Please stand by.

Welcome, ladies and gentlemen, to embecta Corp.'s fiscal second quarter 2026 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 re-play will be available on the Company's website following the call.

I would like to now turn the call over to your host today, Mr. Pravesh Khandelwal, Vice President of Investor Relations.

Mr. Khandelwal, please go ahead.

Good morning, everyone, and welcome to embecta's fiscal second quarter 2026 earnings conference call.

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

With me today are Dev Kurdikar, embecta's Chairman 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, including those referenced on slide 2 of today's conference call presentation. 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. We do not intend to update or revise any forward-looking statements, including any charts, financial projections, or other data referenced in this presentation, whether as a result of new information, future events, or otherwise, except as required by applicable law. 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, which are also included in the investors section of our website at www.embecta.com.

Our agenda for today's call is as follows:

- Dev will begin with an assessment of the company's performance during the second quarter and associated financial guidance implications. He will also share the progress we have made on our strategic objectives, and will discuss the expected, imminent closing of the Owen Mumford acquisition.

- Jake will then take you through our second quarter financial results in more detail, as well as our updated fiscal year 2026 guidance.

- Dev will then conclude with our updated approach to capital allocation and we will open the call for questions.

With that, I will now turn the call over to Dev.

Good morning, everyone, and thank you for joining us today.

I want to start the call by addressing our second quarter performance and full year guidance revision. This was a difficult quarter for embecta. Our results were below expectations, with consolidated revenues down 14.4% year-over-year on an as-reported basis, or 17.4% on an adjusted constant currency basis. As a result, we are updating our full year guidance to account for the underlying factors that impacted performance during the quarter and that we expect to persist for the remainder of the year.

We have a number of initiatives underway already to counteract them as we transition from our roots as a spun-out insulin injection delivery company toward a more diversified broad-based medical supplies company. We are actively laying the foundation to one day serve patients beyond those solely with diabetes. Our strategic priorities, along with our recent acquisition of Owen Mumford, will help get us there.

Turning to the second quarter. While our international business performed in line with our prior outlook, our U.S. business fell short of expectations due to a combination of factors that I'm going to take you through now.

The largest contributor to the lower year-over-year U.S. revenue is share loss within our pen needle product category, most of which is concentrated at a single customer. We estimate that the remainder is spread across smaller regional and independent pharmacy customers. It's important to understand that the patients switching to competitive products are likely not on payer plans where we have preferred access. That means that the revenue impact of this switching is estimated to be greater than what is indicated by an average unit price.

The second largest contributor is overall market volume softness for insulin pens and pen needles in the retail channel. We believe this contributes to most of the remaining pen needle revenue decline.

And as it relates to the insulin pen market, we are seeing signs of decline in overall insulin pen prescriptions. This is driven by a decline in the retail channel but is being partially mitigated by growth in the long-term care channel. We are also seeing volume softness in long-standing accounts where we have a stable share position.

Additionally, more patients choosing to acquire pen needles from channels where we do not participate or where products are lower-priced is driving additional pressure on retail pen needle volumes.

The remaining pen needle decline is related to inventory reductions at certain accounts and additional net pricing pressure.

Finally, a reduction in syringe and safety products revenues comprise the remainder of the overall U.S. revenue decline.

As a result, we are revising our fiscal 2026 revenue guidance to a range of between $1 billion 15 million and $1 billion 35 million. This reflects both the U.S. revenue shortfall in the second quarter and our updated expectations in the U.S. for the remainder of the fiscal year. International is performing as expected and our outlook there is unchanged. Additionally, the revised range includes approximately $30 million in revenue contribution from the acquisition of Owen Mumford, which is expected to close by the end of this month.

This compares to our previous guidance range of between $1 billion 71 million and $1 billion 93 million. As a reminder, during our first quarter earnings conference call we had commented that we expected to be closer to the lower end of that revenue guidance range.

Excluding the anticipated four-month contribution from Owen Mumford, our current organic revenue outlook at the midpoint is approximately $995 million, or a reduction of approximately $75 million from the low-end of our prior expectations.

Pen needles account for approximately 70% of the $75 million revenue guidance reduction, or approximately $53 million.

Given that pen needle market volume estimates can be somewhat imprecise, it is not possible to exactly calculate the individual contributions of competitive share loss and market volume softness on our product volumes.

Our estimate is that share loss accounts for nearly half of the pen needle revenue reduction, or approximately $25 million, while overall market volume softness is estimated to account for approximately $20 million. The remaining pen needle headwinds we are seeing are related to inventory reductions at certain accounts and additional net pricing pressure, which together accounts for approximately $8 million of the revenue guidance reduction.

Turning to syringes, they account for approximately $13 million of the remaining $22 million revenue guidance reduction, most of which stems from lower syringe use associated with compounded drugs.

While our decision to discontinue our swab products accounts for approximately $5 million of the revenue guidance reduction. For context, in late 2025, our sole supplier of the active ingredient in our alcohol swabs exited the API manufacturing space. Despite extensive efforts, we were unable to qualify an alternate supplier under applicable FDA standards, and while we remain committed to supporting our customers and patients through this transition, we recently made the decision to cease production of alcohol swabs. This product line had lower gross margins than our insulin injection devices.

Finally, a reduction in estimated growth of safety products accounts for the remaining amount of approximately $4 million.

Our guidance assumes that share loss and softness in market volumes persist throughout the remainder of year, without any further deterioration or recovery.

Taken together, these are the drivers behind our performance in the second quarter, as well as the full year revenue guidance revision.

Considering the magnitude of the guidance reduction, we have initiated a review of our cost structure and organizational footprint. We will communicate findings and resulting actions as part of our standard quarterly reporting once that work has been completed. Now let me briefly touch on our strategic priorities.

First, we continued to advance our global brand transition program during the quarter. More than 75% of embecta revenue is now represented by products commercially launched and shipped under the embecta label, and we remain on track for substantial completion by the end of calendar year 2026.

Second, in terms of the development of market-appropriate pen needles and syringes, we continued to make meaningful progress during the quarter. These products are designed to compete in price sensitive markets and may help mitigate share loss.

Market-appropriate syringes have launched commercially in China, and we are monitoring customer feedback. We plan to expand availability of these products in additional geographies upon the receipt of regulatory approvals.

Regarding new pen needles, we have active regulatory submissions under review by the U.S. FDA, Brazilian authorities, and BSI for CE Mark certification in Europe.

Third, portfolio expansion. During the quarter we made meaningful progress on our GLP-1 B2B strategy, building directly on what we shared with you last quarter.

At that time, we reported that we were collaborating with over 30 pharmaceutical partners, with more than one-third having selected embecta as their preferred device supplier or having executed agreements in place.

Three months later, the pipeline has continued to develop, and now approximately 40% of our identified partners are either in active contract negotiations or have executed agreements in place. We also note that our partners have received Canadian approval and the first U.S. FDA tentative approval for a generic semaglutide injection product.

Additionally, this quarter we moved from pipeline to execution, as several of our partners launched generic GLP-1 therapies co-packaged with embecta pen needles in India. That is a meaningful proof-point of our B2B value proposition and our commercial execution.

Furthermore, our small pack GLP-1 retail configurations launched in Canada and Australia. These products are designed specifically to meet the needs of the growing out-of-pocket GLP-1 user population, and we expect to extend availability of such configurations into the U.S. market in the coming months to serve those patients who need pen needles to administer Zepbound in a pen injector.

Regarding our fourth priority, financial flexibility, during the first six months of the year we repaid approximately $75 million of outstanding principal of our Term Loan B. Disciplined deleveraging has been a consistent priority, and this repayment of debt is consistent with our track record of applying free cash flow to strengthen the balance sheet and preserve strategic optionality. That financial discipline is what creates the capacity to pursue transactions like Owen Mumford.

When we announced this acquisition in March, we noted that Owen Mumford had earned a global reputation for innovation, quality, and patient-centered design. The more time we spend with this team and this business, the more confident we are in that view.

At its core, this acquisition accelerates our transformation into a broad-based medical supplies company, one that serves both pharmaceutical partners seeking drug delivery platforms and chronic care patients across diabetes, obesity, autoimmune diseases, and anaphylaxis markets.

More specifically, we are adding a differentiated drug-delivery platform designed to support pharmaceutical companies seeking a device to deliver injectable drugs. In addition, we will expand our product portfolio beyond insulin injection devices and capitalize on our global presence, thereby diversifying our revenue base.

Finally, given the nature of the products being added to the portfolio, we expect to be able to leverage our core manufacturing strengths and optimize our manufacturing and distribution network.

All of which is consistent with the strategy we presented at our 2025 Investor Day.

Next, I will provide a brief overview of the business we are acquiring.

Owen Mumford is a privately held, UK-based innovator with a 70-year track record of developing medical devices and drug delivery technologies.

OM brings a diversified portfolio of devices that serve chronic care and point-of-care testing markets, including self-injection systems, lancing devices, and venous blood collection solutions. These are durable, clinically established franchises with long-standing customer relationships. Their top ten customers have maintained relationships averaging 20 years, which speaks to the stickiness of their platform and the quality of their execution.

Like embecta, Owen Mumford also has a September 30th fiscal year end, and during fiscal year 2025 they generated revenue of approximately 69.4 million pounds, with approximately 80% of their revenue concentrated in the UK and the United States.

Their business is split between Medical Devices, which represents approximately 60% of revenue, and Pharmaceutical Services, which represents the remaining 40%.

We view the Pharmaceutical Services business as the higher growth area of the two, anchored by the Aidaptus auto-injector platform which I will discuss next.

Aidaptus is an award-winning, next-generation auto-injector designed with a single-form factor that accommodates both 1mL and 2.25mL fill volumes. What that practically means is that Aidaptus has a single final assembly process and was designed from the start to address customers' needs for reduced manufacturing changeovers, simplified supply chain logistics, and large-scale production.

We estimate the total addressable auto-injector market to be approximately $2.4 billion, growing at a double-digit CAGR. This is driven by the adoption of biologics, the emergence of generic GLP-1 therapies, and the broad shift toward self-injection as a preferred modality across multiple chronic care categories.

Aidaptus is well-positioned to capture a meaningful share of that growth, as the platform is already supporting customer clinical development programs, with a commercial contract pipeline that includes secured, long-term agreements with several partners.

The strategic alignment with our existing GLP-1 B2B strategy is also worth highlighting, as Aidaptus deepens our relevance to pharmaceutical partners who need a drug delivery device to go alongside their injectable therapy.

During fiscal year 2026, Aidaptus is expected to generate a small amount of revenue, as market penetration and growth are expected in future years.

To that point, the acquisition of Owen Mumford was structured as an upfront payment of 100 million pounds at closing, and up to an additional 50 million pounds in performance-based payments based on net sales of Aidaptus.

Regarding synergies, we have assumed a modest level of operational synergies in our financial model, reflecting opportunities to leverage embecta's manufacturing scale and infrastructure alongside Owen Mumford's capabilities.

And while we have not assumed any revenue synergies in our financial model, given that OM generates approximately 80% of their revenue in only two countries, we believe that the commercial opportunity of pairing Owen Mumford's portfolio with embecta's presence in over 100 countries could be significant.

That completes my prepared remarks at this time and with that, let me turn the call over to Jake to take you through the financials in more detail.

Thank you, Dev, and good morning, everyone.

Since Dev outlined the items impacting Q2 revenue, I will keep my comments brief.

During the second quarter, embecta generated approximately $222 million in revenue, which is a year-over-year decline of 14.4% on an as-reported basis, or 17.4% on an adjusted constant currency basis.

Within the U.S., revenue for the quarter totaled approximately $95 million, reflecting a year-over-year decline of 29.4% on an adjusted constant currency basis. The lower U.S. revenue is attributed to the factors that Dev described earlier.

Turning to our International business, revenue for the quarter totaled approximately $126 million, representing an increase of 2.1% on a reported basis, but a decline of 4.1% on an adjusted constant currency basis.

Results within International were in line with our expectations, as revenue within China was lower as compared to the prior year period, given ongoing market dynamics and the broader geopolitical and trade environment. These declines were partially offset by continued strength across Latin America, Asia, and Canada.

Meanwhile, from a product family perspective, during the quarter, adjusted constant currency pen needle revenue declined 20.4%, syringe revenue declined 14.6%, safety product revenue declined 2.3%, and contract manufacturing revenue declined 43.2%.

GAAP gross profit and margin for the second quarter of fiscal 2026 totaled $127.8 million and 57.6%, respectively. This compared to $164.1 million and 63.4% in the prior year period.

While on an adjusted basis, our Q2 2026 adjusted gross profit and margin totaled $131.8 million and 59.4%. This compared to $165 million and 63.7% 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 revenue in the U.S., as well as lower year-over-year revenue in

China. These headwinds were partially offset by net changes in profit-in-inventory adjustments and F/X.

Turning to GAAP operating income and margin, during the second quarter of 2026 they were $35 million and 15.8%. This compared to $62.9 million and 24.3% in the prior year period.

While on an adjusted basis, our Q2 2026 adjusted operating income and margin totaled $48.6 million and 21.9%. This compared to $81.4 million and 31.4% in the prior year period.

The year-over-year decrease in adjusted operating income was driven by the decline in adjusted gross profit, as operating expenses remained consistent with the prior year period.

Turning to the bottom line.

During the second quarter of 2026, we generated a GAAP net loss of $4.1 million, and a loss per diluted share of $0.07. This compared to GAAP net income of $23.5 million and earnings per diluted share of $0.40 in the prior year period.

While on an adjusted basis, during the second quarter of fiscal 2026, net income and earnings per share were $16.1 million and $0.27, as compared to $40.7 million and $0.70 in the prior year period.

The decrease 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 higher year-over-year adjusted tax rate driven by the lower U.S. revenue in the quarter.

Turning to the balance sheet and cash flow.

During the six-month period ending March 31, 2026, we generated approximately $47 million in free cash flow, and we repaid $75 million of outstanding debt. While our last twelve months' net leverage, as defined under our credit facility agreement, was approximately 3x. This is compared to our covenant requirement which requires us to stay below 4.75x.

That completes my prepared remarks on our second quarter 2026 results.

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

Beginning with revenue.

On an as-reported basis, we are lowering our guidance from a range of between $1 billion $71 million and $1 billion $93 million, to a range of between $1 billion $15 million and $1 billion $35 million.

This new range assumes an organic as-reported revenue range of between $985 million and $1 billion $5 million.

It also assumes that we will close the acquisition of Owen Mumford by the end of this month, which would then generate four months of contribution, or approximately $30 million.

In terms of adjusted operating margin, given the expected decline in U.S. revenue as compared to our prior projections, we are lowering our adjusted operating margin guidance from a range of between 29% and 30% to a new range of between 22.25% and to 23.25%.

We are also lowering our adjusted earnings per share guidance from a range of between $2.80 and $3.00 to a new range of between $1.55 and $1.75.

The largest driver of this reduction is the impact of the lower U.S. revenue and associated gross profit, which accounts for most of the change.

In addition to the U.S. revenue and gross profit impact, the addition of Owen Mumford, including the interest expense on the associated borrowings, is expected to be dilutive by approximately $0.15.

Over the longer term, we continue to expect that:

- the acquisition of Owen Mumford will contribute to revenue growth in fiscal year 2027 and beyond

- that OM will be immaterial to embecta's fiscal year 2027 adjusted operating income and to be accretive thereafter
- that OM will be dilutive to adjusted net income in fiscal year 2027, to be immaterial to embecta's fiscal year 2028 adjusted net income and to be accretive thereafter
- and that the acquisition will generate high-single-digit return on invested capital by year four, with increasing contribution thereafter

Lastly, because of the lower expected U.S. profitability, coupled with the addition of Owen Mumford, we now expect that our adjusted tax rate will increase from approximately 23% to approximately 28%, thereby reducing our adjusted EPS as compared to our prior expectations by approximately $0.10.

Turning to the balance sheet and cash flow, despite the reduction in our revenue and profitability guidance ranges, we continue to target repaying approximately $150 million in debt during 2026.

Lastly, in terms of free cash flow, and inclusive of the addition of Owen Mumford, we now expect to generate free cash flow of between $95 million and $105 million. This compares to our prior guidance range of between $180 million and $200 million. This updated guidance range includes approximately $40 million in one-time use of cash associated with brand transition and the Owen Mumford acquisition.

That completes my prepared remarks, and at this time, I would like to turn the call back to Dev to discuss our updated capital allocation framework.

Dev…

Recently, our Board authorized a three-year share repurchase program of up to $100 million, and concurrently, reduced our quarterly cash dividend from $0.15 per share to $0.01 per share.

We believe that this change in our capital allocation will provide us with additional flexibility to deploy capital towards share repurchases or additional debt reduction, which are currently our primary focus areas. We expect to commence share repurchases beginning in the current quarter subject to market conditions and our share price, amongst other factors.

That completes my prepared remarks and I will now turn the call over to the operator for questions.