the oral growth is or the mix between the two. While there are some differences, it's just relatively unlikely that that's going to be a big driver for underlying profitability. Revenue certainly has been much more of a contributor. We saw similar contributions this quarter than what we've seen in the last several quarters in terms of the growth pieces, yeah 6% of sales in Q2. And we expect 6% of the growth rates being for GLP-1s and while we would expect that to start to slow down a little bit for the injectables, just by the nature of the size of the market, that's where the orals will come in and start to offset that slower growth rate. But make no mistake, we expect both to be growing fairly significantly still for at least the near term.

Matt Sims: Next question, please.

Operator: The next question is from Kevin Caliendo from UBS. Please go ahead.

Kevin Caliendo: Hey, good morning guys. I want to change up a little bit and ask a GMPD question. Specifically, CMS put out a proposal around domestic PPE recently. I know it's just a proposal. There's comments on the like, but if it were to go through, would this be a positive or a negative for you guys? Like how would it impact what you're doing? Are there profits potentially on PPE? What do you think happens to pricing? I'm just trying to understand if this is something as investors, we should be following and care about, and if it will impact you or the industry in any way.

Jason Hollar: So, you're going to have to make me go way back and give a little bit of a history lesson on PPE in general. I can't recall how long ago it was, but it was probably several years ago. I remember when we were dealing with the COVID impacts, making statements like, well, normally you would never expect us to talk about PPE because the revenue margin is relatively low and fairly consistent. Obviously with COVID the volatility on both the volume, the price and the cost created a bit of a perfect storm of volatility. So, I guess I start off by saying that, because it's not a huge category for our business. It's an important one certainly for customers, but it's not a key part of the growth that we just described certainly and given its importance to our customers, that means it is important to us. And if they see value in buying PPE domestically or if they're incentivized to do so in some way, or whether we're incentivized to do some way, absolutely. We can support that, we have a very flexible, talented procurement team in our GMPD business, and we source very diverse sources today throughout the world. That, of course, was expanded as a result of COVID. We would love to source even more in the United States. Quite frankly, today the cost is not typically something our customers choose to buy, but we are very, very open, willing and flexible to support that. But there's not a lot of choice today in that type of marketplace, especially at the price points that are competitive in the market. But that's where the incentives are going to be important within this equation. And if doing so, we are very able, very flexible in order to support that type of action.

Matt Sims: Next question, please.

Operator: The next question is from Lisa Gill from JPMorgan. Please go ahead.

Lisa Gill: Hi. Thanks very much and good morning. I was wondering if you could just spend a few minutes discussing your relationship with hospital and health systems on the Specialty side, and do you see incremental opportunities there when we think about your Specialty business?

Jason Hollar: Well, so we're quite present today and have a great relationship and reasonable share within that particular part of the market. So, we are very much capable of supporting the broad needs of Specialty irrespective of what channel, what customer. So, we've seen growth consistent across the different channels over the last several years. As a reminder, up until recently, we have talked about the 14% overall Specialty revenue, and we've increased that recently in our three-year CAGR at about 16%. So, we've seen a little bit of an acceleration. And you know that that is a part of the market that we have been winning at least our fair share within. And I really have to go back to three and a half years ago when I put Debbie Weitzman into the leadership role of that business. One of the first things that that she did, in terms of the Pharma business, is she brought together the Specialty and the non-specialty side and had created a one face, one voice to the customer that allows us to make sure that we're taking care of all of those customer needs. And because while Specialty is really interesting and important to us, it's only one component of what they need to have their support with. And so, we've changed our go-to-to-market type of strategy and has really resonated quite well with our customers. And that's the type of innovation and very high touch type of support that we'll continue to drive to ensure that their needs are met.

Matt Sims: Next question, please.

Operator: The next question is from Daniel Grosslight from Citi. Please go ahead.

Daniel Grosslight: Hi guys. Thanks for taking the questioning and congrats on a strong quarter here. I wanted to go back to the BioPharma Solutions, and specifically, the new business wins that you've highlighted for Sonexus™, including a significant competitive takeaway. What specific capabilities are resonating most with manufacturers? And as we look forward, for the next year or so, are there any significant investments that you anticipate making to keep you guys competitive in that business? Thanks.

Jason Hollar: Yeah, love the question, thank you. So, I put it into two key buckets. First of all, you got to start with the team. Not only is it a great group of people, they understand the customer and they really listen to what the customer is wanting, and needing, and demanding. And that's where it starts. Because then from there, you then implement the solutions to take care of those customers. And the solutions is the digitization that we did with our tool, our platform. And while it was always technology, we really leaned into it in a way that simplified their work with us. We allowed them to once when they bring one of their products onto our platform, it allows it to be replicated quite seamlessly to other products that they have. So, once we get that foot in the door and we can prove that we have a better tool, a better process than we see a lot of follow-on opportunities that go from there. This is not a recent investment that we've made. This team has been all over this for years. And your last part of your question is I think in terms of the future investments, we're always going to have additional investments. What we're trying to instill is a culture and a process that is not ever starving any of our businesses and then requiring some big catch-up. It may mean that we have elevated levels of spend for longer periods of time, but we like having less volatility on spend and more of a consistent investment, so that we're getting in front of those opportunities and not having to be more defensive in catching up. And so, we have made widespread investments across each of our investments. There's nothing that we're calling out today that will be significant but just keep in mind we are spending more today on, whether it's capital or these types of projects, than we have in the past. And so, we're already at, to some degree, elevated levels. I don't anticipate that dropping, but I'm also expecting that to spike in any significant way. The SG&A comments that Aaron made, and he was answering a specific question around GMPD, but I think those types of that type of answer goes for each of our businesses. What we are looking to do is take away the excess and the waste in the system that always exists in any business, and reinvest that in much more productive areas. So, we're always looking for productivity, efficiency, using technology, AI and just elbow grease to go after it and to take costs out. But then we're always also looking for, well, where can we invest that with a great return? Not only to drive financials but to solve more of our customers and patients problems. And that's what's really going well with the organization right now, is that we're able to look ahead farther than we ever have in the past, and that's what we're spending on is not today's problems, but we're spending on tomorrow's opportunities.

Aaron Alt: Just as a reminder, we have committed to getting the BioPharma services part of the portfolio to $1 billion revenue by 2028. Jason's been highlighting the successes at Sonexus™ with doubling the therapy supported, et cetera. That's all been a key part of that internal and external competition for our capital that I referenced before. So, we're quite excited about Sonexus™ being half of the growth to get to that $1 billion target.

Matt Sims: Next question, please.

Operator: The next question is from Glen Santangelo from Barclays. Please go ahead.

Glen Santangelo: Yeah, thanks for taking my question. Hey, Jason, I just want to come back to the Pharma and Specialty segment. I think in your prepared remarks, you seem to suggest that one of the big drivers was the Red Oak generics program, maybe performing a little bit better than you thought. And I think you sort of highlighted maybe better generic volumes than maybe you were expecting. And I'm kind of curious if you could just give us a little bit more details there. What's maybe driving that? Is it greater generic introductions, or is it greater penetration within your existing customers? And any sort of comments you have around generic pricing would be helpful. Thanks.

Jason Hollar: Yeah, I think Aaron had made the comments around strength in terms of the generics program, I believe it was more from the perspective as a year-over-year driver, which it certainly is. When you look at Red Oak, the utilization has been strong that that part is clear. In terms of the spread, the margin per units, we didn't call out anything in particular. It remains very consistent market dynamics. It also remains a year that does have good launches. The launches aren't any greater than what we had thought in terms of new items this year, but the underlying utilization across the industry remains quite good. So, I'd focus more on the volume than any other type of price, cost or new item type of perspective.

Aaron Alt: We manage the business to, you know, average margin per unit, right? That's why we call consistent market dynamics. The business did see great service levels that is certainly supportive of the volume trends. And of course we were onboarding new customers. And so that is helpful from a generic volume perspective as well.

Matt Sims: Next question, please.

Operator: The next question is from Charles Rhyee from TD Cowen. Please go ahead.

Charles Rhyee: Yeah, thanks for taking question. Maybe just sticking with the Pharma segment and thinking about the guide for the second half. If we look at the first half performance, I think, ARR growth was up 28%, and if you look at the guide for the second half, it's roughly about 16%. Should we think about this delta being sort of entirely just lapping new customers and M&A and understanding we have contribution from Solaris? And of course we're raising our second half expectations. Just trying to understand what the moving parts is. And I'm really trying to get a sense for how you think about underlying sort of core growth in the Pharma segment. Thanks.

Aaron Alt: Sure. A couple of thoughts I want to point out that our second half guide is well above our long-term growth target within that business. It is the case that our guidance philosophy all year long has been to call out the fact that we will be lapping that $10 billion of new customer in the back half, as well as lapping the M&A. And so, we want to make sure people are modeling that appropriately as we carry forward. I did call out that based on the success and the strength we saw in Q1 and Q2, from an internal forecast and guidance perspective, we have factored in some stronger demand within for the back half for us than what we had originally been anticipating. But we've not gone so far as to assume it's the outsized demand we've seen so far will be there. I consistently call that out as an opportunity for everyone if it continues at the same, that higher rate. We have not assumed

Solaris, the distribution coming in would be end of fiscal year, if that happens as well. Those are the drivers we've provided.

Matt Sims: Next question, please.

Operator: The next question is from Steven Valiquette from Mizuho. Please go ahead.

Steven Valiquette: Great, thanks. Good morning. So, I just have a question also on the GMPD segment. If you go back to the Analyst Day last year, you guys talked about as part of the five-point plan, you know, new product development and commercialization. So, I'm just kind of wondering as we fast forward another six months or so and still a lot of moving parts on tariffs and everything else, just the progression of like the new products and with the better-than-average growth right now. How much of that is driven from either growth of from the existing portfolio versus new products? And also, what your appetite for just runway to still increase that number of Cardinal private label SKUs within the overall GMPD portfolio. Thanks.

Jason Hollar: Yeah, I'm happy you asked the question because after Aaron and I answered the prior question, it hit me that I missed that point of our five-point plan. New product development investment is certainly a component of our prioritization and of the success we've had. Now, to be clear, what we mean by that and where we're prioritized is within the product categories that that we participate in today. Like the new compression device that I referenced in my commentary, or our new pump in our nutrition business. These are all categories that we already have a significant presence, but allows us to grow by providing broader products to those existing customers of existing markets. We have not prioritized new products into new product categories. A similar reason for what I described before with our other businesses, where we have a fantastic opportunity to still grow Cardinal Brand mix within the product categories that we're already participating in today. We can get at it faster, more efficient, more effective, solving more patients problems and create more value for our customers by prioritizing on those product categories. So, it is a key component of our growth, but it's a little bit of a broader, better products within those same exact categories. So, we'll continue to invest into that. And that will remain our priorities for at least the near-term with this business.

Matt Sims: Next question, please.

Operator: We'll now take our last question today from Brian Tanquilut from Jefferies. Please go ahead.

Brian Tanquilut: Hey, good morning and congrats on the quarter again. Aaron, as I think about the growth in the embedded tech segments or tech businesses within the core like some Sonexus™, any anything you can share with us in terms of the growth rates for those tech operations? Under the last quarter, I think you pointed to Sonexus™ [indiscernible] more than 30%. So, just curious how we should be thinking about that and how do you think about it going forward? Thanks.

Aaron Alt: Yeah, I know we've called out both the aspirational goal of the $1 billion here by fiscal ‘28 and BioPharma Services growing within the year, up 30%, half of it from Sonexus™. We don't separately break the parts of the portfolio out. But I do want to emphasize that when Jason talks about how our key strategic investments are in Specialty, we view this as an important part of the Specialty business. And so, we continue to invest, whether it's in Sonexus^{TM}, the hub business, cell and gene, 3PL, the other parts of the portfolio. We are investing for the long-term there to help support the broader growth objective for the Specialty part of our business.

Matt Sims: Great, thank you.

Operator: Thank you. We do not appear to have any further questions, and I would like to turn the call back over to Jason Hollar for any additional or closing remarks. Over to you, sir.

Jason Hollar: Yeah, thanks. Thanks for joining us today. Obviously, we're very pleased with our performance this quarter as well as the progress in advancing our strategy. As always, please reach out if you have any further questions. With that, have a great day.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.