

Embecta Corp.
Q2 FY 25 Earnings Call Prepared Remarks
May 9th, 2025

1 Please standby. Welcome, ladies and gentlemen, to embecta Corp.'s fiscal second quarter
2 2025 earnings conference call.

3

4 At this time, all participants have been placed in a listen-only mode. Please note that this
5 conference call is being recorded, and a replay will be available on the Company's
6 website following the call.

7

8 I would now like to hand the conference call over to your host today, Mr. Pravesh
9 Khandelwal, Vice President of Investor Relations. Mr. Khandelwal, please go ahead.

10

11 Thank you, operator.

12

13 Good morning, everyone, and welcome to embecta's fiscal second quarter 2025 earnings
14 conference call.

15

16 The press release and slides to accompany today's call, and webcast replay details, are
17 available on the Investor Relations section of the Company's website at
18 www.embecta.com.

19

20 With me today are Dev Kurdikar, embecta's President and Chief Executive Officer; and
21 Jake Elguicze, our Chief Financial Officer.

22

23

24 Before we begin, I would like to remind you that some of the matters discussed in the
25 conference call will contain forward-looking statements regarding future events as
26 outlined in our slides. We wish to caution you that such statements are, in fact, forward-
27 looking in nature and are subject to risks and uncertainties and actual events or results
28 may differ materially. The factors that could cause actual results or events to differ
29 materially include, but are not limited to, factors referenced in our press release today,
30 as well as our filings with the SEC, which can be accessed on our website. In addition,
31 we will discuss certain non-GAAP financial measures on this call, which should be
32 considered a supplement to, and not a substitute for, financial measures prepared in
33 accordance with GAAP. A reconciliation of these non-GAAP measures to the
34 comparable GAAP measures is included in our press release and conference call
35 presentation.

36

37 Our agenda for today's call is as follows:

- 38 • Dev will begin by providing some remarks on the overall performance of our
39 business during the fiscal second quarter of 2025; as well as an overview of our
40 strategic priorities.
- 41 • Jake will then review our financial results for the fiscal second quarter of 2025,
42 as well as discuss the updated financial guidance for fiscal year 2025.
- 43 • Following these updates, we will open the call for questions.

44

45 With that said, I would now like to turn the call over to our CEO, Dev Kurdikar.

46

47 Good morning and thank you for taking the time to join us.

48 Since we announced the termination of our patch pump program five months ago, we
49 have been advancing the next phase of embecta's transformation. At the heart of this
50 transformation are three strategic priorities that are guiding our execution and shaping
51 our future.

52

53 First, strengthening our core business. We are making solid progress on our global brand
54 transition, with implementation in the U.S. and Canada underway and on track for
55 substantial completion in the second half of fiscal year 2025. Simultaneously, we are
56 pursuing initiatives within our core portfolio that solidify our customer relationships and
57 reinforce our leadership in insulin injection devices.

58

59 Second, expanding our product portfolio. We are advancing initiatives to bring market-
60 appropriate products to patients by leveraging our strengths in high-volume
61 manufacturing and global commercial reach. This includes partnerships with generic
62 drug manufacturers to co-package our pen needles with their potential generic GLP-1
63 drugs, and, expanding availability of our pen needles in appropriately sized retail
64 packaging for use with branded GLP-1 drugs delivered via pen injectors.

65

66 Third, increasing our financial flexibility. With the insulin patch pump program
67 restructuring plan substantially complete, we remain on track to deliver meaningful cost
68 synergies. In fiscal 2025, we remain committed to our goal of paying down
69 approximately \$110 million in debt. With strong free cash flow generation and the
70 majority of the overall separation-related costs behind us, we believe we are well-
71 positioned to strengthen our balance sheet and enhance our financial agility.

72

73 We believe consistent execution against these priorities will position embecta for
74 sustainable performance and long-term success.

75
76 Turning to some fiscal second quarter highlights.

77
78 Second quarter revenue totaled \$259 million, which exceeded our expectations of
79 between \$250 and \$255 million that we provided on our last earnings call. As compared
80 to the midpoint of our prior guidance range, approximately half of the overachievement
81 in the quarter was due to constant currency performance, while the other half was due to
82 foreign exchange being less of a headwind than we previously anticipated.

83
84 Turning to some additional highlights, during the second quarter, we published the
85 updated FITTER Forward Expert Recommendations in Mayo Clinic Proceedings. This
86 is an important milestone in our commitment to improving clinical outcomes, as the
87 recommendations support the best global practices for insulin injection technique,
88 device optimization, and provider training.

89
90 Additionally, during Q2 embecta conducted a company-wide employee engagement
91 survey through Great Place To Work, a global authority on workplace culture, employee
92 experience, and the leadership behaviors proven to deliver market-leading revenue,
93 employee retention and increased innovation. We had a tremendous response rate from
94 our employees worldwide, and we are pleased to announce that we have received
95 certification as a Great Place to Work for 2025 in 8 countries. This recognition is a
96 testament to the effort our teams have put into building a strong, authentic, and inclusive
97 culture.

98

99 I am also pleased to announce that we are continuing to advance our efforts to co-
100 package our pen needles with potential generic GLP-1 drugs, as well as making our pen
101 needles available in retail packaging appropriate for use with branded GLP-1 drugs
102 delivered by pen injectors. We expect this will enable us to expand into a fast-growing
103 market while leveraging our world-class distribution network and commercial expertise.
104 We have received several purchase orders from generic manufacturers to co-package
105 our pen needles, and we look forward to sharing more details about these partnerships
106 and the market potential at our upcoming Analyst and Investor Day.

107

108 We have completed the majority of the steps required to implement the discontinuation
109 of our insulin patch pump program and the associated restructuring plan announced in
110 November 2024. This progress has occurred within our previously expected timeline.

111

112 Additionally, our stand-up activities are largely complete, with only India yet to be
113 transitioned to our ERP system and distribution network within the next few months.
114 Therefore, we continue to be focused on reducing our cost structure and during the
115 second quarter, we initiated a separate restructuring plan aimed at streamlining our
116 organization. We expect the plan to be substantially complete by the end of fiscal year
117 2025. As a result, we anticipate incurring total pre-tax charges of between \$4 to \$5
118 million, the majority of which are expected to be cash related. This action is expected to
119 drive meaningful efficiencies, with estimated pre-tax cost savings of between \$7 to \$8
120 million during the second half of fiscal 2025.

121

122 Turning to the next slide...

123

124 In line with our commitment to enhancing financial flexibility, we continued to reduce
125 our debt, making an aggregate principal payment of approximately \$27 million on our
126 Term Loan B facility during the quarter. While on a year-to-date basis, we have reduced
127 debt by approximately \$60 million, which puts us well on-track to achieve our goal of
128 reducing debt by approximately \$110 million during fiscal 2025.

129

130 Finally, as we reflect on our second quarter results and look ahead to the remainder of
131 the year, we are updating our fiscal 2025 guidance. While our teams delivered slightly
132 better than expected financial performance during the first six months of the year, we
133 are adjusting our full year 2025 constant currency revenue outlook to account for lower
134 projected U.S. volumes primarily associated with anticipated reductions in customer
135 inventory levels tied to store closures at a specific U.S. retail pharmacy customer. That
136 said, our as-reported revenue guidance remains largely intact, supported by favorable
137 foreign exchange movements as compared to our previously provided guidance.

138

139 In terms of gross margins, we have updated our guidance to reflect the lower constant
140 currency revenue expectations, as well as the estimated impact of currently implemented
141 incremental tariffs, which are expected to be a headwind of approximately 25 basis
142 points to our full year adjusted gross margins.

143

144 However, even with these headwinds, we are raising our guidance ranges for adjusted
145 operating and adjusted EBITDA margins for the year due to disciplined expense
146 management and the initiation of the previously mentioned restructuring plan in the
147 second quarter. We are also reaffirming our adjusted earnings per share outlook for fiscal
148 year 2025.

149

150 Turning to the next slide, I would like to provide an update on our brand transition plan
151 and walk through the key elements of its execution. This initiative has been in planning
152 since our spin, and I am pleased to report that the transition is now underway in the U.S.
153 and Canada. We are executing the program in phases, as intended, and are preparing to
154 transition most of the remaining markets in the next fiscal year, in line with our original
155 plan. We continue to expect the global transition to be completed within the next couple
156 of years.

157

158 On the slide, you will see an example of the new embecta-branded packaging contrasted
159 with the legacy BD Nano 2nd Gen packaging. Importantly, product names and color cues
160 will remain unchanged—a deliberate decision informed by customer research. At the
161 same time, we are introducing a modern, refreshed look while maintaining the visual
162 elements that help healthcare providers and people with diabetes easily recognize our
163 products.

164

165 We remain focused on ensuring operational readiness along the supply chain, including
166 inventory management, customer communication, and regulatory compliance. This
167 thoughtful, phased approach is designed to ensure a smooth transition while preserving
168 the trust of those who rely on our products every day.

169

170 Now, let's review our revenue performance for the second quarter.

171

172 During the second quarter of fiscal year 2025, embecta generated \$259 million in
173 revenue, reflecting a 9.8% decline year-over-year on an as-reported basis, or a 7.7%
174 decline on an adjusted constant currency basis.

175

176 Within the U.S., revenue for the quarter totaled \$135.2 million, reflecting a year-over-
177 year decline of 8.4% on an adjusted constant currency basis. The year-over-year decline
178 was expected and is primarily due to two factors, both of which relate to the timing of
179 price increases that went into effect. First, in advance of a price increase that went into
180 effect on April 1st of 2024, we saw certain customers purchase additional products that
181 positively impacted our second quarter of 2024 results. Similarly, in advance of a price
182 increase that went into effect on January 1st of 2025, we saw certain customers purchase
183 additional products and that positively impacted our first quarter of 2025 results and
184 resulted in an offsetting reduction in the second quarter. As such, the combination of
185 these two factors led to a difficult comparable for our U.S. business.

186

187 Turning to our International business, during Q2 revenue totaled \$123.8 million, which
188 equated to a 7.0%, and \$10 million decline on an adjusted constant currency basis as
189 compared to the prior year period. Like the U.S., this decline was expected and due to
190 certain customers purchasing additional products in advance of ERP implementations in
191 certain regions in the prior year period.

192

193 While from a product family perspective, during the quarter, pen needle revenue
194 declined approximately 12.1%, syringe revenue grew by approximately 1.7%, safety
195 products grew approximately 4.2%, and contract manufacturing grew approximately
196 73%.

197

198 The decline in year-over-year pen needle revenue was primarily driven by the timing
199 issues associated with price increases that went into effect within the U.S., coupled with

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200 the unfavorable prior-year comparison stemming from ERP-related inventory builds
201 within our International markets.

202

203 Turning to our syringe products, they grew in the quarter by 1.7%, driven by
204 International markets, specifically Latin America and Asia.

205

206 While our safety products grew 4.2% as compared to the prior year period due to the
207 annualization of share gains resulting from a competitor discontinuing their product and
208 exiting the market.

209

210 That completes my prepared remarks, and with that, let me turn the call over to Jake to
211 review other Q2 financial highlights, as well as provide our updated financial guidance
212 for fiscal year 2025.

213

214 Jake....

215

216 Thank you, Dev, and good morning, everyone.

217

218 Given the discussion that has already occurred regarding revenue, I will start my review
219 of embecta's second quarter financial performance at the gross profit line.

220

221 GAAP gross profit and margin for the second quarter of fiscal 2025 totaled \$164.1
222 million and 63.4%, respectively. This compared to \$185.4 million and 64.6% in the prior
223 year period.

224

225 While on an adjusted basis, our Q2 2025 adjusted gross profit and margin totaled \$165
226 million and 63.7%. This compared to \$185.8 million and 64.7% in the prior year period.
227

228 The year-over-year decline in adjusted gross profit and margin was primarily driven by
229 the impact of net changes in profit-in-inventory adjustments, as well as the lower year-
230 over-year revenue that Dev mentioned earlier. These headwinds were partially offset by
231 manufacturing cost improvement programs, lower supply chain functional spend, lower
232 freight costs, and our ability to drive year-over-year price increases.
233

234 Turning to GAAP operating income and margin, during the second quarter they were
235 \$62.9 million and 24.3%. This compared to \$39.2 million and 13.6% in the prior year
236 period.
237

238 While on an adjusted basis, our Q2 2025 adjusted operating income and margin totaled
239 \$81.4 million and 31.4%. This compared to \$74.9 million and 26.1% in the prior year
240 period.
241

242 The year-over-year increase in adjusted operating income and margin is primarily due
243 to lower R&D expenses associated with the discontinuation of our insulin patch pump
244 program; as well as lower SG&A expenses primarily driven by lower TSA costs, as well
245 as lower compensation and marketing expenses. This was offset by the adjusted gross
246 profit changes I outlined.
247

248 Turning to the bottom line.
249

250 GAAP net income and earnings per diluted share were \$23.5 million and \$0.40 during
251 the second quarter of fiscal 2025, as compared to \$28.9 million and \$0.50 in the prior
252 year period.

253

254 While on an adjusted basis, during the second quarter of fiscal 2025, net income and
255 earnings per share were \$40.7 million and \$0.70, as compared to \$38.9 million and \$0.67
256 in the prior year period.

257

258 The increase in year-over-year adjusted net income and diluted earnings per share is
259 primarily due to the adjusted operating profit drivers I just discussed, as well as a
260 reduction in interest expense. This was partially offset by an increase in our adjusted tax
261 rate from approximately 18% in Q2 of 2024 to approximately 25% in Q2 of 2025.

262

263 Lastly from a P&L perspective, for the second quarter of 2025 our adjusted EBITDA
264 and margin totaled approximately \$97.1 million and 37.5%, as compared to \$90.8
265 million and 31.6% in the prior year period.

266

267 Turning to the balance sheet and cash flow.

268

269 At the end of the second quarter, our cash balance totaled approximately \$212 million,
270 while our last twelve months net leverage as defined under our credit facility agreement
271 stood at approximately 3.7x. As a reminder our net leverage covenant requires us to stay
272 below 4.75x.

273

274 As Dev mentioned earlier, we continue to be focused on more aggressively de-levering,
275 and during the second quarter we paid down \$27.4 million of Term Loan B debt. I'm

276 pleased to say that we remain on track to achieve our goal of reducing our gross debt by
277 \$110 million during fiscal 2025, as well as getting our net leverage levels to approach
278 approximately 3x by year-end.

279

280 That completes my prepared remarks on our second quarter 2025 results.

281

282 Next, I would like to discuss embecta's updated 2025 financial guidance and certain
283 underlying assumptions.

284

285 Before I begin, I want to acknowledge the evolving tariff landscape and provide some
286 important context regarding our global operations.

287

288 As a reminder, we manufacture our products across three key facilities: Dun Laoghaire,
289 Ireland; Holdrege, Nebraska; and Suzhou, China. We do not perform any manufacturing
290 in either Canada or Mexico. It's important to note that tariff regulations extend beyond
291 manufacturing location and require detailed analysis of trade classifications and rules of
292 origin to determine potential exposure.

293

294 As it relates to our global operations, we have now incorporated the impact of tariffs
295 currently in effect, notably the incremental 125% tariffs for raw material and finished
296 goods being imported into China with the U.S. as the country of origin, the incremental
297 145% tariffs for imports into the U.S. from China, and incremental baseline 10% tariffs
298 for imports into the U.S. from certain other countries. We have also assumed that certain
299 exemptions are applicable to certain materials and finished goods being imported into
300 the U.S.

301

302 We have not incorporated the potential incremental tariffs that may be implemented after
303 the current pause on tariffs has expired. Given the uncertainties surrounding the evolving
304 global trade environment, our estimates remain subject to change and we will continue
305 to monitor the situation and provide updates when appropriate.

306

307 As always, we remain committed to mitigating potential impacts where possible to make
308 sure we continue supporting our customers and the people living with diabetes who rely
309 on our products.

310

311 Now, let me discuss our updated guidance.

312

313 Beginning with revenue.

314

315 On an adjusted constant currency basis, we are lowering our previously provided
316 guidance range by 150 basis points on both the low and high ends, as we now call for
317 revenue to decline between 2.5% and 4% as compared to 2024.

318

319 At the low end of the range, we estimate that volume will be a headwind of
320 approximately 3% and that pricing will be a headwind of approximately 1%.

321

322 Meanwhile, at the high end of our constant currency revenue guidance range, we
323 estimate that volume will be a headwind of approximately 1.5% and that pricing will be
324 a headwind of approximately 1%.

325

326 As Dev noted earlier, the additional 1.5% volume headwind which we have incorporated
327 into our outlook is driven by lower projected U.S. volumes primarily associated with

328 anticipated reductions in customer inventory levels tied to store closures at a specific
329 U.S. retail pharmacy customer.

330

331 We believe this is transitory and does not reflect any fundamental change in the stability
332 of our base business.

333

334 Turning to our thoughts on F/X.

335

336 Since we provided our updated fiscal 2025 financial guidance in early February, the U.S.
337 dollar has weakened against most currencies, and as a result, we currently expect F/X to
338 be a headwind of approximately 0.8%, as compared to our prior guidance which called
339 for F/X to be a headwind of approximately 2.2%.

340

341 Additionally, our as-reported 2025 GAAP revenue will not be impacted by the 2015
342 through 2023 amount that we needed to accrue associated with the Italian payback
343 measure which impacted our 2024 as-reported GAAP revenue. This equates to a tailwind
344 of approximately 0.4%.

345

346 On a combined basis, our as-reported revenue guidance remains largely unchanged at a
347 range of between \$1 billion 73 million and \$1 billion 90 million.

348

349 Turning to adjusted gross margin, we are lowering our previously provided guidance
350 range by 50 basis points and now expect adjusted gross margin to be in the range of
351 between 62.75% and 63.75%.

352

353 The reduction in our current versus prior adjusted gross margin guidance is primarily
354 due to the reduction in our constant currency revenue, as well as the incremental impact
355 of tariffs. This is somewhat offset by favorable profit-in-inventory adjustments and cost
356 improvement actions we are taking within cost of sales.

357

358 While from an adjusted operating margin standpoint, we are raising our guidance from
359 a range of between 29.5% and 30.5% to a new range of between 29.75% and 30.75%.
360 This improvement in adjusted operating margin is primarily driven by the expected cost
361 savings associated with the restructuring plan announced this quarter.

362

363 Moving to earnings.

364

365 Our better than expected second quarter earnings performance, coupled with the
366 restructuring plan we announced today, as well as favorable shifts in foreign exchange,
367 are enabling us to absorb the impact of the lower adjusted constant currency revenues
368 and incremental tariffs, thereby allowing us to maintain our previously provided adjusted
369 diluted earnings per share guidance range of between \$2.70 and \$2.90.

370

371 Our updated guidance range continues to assume that our annual net interest expense
372 will be approximately \$107 million; that our annual adjusted tax rate will be
373 approximately 25%; and that our weighted average diluted shares outstanding will be
374 approximately 58.9 million.

375

376 Our guidance also continues to assume that we will use between \$50 and \$60 million of
377 cash during fiscal 2025 associated with separation costs largely related to brand

378 transition. While as it relates to capital expenditures, we now expect to incur
379 approximately \$15 million during the year, down from our prior estimate of
380 approximately \$20 million.

381

382 For cash usage associated with the discontinuation of our insulin patch pump program,
383 our guidance now assumes that we will use between \$20 and \$25 million, as compared
384 to our previous estimates of between \$25 and \$30 million.

385

386 Lastly, for the same reasons we increased our adjusted operating margin guidance range,
387 we are also raising our adjusted EBITDA margin guidance from a range of between
388 36.0% and 37.0%, to a new range of between 36.25% and 37.25%.

389

390 And before I turn the call over to the operator, I wanted to take a moment to remind
391 everyone that we will be hosting our inaugural Analyst & Investor Day on May 22nd in
392 New York City. We are looking forward to providing a deeper look into our portfolio,
393 value creation opportunities, and long-term financial objectives. We hope to see many
394 of you there. Please RSVP by following the instructions on this slide.

395

396 With that, I would like to turn the call over to the operator for questions.

397

398 Operator...

399

400 As we close the call, I want to express my sincere gratitude to my colleagues at embecta
401 around the world. Our global team remains focused on executing the priorities that we
402 have laid out even as uncertainty exists in the macroeconomic and global trade
403 environments.

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404

405 Finally, we look forward to engaging with all of you at upcoming conferences and at our
406 Investor Day on May 22nd, 2025, where we will share more about our vision for embecta.

407

408 Thank you for calling in and your interest in embecta.