Please standby. Welcome, ladies and gentlemen, to Embecta Corp.'s fiscal fourth quarter and full-year 2025 earnings conference call.

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

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

Thank you, operator.

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

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

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

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

Our agenda for today's call is as follows:

- Dev will begin with an overview of embecta's fiscal year 2025 performance and discuss progress across our strategic priorities.
- Jake will then review the financial results for the fourth quarter and full year 2025 and share our preliminary thoughts for fiscal year 2026.
- Following these updates, we will open the call for questions.

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

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

During fiscal year 2025, we achieved several key milestones.

We made the decision to end our patch pump program and we executed a restructuring plan aimed at enhancing our profitability and free cash flow.

We completed the implementation of our own ERP system and operationalized a new distribution network and shared service capabilities in Latin America and India, marking the completion of a major, complex, multi-year stand-up program. With this, 100% of our revenue now flows through our systems and all TSAs and LSAs that we had at spin have been exited.

We substantially completed our brand transition efforts in North America, with more than 95% of our U.S. and Canadian revenue now converted to the embecta brand. This was carefully managed to ensure continuity for customers and patients, and with this foundation in place, we have now commenced the next phase of the initiative globally. Transition activities have already begun in certain international markets, and we expect to be significantly complete in most regions by the end of calendar year 2026.

Together, the completion of these separation and stand-up activities have freed up capacity, which we are now devoting to initiatives that we anticipate will help transition the company towards sustainable long-term growth.

Supporting this goal, we advanced our GLP-1 strategy meaningfully during fiscal 2025. We are now collaborating with more than 30 pharmaceutical partners to co-package our pen needles with generic GLP-1 therapies. Several of these partners have already signed agreements and placed purchase orders, and our products are included in multiple GLP-1 partner-managed regulatory submissions expected to lead to commercial launches.

Our generic GLP-1 partners are anticipating launches in Canada, Brazil, and India during calendar year 2026, and while we do not control the timing and content of the companies' regulatory submissions, nor the timing of their launches upon receiving regulatory approval, we are encouraged by their momentum and remain ready to support our partners by providing them with our pen needles.

In parallel, we are continuing to expand the availability of pen needles in consumer friendly small packs for the Canadian and select European markets. These small packs are targeted specifically towards out of pocket customers, like GLP-1 users.

Taken together, we continue to believe that the use of our pen needles with GLP-1s represents at least a $100 million annual revenue opportunity by 2033, and we anticipate that this will be a growing contributor to our results over the next several years.

We also initiated new product development programs for market appropriate syringes and pen needles aimed at strengthening and expanding our portfolio with the goal to maintain our leadership position in our core product categories. These programs are important because we believe they will allow us to expand our reach into market segments that we do not significantly participate in.

And we continued to prioritize financial discipline and debt reduction, as throughout the year, we generated approximately $182 million in free cash flow, and we paid down approximately $184 million of debt, exceeding our original fiscal year 2025 target of $110 million. With leverage now at 2.9x net debt to adjusted EBITDA, we continue to create financial flexibility to invest in potential organic and inorganic opportunities that can reshape embecta's long-term growth profile.

In summary, fiscal year 2025 was a year of solid execution on multiple fronts while outlining and initiating a new strategic direction for the company.

From the standpoint of our financial results, we exceeded our previously provided fiscal year 2025 adjusted gross margin, adjusted operating margin, and adjusted EBITDA margin ranges. While our adjusted diluted earnings per share was at the top-end of our previously provided guidance range.

As we move into fiscal year 2026, we remain focused on the priorities and the long-term financial targets outlined at our 2025 Analyst and Investor Day.

Now, let's review our revenue performance for the fourth quarter and full year.

During the fourth quarter of fiscal year 2025, embecta generated $264 million in revenue, reflecting a 7.7% decline year-over-year on an as-reported basis, or a 10.4% decline on an adjusted constant currency basis.

Within the U.S., revenue for the quarter totaled $142.0 million, reflecting a year-over-year decline of 15.2% on an adjusted constant currency basis. The year-over-year decline was primarily driven by an unfavorable comparison to the prior-year fiscal fourth quarter, which benefited from additional distributor orders that occurred because of the then looming U.S. port strike totaling approximately $10 million; as well as the unwinding of the favorable order timing associated with the July Fourth holiday that positively impacted our third quarter of 2025 results totaling approximately $7 million.

Additionally, year-over-year price in the U.S. was unfavorable by approximately $7 million, primarily due to milestone payments made to a large U.S. pharmacy customer.

Turning to our International business, revenue for the fourth quarter totaled $122.0 million, representing an increase of 2.8% on a reported basis, but a decline of 4.0% on an adjusted constant currency basis. This decline was anticipated and primarily due to lower volumes and year-over-year pricing headwinds within China. This was driven by heightened competitive intensity in China, fueled by the growing preference of local Chinese brands amidst an evolving U.S./China geopolitical and trade environment. This was partially offset by performance in other emerging markets.

While from a product family perspective, during the quarter, adjusted constant currency pen needle revenue declined approximately 13.9%, syringe declined by approximately 4.5%, safety products grew approximately 3.7%, and contract manufacturing revenue grew approximately 8.5%.

The year-over-year decline in pen needle revenue was driven by the same factors that impacted our U.S. and International results.

Turning to our syringe products, the decrease was primarily due to ongoing end-market volume declines within the U.S. This trend is not new and has persisted over the past several years and is consistent with the decrease in prescriptions for insulin vials as compared with insulin pens. This decline was partially offset by improved pricing.

Finally, our safety products grew 3.7%, primarily due to improved pricing.

For the full year, embecta generated adjusted revenues of approximately one billion and eighty million, which represented a decline of 3.9% on an adjusted constant currency basis.

U.S. revenues totaled $579.1 million, which is a decrease of 4.6% on an adjusted constant currency basis. The year-over-year decline in the U.S. was largely due to the aforementioned advanced distributor ordering that occurred in Q4 of fiscal 2024 associated with the potential port strike, as well as the continued end-market declines in syringe volume.

Meanwhile, International revenues totaled $501.3 million, which equated to a year-over-year adjusted constant currency decline of approximately 3.1%. The decline in International revenue was primarily due to lower revenue contribution from China.

Turning to our product family revenue performance.

Globally, our pen needle revenue declined approximately 7.1%, totaling $784.1 million. Fiscal year 2025 pen needle revenue reflects the confluence of several transitory factors including advanced distributor ordering in the prior year, lower China revenue, and pricing headwinds in certain markets.

Turning to our syringe products, revenues grew year-over-year by 1.7%, primarily driven by improved pricing.

While our safety products grew 6.3%, due to a combination of improved pricing and volume increases.

Lastly, contract manufacturing revenue grew approximately 53.9% as compared to the prior year.

With that, let me turn the call over to Jake for him to review other financial highlights, as well as to provide our preliminary financial guidance for fiscal year 2026.

Jake…

Thank you, Dev, and good morning, everyone.

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

GAAP gross profit and margin for the fourth quarter of fiscal 2025 totaled $158.5 million and 60.0%, respectively. This compared to $173.8 million and 60.7% in the prior year period.

While on an adjusted basis, our Q4 2025 adjusted gross profit and margin totaled $159.5 million and 60.6%. This compared to $178.3 million and 61.4% in the prior year period.

The year-over-year decline in adjusted gross profit and margin was primarily driven by the lower year-over-year volume and mix and price that Dev mentioned earlier; as well as the negative impact of foreign currency translation. These headwinds were partially offset by manufacturing cost improvement programs, the favorable impact of net changes in profit-in-inventory adjustments, and lower freight costs.

Turning to GAAP operating income and margin, during the fourth quarter they were $56.5 million and 21.4%. This compared to $26.2 million and 9.2% in the prior year period.

While on an adjusted basis, our Q4 2025 adjusted operating income and margin totaled $66.7 million and 25.3%. This compared to $61.2 million and 21.1% in the prior year period.

The year-over-year increase in adjusted operating income is primarily due to lower R&D expenses associated with the discontinuation of our insulin patch pump program; as well as lower year-over-year SG&A expenses due to the restructuring initiative we announced earlier this year, coupled with no TSA expenses within the current year. This was partially offset by lower revenue and gross profit as compared to the prior year period.

Turning to the bottom line.

GAAP net income and earnings per diluted share were $26.4 million and $0.45 during the fourth quarter of fiscal 2025, as compared to $14.6 million and $0.25 in the prior year period.

While on an adjusted basis, during the fourth quarter of fiscal 2025, net income and earnings per share were $29.4 million and $0.50, as compared to $25.9 million and $0.45 in the prior year period.

The increase in year-over-year adjusted net income and diluted earnings per share is primarily due to the adjusted operating profit drivers I just discussed, as well as a reduction in interest expense. This was offset by an increase in our adjusted tax rate from approximately 9.5% in Q4 of 2024 to approximately 25% in Q4 of 2025.

Lastly from a P&L perspective, for the fourth quarter of 2025 our adjusted EBITDA and margin totaled approximately $89.9 million and 34.1%, as compared to $73.0 million and 25.2% in the prior year period.

Turning to our full year results.

GAAP gross profit and margin for fiscal 2025 totaled $676.8 million and 62.6%, respectively. This compared to $735.2 million and 65.5% in the prior year.

While on an adjusted basis, our 2025 gross profit and margin totaled $687.3 million and 63.7%. This compared to $740.7 million and 65.7% in the prior year.

The year-over-year decrease in adjusted gross profit and margin was primarily driven by lower year-over-year volume and mix, and an unfavorable year-over-year impact from profit-in-inventory. This was partially offset by manufacturing cost improvement programs.

Turning to GAAP operating income and margin, during 2025 they were $242.1 million and 22.4%. This compared to $166.8 million and 14.9% in the prior year.

While on an adjusted basis, our 2025 adjusted operating income and margin totaled $337.7 million and 31.3%. This compared to $296.9 million and 26.3% in the prior year period.

Similar to our comments relating to the fourth quarter, the year-over-year increase in adjusted operating income and margin is due to similar factors that impacted the fourth quarter, those being the lower R&D expenses associated with the discontinuation of our insulin patch pump program; as well as lower year-over-year SG&A expenses due to the restructuring initiative we announced earlier this year, coupled with a reduction in TSA expenses. This was partially offset by lower revenue and gross profit as compared to the prior year.

Turning to the bottom line.

GAAP net income and earnings per diluted share was $95.4 million and $1.62 during fiscal 2025, which compared to $78.3 million and $1.34 in the prior year.

While on an adjusted basis, net income and earnings per share were $173.9 million and $2.95 during fiscal 2025. This compared to $143.1 million and $2.45 in the prior year.

Like my comments relating to the fourth quarter, the increase in year-over-year adjusted net income and diluted earnings per share is primarily due to the adjusted operating profit drivers I just discussed, as well as lower year-over-year interest expense resulting from a reduction in outstanding borrowings under our Term Loan B facility as we continued to pay down debt, somewhat offset by an increase in our adjusted tax rate from approximately 20.0% in 2024 to approximately 25.0% in 2025.

Lastly from a P&L perspective, during 2025 our adjusted EBITDA and margin totaled approximately $415.3 million and 38.5%. This compared to $353.4 million and 31.4% in the prior year.

Turning to the balance sheet and cash flow.

During fiscal year 2025, we generated approximately $182 million in free cash flow. Additionally, during the year we repaid approximately $184 million of outstanding debt and ended 2025 with a net leverage level of approximately 2.9x, as defined under our credit facility agreement compared to our covenant requirement of below 4.75x.

And finally, we recently executed an agreement with a third party to sell certain intellectual property rights and long-lived assets associated with the discontinued patch pump program for $10 million. This transaction occurred subsequent to year end and therefore had no impact on our fiscal fourth quarter results.

That completes my prepared remarks on our fourth quarter and full year 2025 results.

Next, I would like to discuss our preliminary 2026 financial guidance and certain underlying assumptions.

Before I go into all the details surrounding our fiscal year 2026 guidance, let me remind you that in May of 2025, at our Analyst and Investor Day, we laid out our long-range plan through fiscal year 2028. Those expectations included that our revenue growth CAGR would remain flattish on a constant currency basis from fiscal year 2026 through

2028, with modest declines of approximately 1% to 2% in core injection and contract manufacturing revenue over the LRP period, offset by contributions from new revenue streams, including GLP-1 opportunities and distributed product partnerships that were expected to build as we moved through fiscal years 2026 through 2028. Additionally, the financial targets that we provided at our Analyst and Investor Day anticipated adjusted operating margin to be between 28% and 30% by fiscal 2028, as R&D expenses were expected to increase from 2025 levels as we support key value creation initiatives through 2028; while SG&A expenses were expected to remain flattish as compared to 2025 levels.

And despite a dynamic geopolitical and trade backdrop, I'm pleased to say that we believe our initial fiscal 2026 financial guidance is well aligned with the expectations established in our long-range plan.

Beginning with revenue.

On an adjusted constant currency basis, we currently anticipate that our revenues will be flat to down 2.0% as compared to 2025 levels.

At the high-end of our constant currency revenue range, we have factored in modest volume declines within our core injection business primarily related to syringe declines within the U.S.; that reduced contract manufacturing revenues contribute to approximately 50 basis points of the decline; that pricing is relatively flat year-over-year; and that the contribution from new revenue streams contribute positively by approximately 100 basis points.

While, at the low-end of our range, we are assuming that volumes within our core injection business contribute to approximately 150 basis points of the decline; that reduced contract manufacturing revenues contribute to approximately 50 basis points of the decline; that pricing is relatively flat year-over-year; and that the contribution from new revenue streams is negligible.

Turning to our thoughts on F/X, our initial guidance calls for a foreign currency tailwind of approximately 1.2% during 2026.

This assumption is based on foreign exchange rates that were in existence around the early-November timeframe.

Somewhat offsetting F/X is an estimated 0.1% year over year headwind associated with the Italian payback measure primarily driven by the favorable adjustment recognized in fiscal year 2025.

On a combined basis, our as-reported revenue guidance calls for a range of between negative 0.9% to positive 1.1%, resulting in an initial revenue guide of between $1 billion 71 million and $1 billion 93 million.

Turning to adjusted operating margin, our initial guidance range calls for a range of between 29% and 30%, or lower by approximately 180 basis points at the mid-point as compared to 2025 levels.

The expected decline at the mid-point is due to two factors, contributing equally. First, adjusted gross margin is expected to decline due to increased cannula costs, while in terms of tariffs, based on current information, we expect incremental tariffs to have a negligible impact as compared to the prior year; and second, we anticipate R&D expense to approximate 2% of revenue, as we continue to invest in the development of market appropriate pen needles and syringes, and advance our efforts to qualify and onboard alternate cannula suppliers; SG&A as a percentage of revenue is expected to remain relatively consistent with fiscal 2025 levels.

All totaled, our initial guidance range for adjusted operating margin aligns with the margin framework outlined in our Analyst and Investor Day and reflects our disciplined approach to balancing reinvestment for growth with sustained profitability as we advance through the next phase of our transformation.

Moving to earnings, during 2026 our initial guidance calls for an adjusted diluted earnings per share range of between $2.80 and $3.00 and is based on a weighted average diluted share amount of approximately 60 million shares.

Our initial adjusted earnings per share range includes an assumption that during 2026 we will repay approximately $150 million in debt and that our annual net interest expense will be approximately $93 million.

While from a tax perspective, our initial adjusted earnings per share range assumes that our adjusted tax rate will be approximately 23%, as compared to approximately 25% in fiscal year 2025 due to tax planning initiatives we put in place, U.S tax reform and lower interest expense.

And before I turn the call over to the Operator, I'd like to highlight some considerations regarding the cadence of quarterly revenue expectations during 2026. Moving forward, we may not provide any further commentary concerning the quarterly cadence of revenue on an ongoing basis.

During fiscal year 2025, we generated approximately 48% of our adjusted revenue dollars during the first half of the year, with revenue split roughly evenly between the first and second fiscal quarters. During fiscal year 2026, we currently expect something similar to occur.

Finally, during fiscal 2026, we expect to generate between $180 million to $200 million in free cash flow, which includes using approximately $20 million of cash for capital expenditures, as well as approximately $30 million of cash on one-time spend, primarily focused on advancing the global brand transition program, which remains on track to be substantially complete by the end of calendar year 2026. Importantly, the free cash flow that we expect to generate during fiscal year 2026 keeps us firmly on pace with the commitment we outlined at our Analyst and Investor Day to generate approximately $600 million of cumulative free cash flow from fiscal 2026 through fiscal 2028 and demonstrates the strength of our cash generation model and reinforces our confidence in achieving our long-term deleveraging and investment objectives.

That completes my prepared remarks, and at this time, I would like to turn the call over to the operator for questions.

Operator…

As we close the call, I want to express my sincere gratitude to my colleagues at embecta around the world. Fiscal year 2025 represented a meaningful milestone as we completed the first phase of our strategic roadmap, standing up the core systems and infrastructure needed for our next stage of growth. Despite a complex trade and geopolitical backdrop, we continued to perform well and strengthened our operational foundation.

We enter fiscal year 2026 confident in the direction of the company. Our focus remains clear, maintaining leadership in our core categories, advancing our innovation programs, and delivering strong profitability and cash flow in order to execute on the commitments we outlined at our 2025 Analyst and Investor Day.

Thank you for calling in and your interest in embecta.