

Q3 FY26 Cardinal Health, Inc. Earnings Conference Call

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Operator: Hello and welcome to the Third Quarter Fiscal Year 2026 Cardinal Health, Incorporated Earnings Conference Call. My name is George and I will 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 the listen-only mode. However, you 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 register your question. Also, can you please limit yourself to one question each to allow the maximum attendees to ask a 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. Please go-ahead sir.

Matt Sims: Good morning, and welcome to Cardinal Health's Third 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 another strong quarter for Cardinal Health, building on the momentum we've displayed over the past few years. This quarter's performance highlights the durability and resilience of our business, and the team's disciplined execution. The results reinforce our conviction in the company's growth trajectory and ability to deliver long-term value creation.

Our underlying operating strength continues to be led by our largest and most significant business, Pharmaceutical and Specialty Solutions, and is amplified by contributions from our higher margin growth businesses.

Within Pharma, we delivered strong growth, highlighting the strength of our core. We continue to see benefits from our strategic focus on expanding our capabilities across Specialty, both downstream with providers and upstream with manufacturers.

We are progressing the expansion of our MSO platforms, in particular with The Specialty Alliance's multi-specialty offerings, delivering differentiated value to a growing network of physicians and enhancing patient care and access. The integration of Solaris into The Specialty Alliance remains on track and we are taking actions to realize synergistic benefits across our portfolio.

In GMPD, we continue to execute against our improvement plan. Our focus on simplification and cost optimization initiatives is producing tangible results, and we continue to see notable strength in our portfolio of Cardinal Health Brand products. Our deliberate actions to simplify operations, enhance supply chain resiliency, and drive commercial excellence remain strategic priorities as the business navigates a dynamic tariff environment.

Our Other growth businesses, at-Home Solutions, Nuclear and Precision Health Solutions, and OptiFreight® Logistics, continue to deliver robust results. Their sustained performance is a direct outcome of our continued strategic, long-term investments in these areas, which are aligned with a favorable demand environment and positive secular trends in faster growing areas of healthcare.

The collective strength and sustained momentum across the enterprise, including our financial position, gives us the confidence to again raise our full-year outlook for fiscal '26 and highlight our expectations for continued momentum in fiscal '27. And with that, I will turn it over to Aaron to review our financials and outlook.

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

Our team delivered strong financial results in the third quarter, reflecting positive broad-based demand, operational execution and loyalty to our disciplined capital allocation framework.

Our strong operational performance was supplemented by positive discrete tax planning benefits below the operating line and continued share repurchase activity. Given our confidence in the remainder of the fiscal year, we are pleased to be raising our full-year fiscal 2026 non-GAAP EPS and adjusted free cash flow guidance.

Let's begin with a review of our consolidated third-quarter results.

Total company revenue increased 11% to \$61 billion. This growth was driven by strong demand in our Pharmaceutical and Specialty Solutions segment and in Other.

Gross profit grew 18% to \$2.5 billion, due to benefits from our acquisitions and segment performance. While we maintained our focus on cost management, we also invested in the business, with SG&A, inclusive of the impact of our M&A, increasing 17% on a headline basis. When you adjust for the impact of the M&A, our SG&A growth was 7%, reflecting increased volumes and purposeful investments in teams and technology across our business.

The combination of these results led to an 18% increase in enterprise operating earnings to \$956 million.

Moving below the line, we recorded net interest and other expense of \$117 million for the quarter, driven primarily by the increased financing costs associated with prior acquisitions.

Our non-GAAP effective tax rate for the third quarter was 10.2% due to the benefit of discrete tax planning items in the quarter. Included in our Q3 ETR was a multi-year benefit that contributed approximately \$0.35 to the quarter.

Average diluted shares outstanding were 236 million shares. This reflects the positive impact of the completion of our second quarter ASR program in January as well as the launch of an additional \$250 million share repurchase program in the quarter, which was completed in April. This brings our fiscal year '26 total share repurchases to \$1 billion, exceeding our fiscal year baseline target by \$250 million, year to date.

The net result of these factors was third-quarter non-GAAP EPS of \$3.17, representing 35% growth.

Diving deeper into the businesses, the Pharma segment delivered a strong quarter. Segment revenue grew 11% to \$56.1 billion. This was primarily driven by existing customer growth across the portfolio.

We continued to see strong overall pharmaceutical demand across product categories, including Specialty, generics and consumer health. Within Brand, volume growth also remains quite healthy, though we did observe some fluctuations in mix that impacted the overall revenue line between GLP-1s, IRA changes and generics.

Of note, during Q3, GLP-1s added 6 percentage points to our revenue growth. GLP-1 revenue growth remained robust, at over 30%, but moderated from the prior quarter. The growth from GLP-1s was generally offset in the quarter by a 6-percentage point impact to revenue from Inflation Reduction Act WAC pricing adjustments.

Segment profit growth outpaced revenue growth significantly, increasing 18% to \$784 million. This strong result was primarily driven by contributions from Brand and Specialty products. As previously shared, we maintained our economics on distribution contracts notwithstanding the impact of WAC changes. We also saw positive performance of our generics program and were pleased to again see consistent market dynamics.

I want to highlight how our teams adeptly managed through the increased operational complexity resulting from heightened winter storm activity during the third-quarter, a testament to the agility of our workforce and fundamental durability of our business model.

As a matter of financial transparency, I will note that on a GAAP basis, earnings were impacted by a \$184 million pre-tax goodwill impairment charge related to our Navista™ business. The non-cash impairment charge was primarily due to changes in the risk profile of the business plans resulting in an increase in the discount rate. These changes reflect business model updates and base operational

performance. The impairment does not affect our non-GAAP results. Our strong positive outlook for our Specialty business is unchanged. We are pleased with the above-market growth we are seeing in Specialty, including over 20% revenue growth in the third quarter, and we continue to expect our Specialty revenue to exceed \$50 billion in fiscal 2026.

In our GMPD segment, revenue was \$3.1 billion. This was generally flat to prior year, reflecting lower distribution volumes, offset by Cardinal Health Brand growth. We were again pleased with Cardinal Health Brand performance, which grew over 5% in the U.S, including timing shifts into Q2 that we called out last quarter.

GMPD segment profit saw a decrease to \$25 million due to the adverse net impact of tariffs. That said, our segment results reflect solid underlying operational performance, and the team remains focused on executing our improvement plan, driving cost efficiencies, and managing supply chain resilience to serve our customers effectively.

As you are aware, our tariff exposure is concentrated in the GMPD segment. In February of 2026, the Supreme Court ruled tariffs imposed under the International Emergency Economic Powers Act unlawful, and work is underway to establish a refund process. Uncertainty remains in the timing, scope, and administration of refunds and we have not recognized any financial impact in the quarter nor reflected potential impacts in our updated guidance. To date, we have paid approximately \$200 million in IEEPA tariffs and previously noted sharing in these impacts with our customers. As a result, if circumstances change and become more certain, we would anticipate the potential future net benefit to Cardinal to be about half of that \$200 million, primarily driven by the repayment of the IEEPA pricing that we've taken to our customers.

Turning to our Other growth businesses, at-Home Solutions, Nuclear and Precision Health Solutions, and OptiFreight® Logistics, we saw strong results. These businesses represent a key element of our long-term growth expectations. Segment revenue grew 31% to \$1.7 billion, and segment profit grew 34% to \$179 million. This performance was driven by robust demand across all three businesses and the acquisition of ADS.

The integration of ADS into our at-Home Solutions business is progressing well, and this combination has created a powerful platform for patients with chronic conditions that supports, and can be supported by, other parts of our business.

Our Nuclear and Precision Health Solutions business is executing like clockwork. NPHS again saw over 30% revenue growth from theranostics, a key area of innovation and investment.

And, OptiFreight® Logistics continues to deliver its unique value proposition, helping healthcare providers manage logistics with greater efficiency and cost-effectiveness, growing revenue nearly 20% in the quarter.

Now, turning to balance sheet.

Our capital deployment priorities remain consistent, investing organically in the business for long-term profit growth, maintaining our investment-grade credit rating, returning capital to shareholders, and opportunistically pursuing value creation through strategic M&A.

We ended the quarter with a cash position of nearly \$4 billion after generating \$1.7 billion of adjusted free cash flow in the quarter and taking several actions that align with our disciplined framework.

We continue to invest heavily into the business, with capex of \$385 million so far this year across all of our businesses. We prepaid \$100 million on our outstanding term loan, further reducing our Moody's adjusted leverage ratio to 3.0 times. This places us comfortably within our target leverage range of 2.75 times to 3.25 times and demonstrates our commitment to our Baa2 rating at Moody's. As I noted, we also returned capital to shareholders through an additional \$250 million accelerated share repurchase.

So, let's talk about the rest of fiscal '26. Our strong performance through the third quarter and our confidence in the fundamentals of our business leads us to raise our non-GAAP EPS outlook for the full year to a range of \$10.70 to \$10.80, that is a \$0.50 increase at the midpoint made up of approximately \$0.13 from operational strength at Pharma and our growth businesses, the remainder below the line. This new range represents annual EPS growth of 30% to 31%.

In Pharma, we expect our fiscal 2026 revenue to come in at the lower end of our 15% to 17% range, reflecting the continued strong overall volume growth and the mix dynamics within Brand that I referenced earlier.

For segment profit, we are pleased to raise and narrow our profit growth outlook to 22% to 23%, an increase from our prior range of 20% to 22%. This change reflects our performance through the third quarter and is indicative of our confidence in the segments continued operational execution with anticipated high-teens profit growth in the fourth quarter at the mid-point. As you model the remainder of the year, please keep in mind we have now fully lapped our large Pharma wins from fiscal '25 and the GIA acquisition. Consequently, Solaris will be the primary inorganic driver to account for in your year-over-year comparisons. Additionally, I will note we are onboarding distribution volumes for GI Alliance and Solaris during Q4, which are reflected in our guidance.

For the GMPD segment, we are reiterating our revenue outlook of 1% to 3% growth and holding our profit guidance to \$150 million. We remain pleased with the progress against the GMPD improvement plan and are encouraged by both the consistency of our Cardinal Health Brand growth and tangible impact of our simplification strategy.

With our Other growth businesses, revenue guidance is unchanged, projecting the full year between 26% to 28% growth. However, we are increasing our profit growth guidance to a range of 36% to 38%, up from 33% to 35%. This positive revision is driven by strong performance across all three growth businesses to date. As you model the remainder of the year, please continue to remember that we have lapped the acquisition of ADS in April, which will result in more normalized Q4 growth.

Focusing below the line, we are updating our outlook for interest and other to approximately \$340 million, up from our previous estimate of \$325 million. This is due to some Q3 adjustments within the Other Income and Expense line, the majority of which was offset in tax and net neutral to the enterprise.

Additionally, as a result of the discrete planning benefits in Q3, we are lowering our expected non-GAAP effective tax rate for the full year to approximately 19%, down from our prior range of 21% to 23%.

Reflecting the impact of our share repurchase activity, we are updating our outlook for weighted average shares outstanding to approximately 237 million shares from our previous guidance of 237 million to 238 million shares.

Finally, we are raising and narrowing our full-year adjusted free cash flow guidance to a range of \$3.3 billion to \$3.7 billion from our previous guidance of \$3.0 billion to \$3.5 billion, which reinforces the robust and resilient cash-generating capabilities of our business model.

In summary, our third-quarter results demonstrate the broad-based strength of our business and the progress we are making against our strategic objectives.

Before I close, I'd like to share some initial thoughts on fiscal 2027.

The headline is that we remain confident in our long-term targets and will continue to assess the various puts and takes for next year as we progress further through our annual planning process. We look forward to sharing detail of our fiscal 2027 outlook during our fourth quarter earnings call, but before then, a few items of perspective.

While the healthcare landscape and regulatory environment remain dynamic, we have consistently demonstrated an ability to navigate change, reinforcing the deep resilience of our model and our enduring value proposition.

In our Pharmaceutical and Specialty Solutions segment we anticipate positive demand and demographic trends to persist, supported by strong ongoing operating performance. There are several positive items informing our views, the scale and efficiency of our pharmaceutical distribution operations, and our growing position in Specialty, including specialty distribution, our MSO strategy and BioPharma Solutions. We will see benefits from the annualization of the Solaris acquisition in the beginning of the fiscal year and anticipate benefits of continued synergy realization.

The three businesses in Other are exceptionally well-positioned to benefit from secular trends and to win in high-growth innovation areas like theranostics. We plan to continue to strategically invest and position ourselves to capitalize on those trends.

In our GMPD segment, the successful execution of our multi-year improvement plan is on track, and gives us confidence in our continued potential to unlock value in this business. We continue to monitor the dynamic tariff environment and broader macroeconomic factors including fuel and

commodity exposure, with improved ability to navigate change as a result of our multiyear focus on simplification and efficiency.

All of this is supported by the fact that we are completing our third year of long-term, sustained investment in our businesses to ensure that the foundations of future growth are built before we need them.

Below the line, we'll have the comparison to the discrete tax benefits this year, while continuing to pursue opportunities to drive durable improvements in our tax position.

We expect another year of robust cash flow generation and will be sticking to our knitting with respect to our disciplined capital framework, which creates opportunity for accretion through our baseline share repurchases.

In closing, we are confident in our ability to achieve our updated, higher guidance for fiscal 2026. Our priorities are unchanged and we are executing against them. Our team is committed to our vision and will remain focused on its achievement while investing for long-term growth and value creation.

With that, I'll now turn the call back over to Jason.

Jason Hollar: Thanks, Aaron. Our Pharma segment once again led our performance, providing proof points of our strategy to strengthen the core and expand in Specialty.

Our continued focus on the core, with investments in infrastructure, technology and our people are delivering measurable improvements across the network. As an example, we continue to invest in our existing distribution centers through automation and productivity initiatives, which both improves our cost and expands our capacity. We are achieving record high service levels, which is a testament to our employees and the investments we've made focusing on the core.

We continue to see consistent dynamics in generics with our Red Oak partnership and continue to have best-in-class performance in the strength of our generics program.

Specialty continues to be an increasingly important driver of our strategy and results. Upstream, our BioPharma Solutions business is advancing its momentum, providing critical services to our pharmaceutical partners, evidenced by three new pharmaceutical therapies that our Sonexus™ patient support business onboarded this quarter, with another ten scheduled to be completed over the next two quarters. This growing pipeline underscores the trust and value we provide to manufacturers bringing life-changing therapies to market.

We continue to see opportunity from our multi-specialty MSO strategy within The Specialty Alliance, which is proving to be a key differentiator in the marketplace, generating value for community-based physicians and their patients. Since last quarter, we closed three tuck-in acquisitions within The Specialty Alliance, adding physicians to our network and further extending our geographic reach into our 33rd state. Our model continues to unlock value through the synergies we create across our businesses. For instance, Specialty Networks and The Specialty Alliance are now partnering to

support a pharmaceutical company on a multi-year study focused on understanding real-world outcomes for patients receiving care at community gastroenterology clinics across the country. Specialty Networks will perform the analysis, showcasing how we connect our vast network of partners, physicians, and patients to create long-term, differentiated value.

Turning to GMPD, we continue to demonstrate disciplined execution, and make progress on our ongoing improvement plan. The team remained focused on growing Cardinal Health Brand and relentlessly simplifying operations, and we made tangible progress on both fronts during the quarter. With the execution of our five-point plan, Cardinal Health Brand has now grown at least mid-single digits for five consecutive quarters, outpacing the broader market.

Our Other growth businesses, which remain an increasingly critical component of our long-term strategy, were again a significant driver of our performance this quarter.

In at-Home Solutions, we continue to see a strong demand environment, fueled by the ongoing shift of care into the home. To support the growing demand, we are investing to expand the capacity of our network, the breadth of our offering, and in new technology to drive efficiencies and customer experience.

We are pleased with the integration progress of ADS, which now marks one year as part of Cardinal Health. We have successfully migrated ADS volume into our distribution centers, as well as onboarded nearly 1,000 new employees and nearly 500,000 new patients. This marks a significant operational achievement that positions us for enhanced efficiency and long-term growth. We are well-positioned to capture ongoing growth, as evidenced by the key synergies between Pharma and home health, where we are seeing strong growth of our ContinuCare Pathway program which we announced early this year, with the team now serving 165,000 patients and growing, up nearly 20% since January. This progress is supported by our ongoing investments in technology and our core distribution footprint. To that end, we have signed a lease and are progressing with our new Sacramento Distribution Center, which will help us serve even more customers on the West Coast.

Nuclear and Precision Health Solutions continues to demonstrate its leading position, thanks to our differentiated offerings and specialized expertise. This quarter, we announced a significant expansion of our Actinium-225 production capabilities at our Center for Theranostics Advancement, which will substantially increase our capacity to support the rapidly growing demand for novel targeted cancer therapies and strengthen our ability to meet customer needs today and into the future. To date, Nuclear's Actinium-225 has supported more than 15 clinical trials worldwide, reflecting broad engagement with pharmaceutical innovators, a clear indicator of our ability to execute and scale in this complex and highly differentiated field. We continue to unlock opportunities for greater connectivity between our Nuclear business and our Specialty businesses, exemplified by a recent supply agreement with The Specialty Alliance, which makes them our Nuclear business's largest user of Illucix for prostate cancer imaging.

Our OptiFreight® Logistics business also continues to perform well and expand its offerings, consistently demonstrating its leading value proposition for healthcare providers. Launched last quarter, the Pharmacy Solution from OptiFreight® Logistics, inclusive of tech-forward products

Shipment Navigator and Tracking Beacon, provides meaningful shipping process efficiencies and improved tracking visibility, via an all-in-one platform, to drive confidence, security and clarity for outbound pharmacy shipments.

In closing, our results this quarter again demonstrate the clear progress we are making across the business. The relentless focus and dedication of our colleagues around the world underscores the vital role we play in ensuring critical products reach the right place at the right time for our customers, evidenced by the increased complexity our teams managed through to achieve record high service levels for the quarter.

Our resilient business model and our foundational role as the backbone of the healthcare system give us great confidence in our ability to capitalize on opportunities ahead and to deliver sustained long-term value.

With that, we will take your questions.

Operator: Thank you very much sir. Ladies and gentlemen, as a reminder, if you have any questions, please press star one on your telephone keypad. Once again, can you please also limit yourself to one question each to allow the maximum attendees to ask a question. Our very first question is from Lisa Gill from J.P. Morgan. Please go ahead, Lisa. Your line is open. Hey, Lisa, I'm not able to hear you at this time. I'm just going to put you back in the queue. If you could please check your phone here, we're just going to move to next question. It's coming from Michael Cherny of Leerink Partners. Please go ahead, Michael. Your line is open.

Michael Cherny: Okay, great. Perfect. Thanks. One quick housekeeping and then one broader question. First, on the housekeeping side, is there any way to quantify the accelerated SG&A investments that you mentioned in the quarter relative to positioning for future growth? And then, broadly speaking, great to hear all the progress on Specialty. As you look at the portfolio now, where do you think, if there are any kind of holes or shortfalls, that you continue to see the opportunity to build out either organically or inorganically from here? Thank you.

Aaron Alt: Great. Good morning, thanks for the questions. Happy to address them. We did call out in the prepared remarks that while SG&A was up 17% across the enterprise overall, if you exclude the impact of the M&A, it was up 7%. And I can assure you, we are being quite purposeful and disciplined in thinking through our SG&A structure to ensure that where we are investing, particularly in technology and team, as I called out. It's focused on setting us up for success going forward.

With respect to the Specialty portfolio, I guess I'll start and just observe that we are really pleased with the continued strength we're seeing in our Specialty business, indeed across the pharmaceutical demand overall. But as we think about the Specialty portfolio, that was a key contributor to the excellent results that Pharma had. GIA, Solaris, ION, all of the businesses that we've acquired have certainly partnered well with the existing Specialty capabilities, Specialty Networks, et cetera, and are performing as we expected when we brought them to the portfolio.

As far as where to next, if your question is really about the inorganic opportunities, what I would observe is, while we will continue to be focused on Specialty, we have prioritized autoimmune and urology and we'll remain focused there. But we are going to be quite disciplined as well, the right assets, at the right timing, at the right price. We will continue to lean in to support our growing Specialty platforms. Jason, anything you could add?

Jason Hollar: Yeah. I just add that we're very pleased. Aaron just used the word platform, and I think that's an important distinction of the investments we've made to date. We're clearly much more focused on the bolt-ons. We believe we have the capability, the business, and perhaps most importantly, the teams in place to execute the strategy. And we see that there is a lot of opportunity, not just within each of these platforms, but how these platforms work together. You even heard in this call already, some of the examples of the areas that were working. Not just between the MSOs, but the MSOs and the rest of the Specialty business between the MSOs, and what we're doing with Nuclear or our at-Home Solutions business. So, we have lot of interconnectivity there, and it's all a component to our broader strategy to drive overall Specialty growth, which we reinforced again today, is growing at over 20%. I still expect to exceed \$50 billion of revenue this year. The only other thing to add outside of Specialty clearly are our highest priority. We've been very clear on that point. The other acquisition that we've done in the last year that we just had an anniversary here, April 1st, of course, is the at-Home Solutions business. So, the other businesses are the other areas of potential opportunity for us, secular growth trends that are part of the market that's growing very quickly. We are very well-positioned in each of those three spaces. And if the right opportunity presents itself, I would use similar words as to Aaron just said, we will be very disciplined as to how we approach those opportunities, but we think the market's growing and we're well-positioned.

Matt Sims: Next question, please.

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

Elizabeth Anderson: Hi, guys. Thank you so much for the question. I wanted to dive into Other, obviously that continues to grow very nicely, and you just raised the guidance for the fourth quarter. Are you seeing any sort of changes in trend there that give you the confidence to do that, or how should we think about that as we sort of think about the back half of the year and then into 2027? Thank you.

Aaron Alt: Good morning. Thanks for the question. We saw a strong performance across all three of the growth businesses affectionately known as Other. Revenue was up 31%. Profit was up 34%. But if you really unpack that, Jason referenced these strong secular trends, the positioning, the competitive positioning we have, that's contributing to good results within the business, and indeed lots of positive perspective on where those businesses are going to take us as we carry forward. Strong demand has also been a key part of why those businesses have succeeded the way they have. I would highlight a couple of things. The core business within at-Home is doing well, and it has been reinforced by the ADS acquisition, the integration that Jason referenced earlier. It's going very well. We had highlighted in an earlier earnings call that we had a plan with opportunities to overperform, and we continue to see the goodness coming from the at-Home business supported by

the ADS acquisition. And we've pivoted from the integration of the supply chain, the distribution, to now being focused on the systems, the back office and ensuring that we're providing the best-in-class customer experience that we aspire to for the patients being served by our at-Home business. Within Nuclear, that theranostics growth just keeps coming. The investments that we're making in supporting the 70 different therapeutics that are coming our way, really have created a pipeline of success for the business, some of which were now starting to see, particularly within urology and oncology. So, we're excited about that. And then OptiFreight® continues to perform, providing the excellent services to its customers with another good quarter as well. And so, we were pleased to deliver a good quarter. And this business will, of course, contribute to our race to our guidance and achieving our long-term targets.

Matt Sims: Next question, please.

Operator: Thank you sir. Next question will come from Erin Wright of Morgan Stanley.

Erin Wright: Great, thanks. So, some of the commentary on 2027 and the moving pieces was helpful. When we dig into that core Pharma and Specialty distribution segment in the AOI growth assumptions that that we should be considering, it remains strong. But how do we think about the sustained momentum into 2027? What would make you deviate from the long-term growth algo in that segment, and how do we kind of reconcile with underlying utilization trends that you're seeing or you're expecting into 2027, and then also those continuing Specialty drivers? Thanks.

Aaron Alt: A couple of thoughts there. First, we remain confident that our business is quite resilient and has demonstrated durability notwithstanding a fair amount of change in the industry. And I think it's important to keep that in mind that as we talk about fiscal '27 as well. And that's part of why we're able to express the confidence in the long-term targets that we have really across the enterprise, but particularly within the Pharma of business. We have a strong core to our business. We have seen consistent positive demand. We saw it again, this quarter and the business is supported by, positive demographic trends that aren't going away as we get one more quarter into our business. And so, we think those are all things that are going to support the trajectory of that business. We will also continue to benefit from the Specialty expansion that Jason and I have just commented upon, right? And one thing we're particularly excited about as well is how the pieces are all now starting to fit together. Specialty Alliance, working with Nuclear. Biopharma really working with the broader portfolio. And so, there's a lot of goodness there within the Pharma business that we think is supportive of the long-term target. And of course, we'll provide more perspectives as we get through our planning cycle at the Q4 Earnings Call.

Matt Sims: Next question, please.

Operator: Thank you sir. Next question coming from Eric Percher of Nephron Research. Please go ahead, Eric.

Eric Percher: Thank you. I want to stick with Pharma and Specialty, and I'd like to get a little bit more on Navista™ and ION and the impairment. And I know you called out changes to the risk profile

relative to a business plan. Can you give us a feel for whether that was near-term versus long-term changes, and does it alter at all the oncology MSO strategy or economics of the platform?

Jason Hollar: Sure. Thanks, Eric, and I'll go ahead and start and then turn over to Aaron to walk through a few of the mechanics. First of all, I'll just reinforce what Aaron already said, the broader strategy. We're very pleased with the execution, not just this quarter, but this year, but also the last several years. Exceeding this \$50 billion this year, continuing to see over 20% growth in Specialty highlights our strategy is working within the collective assets that we have put in place. And I'll remind you that that 20% growth is pretty consistent to what we said over the last two quarters. So, each quarter this year, which was an acceleration from the mid-teens growth that we saw in the prior several years. So, we've seen our Specialty growth be strong and then it's accelerated this year into, very strong competitive positioning. And then within oncology, it was even stronger this quarter. Continuing on those trends as well over 30% growth in oncology. So, as a reminder, Specialty has a lot of components to it. Within Specialty, MSO is just one component within the MSOs, oncology is just one component. And then we have, of course, the Navista™ within that. So Navista™ is a component of that. And it was a combination of an acquisition but also organic business. And we had a couple of different strategies in place. We had the equity strategy working with physicians to create this long-term cooperation, collaborations agreements with an equity component. And then we had the non-Equity where it was more transactional, more contractual. And what we've seen is that while physicians like to have choices and like to have a different alternative. Ultimately we're seeing the market voting for the equity arrangement, and that's where the market has moved and why we're prioritizing our strategy to that component. It does not change the broader strategy of either the MSO strategy or the broader Specialty strategy. And I think the underlying data certainly supports that. It's all coming together in a very accretive way. But with this pivot and strategy, it did have some knock on effects that Aaron can walk through.

Aaron Alt: I won't belabor the point just to observe that this is one piece of Specialty and one piece of oncology. And we're keeping score, right, on ourselves as we've always committed we would tell you what we're going to do, do it and report back. And in this case, we have increased the discount rate applied to a small part of the oncology business. And we remain pleased with the contribution that the Specialty M&A is adding to our portfolio overall, the 8 percentage points or so within fiscal '26, consistent with the prior guidance that we've given.

Matt Sims: Next question, please.

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

Allen Lutz: Good morning and thanks for taking the questions. Aaron, big free cash flow raised with a quarter to go. You mentioned or called out that revenue was maybe a little bit lower than your expectations. I think you caught out, IRA, and maybe a little bit from GLP-1s. We know that IRA is maybe more of a headwind on the revenue side, but you were able to raise the free cash flow guidance. Can you talk about what gave you the confidence or what you're seeing? Was it better than expected? Was there a mix shift with a movement, I guess, more toward those IRA drugs that was actually a positive contributor to free cash flow? Was it more generics? Just trying to understand what

makeshift, if at all, impacted the free cash flow guide that was maybe a little bit better than you expected. Thanks.

Aaron Alt: Allen, good morning. Thanks for the question. What I would observe is that it's amazing how what gets measured gets done. And I can't point to just one factor across the enterprise as being the single source of success for our ability to generate the adjusted free cash flow we did, or indeed drive the increase to the increase to the guidance. It was driven really across all of our businesses, with the management teams focused on the intersection between our customer service levels and our inventory positions, ensuring that we're collecting that which is due to us from a ARR perspective and focusing on the appropriate levels of AP with our suppliers. And so, there were a series of initiatives that have been underway now for several quarters that are really generating the success that we are able to call out.

I do want to seize on your question to maybe answer a question I haven't gotten yet, or maybe put an emphasis on a point in the broader Pharma result, which is you called out the revenue. And I think this is probably a good point for me to observe that the revenue growth within the Pharma business was 11%, which I understand some were maybe expecting a little bit more than that. And it's important to understand that we're in the first quarter of a couple of things going on. Firstly, of course, we have, you know, the IRA WACC changes, which that was a negative relative to the overall growth rate – yeah sorry, revenue. Thank you. And similarly, GLP-1s is also in a period of change. And so, while GLP-1s are growing extensively, still over 30%, they're growing less than they were before. And so, we saw a 6 percentage points uplift from growth within GLP-1s offset by a similar level of downdraft from IRA WACC. And then when you toss in some other brand dynamics, like the LOE to generics which is a positive for profit, right, that's really what's going on within the revenue line. Even though the profit line, the demand line was very strong, the profit line is very strong. And so, I wanted to take this opportunity to reference what was going on there.

Operator: Thank you sir. We'll now move to Glen Santangelo of Barclays. Please go ahead.

Glen Santangelo: Oh yeah, thanks for taking my question. Jason, I just want to follow up on some of those comments you were just making because I think there is obviously a lot of focus on these IRA, impacts on the pricing and the revenue line. And I guess what the concern that some may have is as these prices come down, it seems like on the fee for service side, you're clearly maybe being made whole, but maybe some are concerned about, the buy margin on the 2% discount and then ultimately downstream when you look at practice profits, if the price of these drugs are coming down, if these practices inherently become less profitable. Can you get squeezed in any way at the distributor level from these IRA price reductions beyond just the fee for service agreements? And I think that's, what we're all trying to sort of figure out is the different components of the profitability there. And if there's any vulnerability. Thanks.

Jason Hollar: Yeah, thanks. Thanks for the follow-on question on that. Let's break it into the two components because I think you're right to talk about this in two different pieces. Aaron's comments were very much focused on the distribution side. That's by far the biggest component of our business, and it's relevant to start there. We remain incredibly confident in our underlying business model. When you think about the fees that we received today for the services we provide, that should not

change. The services are certainly not changing, and we remain the lowest paid component of the supply chain than anyone in the supply chain. So, we feel very good about continuing to receive the fees that we currently receive for that work. And as a reminder, we announced the completion of the renegotiation of these contracts, at the very beginning of the quarter at an analyst conference there. So, this was all done prior to the quarter. It executed exactly consistent with that announcement because those agreements were already in place, very similar to what happened with the insulin repricing the year before that. So, there's a lot of precedence. And frankly, it just makes sense. And it is consistent with we have the right to renegotiate the vast majority of our contracts for situations like this. So, I continue to feel very, very confident with that.

Now, when you talk about other components of our business MSOs in particular, as a reminder, the drug spend for our for \$4.5 billion of revenue in MSOs is pretty diversified. We have only about a third of that being drug spend, and within that we have a very diverse payer mix. So, we feel very confident that the implications to our MSOs are going to be very manageable, if any at all, because ultimately, what we're all looking for is exactly what is the administration's intent for providers as it relates to these go-forward initiatives. We don't think the intent is to harm community providers that provide the excellent service to their patients, excellent care at the lowest cost already today. So, it all makes sense for them not to be harmed, but we recognize actions need to be taken. But even if they don't, we believe this is very manageable for Cardinal Health.

Matt Sims: Next question, please.

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

George Hill: Yeah. Good morning guys. And thank you for taking the questions. And I'm going to dovetail right off of what Glen just asked. I guess I would ask Jason and Aaron, how would you guys characterize your fee for service pricing power as it relates to distribution agreements, especially in the face of some falling drug prices? And then I would ask, as a follow up, like, how have you guys analyzed that in the face of BFSF risk as that's supposed to roll out and kind of get recalculated in the back-half of this year? Thank you.

Jason Hollar: Yeah. As it relates to bona fide service fees, I think it's just too early to talk about exactly what the implications are going to be for the whole industry. I mean, this is far from just a distributor type of process change, if at all. And again, it goes all back to we feel very comfortable with the value we're providing. So, just like in the initial shift to fee-for-service in the first place, which maintain those economics, we would expect there to be a similar type of transition, if there is a transition that's required. In terms of just the pricing power, it's quite simple. We have 1% margins and I think we've been I've been very clear that branded products are at the low end of that 1%, right. I mean, this is a blended margin of 1%. These products are at the low-end. We have the right to renegotiate these rates. We get paid a certain dollar fee today for the service we provide. It's clearly the best value for all those in the supply chain or they wouldn't be using the distributors in the first place. So, there's nothing that changes in terms of the value we're providing tomorrow. So, we fully expect, we fully demand to be paid the same amount going into the future.

Matt Sims: Next question, please.

Operator: Our next question will be coming from Stephen Baxter calling from Wells Fargo. Please go ahead.

Stephen Baxter: Yeah. Hi. Thanks. Appreciate the early comments on next year at the stage and trying to boil down some of the business commentary in the below the line commentary. I guess I'm trying to understand whether you're suggesting that the benefits from, lapping deals and ramping synergies you think could potentially offset the below-the-line items that we're going to be comping against as we move into next year. And therefore, leave the kind of typical EPS long-term growth rate intact or do you think people need to be modeling maybe something more conservative at this stage? I want to make sure we understood that right. Thanks.

Aaron Alt: That's a great question. Our job is to manage the entire income statement year-over-year, and what I want you to take my comments as being is providing initial perspective that we believe there are good reasons to believe in our long-term targets overall with 12% to 14% non-GAAP EPS growth. We've talked about some of the operating reasons the demand, the demographics, industry positioning, et cetera, are all-in supportive of the overall position. And as we do in every year and every quarter, we will continue to go looking for ways to optimize our below-the-line items whether it's finding further durable ways to ensure we have the appropriate tax rate or also looking at our share repurchase plans. And so, we have a lot of planning yet to do in our cycle, but we are confident in our long-term targets.

Matt Sims: Next question, please.

Operator: Yes, sir. Next question is coming from Kevin Caliendo of UBS. Please go ahead. Your line is open, sir.

Kevin Caliendo: Hey, guys, thanks for taking my question. I wanted to talk a little bit about GMPD and understanding exactly what you meant by lower volumes. Is that just a macro thing? Is that a market share thing? Is there anything you can talk about that's happening? And have the volumes improved in April if it was a macro thing? And then secondly, you talked about the potential claw back on the tariffs. How do you account for that? You mentioned it's potentially upwards of \$100 million versus maybe the \$200 million impact. How does that get accounted for? Does that drop through the P&L? Is it something that you're reserving for on the balance sheet now? I just want to sort of understand from an economic perspective, from a modeling perspective, from an accounting perspective how that all works. Thanks.

Jason Hollar: Sure, yeah. This is Jason. I'll go ahead and start, and I'm sure Aaron will clean up then after that. In terms of volumes, I think the underlying industry volumes for the med/surg side of our business seem to be fairly resilient and consistent, likely in the low-single-digit type of range. And the one area that I know I've seen public data on as well, we saw a little bit of softness in lab respiratory. It's not a huge component of our GMPD business, but it is one that had a little bit earlier flu season, certainly weaker in the third quarter. Not one that's materially driving our numbers, but it is one that does have a little bit of an impact on the top line as well. We had called out in the past a large

government customer, the VA, that we did lose earlier in the year. And so, that is a fairly low Cardinal branded product customer. We also had a large customer that went through a significant merger. And so, we did not carry over that piece of the business. Also, a relatively low Cardinal Branded mix customer, which is why you're seeing over 5% Cardinal Brand growth in the quarter even though the top line was a little bit weaker. So, we feel pretty good about the underlying industry strength, the underlying positioning we have. And we're seeing continued strength on the most valuable parts of our business, which is that Cardinal Branded product. We're at the best service levels we've ever been at. We're in a really good position. Certainly, some supply chain complexities, but underlying a really good, strong position to continue to support our customers and grow that part of our business.

As it relates to the tariffs, I think the message is trying to be simple and clear that we have the potential for a \$200 million refund based upon the tariffs that we've paid up to the IEEPA announcement. And none of that has been put into our P&L at this point in time. What Aaron commented that we want to be really clear with is that we have directly received price increases from our customers over the last year as a result of these tariffs. And so, about half of that \$200 million we ultimately, if we receive it, we would expect to share in that about half range with our customers, implying that someday we may have \$100 million earnings gain as a result of that change. But it is still too uncertain for us to put through any of that into the P&L. And so, we have not recognized any of that today.

Aaron Alt: Yeah, I'm just going to emphasize the last point. We haven't recognized the financial impact in Q3. We've also not provided an update to our guidance reflective of that. The amount of any recovery, the means by which the recovery occurs, the timing of the recovery, those are all uncertain at this point. And so, I'm not going to get ahead of ourselves and provide you with a specific accounting and treatment until we have more clarity on how this plays out.

Jason Hollar: Yeah. And while we're on the topic of tariffs, it wasn't exactly the question that was asked here, but we had a couple of questions so far in the '27 puts and takes. Just one thing to kind of double back on to what Aaron had referenced earlier as it relates to – unrelated to the tariff refund, but the ongoing tariffs that are still in place and certainly may change further with the 232 study that's ongoing. We would anticipate that from a year-over-year perspective, there is some opportunity as it relates to tariffs for the GMPD business. But we also all know that fuel prices are higher at this moment in time, and that also flows through to some of the commodity prices within our products. These are fairly modest in their nature. They're nowhere near the impacts that we saw several years ago with the hyperinflation that was in place. So, we have a tailwind associated with tariffs that we think, at this moment, will be likely from an operational standpoint. We also expect that it's likely that there's going to be this ongoing commodity impacts. Both are in, I'll say, a reasonable, similar ballpark. We'll get a lot more specific with this when we provide our '27 guidance. But we have a puts and take there that is to some degree, offsetting. It will be dependent upon where things stand in three months, and we'll provide those at that time. But, overall, we think that that's not only manageable for the GMPD business, it's even more manageable for the overall enterprise. We have some impacts for fuel, but certainly the GMPD business is where we are most closely focused at this point.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question will be coming from Charles Rhyee of TD Cowen. Please go ahead, Charles. Your line is open, sir.

Ethan Kim: Hi, this is Ethan on for Charles. Thanks for taking our questions. I just want to go back to the IRA topic real quickly. So, given that you said you expect to be at the lower end of your rev guide for Pharma, is it a fair extrapolation to say that the IRA impacts so far this year has maybe been a bit larger than your expectations? Thank you.

Aaron Alt: No, I think I what I observed is there are a series of things going on within the revenue line or in the revenue guide that we had provided. And we're trying to be transparent. That as we are modeling, as you are modeling, the revenue impact to be thinking about on the one hand, the strong demand we're seeing certainly as a positive, but also understanding the impact of GLP-1 growth given that they are relatively empty calorie dollars for us. They impact revenue, but don't provide a lot of profit for us. Similarly, when a branded product converts to generic, we are seeing some notable LOE examples this year, that is a downdraft on revenue, but a positive for us from a profit perspective as well. And so, we're just trying to provide some of the puts and takes that are going on within that revenue line.

Matt Sims: Next question, please.

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

Steven Valiquette: Yeah, thanks. Good morning. hopefully I didn't miss this, but I think in some of the segment discussions with the talk about the soft distribution volumes, et cetera, it seems like some of that investors believe that that's been tied to weather impact. That was obviously pretty prevalent in some of the public hospital patient volumes, but it seems like you're not really talking about weather as a volume headwind in either GMPD or Pharma unless I missed it. So even though this whole weather discussion is obviously irrelevant going forward, I just want to get your thoughts on that dynamic just within the just reported quarter, really, for any of the segments. Thanks.

Jason Hollar: Yeah. Thanks for the question and I don't think you missed much. We didn't dwell on that point, Steven. So let me focus and prioritize on what's important as our team did a fantastic job of maintaining record-high service level across the enterprise in an environment that was fairly complicated. We have some global supply chain challenges of course. But in the quarter you're right to point out weather. I would characterize it as a slight financial impact across enterprise. It kind of popped up a little bit here or there, very little within our traditional distribution types of businesses, some excess costs associated with just getting the right people in the right spot and transportation reroutes and things like that. But it was very slight and certainly not large enough to call out. The one area that was, relative to the size of business, the MSOs had a little bit more of an impact just because it's much more difficult to make up for lost volume on an MSO. When you think about like Pharmaceutical or Medical products, the next week, the next day, you can just send a second truck, and you can kind of catch up nearly real time. With lost physician visits and procedures, it's harder to reschedule those. And so, that's likely we lost a little bit of volume there, too. But I would consider that also slight in the big picture for the Pharma segment, a little bit more for the specific MSO.

Matt Sims: Next question, please.

Operator: Yes, sir. The next question is coming from Daniel Grosslight of Citi. Please go ahead.

Daniel Grosslight: Hi guys, thanks for taking my question. You mentioned that the ION distribution contract began transitioning in 2Q and the GIA and Solaris distribution contract will begin this month. I'm curious how the ramp of distribution volumes have tracked versus your initial expectations. And then, on the Solaris contract, I don't believe that was previously included in guidance. Can you confirm that and comment on how much of the Pharma profitability guidance lift was driven by the Solaris distribution onboarding? Thanks.

Aaron Alt: Daniel, eagle eye as always in that you caught that. We are indeed confirming today the Solaris distribution volume is now in the process of ramping up with our Pharma business. And so, we're pleased with that development as we were when we achieved the GIA distribution contract and the ION distribution contract as well. I want to emphasize when we talked about the acquisition originally, we do not include the impact of the distribution contracts in our financial models. That is a separate part of our business. And so, it is good news for us to have the volumes coming in. Now, it is late in the year, it's our fourth quarter. And so, the impact to our fiscal '26 will not be material, otherwise we would have called it out. But as you think about the puts and takes for next year within our Specialty business, certainly now having Solaris ramping up there is a positive for our future year.

Matt Sims: Next question, please.

Operator: Now we'll move to Brian Tanquilut of Jefferies. Please go ahead.

Jack Slevin: Hey, you've got Jack Slevin on for Brian. Thanks for sneaking me in here. Maybe just one. A lot of questions have already been asked. Maybe one to just sort of clean up. I haven't heard too much discussion on it. There's been some reference to some of the energy costs and shipping trends you had that created headwinds for this business in 2022. Can you maybe just speak to if any of that applies right now given some of the volatility we're seeing in energy prices or input costs to things like polypropylene? Can you maybe speak to what's different now versus what happened in 2022 or if there's anything we should be worried about as it relates to some of those trends across the business? Thanks.

Jason Hollar: Sure, yeah. And I did touch on it, but I can expand further to try to answer the question of what's different now. Well, first of all, the shock we're talking about now is different. It's very much focused on not just energy, but it's on oil. And that does take time to kind of filter through to some of the products, from the polyethylene, polypropylene types of products. But what we're seeing is more of an oil shock right now. It does translate to fuel, and that's the comments I made earlier. The excess inflation that we saw several years ago was way beyond just fuel. The container cost, you may recall, the international freight was by far the biggest piece. We had very high labor inflation that carried on with that as well. And so, while we did call out fuel four years ago, it was number four on the list of items. Since then, we've also structured our agreements to be more flexible for us, both with the carriers as well as our customers. It's not completely protecting us, but it gets back to the – I think the word I used earlier, I think is a good one of using here – it's certainly much more manageable

than it had been structurally but also based upon the type of issues that we have. And as it relates to the product cost, really exam gloves is the one item that I continue to see and hear a lot of industry chatter about. That is one product category that we're already seeing cost increase quite a bit. Just as a reminder, PPE is a relatively small category for us, but exam gloves in particular is relatively small. It's less than 5% of our Cardinal Branded product. So, again, manageable even when we see significant dollars like that. It's important for those customers that are buying a lot of exam gloves, which are many, but it will be a relatively small pull-through today based upon those prices and we'll certainly continue to evaluate that. Also, as a reminder, if there are further impacts, the fuel tends to impact the distribution activity, so that's a current period type of cost and you kind of see it a little bit quicker. The product cost will take at least a couple of quarters before they'll start to flow through the P&L. So, we've not seen a lot of product cost yet other than exam gloves. And when we do, we're going to have two to three quarters to be able to understand, see if we can mitigate, and then of course delay the impact on the cost side, so that we can see what happens with industry pricing at that point in time.

Aaron Alt: I guess I would just close on that point that we're better positioned than we ever have been before in this business. And we are not backing away from our longer-term guidance with respect to the GMPD business either.

Jason Hollar: Great point.

Matt Sims: Next question, please.

Operator: Thank you sir. And our last question is from Eric Coldwell calling from Baird. Please go ahead. Eric, your line is open.

Eric Coldwell: Thanks very much. And I think most of mine were covered here, but I just want to circle back on two quick ones, if I may. First, on Navista™ and ION and the changes you're making. I just want to kind of tie the bow on this. The topic of the impairment and the changes you're making, I just want to make sure that that is 100% Cardinal specific – how you're going to market, how you're interacting with the MSOs. And this is not any kind of a broader comment to the overall oncology or MSO marketplace. Is that a fair interpretation?

Jason Hollar: Absolutely. As I highlighted in my comments and Aaron's comments as well, over 20% Specialty growth so far this year. In the quarter as well more than 30% growth in oncology. We're very pleased with our Specialty strategy, very pleased with our oncology strategy. This is entirely a focus, a prioritization on the equity model of our MSOs.

Matt Sims: And then Eric, did you have another one?

Eric Coldwell: [indiscernible] discrete item. Could you just tell us what that multi-year capture was? What the actual nature of that tax item is?

Aaron Alt: Yeah. Eric, we aren't in the practice of disclosing our individual tax positions. [indiscernible] observe that. It was a multi-year opportunity that we did take in the quarter, which was about \$0.35.

Operator: And thanks very much sir. We don't have any further questions. Now, I'd like to turn the call back over to Mr. Jason Hollar for any additional or closing remarks. Thank you.

Jason Hollar: Yeah, I'll be brief. Very pleased with another strong quarter. Of course, we're looking to finish the year strong. But more importantly, as always, we're focused on the long term, doing the right things today to make sure we're successful tomorrow. So, thanks for joining us today and have a great day.

Operator: And thank you much, sir. Ladies and gentlemen, that will conclude today's conference. Thank you for your attendance. You may now disconnect. Have a good day, and goodbye.