

1 Please standby. Welcome, ladies and gentlemen, to embecta Corp.'s fiscal first 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 first 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 first quarter of 2025; as well as an overview of our
40 strategic priorities.
- 41 • Jake will then review our financial results for the fiscal first quarter of 2025, as
42 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 Having successfully delivered on our previous three-year outlook, we have now pivoted
49 to the next phase of embecta's transformation. As we move forward, we are focused on
50 three key priorities that will drive our growth and success.

51

52 First, strengthening our core business. We are targeting to execute a seamless brand
53 transition to ensure our identity resonates globally while maintaining the trust of our
54 customers. At the same time, we are continuing to identify opportunities within our core
55 portfolio that bolster our leadership position in insulin injection devices.

56

57 Second, expanding our product portfolio. We believe we are well-positioned to
58 introduce market-appropriate products that leverage our expertise in high-volume
59 manufacturing and the strength of our global commercial channel. Such initiatives
60 potentially include utilizing our capabilities to manufacture products for partners that
61 already have a commercial channel as well as use our global commercial presence to sell
62 products manufactured by others.

63

64 And finally, increasing our financial flexibility. This began with our decision this past
65 November to discontinue our insulin patch pump program; initiate a restructuring plan
66 intended to generate significant cost savings; and prioritize debt reduction, including the
67 plan to pay down approximately \$110 million in debt during 2025. Importantly, given
68 the free-cash flow generation capabilities of the company, coupled with the fact that cash
69 use towards separation activities is largely behind us, we expect to be able to materially
70 reduce our outstanding debt during the next few years, thereby enhancing our financial
71 agility.

72

73 The successful execution of these priorities will position us for sustainable success as
74 we continue to evolve and transform embecta for the future.

75
76 Turning to some fiscal first quarter highlights.

77
78 The first quarter marked a solid start to the fiscal year for embecta, slightly exceeding
79 our internal expectations. We generated approximately \$262 million in revenue,
80 representing a 5.6% decline year-over-year on a reported basis and a 4.8% decline on an
81 adjusted constant currency basis. As we have mentioned before, quarterly year-over-
82 year growth rate comparisons will be impacted by the phased ERP implementations that
83 occurred during fiscal 2024 and the associated changes in distributor inventory in
84 advance of these implementations.

85
86 Turning to our brand transition program, I am pleased to report that this important
87 initiative remains on track, with a focus on executing a seamless transition that
88 strengthens our identity, ensuring it remains clear, consistent, and resonates across our
89 global markets.

90
91 We are also making progress in securing external distribution agreements and
92 partnerships. As part of our strategy, we are advancing our efforts to co-package our pen
93 needles with potential generic GLP-1 drugs and in retail packaging, enabling us to
94 expand the use of our products into a fast-growing market while leveraging our world-
95 class distribution network and commercial expertise.

96

97 Execution of our restructuring plan announced in November 2024, related to the
98 discontinuation of our insulin patch pump program, remains on track, with completion
99 expected by the end of the first half of fiscal year 2025.

100

101 In line with our commitment to enhancing financial flexibility, we continued to reduce
102 our debt, making an aggregate principal payment of approximately \$32 million on our
103 Term Loan B facility during the quarter.

104

105 Finally, based on our first quarter performance and outlook for the remainder of the year,
106 we are updating our fiscal 2025 financial guidance. This updated guidance reflects recent
107 foreign exchange rates, which are unfavorable as compared to the foreign exchange rates
108 used when we set our initial guidance ranges. Importantly, our constant currency revenue
109 guidance remains unchanged.

110

111 Additionally, we raised our adjusted operating and EBITDA margin guidance ranges,
112 while maintaining our previously provided adjusted earnings per share guidance range,
113 despite having to absorb an incremental ten cent headwind from the aforementioned
114 foreign exchange pressure.

115

116 Turning to slide 6, I'd like to provide an update on our upcoming brand transition plan
117 and walk through the key elements of its execution. We have been planning this
118 transition since spin and we intend to execute the program in phases starting in the
119 second half of fiscal year 2025, beginning with the U.S. and Canada. We expect we will
120 be globally complete in the next couple of years.

121

122 On the slide, you will see, as an example, the transition from our old BD Nano packaging
123 design to our new embecta-branded packaging. You will note that the product names
124 and color associated with the packaging is not changing – this is a conscious choice
125 based on research we have conducted. At the same time, we are providing a modern and
126 refreshed look to the product packaging, while maintaining visual cues that will enable
127 our customers and people with diabetes to identify our products.

128

129 We are focused on ensuring operational readiness throughout the supply chain including
130 inventory management, customer communications, and regulatory compliance. This
131 thoughtful and phased approach is intended to ensure a seamless transition while
132 maintaining the trust of healthcare providers and people with diabetes who rely on our
133 products daily.

134

135 Now, let's review our revenue performance for the first quarter.

136

137 During the first quarter of fiscal year 2025, embecta generated \$261.9 million in revenue,
138 reflecting a 5.6% decline year-over-year on an as-reported basis, or a 4.8% decline on
139 an adjusted constant currency basis.

140

141 The year-over-year decline was expected and was primarily driven by an unfavorable
142 comparison, as the prior year period benefited from the timing of certain orders in
143 advance of our ERP system implementation in North America; and, as mentioned in our
144 prior call, the additional revenue generated in our fiscal 2024 fourth quarter as
145 distributors purchased product to mitigate potential disruptions from the then-looming
146 U.S. port strike.

147

148 In regard to our prior expectations, our Q1 revenue came in slightly ahead, primarily due
149 to timing, and we expect this to normalize during Q2.

150

151 Within the U.S., revenue for the quarter totaled \$141.7 million, reflecting a year-over-
152 year decline of 4.6% on an adjusted constant currency basis. This decline was primarily
153 driven by the same two factors mentioned previously: a challenging comparison to the
154 prior-year period due to order timing related to the ERP implementation in the U.S.
155 which benefited the year-ago period, and additional distributor orders which occurred
156 during the fourth quarter of last year due to the then-looming U.S. port strike.

157

158 Turning to our International business, during Q1 revenue totaled \$120.2 million, which
159 equated to a 5.1% decline on an adjusted constant currency basis as compared to the
160 prior year period.

161

162 The year-over-year decline within our International business was primarily due to
163 distributor rebalancing, as well as a difficult comparison due to inventory purchases in
164 advance of ERP implementations.

165

166 While from a product family perspective, during the quarter, pen needle revenue
167 declined approximately 8.5%, syringe revenue declined approximately 4.2%, safety
168 products grew approximately 11.3%, and contract manufacturing grew approximately
169 153%.

170

171 The decline in pen needle revenue was primarily due to the additional revenue that
172 occurred during the fourth quarter of 2024 associated with the potential U.S. port strike,

173 as well as revenue generated during 2024 as distributors procured incremental inventory
174 in advance of ERP implementations.

175

176 Turning to our syringe products, while they declined during the quarter by 4.2% due to
177 volume declines within the U.S., the rate of decline was lower than what we have
178 experienced recently.

179

180 While our safety products grew 11.3% as compared to the prior year period due to the
181 annualization of share gains due to a competitor discontinuing their product and exiting
182 the market.

183

184 That completes my prepared remarks, and with that, let me turn the call over to Jake.
185 He will review the other financial highlights, as well as provide our updated financial
186 guidance for fiscal year 2025.

187

188 Jake....

189

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

191

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

194

195 GAAP gross profit and margin for the first quarter of fiscal 2025 totaled \$157.1 million
196 and 60.0%, respectively. This compared to \$185.9 million and 67.0% in the prior year
197 period.

198

199 While on an adjusted basis, our Q1 2025 adjusted gross profit and margin totaled \$164.2
200 million and 62.7%. This compared to \$186.3 million and 67.2% in the prior year period.

201

202 The year-over-year decline in adjusted gross profit and margin was primarily driven by
203 the lower year-over-year revenue that Dev mentioned earlier, as well as from the impact
204 of net changes in profit-in-inventory adjustments. These headwinds were partially offset
205 by lower freight costs and our ability to drive year-over-year price increases.

206

207 Turning to GAAP operating income and margin, during the first quarter they were \$28.7
208 million and 11.0%. This compared to \$45.5 million and 16.4% in the prior year period.

209

210 While on an adjusted basis, our Q1 2025 adjusted operating income and margin totaled
211 \$80.5 million and 30.7%. This compared to \$77.5 million and 27.9% in the prior year
212 period.

213

214 The year-over-year increase in adjusted operating income and margin is primarily due
215 to lower R&D expenses associated with the discontinuation of our insulin patch pump
216 program, as well as lower SG&A expenses primarily driven by lower TSA costs, in
217 addition to lower compensation and marketing expense recognized in the current period.
218 This was offset by the adjusted gross profit changes I outlined above.

219

220 Turning to the bottom line.

221

222 GAAP net income and earnings per diluted share were both zero during the first quarter
223 of fiscal 2025, as compared to \$20.1 million and \$0.35 in the prior year period.

224

225 While on an adjusted basis, during the first quarter of fiscal 2025, net income and
226 earnings per share were \$38.3 million and \$0.65, as compared to \$35.3 million and \$0.61
227 in the prior year period.

228

229 The increase in year-over-year adjusted net income and diluted earnings per share is
230 primarily due to the adjusted operating profit drivers I just discussed, as well as a
231 reduction in our adjusted tax rate from approximately 26% in Q1 of 2024 to
232 approximately 25% in Q1 of 2025. The lower year-over-year adjusted tax rate was due
233 to tax planning initiatives, partially offset by the impact of Pillar two.

234

235 Lastly from a P&L perspective, for the first quarter of 2025 our adjusted EBITDA and
236 margin totaled approximately \$97.3 million and 37.2%, as compared to \$90.4 million
237 and 32.6% in the prior year period.

238

239 Turning to the balance sheet and cash flow.

240

241 At the end of the first quarter, our cash balance totaled approximately \$217 million,
242 while our last twelve months net leverage as defined under our credit facility agreement
243 stood at approximately 3.7x. As a reminder our net leverage covenant requires us to stay
244 below 4.75x.

245

246 As Dev mentioned earlier, we continue to be focused on more aggressively de-levering,
247 and during the quarter we paid down \$32.4 million of Term Loan B debt, and we remain
248 on track to achieve our goal of reducing our debt by \$110 million during fiscal 2025.

249

250 That completes my prepared remarks on our first quarter 2025 results.

251

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

254

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

257

258 First, our updated financial guidance does not factor in any newly implemented or
259 proposed tariffs following the recent administration change, and as such, remain
260 consistent with those tariffs in place when we provided our initial fiscal year 2025
261 guidance in late November of 2024.

262

263 We manufacture our products across three facilities: Dun Laoghaire, Ireland; Holdrege,
264 Nebraska; and Suzhou, China. We do not perform any manufacturing in either Canada
265 or Mexico. We should note that that tariff regulations include other elements beyond
266 manufacturing location and require analysis of the specific rules to determine impact.

267

268 Regarding the U.S., the vast majority of the products that we sell in the U.S. are
269 manufactured either in Ireland or domestically within the U.S. In fact, less than 1% of
270 our global revenue is derived from products we manufacture in China and sell into the
271 U.S., and those products are currently exempt from tariffs.

272

273 As it relates to China, most of our revenue in China is from products manufactured at
274 our plant in China. Less than 1% of our global revenue is derived from products we
275 manufacture in the U.S. and sell into China, and those products are currently exempt
276 from tariffs.

277

278 Turning to Canada, approximately 1% of our global revenue is derived from products
279 we manufacture in the U.S. and sell into Canada, and our products were not included in
280 the recently published, but delayed, retaliatory tariffs, though this remains subject to
281 change.

282

283 Finally, as it relates to Mexico, approximately 3% of our global revenue is derived from
284 products we manufacture in United States and sell into Mexico.

285

286 We continue to closely monitor these developments and remain committed to mitigating
287 any potential impact, where possible, to both our customers and people living with
288 diabetes who rely on our products.

289

290 Now, let me discuss our updated guidance.

291

292 Beginning with revenue.

293

294 On an adjusted constant currency basis, we are reaffirming our previously provided
295 guidance range which called for revenue to be down between 1% and 2.5% as compared
296 to 2024.

297

298 At the high-end of our constant currency revenue range, we continue to assume that
299 volumes remain relatively flat, and that price will be a headwind of approximately 1%.

300

301 While at the low-end, we continue to assume all the same factors impacting our high-
302 end, except for the potential of greater year-over-year headwinds associated with
303 volumes.

304

305 Turning to our thoughts on F/X.

306

307 Since we provided our initial fiscal 2025 financial guidance in late November, the U.S.
308 dollar has continued to strengthen against most currencies, and as a result, we currently
309 expect F/X to be a headwind of about 2.2% versus the prior year. This compares to our
310 prior guidance which called for F/X to be a headwind of approximately 0.6%.

311

312 This assumption is based on foreign exchange rates that were in existence around the
313 late January timeframe, including a Euro to U.S. Dollar exchange rate of approximately
314 1.03.

315

316 Somewhat offsetting F/X is the fact that our as-reported 2025 GAAP revenue will not
317 be impacted by the 2015 through 2023 amount that we needed to accrue associated with
318 the Italian payback measure which impacted our 2024 as-reported GAAP revenue. This
319 equates to a tailwind of approximately 0.4%.

320

321 On a combined basis, our as-reported revenue guidance now calls for a decline of
322 between 2.8% and 4.3%, resulting in an updated revenue guidance range of between \$1
323 billion 75 million and \$1 billion 92 million.

324

325 Turning to adjusted gross margin, we are reaffirming our previously provided guidance
326 range of between 63.25% and 64.25%.

327

328 While from an adjusted operating margin standpoint, we are raising our guidance from
329 a range of between 29% and 30% to a new range of between 29.5% and 30.5%. This
330 improvement is expected to be driven by our ongoing initiatives to improve operational
331 efficiency and reduce our expense base.

332

333 Moving to earnings.

334

335 During Q1, we exceeded our internal expectations for adjusted EPS by approximately
336 \$0.20 and this was due to two things that contributed almost equally.

337

338 First, revenue came in better than we initially anticipated, which we attribute to timing.
339 And as Dev mentioned earlier, we expect the overperformance in Q1 revenue to reverse
340 itself during Q2.

341

342 While the second driver of our adjusted EPS overperformance during Q1 was due to
343 lower SG&A expenses.

344

345 As such, we expect our ongoing cost containment efforts to absorb the impact of the
346 incremental foreign exchange headwinds which negatively impacted us by
347 approximately \$0.10, thereby allowing us to reaffirm our previously provided adjusted
348 diluted earnings per share guidance range of between \$2.70 and \$2.90.

349

350 Our updated guidance range continues to assume that our annual net interest expense
351 will be approximately \$107 million; that our annual adjusted tax rate will be

352 approximately 25%; and that our weighted average diluted shares outstanding will be
353 approximately 58.9 million.

354

355 Our guidance continues to assume that we will use between \$50 and \$60 million of cash
356 during fiscal 2025 associated with separation costs largely related to brand transition;
357 between \$25 million and \$30 million in cash usage associated with the discontinuation
358 of our insulin patch pump program; and approximately \$20 million in capital
359 expenditures.

360

361 Lastly, and like our adjusted operating margin range, we are also raising our adjusted
362 EBITDA margin guidance from a range of between 35.5% and 36.5%, to a new range
363 of between 36% and 37%.

364

365 And before I turn the call over to the Operator, I'd like to highlight some considerations
366 regarding the cadence of quarterly revenue expectations during 2025. Moving forward,
367 we may not provide any further commentary concerning the quarterly cadence of
368 revenue on an ongoing basis.

369

370 Consistent with our initial guidance, our updated financial guidance continues to
371 anticipate that we will generate a slightly lower percentage of our annual revenue during
372 the first half of fiscal year 2025, approximately 48%, as compared to the second half of
373 the year, in which we expect to generate approximately 52% of our annual revenue.
374 Based on this outlook, second-quarter implied revenue would be in the range of between
375 \$250 million and \$255 million.

376

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

379

380 Operator...

381

382 As we close the call, I want to express my sincere gratitude to my colleagues at embecta
383 around the world. Our global team remains focused on executing the priorities that we
384 have laid out.

385

386 Finally, we look forward to engaging with all of you at upcoming conferences and at our
387 Investor Day in late May 2025, where we will share more about our vision for embecta.

388

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