Q4 FY26 Cardinal Health, Inc. Earnings Conference Call

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Operator: Hello, everyone. Thank you for joining us, and welcome to Cardinal Health, Incorporated fourth quarter fiscal year 2026 earnings release. After today's prepared remarks, we will host a question-and-answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. I will now hand the conference over to David Frost, Vice President of Investor Relations. Please go ahead.

David Frost: Good morning, welcome to Cardinal Health's Fourth Quarter Fiscal 2026 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: Good morning, and thank you for joining us. We delivered a strong fourth quarter, concluding a fiscal '26 defined by consistent execution and broad-based performance across the enterprise. Our strategy remains clear, and our relentless focus on execution is producing sustained operational momentum, positioning us for further value creation in fiscal '27 and beyond.

Performance this quarter was once again led by Pharmaceutical and Specialty Solutions, where a resilient demand environment and continued strength across our Specialty business, both upstream and downstream, drove strong results and extended the momentum we have built throughout fiscal '26.

The Global Medical Products and Distribution segment demonstrated continued progress against our improvement plan initiatives, and we benefited from a non-recurring tailwind in the quarter. In Cardinal Health Brand we again saw above market growth when normalizing for the impact of the tariff refund.

We were pleased with the performance of our Other growth businesses, who again collectively delivered double digit profit growth this quarter. This performance highlights the value of these specialized assets and their meaningful impact on enterprise results. We continued to experience a favorable demand environment and supportive secular healthcare trends across these businesses. Coupled with our strategic long-term investments, we see significant opportunities ahead.

We enter fiscal ‘27 with momentum and a solid foundation for growth. Backed by the strength of our diversified portfolio, the resilience of our business model and the dedication of our team, we are well positioned to continue delivering long-term value for our shareholders, customers, and the patients that they serve. I will now turn the call over to Aaron to detail our financial results.

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

Strong Demand. Strong Execution. Strong Profit. Strong Adjusted Free Cash Flow. Strong Liquidity. Targeted and Increased investments in the business. Incremental return of capital shareholders. We did what we said we would do, and as a result, delivered a successful financial fourth quarter to close out a successful Fiscal ‘26, even before including the positive impact of the anticipated tariff recovery.

The anchor to the story for both the quarter and the fiscal year was broad-based and strong volume demand across the enterprise. At the enterprise level, we grew operating earnings 30% in the quarter and 30% on the year. We grew EPS by 40% in the quarter and 37% on the year. In addition to the outstanding P&L performance, the company generated $5 billion in adjusted free cash flow for the year.

We accomplished all of this while providing service levels at or near record levels to our customers, navigating regulatory changes and navigating an evolving macro-economic landscape. This success demonstrates the resiliency of our business model and our focus on execution.

Let’s look at our fourth quarter consolidated financial performance. Total company revenue for the quarter was $63.7 billion, an increase of 6% driven by strong demand in our Pharmaceutical and Specialty Solutions segment with contributions from our three growth businesses that make up Other.

Gross profit for the quarter grew 16% to $2.6 billion driven by broad-based contributions from all five of our operating segments.

Gross profit growth outpaced consolidated SG&A, which grew 9.5% for the quarter. While remaining disciplined on costs, we continue to make intentional investments in automation, technology, and capability to drive long-term value. The inclusion of our acquisitions also contributed to year-over-year SG&A growth.

Overall, our efforts resulted in enterprise operating income of $935 million, up 30% versus last year. I will address segment drivers when I discuss segment performance, but upfront I do want to call out in the quarter we recorded a one-time $100 million dollar net operating earnings benefit from IEEPA tariff refunds in our GMPD segment. This reflects increased clarity and confidence in receiving approximately $200 million in IEEPA tariff refunds, offset primarily by payables to customers for the increased prices they paid related to the IEEPA tariffs. We view the refund as non-recurring and would note, on an ongoing basis, we continue to incur costs from the tariffs that replaced IEEPA.

Below the line, interest and other expense was $53 million. The year-over-year increase was primarily driven by the impact of acquisition-related financing. We achieved a full-year tax rate of 19.0%, based on a fourth quarter rate of 22.5% percent.

These operational and financial metrics culminated in fourth-quarter diluted earnings per share of $2.91, a 40% increase over prior year. $0.31 of the EPS is due to recording the IEEPA tariff refund, or approximately 15 percentage points of the total 40 percentage point growth.

Now I'll turn to cash, our capital allocation and strategic updates for fiscal '26. As I referenced, we generated $5 billion of adjusted free cash flow and ended the year with $4.9 billion of cash on hand. We did so while also maintaining our disciplined capital allocation framework to drive shareholder value. We continued to invest significant capital back into the business to enable profitable growth, deploying $264 million in capex in the 4th quarter and $649 million in capex for the year. These investments include automation, supply chain technology, customer solutions, and platform capabilities to enable future earnings growth. We did not need to repay indebtedness, as we are already within our targeted leverage ratio. We did not fund meaningful M&A in the quarter, but we did complete an incremental $350 million share repurchase program, which, when added to prior quarters repurchase efforts, totaled $1.35 billion of share repurchase during the year, at an average price of $187 per share. For the full year, we repurchased $600 million more than our previous baseline commitment.

With respect to liquidity, we are today confirming a new $4 billion revolver program, replacing three historic facilities. While we have a strong cash position, the updated facility provides us with strong liquidity on a simplified and more efficient basis than the prior programs, which have been sunset.

I will now transition to our segment-level results, beginning with Pharma.

Fourth-quarter revenue for the segment grew 6% to $58.8 billion. We observed robust brand sales originating from our existing customer base and recognized roughly offsetting tailwinds from GLP-1 growth and headwinds from IRA WAC changes, each worth approximately 500 basis points. We also saw the profit positive impact of brand to generic conversion in our revenue results.

Pharma segment profit was $645 million, growing 21% driven by growth in our brand and specialty portfolios. We also saw positive performance across our generics program, observing continued strong demand, aided by brand to generic conversions, and consistent market dynamics. The core distribution business remains highly durable and we have continued to demonstrate our ability to be compensated for value we provide during times of regulatory change.

In our GMPD segment, fourth-quarter revenue was $3.1 billion. This represented a 2% decline and is impacted by the revenue reduction from expected payables to customers associated with our anticipated tariff refund and lower distribution volumes. This was partially offset by growth in Cardinal

Health Brand, which on a reported basis declined 2% in the United States. Excluding this tariff impact we saw the 6th consecutive quarter of at least mid-single digit Cardinal Health Brand growth in the U.S.

Fourth quarter GMPD segment profit increased $80 million in comparison to the prior year, growing to $150 million. GMPD segment profit was $50 million normalized for the $100 million impact of the IEEPA tariff refund within the GMPD segment.

While this industry and our business remain a work in progress, the significant increase in profitability reflects solid underlying operational performance and the impact of recording the one-time net IEEPA tariff refund benefit. The team remains focused on executing our improvement plan, driving cost efficiencies, and managing supply chain resilience to serve our customers effectively. The multi-year progress and earnings expansion this plan has driven has created significant value for our shareholders, and we remain committed to prioritizing value creation.

Next, our Other growth businesses also had a successful quarter. This group delivered $1.7 billion in revenue or 7% growth, and $183 million in segment profit for 14% growth. While we experienced good demand in the at-Home Solutions business, we lapped the ADS acquisition in the quarter while at the same time purposefully curating our customer base and category management opportunities through the ROI lens. We also continued our investments in infrastructure and technology to achieve increased economies of scale. The integration of Advanced Diabetes Supply is progressing well and is ahead of schedule on the integration synergies.

Nuclear and Precision Health Solutions continues to execute consistent with its strong position in radiopharmaceutical manufacturing and distribution and will continue to benefit from the rapid expansion of theranostics. This business posted another quarter of impressive revenue growth as we scale our manufacturing and pharmacy network.

Finally, within OptiFreight® Logistics, customers increasingly appreciate the strong economic value provided by our broad assortment of logistics solutions. The fundamental performance of these three distinct businesses continues to validate our decision to prioritize their investment profiles.

Turning briefly to full year commentary for fiscal year 2026, the enterprise delivered remarkable financial results. We generated double-digit profit growth across all five of our operating segments even when adjusting out the positive impact of the IEEPA tariff refunds in GMPD.

For the full year, enterprise revenue grew 14% to $254 billion driven by brand and specialty sales. Full-year gross margin grew 20% to $9.8 billion and benefited directly from our segment performance and accretive acquisitions. SG&A grew more modestly, and we generated total operating earnings of $3.6 billion, or growth of 30%.

With our fiscal ‘26 foundation established, let’s look forward and discuss our guidance.

First from a baseline perspective, for ease of comparability between Fiscal ‘26 and our guidance for future years, we will be excluding the $0.31 of one-time positive EPS impact from the IEEPA tariff refund recognition in our just-past Q4. So, the baseline adjusted non-GAAP EPS number is $10.95.

Before I talk about Fiscal ‘27, let’s address the long-term guidance. We are re-confirming our long-term EPS growth rate guidance of 12%-14% per year. This represents our confidence in continued shareholder value creation, based on the growth trajectory of our business and the strength of our balance sheet.

However, for fiscal year '27, we are guiding EPS growth of 13%-15% against the baseline, and expect fiscal '27 EPS to be between $12.40 - $12.60. This growth will be driven by continued progress against our businesses and up-and-down our income statement. Here are some details:

We expect Pharma segment revenue to show 3% to 5% growth in the coming year. This more normalized growth rate incorporates a couple of key assumptions:

First, in our core pharma distribution, strong demand but not the outsized demand we experienced periodically through fiscal year '26. Second, a headwind from the annualization of 2026 IRA price changes, and the implementation of 2027 IRA price changes. We anticipate the 2027 percent impact to revenue growth to be generally consistent with what we observed in H2 of fiscal '26 and to have no adverse profit impact. Third, the stability that comes with our successful customer renewal efforts in the past year, including a long-term extension with Kroger. For planning purposes, we are assuming a consistent book of business. Fourth, in Specialty, inclusive of all organic and already-announced inorganic efforts, double digit revenue growth including contributions from new customers in our Biopharma Solutions business.

On the profit line, we expect the Pharma segment to deliver 8% to 11% growth. Drivers include continued Generic and Brand volume strength and higher-margin growth in Specialty, both upstream and downstream. We do expect some generics benefit in fiscal ‘27 from new item launches, largely driven by fiscal ‘26 carryover items, as well as continued consistent market dynamics in our Red Oak-enabled generics program.

We anticipate growth in our MSO platforms and we will benefit from the previously-announced distribution wins that began to ramp in Q4 of fiscal ‘26. As a reminder, we will lap the Solaris acquisition in Q2 of fiscal ‘27 and would note that our already announced M&A is expected to contribute 2 to 3 percentage points to profit growth in the year.

In terms of Pharma segment profit cadence, we expect Q1 profit growth to be near the high end of our full-year guidance range, due in part to the benefit from Solaris before we lap it in Q2.

For the Global Medical Products and Distribution segment, we project 2% to 4% growth in revenue. This growth is driven by low-single digit utilization, and above-market growth in Cardinal Health brand revenue.

We are reconfirming our previous GMPD segment profit guide of growing approximately $50 million off the ex-IEEPA tariff refund fiscal ‘26 result, with expected segment profit of $200 million to $220 million.

This guidance reflects the ongoing execution of our GMPD Improvement Plan focused on growing Cardinal Health brand, operational simplification, and cost optimization. We are monitoring the dynamic tariff environment and geopolitical landscape, and, normalizing for the IEEPA tariff refund, in fiscal ‘27 we expect a modest tailwind from tariffs. For the moment, our guidance assumes that our expected tariff tailwind will offset headwinds from rising fuel and commodity costs, however we continue to monitor both tariffs as well as the length and severity of the conflict in Iran. Should the conflict in Iran prove protracted, we would expect that to move us to the lower end of our profit guide for GMPD. Segment profit for GMPD will be weighted in the second half, particularly Q4, driven by margin initiatives and seasonality. For purposes of modeling, we expect the first quarter in fiscal 2027 to be roughly half of the Q1 fiscal 2026 result, driven by the impacts of both foreign currency and the impact of distributor purchase timing. We do expect year-over-year growth in each of the subsequent quarters on an ex-IEEPA tariff refund basis.

In our Other growth businesses, we anticipate 11% to 13% growth in revenue and expect that growth to accelerate over the course of the year. We expect segment profit to deliver 15% to 18% growth in the year. These metrics are driven by the powerful secular trends our businesses are aligned to capture, leading to strong demand. We also expect benefit from continued operational execution of our fiscal ‘26 investments, while at the same time continuing to invest during the year in support of ROI-driven future growth opportunities. As a matter of clarity, our guidance includes the partial year impact of the announced tuck-in acquisition of the Diabetes Health segment of AdaptHealth and the recently completed tuck-in acquisition of Strive Medical, which are expected to add 2 percentage points of profit growth to the year to Other.

Moving below the operating line, we forecast interest and other expense to be $240 million to $290 million, benefiting from our year-end high cash balances prior to deployment. We project our effective tax rate to be 19% to 20% for the year.

All this together leads to the full-year enterprise wide EPS guidance of growth of +13% to +15% off of the baseline.

With respect to cash flow, we expect to generate between $3.5 billion and $4.0 billion in adjusted free cash flow in fiscal ‘27, driven by the growth of our businesses, maintaining a disciplined approach to working capital management, and the impact of discreet business initiatives focused on cash flow generation.

From a disciplined capital allocation model perspective, our plans and priorities remain unchanged.

First, we expect capital expenditures of $700 million, with infrastructure, technology and other investments across the portfolio in support of future growth.

Second, we do not need to take significant actions to protect our balance sheet in the year, given our leverage ratio.

Third, returning capital to shareholders, as always, remains a priority. In fiscal year ‘27 we expect at least $1 billion in share repurchases, which would be the third consecutive year of additional share repurchases above our original-stated baseline commitment. Consequently, we expect our diluted weighted average shares outstanding to be approximately 233 million.

Finally, we are not assuming material M&A, but have reserved modest capital flexibility to support tuck-in acquisitions. Given our cash balances, leverage levels and available financing, we also have financial flexibility to consider strategic M&A or incremental return of capital to shareholders, which we will assess as the fiscal year plays out.

In summary, fiscal ‘26 was an excellent year for Cardinal Health. We executed our strategy, successfully integrated strategic assets, and fortified our balance sheet. We are well positioned for growth and long-term value creation in fiscal ‘27 and beyond. We remain disciplined in our capital allocation, precise in our execution, and relentlessly focused on serving our customers. We look forward to updating you on our progress throughout the year.

Jason, back to you.

Jason Hollar: Thank you, Aaron.

When we started this journey as a management team, Cardinal had just delivered $5.07 in EPS and $2.3 billion in Adjusted Free Cash flow in fiscal ‘22. Our company's performance was not meeting its potential as we battled business and organizational complexity that was impacting both our strategy and our operations. Four years later, we are in a very different place.

We have simplified our strategy, our structure and how we operate.

We have invested heavily in our infrastructure to drive economies of scale, new customer service capabilities, and efficiency through automation and technology. Indeed, in each of the last four years we have invested more than we ever have before.

We executed six strategic acquisitions and we have gotten to know our supplier partners and our customers better than ever before, which have presented us with opportunities to win with the winners.

And while doing all of that, in fiscal '26, our Non-GAAP EPS has more than doubled to $11.26 and our Adjusted Free Cash Flow has increased to $5 billion, which has allowed us to return $7 billion of capital to shareholders over the four-year period.

By any metric, whether set at either of our two investor days or our guidance updates along the way, we have done what we said we would, and more. And now, as we enter a new fiscal year, even in the face of a continuously evolving industry environment, we are committed to continuing our efforts to create shareholder value.

Aaron just walked you through our financial guidance for fiscal ‘27, which is above our reconfirmed long-term growth rates. Even after all our success, significant opportunity remains, starting with our biggest, most significant business – Pharma.

Robust demand and favorable utilization trends are a good launching point and source of momentum for the future. We continue to emphasize blocking and tackling to improve the core, with our operational metrics at or above all-time high levels of performance. Our continued deployment of automation, technology, and advanced analytics across our distribution network builds on past progress, driving meaningful gains in efficiency and service performance. And we are also adding scale and new capabilities. Our Consumer Health Logistics Center completed its first full year of operations, elevating over-the-counter product service levels to record highs and improving customer access to consumer health and diagnostic testing products when and where they are needed most.

We remain relentlessly focused on our commercial efforts. We have retained key customers across all classes of trade and have benefited from the new, more-strategic customers we have added over the last 18 months, creating stability as we enter fiscal ‘27. We also hosted our 34th Annual Retail Business Conference last month, recognizing our industry-leading position with retail independent pharmacy partners.

Expanding our Specialty business remains a fundamental priority. Upstream, Biopharma Solutions continues to gain traction as demand for specialized commercialization capabilities expands. A recent example of this comes from our 3PL business, which secured two additional gene therapy commercialization agreements, positioning us to support innovative therapies expected to enter the market in fiscal ‘28. With these wins, we now exclusively service nearly half the cell and gene market and approximately three-quarters of the total market.

To further support these cutting-edge treatments, we opened our Innovative Care Pharmacy earlier this quarter, a differentiated specialty pharmacy specifically designed to meet the rigorous standards of high cost and complex cell and gene therapies. The pharmacy offers channel optionality, clinical support, and financial solutions for providers seeking to procure complex therapies. Located in LaVergne, TN, the pharmacy leverages our existing 3PL and Specialty distribution infrastructure to meet an end-to-end complex therapy market need, providing an innovative solution to improve the provider experience and expand patient access.

We also continue to see significant opportunity in our multi-specialty MSO strategy, both by expanding the MSOs and by expanding the services provided by the MSOs.

Turning to GMPD, we continue to execute against our improvement plan initiatives and are seeing the impact of our simplification efforts in our results this quarter. We saw steady growth of Cardinal Health brand products in the fourth quarter, continuing the trend witnessed throughout the fiscal year. Our unwavering commitment to our customers, our ability to deliver value with scale and operational efficiency, and the breadth of our capabilities continue to yield tangible results, most recently with the long-term renewal of our largest customer. Operationally, we continue to deploy automation in our distribution network which drives improvements in efficiency, employee safety, and order accuracy.

In at-Home Solutions, we saw strong operating performance and the impact of our strategic investments in fiscal ‘25 and ‘26. We continue to lean-in on our smart growth strategy and expect to benefit from the efficiencies arising from our ongoing distribution capacity and automation expansion. Our core operations demonstrate exceptional reliability. Total fill-rate reached nearly 99%, and we recorded our best quarter in history for on-time departures. These metrics are the result of continued inventory control driven by the increased capacity throughout our at-Home Solutions network enabled by our investments in technology and automation.

We see opportunity to continue this momentum in fiscal ‘27, both organically, and inorganically, as with the recently completed acquisition of Strive Medical and the announced acquisition of the Diabetes Health business of AdaptHealth. These additions build on the synergies created by our recent investments in home care, and enhance the framework established by our ADS acquisition, where we are seeing greater than anticipated synergies. Our actions to-date have focused on building the foundations of an at-Home operation that we can profitably scale in support of our customers, whether that be patients in the home or other at-home distributors.

We are also seeing continued strong progress in our pursuit of enterprise synergies across offerings and models. A good example being our ContinuCare Pathway program, with which our at-Home Solutions business simplifies diabetes supply management for both pharmacies and patients.

Within Nuclear and Precision Health Solutions, our strong performance reflects our leading position, powered by our differentiated offerings and specialized expertise. This is evidenced by our above-market growth in our core business and rapid expansion in our Theranostics and PET portfolios, with PET growing over 20% and Thernasotics growing nearly 30% in the quarter and over 30% in fiscal ‘26. We are uniquely positioned to capitalize on the continued growth from these fast-growing categories, especially in the areas of urology, oncology, and neurology.

Further, we have integrated Sonexus, our Specialty Access and Patient Support business, directly into our Nuclear business’ web ordering platform to create a seamless, end-to-end digital workflow for high-cost radiopharmaceuticals. This internal collaboration between the Nuclear and Sonexus teams unites insurance benefits verification, enrollment, and order placement into a single digital system.

In OptiFreight® Logistics, the business continues to demonstrate a leading value proposition for healthcare providers. We expect continuation of strong core volume growth as well as benefits from the expansion of our offerings, including our tech-forward products Shipment Navigator and Tracking Beacon, announced last quarter. We have seen strong interest in, and adoption of, these products that are designed to support our customers with their outbound pharmacy shipments. This business will continue to create value for our customers as its solutions drive insights, cost savings, and efficiencies.

So, in summary on the businesses, significant progress matched with continued opportunities.

One final comment on return of capital to shareholders. I will note that we are announcing today that the Cardinal Health Board of Directors has authorized a $5 billion increase to our share repurchase authority. This takes our total share repurchase authorization to $6.4 billion. This is a purposeful indication of our continuing commitment to returning capital to shareholders. Earlier, Aaron highlighted an increase in our fiscal '27 baseline share repurchase to $1 billion. As we think about fiscal '27 and beyond, our new authorization effectively recharges the battery, signaling our confidence in our durable cash generation and commitment to our disciplined capital allocation framework.

The company has excellent assets, led by a talented team and the financial flexibility necessary to enable great choices on how best to create shareholder value. We've spent today telling you what we have done, and what we are going to do, and now we are just going to go do it.

With that, we will take your questions.

Operator: Thank you. We will now begin the question-and-answer session. Please limit yourself to one question. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. We ask that you pick up your handset when asking a question, and if you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster. Your first question comes from the line of Erin Wright from Morgan Stanley. Please go ahead.

Erin Wright: Great, thanks. It was a solid Pharma and Specialty Solutions AOI growth in the quarter. In the context of your guidance for 2027, the 8%-11%, I guess, can you talk about you know, what happened in the quarter or over the course of the quarter, what you expect to continue from here across that segment? What is baked into that guidance in terms of the momentum there? Thanks.

Aaron Alt: Good morning, Erin. Thank you for the question. As you called out, in the fourth quarter, indeed for the year behind us, we had strong momentum within our pharma business, driven by strong demand, really across our key product categories and indeed with our largest customers. We saw strong specialty growth, of course, at higher margins and we had positive performance in our generics program above our long-term targeted levels with consistent market dynamics. When you match that with strong operational excellence by our teams, it leads to a good result. From a guidance perspective, we expect for all of those to continue into our fiscal year '27. Now you heard us call out the broader context from a guidance for the year.

I do want to point out that, of course, we are not assuming outsized demand, which, as you know, we did experience a couple of times over the course of fiscal year '26. We are assuming strong demand with that momentum carrying forward. It is also the case that we did some M&A during the fiscal year '26 period. We have not assumed material M&A in fiscal year '27, but we will have 2 to 3 percentage points of positive benefit from the M&A that is already been concluded during the year.

Operator: Your next question comes from the line of Elizabeth Anderson from Evercore ISI. Please go ahead.

Elizabeth Anderson: Hi, guys. Thanks so much for the question. Maybe just to pivot on Erin's question a little bit. As we think about specialty, you obviously added a bunch of assets and have been integrating them very successfully over the past couple of years. How do you think about how growth in specialty transitions over in the course of fiscal '27? Is there more sort of focus on services as that initial wave of integration comes through? Any additional details there would be very helpful. Thank you.

Jason Hollar: Sure. Thanks, Elizabeth. Overall, we had very solid specialty growth in fiscal 2026, actually over 25% growth overall. That was certainly strong specialty distribution, but also some contributions from the M&A that Aaron highlighted. So we have a really strong momentum there, as well as the broader segment. What we've guided towards for fiscal '27, consistent with Aaron's comments, is more of the same, but not to the same extent. The M&A portion will still have some bolt-on tailwind benefits, some carryover from the deals done in '26 as well. We still see fantastic growth in our Biopharma Solutions business. At our investor day a year ago, we guided to getting that business to a billion dollars by '28. We're well on track with 20+% growth expected and realized.

We're seeing not only in distribution, but the MSOs and the Biopharma Solutions and the services that go with that, broad-based growth. The strategy all connects together to the point of your question, and we continue to find opportunities to work within the different parts of our business in ways that can create not only growth for Cardinal Health, but creating even better service and products for our customers and ultimately for patients.

Operator: Your next question comes from the line of Lisa Gill from JPMorgan. Please go ahead.

Lisa Gill: Thanks very much. Can we spend a minute just talking about the regulatory environment? Really two things I just want to better understand here. The first would be potential regulatory changes. You talked about the IRA headwind, but is there anything else that you're watching from a regulatory perspective? And then secondly, the potential changes when we think about 340B and the impact to your hospital customers on the drug distribution side. Can you talk about what the potential change means there from a volume perspective and any incremental opportunity that you maybe see in working with some of those larger hospital systems as they try to navigate the regulatory changes in 340B?

Jason Hollar: Yeah and thanks, Lisa, for the question. While that was one question, I guess we could probably spend the rest of the time just talking about that. There is a few different programs you referenced, but I actually think there is probably one overarching answer to all these questions, which is we obviously are tightly plugged in, not only with the customers that you are referencing, manufacturers, retail customers as well, but also with the administration. So we do spend a lot of time with all of the stakeholders that are involved in this, and we are certainly tracking and influencing it the best we can as we go forward. As I think about what everyone is trying to accomplish, it really does come down to access and affordability to that continuously innovative healthcare, and that ultimately is good for us.

You mentioned volume. Depending on what happens, if affordability continues to be the priority and there are actions to make healthcare more affordable, then that drives volume, and that really is the lifeblood of our business. It is the key driver of what we need to be able to invest into the business. So we absolutely support the administration's efforts to that improved access and affordability. How they go about it, to the nature of your question, there is a lot of different mechanisms, whether that be IRA, 340B, all these elements. And in each case, we work with our customers and the manufacturers very closely to understand the intent of the program, the practical realities of the logistics behind it. In each case, we feel very, very good about our role to safely, securely, and efficiently deliver these life's necessary products to patients.

So we do not see our role changing, and we do not believe our compensation should change as a result of our role remaining the same. How that ends up getting transacted most likely will evolve. But in each case, we are looking at the consequences of any changes, and we adapt accordingly, either upstream or downstream with those impacts. You, I think rightly point out the customer impact is likely to be greater than our impact, and 340B is certainly important to our health system customers. The more pressure they are under, that may impact the types of procedures, the types of patients that they can serve. That certainly can actually go against access in the healthcare space. So that is something that we are certainly tracking very closely.

We have much less ability to influence that directly, but we will support them in our time in D.C. and our time working with others. But overall, we feel very confident in our role to continue to provide the value that we have always done.

Operator: Your next question comes from the line of Eric Percher from Nephron Research. Please go ahead.

Eric Percher: Thank you. The commentary on opportunities and returns on internal investment was quite clear. I'd like to ask you to compare the investment priorities for fiscal year ‘27 relative to where you were as we entered ‘26. Maybe what's continued, continued elevated, or even incremental in ‘27.

Then I heard a comment on building capacity within specialty and pharma. Is that focused on Kroger and existing customers, or do you have a desire to build capacity for potential wins?

Jason Hollar: The first part of your question as it relates to our investment priorities, the framework Aaron highlighted in his commentary certainly is exactly the same. I think your question is trying to translate that to something maybe a little bit more outcome related. So when I think about where we have invested, both organically as well as inorganically, where we've leaned in the most, it is in areas, certainly specialty, within our other growth businesses, the M&A side, of course, being in at-Home. These are all areas that not only are they faster-growing parts of the market, they're more specialized parts of the market, therefore, margins usually follow with them.

They are also still fragmented parts of the market where there is a lot of opportunity to not only scale and build a better, more profitable business, but frankly, to create even better services for ultimately the physicians or the patients that are into that process. I think we are in the very early innings of that scaling of these capabilities. Let’s just look at a couple of the big ones. Within MSOs, we certainly invested heavily in autoimmune, namely within GI, oncology, and urology. But especially within urology and GI, we are fairly large in that space, but we still represent a very small percentage of the market. So, we are large but still very fragmented.

So there is a lot of opportunity to not only, again, scale and build a business, but importantly, we are creating a much better service and capabilities on top of a very strong foundation that was already built by those that started those businesses. Within at-Home, I would say the same thing. This is a fast-growing part of the business, part of the market still.

Yet it is quite fragmented, and that is where we saw the opportunities with Strive and the diabetes division within Adapt. There is still a lot of opportunities to scale up there. The organic investments are a little bit more spread out. You do not see the CapEx by business. When we invest, we are investing broadly across each of those businesses. I do think it is more of the same because we are still in the early part of the journey of what is possible there.

As it relates to building capacity, I would not read too much into that other than we are always looking to make sure we are not late. When you look at specialty, that 25% growth, the double-digit growth this year, it is usually areas like refrigeration and freezing capabilities that tend to be more of the bottleneck. Ambient is a lot easier to work through. We are always looking at the bottleneck of that. We are also looking at, of course, automation so that we are not only creating capacity, but we are creating lower levels of cost per order. It is not like we are build it and they will come strategy. This is very much tied to the long-term plans, the growth that we have embedded in the plans to make sure that our customers receive the service that they expect.

As we mentioned in our commentary, our service levels are at levels that we have never had as an enterprise, and that is because we have invested appropriately to make sure we do not get behind that curve.

Aaron Alt: One thing I would add to that, just to emphasize, is that the investments we're making are consistent with a plan which has been in place for some time. We are executing on a multi-year investment plan, all in service of growth and efficient growth that is also taking advantage of the increasing economies of scale that we are seeing. We are sticking to our knitting and getting it done.

Operator: Your next question comes from the line of Allen Lutz from BofA. Please go ahead.

Allen Lutz: Good morning, and thanks for taking the questions. I'll stick with pharma and one for Aaron. How much of the revenue softness in the pharma segment was due to the brand to generic conversion you talked about? And then how much, if any, of the EBIT acceleration in the quarter was due to generics, and how should we think about that for the rest of fiscal ‘27? Thanks.

Aaron Alt: You are right to call out that generics was a positive part of our delivery, certainly for the quarter and for the year as well. Naturally, we prefer the profitability that comes with a generic conversion, and as we called in our prepared remarks, we did see some further benefit in the quarter from that. As I called out in my guide, we expect to see some benefit from that in the pharma profit delivery in ‘27 as well, all dropping to the bottom line. While the revenue line has been variable all year, as we've guided consistently through the year, taking into account the impact of IRA, WAC changes, growing but moderating GLP volumes, et cetera, and things like the LOE shift. We're quite pleased with the strong pharma results for the year and with the increase to the guide for next year.

Jason Hollar: The only thing I would add is we did call out the GLP WAC changes at around 500 basis points, each kind of offsetting. You are trying to figure out the other pieces. I think it is probably obvious, but I will say it anyways. It is enough to call out, but not so much that we are going to break out that number, so you can certainly think of it well below the 500 basis points.

Operator: Your next question comes from the line of George Hill from D.B. Please go ahead.

George Hill: Hey, good morning, guys. Thanks for taking the question. I want to clarify one comment. I thought I heard you guys say you renewed and extended your largest customer, which I would assume would be your friends in Rhode Island. I was wondering if you could put any more color around that. As it relates to that large customer, and to come back to Lisa's question, they have talked about a slowdown as it relates to 340B and a headwind as it relates to 340B. My question there is just how do you guys think about the disaggregation of services that is threatened under a lot of the reform initiatives, it is either going to force you guys to either re-contract with customers or create opportunities for new vendors to come into the space to provide things like technology services.

Would love if you could comment on those two topics. Thanks.

Jason Hollar: Okay. So first of all, to be really clear, we were on the GMPD section when I highlighted the renewal of our largest customer. George, you might have been multitasking. You heard those words and just jumped on it. Yes, that was GMPD. As it relates to CVS, I am not sure what all you were getting at there, but let me just kinda touch on that point since we are on this topic. Certainly, we have a longstanding relationship with CVS. We have a lot of strategic collaboration with them throughout the enterprise. You certainly know about the distribution arrangement, but we have a lot more strategically aligned with them that go outside of the timeline of that distribution agreement, whether that is Red Oak, the Averon joint venture on biosimilars procurement, or the over-the-counter relationship and partnership that we have with IQ Purchasing.

We have a broad base of relationship with them. You are commenting and asking about different impacts that our customers may see with some of these different programs. I think the key is that they are, and I am not talking about CVS, I am just talking more broadly now. They are impacted, our customers are impacted in many different ways as the pharmacy, as the dispenser, as the retailer. Our margin at 1%, overall aggregate margins for the enterprise, highlights that we play a very different role, and we support them in ways to create value wherever we can. But with that said, ultimately they are taking on more of the risk and have more of the return as a result of the value that they bring. We have a typical distribution margin for that part of our business.

For other parts of our business, whether it is the Other businesses or our service businesses within Biopharma Solutions, it is a very different model and very different margin profile where we take that on. You are asking about disaggregation. I am not sure exactly which part of the business of your question was there. I keep going back to the role in which we play. We do more than just putting together different parts of the industry. We are physically moving product, taking on ownership risk, tens of billions of dollars of capital that is deployed in areas like inventory and receivables to make sure that these products have near flawless levels of service and quality. I feel very good about our role.

Of course, the model around it will always change, and when you look at the different models, they are almost always utilizing services of the distributors because of that value that we create for them. The model will change. It will evolve. It will require us to make changes to ours, but that is our role, is to stay in front of that, to make sure that we are always creating incremental value so that we are the obvious partner as healthcare's most trusted partner.

Operator: Your next question comes from the line of Stephen Baxter from Wells Fargo. Please go ahead.

Stephen Baxter: Hi. Thanks. I wanted to ask about the Other segment. For the fiscal 2027 guidance, you have EBIT growing faster than revenue. Is that driven more by mix or synergy realization? What drives the acceleration that you're talking about for the top line through the balance of the year? I did notice in the press release that Nuclear wasn't called out as a year-over-year driver of profit growth, and it was in the prior three quarters. Any elaboration there would be appreciated, too. Thank you.

Aaron Alt: Sure. Let me emphasize what Jason signaled earlier, which is we are excited about the opportunity that the Other businesses present for us as we go forward. From a guide perspective, we called out 11%-13% revenue growth and 15%-18% profit growth. The profit growth is really coming from across all of the businesses. In prior quarters, you would have heard me call out the fact that we're making investments against all of those businesses as well, whether it's technology, capacity, capability. They each have discrete business plans that we are investing in for the long-term value creation of those businesses and for Cardinal Health overall. As we think about the year ahead, I want to emphasize that for all three businesses, we are assuming strong demand, really fueled by the secular tailwinds and the strong competitive positions that each of those businesses has. They are able to fund the investments we're making at the same time against each of those businesses as we push ahead. We do expect the revenue to accelerate over the course of the year, as a result of both the trends and as we move past some of the investments that are already underway as we push ahead. It's also the case that we've done M&A, of course, in the important at-Home part of the portfolio. The combination of the Strive and Adapt diabetes businesses are going to contribute 2% of the profit growth to the other business over the course of the year. We've already closed the smaller Strive deal. The Adapt part of the business will hopefully close on the second half of our year.

But we are really excited about how they can add to the scale we are building, particularly as we look at the smart growth strategy and driving strong ROI on customer and category management. We are excited about that. Nuclear has continued to be a strong part of the portfolio, and we are expecting double-digit growth from theranostics.

Strong growth from the PET part of the business, and we continue to focus on expanding our reach and our capacity. I would not read too much into the order of prioritization of the drivers, given the investment plans that I referenced earlier. Of course, I would be remiss if I did not mention the OptiFreight® business, which just continues to drive strong core volume growth and is a key part of our strategic plan. Jason, anything you want to add?

Jason Hollar: You got most of that. The only thing I would add is as you think about the three different businesses, they have very different margin profiles. There is a fairly large distribution aspect to the at-Home business. So as you would expect, that one has a smaller overall margin rate. OptiFreight®, being a services business, has an overall higher rate and Nuclear kind of somewhere closer to the average. Point is just the relative growth of the three businesses also impacts the difference between revenue growth and operating earnings growth. But I think you are right to call out the M&A is certainly a component of the synergies associated with that on the at-Home Solutions side is certainly a contributor to why we see some deviation from time to time between revenue and earnings.

Operator: Your next question comes from the line of Kevin Caliendo from UBS. Please go ahead.

Kevin Caliendo: Thanks for taking my question, guys. This one's a little cheeky, but can you quantify the difference between what is outsized demand and what is strong demand? How should we think about that mathematically? Just as a sort of a follow-up, the 19%-20% tax rate for fiscal ‘27, is that something we should just consider to be the baseline going forward now? Is this the new Cardinal tax rate, or would it revert back to the 21+% going forward?

Aaron Alt: Let me address the questions in reverse order. With respect to the tax rate, I spent last quarter commenting that we expected the 19% anticipated rate for ‘26 to be durable into ‘27. Indeed, we confirmed that today with the guidance that we're expecting a lower tax rate than has historically been our case. We've not provided updated long-term guidance beyond the fact that we have confirmed the 12%-14% non-GAAP EPS growth each year. And so as we're only a couple of weeks into our fiscal ‘27, I'm going to defer comments on longer-term tax rates beyond that to a later call.

With respect to your first question, I always appreciate some cheekiness in an earnings call. I guess I would observe that, as we've talked about before, we're not going to provide you with a mathematical formula on strong versus outsized.

We all know it when we see it. We continue to believe we will have the strong demand carrying forward, and we'll be the first ones to report back if we see something outsized relative to what we've experienced in the past.

Jason Hollar: I'm perhaps a little less cheeky, and I'll try to give you at least one data point. One thing we reference, of course, is specialty being a key driver of our growth this last year at 25% growth. We're talking about double-digit growth, which I know 25% is double digit, but nonetheless, a slowing of that to levels that we think is more appropriate for the longer term. We've talked about our generics volume being long-term planning 2%-3% growth. We've seen a nice step-up above that. While we're still not in the 2%-3% range for ‘27, we're somewhere in between where we've been more recently in the 2%-3%, so we're getting closer to that level. Those are a couple of the key drivers that end up driving some of the more profitable volume growth in the enterprise.

When we look at the right planning assumptions, those are two key areas that we look to. The one thing I'll go back to the very beginning on specialty. While we haven't called out the number explicitly, one thing we did highlight at the last Investor Day was that we expected a continuation of the mid-teens type of growth rate that we had seen at that time. The fact is that stepped up from mid-teens to the 25%, but mid-teens was a rate that we had seen for the last several years prior to that and is something that's certainly a lot closer to that type of planning assumption than what we've seen this last year.

Operator: Your next question comes from the line of Charles Rhyee from TD Cowen. Please go ahead.

Lucas Romanski: Hi, this is Lucas on for Charles. Thanks for taking the questions. I wanted to ask about your comments on GMPD and some of the moving parts in your fiscal ‘27 guide. I understand that lower tariffs are supposed to offset higher input costs. Can you maybe provide a little more information on what sort of pressures you're seeing on the input cost side? Then just kind of stepping back a little bit and thinking about how this business has improved in profitability over the last several years since you implemented your GMPD recovery plan. Can you kind of update us on where GMPD fits within your overall strategy?

Jason Hollar: Sure. As it relates to the commodity costs that we're always tracking very closely and that where we see some pressure today, think just oil and petroleum types of products. So diesel fuel being something that impacts our distribution logistics costs and the oil-based commodities, things like polyethylene, polypropylene, polyvinyl, these types of products. But it goes broader than that as well, some resins. These are things that we look at as input costs where sometimes those are raw materials we buy for our products, sometimes we buy the finished product. But in any event, we're seeing some pressure there. Not to the level that we saw several years ago coming out of COVID, but something that we are watching very closely. Of course, we spent the last several years creating more flexible commercial environment so that we have more optionality there.

For example, the diesel fuel, we are better protected as it relates to surcharges for some of those distribution types of customers. But nonetheless, there is some flow-through. One thing that Aaron highlighted is we tried to dimensionalize it for you because we recognized in the past, this was a much greater impact to our business, not only because the cost per item was going up, but we frankly did not manage it as well as we could have as well. What Aaron highlighted is that if these types of costs and rates stay elevated for the duration of our fiscal year, it's likely we'd be closer to that bottom end of our guidance range for GMPD. So that highlights that it's impactful, but much more manageable than what we've seen before.

We feel good about our ability to mitigate the vast majority of what comes at us. At the same time, we know there's a lot of pressure on our customers, and we're always looking for opportunities and ways to mitigate this entirely, so that they're not having to deal with it as well. But we'll have some work to do there, and we'll watch it very very closely. But we feel pretty good about the setup right now. On the tariff side, we have a planning assumption that is fairly consistent with what we have in place today, and we're watching that one as well. When you lap and carry over the impacts from the prior year, we do have some year-over-year tailwind for that we think is largely offsetting the commodity risk that I had referenced before.

It's all factored into our guidance, but if they stay elevated for the full-year, then we'll be at the lower end of that, all things being equal. As it relates to GMPD and more of the strategic question behind it, you're not going to hear anything different from me today. We are very pleased with the progress that we've made with this business. Not only with our financial results as you highlighted, Lucas, but also just the service and support and the quality, reliability. Everything that our customers are receiving has never been better with this business. We will continue to find opportunities to further improve both the business financial results, but also how our customers are treated, and the GMPD improvement plan remains in place. We see a lot of opportunity to grow Cardinal Health brand volume. We see a lot of opportunity for further simplification actions. That's where we're focused and we always look for all of our businesses as to how they fit in the portfolio, where we invest, is it organically, is it inorganically? All these things are always considered and we'll stay focused along the way on driving the operations.

Operator: Your next question comes from the line of Eric Coldwell from Baird. Please go ahead.

Eric Coldwell: Thanks very much. Just maybe two, if you do not mind. First off, sorry if I missed this, but did you mention what the WAC price changes are that are embedded in your fiscal ‘27 PSS revenue growth? I know it has been running sort of in that 5% ZIP code. As a headwind this year, is it the same model for next year or more? My real question is around GMPD again. If I am not mistaken, you have been doing about $1 billion-$1.1 billion revenue in brand per quarter. You just cited, I believe, $100 million of repayments to customers that I believe would have been the revenue headwind driving the 2% negative growth as reported. But if I take that $100 million over baseline quarterly revenue, it would imply about a 9-point to 10-point headwind. So by default, would core growth in brands be running more in the ZIP code of 7% or 8%? If so, that seems above what you have. You have certainly been doing better than you used to do and showing momentum there, but it maybe seems even a little bit better, if I am not mistaken. If so, could you get into that with us? Thanks.

Aaron Alt: So maybe on the first part of your question, I would just point out that we are assuming the same percent impact in ‘27 from the IRA impact, but of course, we will have both the lapping of last year's IRA WAC changes and, of course, now the January of ‘27 WAC changes as well. All that is built into our updated revenue guide for the year as well.

Jason Hollar: Yeah. To your point, Eric, perhaps you understand this, but they are not all defined at this point in time as to whether it is rebates or WAC reductions. So we are using the planning assumptions that Aaron highlighted for the time being, and it is obviously consistent with what we saw in 2026, which is why we picked that planning assumption. Your math is not entirely wrong. Not all that flows through to revenue. A big chunk does.

When you normalize for all that, we saw on the Cardinal Health brand side, we saw growth at or a little bit above that mid-single digit rate, normalized for all that. So there is some other smaller adjustments that come through there, but it is pretty consistent. Last six quarters have been right around that mid-single digit rate, and this quarter was fairly consistent with that.

Operator: At this time, this is all the time we have for questions. I will now turn the call over to Jason Hollar for closing remarks.

Jason Hollar: Yeah, we are pleased with another strong year, and we are already well into ‘27 and focused on driving our business, our results, to achieve those numbers as well and look forward to staying tight with you and providing further updates. With that, have a great day.

Operator: This concludes today's call. Thank you all for attending. You may now disconnect.