Please standby. Welcome, ladies and gentlemen, to embecta Corp.'s fiscal third quarter 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 third 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 by providing some remarks on the overall performance of our business during the fiscal third quarter of 2025, as well as an overview of the progress that has been made concerning our strategic priorities.
- Jake will then review our financial results for the fiscal third quarter of 2025, as well as discuss the updated financial guidance for fiscal year 2025.
- 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.

As we detailed during our recently conducted Analyst and Investor Day event, we are currently in the second phase of our journey that is focused on progressing initiatives intended to position embecta for long-term growth. Our priorities in this phase are to continue strengthening our core business, expanding our product portfolio, and increasing our financial flexibility.

Starting with the core, we completed the ERP, shared services and distribution network implementation in India which had been the only remaining market operating on BD systems. This milestone means that 100 percent of our revenue is now flowing through embecta's own systems and marks the successful conclusion of a multi-year, complex separation program.

In addition, the transition from BD to embecta branded products in the U.S. and Canada has significantly advanced, with greater than 90% of our North American revenue base having been changed over to embecta branded product. Consistent with our ERP implementation approach, we are executing the brand transition project in a phased manner to minimize risk. The transition began in North America in 2025 and, in line with our plan, is expected to extend to international markets in 2026.

On the portfolio expansion front, I am pleased to share that we continue to make meaningful progress in our efforts aimed at positioning the utilization of our pen needles with GLP-1 therapies delivered via pen injectors.

As we highlighted at our recent Analyst and Investor Day, we are actively collaborating with over 30 pharmaceutical companies to co-package our pen needles with their generic GLP-1 therapies. Several of these companies have already signed agreements with us and placed purchase orders for our pen needles. Our products are already part of multiple generic GLP-1 regulatory submissions, with potential commercialization beginning as early as 2026. We continue to believe that we are well-placed to partner with these generic drug companies given our decades-long reputation for quality and reliability, regulatory approvals in most markets, and a world-class distribution network.

We are also making progress introducing pen needles in retail small-packs that patients can purchase for use with weekly GLP-1 injection treatments, thereby supporting patient needs and broadening our commercial relevance.

Together, the co-packaging and retail packaging prospects represent a significant long-term opportunity that could generate more than $100 million in annual revenue for embecta by 2033.

In line with our commitment to enhance financial flexibility, in fiscal Q2, we initiated a restructuring plan aimed at streamlining our organization. This plan is now substantially complete, and we continue to expect this action will drive meaningful efficiencies, with estimated pre-tax cost savings of between $7 and $8 million during the second half of fiscal 2025, or approximately $15 million on an annualized basis.

And finally, during the third quarter, we paid down approximately $52 million of principal under our term loan B facility, bringing total year-to-date debt reduction to approximately $112 million. With this, we have achieved our fiscal year 2025 debt reduction goal of paying down approximately $110 million with one quarter remaining during which we anticipate making an incremental debt payment. With stand-up related cash usage largely behind us and cost optimization initiatives underway, we believe we are well-positioned to continue strengthening our balance sheet, thereby enabling us to make future organic and inorganic investments.

Turning to some fiscal third quarter highlights.

Third quarter revenue reached all-time highs, totaling $295.5 million. This significantly exceeded our expectations and was due entirely to over-performance within the U.S. The strong performance in the U.S. in relation to our prior expectations was due to pricing and volume, which contributed equally. First, favorable pricing driven by year-to-date rebate reserve adjustments, and second, the timing of certain distributor orders in advance of the July 4th holiday, as well as incremental stocking related to our brand transition program. Overall, our Q3 results reflect strong commercial execution and are consistent with our expectation that the second half of the fiscal year would be stronger than the first from a top-line perspective.

Finally, as we reflect on our third quarter results and look ahead to the remainder of the year, we are narrowing our previously provided as-reported revenue guidance range and we are raising and narrowing our fiscal 2025 guidance ranges for other key financial metrics.

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

During the third quarter of fiscal year 2025, embecta generated $295.5 million in revenue, reflecting growth of 8.4% on an as-reported basis, or 8.0% on an adjusted constant currency basis.

Within the U.S., revenue for the quarter totaled $160.2 million, representing year-over-year growth of 11.6% on an adjusted constant currency basis. This performance was aided in part by a favorable comparison to the prior-year period, as well as the aforementioned rebate reserve adjustments and timing of orders. We expect the timing-related benefits from these orders to reverse in the fourth quarter.

Turning to our International business, revenue for the third quarter totaled $135.3 million, representing growth of 5.0% on a reported basis and 4.2% on an adjusted constant currency basis. Growth in the quarter was primarily due to Latin America and Asia, which benefited from a favorable comparison to the prior year, when order volumes were lower as customers normalized their purchasing patterns following our ERP transition. This was partially offset by a year-over-year decline in China.

While from a product family perspective, during the quarter, pen needle revenue grew approximately 6.8%, syringe revenue grew by approximately 14.5%, safety products grew approximately 6.5%, and contract manufacturing grew approximately 47.2%.

The year-over-year growth in pen needle revenue was primarily driven by increased product volumes, as pricing was relatively flat year-over-year. The increase in pen needle volumes were aided by the timing of distributor orders mentioned earlier as well as a favorable comparison to the prior year period.

Turning to our syringe products, they grew in the quarter by 14.5%, primarily driven by increased pricing, as volumes were lower than the prior year period. The increase in syringe revenue from pricing was due to a combination of increased U.S. prices, aided in part by the year-to-date rebate reserve adjustment that occurred during the quarter, coupled with increased pricing in most International markets.

While our safety products grew 6.5%, primarily due to improved pricing, as volume increases within the U.S. were offset by volume declines in International markets.

That completes my prepared remarks, and with that, let me turn the call over to Jake to review other Q3 financial highlights, as well as provide our updated financial guidance for fiscal year 2025.

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 third quarter financial performance at the gross profit line.

GAAP gross profit and margin for the third quarter of fiscal 2025 totaled $197.1 million and 66.7%, respectively. This compared to $190.1 million and 69.8% in the prior year period.

While on an adjusted basis, our Q3 2025 adjusted gross profit and margin totaled $198.6 million and 67.2%. This compared to $190.3 million and 69.8% in the prior year period.

The year-over-year decline in adjusted gross margin was driven by the impact of net changes in profit-in-inventory adjustments, as during the third quarter of 2024, we incurred a large favorable profit-in-inventory adjustment resulting from the build-up of inventory associated with the various 2024 ERP implementations and the ultimate sale of that product into the market. During the third quarter of 2025, while profit-in-inventory did impact us positively, it was not to the same extent as it was in the prior year period.

Turning to GAAP operating income and margin, during the third quarter they were $94 million and 31.8%. This compared to $55.9 million and 20.5% in the prior year period.

While on an adjusted basis, our Q3 2025 adjusted operating income and margin totaled $109.1 million and 36.9%. This compared to $83.3 million and 30.6% 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, and higher 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 $45.5 million and $0.78 during the third quarter of fiscal 2025, as compared to $14.7 million and $0.25 in the prior year period.

While on an adjusted basis, during the third quarter of fiscal 2025, net income and earnings per share were $65.5 million and $1.12, as compared to $43.0 million and $0.74 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 and a positive year-over-year impact from F/X. This was partially offset by an increase in our adjusted tax rate from approximately 22% in Q3 of 2024 to approximately 25% in Q3 of 2025.

Lastly from a P&L perspective, for the third quarter of 2025 our adjusted EBITDA and margin totaled approximately $131 million and 44.3%, as compared to $99.2 million and 36.4% in the prior year period.

Turning to the balance sheet and cash flow.

During the third quarter of 2025 we generated approximately $81 million in free-cash flow, inclusive of a benefit of approximately $26 million from trade receivables factoring, and our cash balance totaled approximately $234 million. While our last twelve months net leverage as defined under our credit facility agreement stood at approximately 3.2x. As a reminder our net leverage covenant requires us to stay below 4.75x.

As Dev mentioned earlier, we remain focused on reducing our outstanding debt, so that we can create the financial flexibility necessary to change the revenue profile of embecta, and as such, during the third quarter, we paid down $52.4 million of outstanding Term Loan B debt. I am pleased to report that we have already exceeded our fiscal 2025 debt reduction target by repaying $112 million through the first nine months of fiscal 2025, and we now expect to reduce our outstanding debt by approximately $150 million during 2025. We continue to target net leverage levels of approximately 3x by fiscal year-end.

That completes my prepared remarks on our third quarter 2025 results.

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

Beginning with revenue.

On an adjusted constant currency basis, we are narrowing our range, now calling for a decline of between 3% and 3.6%, the mid-point of which is consistent with our prior adjusted constant currency range. This updated adjusted constant currency range consists of an improved outlook within the U.S., including the rebate reserve adjustments that positively impacted our Q3 results; offset by an updated outlook for China.

Turning to our thoughts on F/X. We are reaffirming our previously provided guidance for F/X which called for foreign currency to be a headwind of 0.8% versus the prior year.

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

On a combined basis, we are narrowing our full-year as-reported revenue guidance from a range which called for a decline of between 2.9% and 4.4%, to a new range which calls for a decline of between 3.4% and 4%. In dollar terms this equates to a revenue range of between one billion and seventy-eight million and one billion and eighty-five million, or a mid-point of one billion and eighty-one million, which is also consistent with the mid-point of our prior as-reported revenue dollar range.

Turning to margins.

For adjusted gross margin, we now expect a new range of between 63.25% and 63.5% as compared to the prior range of between 62.75% and 63.75%. This includes our updated thoughts on the incremental impact of tariffs, which we now expect to have a negligible effect during fiscal year 2025.

From an adjusted operating margin perspective, we now expect a new range of between 30.75% and 31% as compared to the prior range of between 29.75% and 30.75%.

While in terms of adjusted EBITDA margin, we now expect a new range of between 37.25% and 37.5% as compared to the prior range of between 36.25% and 37.25%.

Lastly, due to the improved margin outlook, we are increasing and narrowing our adjusted earnings per share guidance from a range of between $2.70 and $2.90, to a new range of between $2.90 and $2.95, or an increase at the mid-point of approximately twelve and a half cents.

Our updated guidance range continues to assume that our annual net interest expense will be approximately $107 million; that our annual adjusted tax rate will be approximately 25%; and that our weighted average diluted shares outstanding slightly change to approximately 58.8 million as compared to approximately 58.9 million before.

Our guidance also assumes that we will use between $50 and $55 million of cash during fiscal 2025 associated with separation costs largely related to brand transition, which is slightly lower than our prior expectations, which called for one-time cash usage of between $50 and $60 million; and approximately $22 million associated with the discontinuation of our insulin patch pump program, as compared to our prior expectations which called for cash usage of between $20 and $25 million.

While as it relates to capital expenditures, we now expect to incur approximately $13 million during the year, down from our prior estimate of approximately $15 million.

That completes my prepared remarks, and with that, 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. Q3 marked the completion of our multi-year program to stand up our own ERP, shared services and distribution network across all our markets – this program required significant effort and dedication by our global team. Now, our team remains focused on executing the priorities that we laid out at our recent Analyst and Investor Day even as uncertainty exists in the geopolitical and global trade environments.

Thank you for calling in and your interest in embecta.