Please standby. Welcome, ladies and gentlemen, to Embecta Corp.'s fiscal first 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 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 first quarter 2026 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, 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. 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 www.embecta.com.

Our agenda for today's call is as follows:

- Dev will begin with an overview of embecta's fiscal first quarter 2026 performance and discuss progress across our strategic priorities.
- Jake will then review the financial results for the first quarter and share our updated 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.

Over the past year, and particularly since we reported our fiscal year 2025 results, we have continued to make meaningful progress executing the strategic roadmap we outlined at our Investor Day last year.

As a reminder, that roadmap is built around a phased approach consisting of standing up the organization, seeding growth, and ultimately transforming the company into a broad-based medical supplies company which serves chronic care patients and drug delivery partners.

The stand up phase was focused on becoming a fully independent company by building our own systems, supply chain, and commercial capabilities while keeping the base business stable.

Fiscal year 2025 largely marked the completion of that phase, with the operationalization of our own ERP, distribution, and shared services infrastructure allowing for the complete migration of our revenue into our systems and the successful exit of all TSAs and LSAs.

And I am pleased to say that we were able to complete the stand up phase, and all the associated complex initiatives, while keeping our constant currency revenues stable.

With that work behind us, we are now firmly in the seed growth phase, and this is where the company’s focus is now. This phase’s goals focus on staying competitive in the core, selectively expanding the portfolio in areas that leverage our existing strengths, and building financial flexibility through disciplined capital allocation.

The priorities in this phase are intended to position embecta over time as a broader medical supplies company and a drug delivery partner, building on our foundation as a leader in global insulin delivery.

One important element of strengthening the core has been our brand transition. This initiative is not a change to the product or product names. It is a change to packaging and branding that establishes embecta as an independent company in the minds of patients, healthcare professionals, and channel partners.

We have taken a disciplined, phased approach. As of today, more than 95% of U.S. and Canadian revenue has transitioned to the embecta brand. With North America largely complete, we have been executing the next phase globally. Transitions are underway in select international markets, and we expect most regions to be substantially complete by the end of calendar year 2026.

We continue to demonstrate a strong commitment to ensuring broad and preferred access to our products for patients, particularly within the Medicare Part D channel, which remains an important and growing segment of the payer market serving senior citizens who represent a high percentage of people living with diabetes.

Effective January 2026, we contracted with an additional Medicare Part D payer for exclusive access to our products. In addition, we renewed our advantaged formulary access with the top 3 Medicare Part D payers that we had existing relationships with.

Collectively, these actions further strengthen our business, supporting stable access and share, and enhancing the long-term competitiveness of our portfolio.

Another key area of focus in the seed growth phase is portfolio expansion through market appropriate pen needles and syringes. Our approach here is intentional. We are leveraging what we already do well to address segments and geographies where there is meaningful demand but where our share today remains relatively low.

Since fiscal year 2025, we have moved from concept to execution. Product designs for these market appropriate offerings have been finalized, production equipment has been installed, and manufacturing validation is now underway. With this foundation in place, we are progressing toward expected regulatory submissions and eventually commercial launches supported by go to market strategies informed by more than a century of experience in insulin delivery.

We have also continued to advance our GLP-1 strategy, which we view as an extension of our core capabilities rather than a departure from them.

Today, we are collaborating with more than 30 pharmaceutical partners across various stages of the sales cycle, primarily focused on co packaging our pen needles with generic GLP-1 therapies. More than one third of these partners have already selected us as a supplier and have either executed contracts or are in contract negotiations, reflecting tangible progress beyond early stage discussions.

Several partners have signed agreements and placed purchase orders, and our pen needles are included in multiple partner managed regulatory submissions. While we do not control the timing of regulatory approvals or launches, we remain operationally ready to support our partners as programs advance.

Looking ahead, our partners are anticipating initial generic GLP-1 launches in markets such as Canada, Brazil, China and India beginning in calendar year 2026, with additional emerging markets expected to follow over time. This expectation is consistent with recent public news reports indicating that regulatory approvals for generic injectable semaglutide have been granted to some companies in India, with multiple manufacturers preparing for commercial launches following patent expirations in March 2026.

In parallel, we are expanding the availability of consumer friendly embecta branded small pack configurations in Canada and select European markets. These formats are designed for out of pocket customers, including many GLP-1 users, and allow us to participate in the category using existing manufacturing and commercial infrastructure.

Recently, there has been a significant amount of news related to the development and launch of oral GLP-1 therapies. It should be noted that the launch of oral GLP-1s was expected and explicitly included in our assumptions underlying the estimated $100M+ opportunity we had discussed at our Analyst and Investor Day in May 2025. While it is early in the adoption of oral GLP-1s, we continue to believe in the opportunity as previously outlined.

Importantly, we expect to support this incremental volume within our existing manufacturing footprint, and without significant incremental capital investment. We also expect this to support attractive margin flow through over time.

Beyond generics, we are also engaged in early-stage discussions with several branded pharmaceutical companies around co-packaging opportunities for drugs in development. While these discussions are in early stages, they represent potential upside beyond the opportunity we shared at our Investor Day last May.

Finally, we remain focused on increasing financial flexibility. Following the significant deleveraging achieved through fiscal year 2025, we continue to focus on free cash flow generation and disciplined capital allocation to create strategic optionality as we progress through the seed growth phase.

In summary, while fiscal year 2025 marked the completion of our stand up phase, embecta today is focused on execution, portfolio expansion, and positioning the company for durable, long term growth.

With that context, let me now review our revenue performance for the first quarter.

During the first quarter of fiscal year 2026, embecta generated approximately $261 million in revenue, reflecting a 0.3% decline year-over-year on an as-reported basis, or a 2.0% decline on an adjusted constant currency basis. These results were largely in line with our expectations driven by performance within our International business.

Within the U.S., revenue for the quarter totaled approximately $131 million, reflecting a year-over-year decline of 7.6% on an adjusted constant currency basis. The decline was driven by a combination of lower pricing; as well as lower volumes, reflecting channel dynamics. This was somewhat offset by order timing.

Turning to our International business, revenue for the first quarter totaled approximately $130 million, representing an increase of 8.4% on a reported basis, and an increase of 4.6% on an adjusted constant currency basis. This performance was driven by strength across EMEA and Latin America. And while China remained a headwind in the quarter, results there were largely in line with our expectations. As we have discussed previously, we continue to expect the recovery in China to be more fiscal second-half weighted, given ongoing market dynamics and the broader geopolitical and trade environment.

Meanwhile, from a product family perspective, during the quarter, adjusted constant currency pen needle revenue declined approximately 4.4%, syringe revenue grew by approximately 5.3%, safety product revenue grew approximately 7.3%, and contract manufacturing revenue declined approximately 16.7%.

The year-over-year decline in pen needle revenue was primarily driven by the same factors that impacted our U.S. and China results. This was partially offset by growth within EMEA and Latin America.

Turning to our syringe products, revenue increased year over year, driven by improved performance within Latin America, EMEA, and Asia, which more than offset the ongoing declines in the U.S. As we have previously discussed, U.S. syringe revenues continue to be impacted by long-term shifts in diabetes treatment toward insulin pens, and this trend remains consistent with our expectations.

Moving to our safety products, they delivered solid growth in the quarter, driven by gains within the U.S. and EMEA.

Finally, the contract manufacturing revenue that we generate through the manufacturing and sale of non-diabetes products back to Becton Dickinson declined, as expected, due to the continued insourcing of those products by BD.

And before I turn the call over to Jake, I'd like to briefly touch upon our financial guidance for the year.

Today, we reaffirmed our previously provided financial guidance ranges. However, we now expect to be closer to the lower end of those guidance ranges driven by incremental U.S. pricing headwinds. Somewhat offsetting this incremental pressure within the U.S. is an improved outlook for our International business.

With that, let me turn the call over to 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 first quarter financial performance at the gross profit line.

GAAP gross profit and margin for the first quarter of fiscal 2026 totaled $161.7 million and 61.9%, respectively. This compared to $151.7 million and 60.0% in the prior year period.

While on an adjusted basis, our Q1 2026 adjusted gross profit and margin totaled $163.5 million and 62.6%. This compared to $164.2 million and 62.7% in the prior year period.

The slight year-over-year decline in adjusted gross profit and margin was primarily driven by the unfavorable year-over-year pricing dynamics that Dev mentioned earlier and mix. These headwinds were partially offset by manufacturing cost improvement programs and lower manufacturing functional costs.

Turning to GAAP operating income and margin, during the first quarter of 2026 they were $83.3 million and 31.9%. This compared to $28.7 million and 11.0% in the prior year period.

While on an adjusted basis, our Q1 2026 adjusted operating income and margin totaled $79.3 million and 30.4%. This compared to $80.5 million and 30.7% in the prior year period.

The small year-over-year decrease in adjusted operating income is primarily due to the decline in adjusted gross profit that I just mentioned, coupled with an increase in R&D expenses that is associated with a variety of projects underway at the company including the development of market appropriate pen needles and syringes, the development of a pen injector, as well as project costs associated with becoming cannula independent. This was partially offset by lower year-over-year SG&A expenses due to the restructuring initiative we announced mid last fiscal year.

Turning to the bottom line.

GAAP net income and earnings per diluted share were $44.1 million and $0.74 during the first quarter of fiscal 2026, as compared to zero in the prior year period.

While on an adjusted basis, during the first quarter of fiscal 2026, net income and earnings per share were $42.3 million and $0.71, as compared to $38.3 million and $0.65 in the prior year period.

The increase in year-over-year adjusted net income and diluted earnings per share is primarily due to a reduction in interest expense, as well as a lower year-over-year adjusted tax rate driven by tax planning activities. This was partially offset by the adjusted operating profit drivers I just discussed.

Turning to the balance sheet and cash flow.

During the first quarter of 2026, we generated approximately $17 million in free cash flow. Additionally, we repaid approximately $38 million of outstanding debt and further reduced our last twelve months' net leverage level to approximately 2.8x, as defined under our credit facility agreement compared to our covenant requirement of below 4.75x.

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

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

Beginning with revenue.

On an adjusted constant currency basis, we are reaffirming our previously provided guidance range which called for revenue to be flat to down 2.0% as compared to 2025 levels.

Turning to our thoughts on F/X, we are reaffirming our previously provided guidance which called for foreign currency to be a tailwind of approximately 1.2% during 2026.

Likewise, we are reaffirming our previously provided guidance associated with the Italian payback measure of an estimated 0.1% year over year headwind.

On a combined basis, our as-reported revenue guidance continues to call for a range of between negative 0.9% to positive 1.1%, resulting in a revenue guide of between $1 billion 71 million and $1 billion 93 million. As Dev previously mentioned, we currently expect that we will be closer to the lower end of that range.

Turning to adjusted operating margin and adjusted diluted earnings per share, we are also reaffirming those previously provided guidance ranges of between 29% and 30% for adjusted operating margin, and for between $2.80 and $3.00 in terms of adjusted EPS.

Like my comments regarding our expectations concerning revenue, we currently expect to be closer to the lower end of those ranges because of the incremental headwinds we are now anticipating within the U.S during the first half of the year.

Turning to the balance sheet and cash flow, we continue to expect that during 2026 we will repay approximately $150 million in debt, and that we will generate between $180 million and $200 million in free cash flow, although closer to the low-end of that range. And finally, 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, and approximately 52% of our adjusted revenue dollars during the second half of the year. During fiscal year 2026, we previously expected a similar cadence of revenue performance. Currently we expect to generate approximately 46% of our adjusted revenue dollars during the first half of the year, and approximately 54% of our adjusted revenue dollars during the second half of the year.

As compared to our initial expectations, the lower expected revenue in the first half is driven by customer mix, competitive intensity, and channel dynamics within our U.S. business. Meanwhile, we now expect the second half of the year to be better than previously expected due to a continuation of the strength of performance internationally.

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

As we close the call, I want to thank my colleagues across embecta for their continued focus and execution. We are operating in an environment marked by heightened competition and an evolving geopolitical and trade backdrop, and the team continues to respond with discipline and resilience.

As we move through fiscal year 2026, our priorities remain clear. We are focused on our goals of strengthening our core franchise, advancing our targeted growth initiatives, and maintaining strong profitability and cash flow to support the strategic commitments we outlined at our Analyst and Investor Day.

Thank you for joining us today and for your continued interest in embecta.