Please stand by.

Welcome, ladies and gentlemen, to embecta Corp.'s fiscal third 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 third 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 a review of the company's performance during the third quarter, followed by an update of the Owen Mumford acquisition, and then a discussion of the progress we have made with our strategic objectives;

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

- we will then 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.

Before I talk about our recent acquisition of Owen Mumford, let me briefly comment on our third quarter results.

During the third quarter, embecta generated total revenue of approximately $272 million, which is a decrease of 8.1% year over year on an as-reported basis, and a decline of 8.9% on an adjusted constant currency basis.

While on a sequential basis, our third quarter financial performance improved significantly with revenue increasing approximately $50 million, GAAP operating income increasing approximately $14 million, and adjusted operating income increasing approximately $21 million as compared to our second quarter results. The sequential increase was due to a combination of factors, including improved performance within U.S. and International, as well as the initial contribution from the Owen Mumford acquisition, which closed midway through the quarter.

I will return to our U.S. and International performance for the quarter in more detail but first let me spend a few minutes on Owen Mumford, because we continue to be excited about what this acquisition means for embecta's future.

We closed the transaction on May 15th and integration is progressing as planned. Our conviction in the strategic rationale remains unchanged.

As a reminder, Owen Mumford broadens our product offerings well beyond insulin injection devices with the addition of a pharmaceutical services business and a wider portfolio of medical devices. Within pharmaceutical services, the portfolio includes a range of autoinjectors designed to support pharmaceutical partners, anchored by the new Aidaptus platform. While OM's medical devices include those used for point-of-care testing and self-injection among others.

On Aidaptus specifically, it's an award-winning, next-generation autoinjector 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 autoinjector market to be approximately $2.4 billion, growing at a double-digit CAGR, driven by the adoption of biologics, the emergence of generic GLP-1 therapies, and the broader shift toward self-injection as a preferred modality across multiple chronic care categories. Aidaptus is already supporting customer clinical development programs today, and our commercial contract pipeline includes secured, long-term agreements with several partners.

Stepping back, the addition of autoinjectors to our portfolio significantly expands our addressable market, meaningfully broadening our opportunity set well beyond our historical insulin injection footprint, and significantly increases our Weighted Average Market Growth Rate potential.

As we expand our work with pharmaceutical companies, from pen needles that can be used with either branded or generic GLP-1 drugs, to the development of a multi-dose pen injector, and Owen Mumford's pharma services business, we are now serving a different customer base with needs distinct from our legacy insulin injection devices business. This opportunity requires dedicated leadership focus. To that end, I am pleased to announce that Jeff Mann has been appointed President, Pharma Services and Product Management, and Chief Legal Officer.

In this expanded role, Jeff will assume responsibility for a new Pharma Services organization, bringing together a combination of embecta and Owen Mumford talent dedicated to this important effort. This new organization will have dedicated leadership and staff focused on this important growth platform as we expand our capabilities and strengthen our partnerships across the pharmaceutical industry.

Turning to our manufacturing and distribution footprint. As part of the Owen Mumford acquisition, we added four sites. These include three manufacturing plants two of which are in the U.K., and one in Malaysia, as well as a warehousing center in the U.S. This broadening of our manufacturing and distribution base creates options for future network optimization and further strengthens our presence in emerging markets.

Now let me turn to the progress we made against our strategic priorities during the quarter.

First, in terms of strengthening our core business, I'm pleased to announce that our market-appropriate pen needles continue to progress through review with the U.S. FDA and with BSI for CE Mark certification in Europe. In addition, we expect that we will launch market-appropriate syringes in additional countries in the coming months. Finally, we completed our brand transition in key European, Asian, and Latin American markets during the quarter, and currently, more than 90% of embecta revenue is now represented by products commercially launched and shipped under the embecta label and we remain on track to substantially complete global brand transition by the end of calendar year 2026.

Second, expanding our product portfolio. We continued to build commercial momentum with our B2B co-packaging opportunity, as generic GLP-1 therapies featuring embecta pen needles launched in Canada, Brazil, and most recently South Africa. This follows the initial launch in India. In the coming months, we also expect to launch our pen needle small pack format in the U.S. to support those patients using Zepbound, which was recently made available in a pen injector format. Such small packs have already been launched in Canada and Australia.

Third, increasing our financial flexibility. During the quarter, we borrowed approximately $180 million under our revolving credit facility to fund the Owen Mumford acquisition, which included the acquisition of OM's cash. We subsequently repaid approximately $53 million in debt, reflecting our continued commitment to disciplined deleveraging. We also returned approximately $9 million of capital to shareholders through share repurchases during the quarter.

Moving to Slide 7, I want to take a moment to introduce Nimish Muzumdar, who recently joined embecta as SVP and President, North America. Nimish brings more than 25 years of experience leading commercial organizations across U.S. retail pharmacy, hospital, and institutional markets. Most recently, he served as SVP and Head of

Generics at Sandoz, where he restored the division to profitable growth and helped lead its commercial strategy through the company's 2023 spinoff from Novartis. His prior experience includes leadership roles across retail generics, OTC, institutional, hospitals and clinics channels at Sandoz, Ranbaxy USA, Watson Laboratories, and Dr. Reddy's Laboratories.

Now, turning back to our third quarter revenue performance.

Within the U.S., revenue for the quarter totaled approximately $121 million, reflecting a year-over-year decline of 24.6% on both a reported and adjusted constant currency basis.

In addition to the effect of the favorable one-time contributions in the prior year as noted at that time, the year-over-year decline was driven by factors largely consistent with those that impacted our fiscal second quarter results.

With regard to pen needles, our share of category in Q3 was generally in-line with our expectations. Total prescriptions for insulin pens in the retail channel appeared sequentially stable, declining year-over-year in Q3 at a slightly greater rate than in Q2. Customer and payer mix impact on net pricing was greater in Q3 as compared to Q2. Syringes and Safety products were generally in-line with our expectations.

We continue to monitor factors that may be impacting market volume including trends in the insured population enrolled via ACA marketplaces and Medicaid, as well as the accelerated adoption of GLP-1 therapies.

On a sequential basis, U.S. revenue increased by approximately $25 million compared to the second quarter, reflecting a normalization in distributor order timing, as well as a modest contribution from Owen Mumford, as the acquisition closed slightly earlier than originally expected.

Since joining embecta, Nimish has brought a fresh perspective and rigorous commercial lens to our North America business. Through a comprehensive assessment of our commercial organization, customer engagement model, and go-to-market capabilities, his initial findings confirm that while our brand equity, customer trust, and product quality remain strong, there are meaningful opportunities to enhance commercial execution by strengthening strategic customer partnerships, anticipating evolving customer needs, and leveraging data-driven insights to inform decision-making and drive growth.

While this will take time, we expect that the combination of strong leadership, disciplined execution, and a clear strategic focus will strengthen our U.S. business.

Turning to our International business, revenue for the quarter totaled approximately $151 million, representing an increase of 11.5% on a reported basis and 9.7% on an adjusted constant currency basis. Year-over-year growth was driven by continued strength across Latin America and Asia, and contribution from Owen Mumford, partially offset by the anticipated softness in China.

Meanwhile, from a product family perspective, during the quarter, adjusted constant currency pen needle revenue declined approximately 18.6%, primarily driven by the same U.S. factors just discussed.

Turning to our syringe products, revenue was roughly flat year over year, as continued declines in the U.S., driven by the ongoing long-term shift toward insulin pens, were largely offset by strong performance internationally, particularly in Latin America and Asia.

Moving to our safety products, they delivered solid growth of 4.6% in the quarter, driven by gains in the U.S..

Finally, contract manufacturing revenue, which we generate through the manufacturing and sale of non-diabetes products back to Becton Dickinson, declined a modest 3.6%, consistent with the continued insourcing of those products by BD.

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 third quarter financial performance at the gross profit line.

GAAP gross profit and margin for the third quarter of fiscal 2026 totaled $153.3 million and 56.4%, respectively. This compared to $197.1 million and 66.7% in the prior year period.

While on an adjusted basis, our Q3 2026 adjusted gross profit and margin totaled $158 million and 58.2%. This compared to $198.6 million and 67.2% in the prior year period.

The year-over-year decline in adjusted gross profit was primarily driven by lower year-over-year revenue in the U.S., as well as the impact of net changes from profit-in-inventory adjustments period over period. This was somewhat offset by the addition of Owen Mumford and our International business.

While from a sequential perspective, Q3 2026 adjusted gross profit improved by approximately $26 million from Q2 2026, primarily due to improved performance within the U.S. and International, as well as the initial contribution from the Owen Mumford acquisition, which closed midway through the quarter.

Turning to GAAP operating income and margin, during the third quarter of 2026 they were $48.7 million and 17.9%. This compared to $94.0 million and 31.8% in the prior year period.

While on an adjusted basis, our Q3 2026 adjusted operating income and margin totaled $69.4 million and 25.5%. This compared to $109.1 million and 36.9% 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 roughly consistent with the prior year period despite the addition of Owen Mumford due to cost optimization activities identified.

Whereas, in terms of sequential performance, adjusted operating profit improved by approximately $21 million due to improvement in gross profit.

Turning to the bottom line.

During the third quarter of 2026, we generated GAAP net income of $21.1 million and earnings per diluted share of $0.36. This compared to GAAP net income of $45.5 million and earnings per diluted share of $0.78 in the prior year period.

While on an adjusted basis, during the third quarter of fiscal 2026, net income and earnings per share were $32.6 million and $0.56, as compared to $65.5 million and $1.12 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.

In terms of sequential performance, adjusted earnings per share improved by $0.29 due to a combination of the improved revenue and gross profit, as well as a lower share count due to the repurchase of approximately 2.7 million shares during the third quarter.

Turning to the balance sheet and cash flow.

During the third quarter, we generated approximately $41 million in free cash flow, and we repaid approximately $53 million of outstanding debt. While our last twelve months' net leverage, as defined under our credit facility agreement, was approximately 3.7x. This is compared to our covenant requirement which requires us to stay below 4.75x.

Finally, after quarter end, we amended and extended our revolving credit facility through December 30, 2028.

That completes my prepared remarks on our third 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 reaffirming our prior revenue guidance range of between $1 billion $15 million and $1 billion $35 million, which would represent a year-over-year decline of between 4.2% and 6.1%.

In terms of our adjusted organic constant currency assumptions, at the low-end they are unchanged as compared to our prior guidance. While the high-end is slightly lower driven primarily by assumptions regarding customer and payer mix in the U.S., partially offset by improved International expectations.

Turning to M&A, we are raising our expectations for Owen Mumford primarily driven by the fact that the acquisition closed two weeks earlier than initially expected.

Turning to our thoughts on F/X, we currently expect F/X to be a tailwind of approximately 1.3%, as compared to our prior guidance which called for F/X to be a tailwind of approximately 1.5%.

In terms of adjusted operating margin, we are raising our adjusted operating margin guidance from a range of between 22.25% and 23.25% to a new range of between 23.5% and 24.0%. As we mentioned on our second quarter earnings conference call, we initiated a review of our cost structure and the improvement in our operating margin guidance reflects the implementation of operating expense cost controls and cost optimization efforts, which we expect will generate a further annualized benefit in 2027.

We are also raising our adjusted earnings per share guidance from a range of between $1.55 and $1.75 to a new range of between $1.80 and $1.90. This increase is primarily driven by the operating expense cost controls and cost optimization efforts I just mentioned.

This updated adjusted earnings per share range also includes the following guidance assumptions:

- A lower adjusted tax rate of approximately 27%, as compared to our prior assumption of approximately 28%.
- A lower interest expense assumption of approximately $95 million, as compared to our prior assumption of approximately $97 million, and
- A reduction in our weighted average diluted share count to approximately 58.6 million shares, as compared to our prior guidance of approximately 59.4 million shares, reflecting share repurchases made under our share repurchase program.

Turning to the balance sheet and cash flow, we expect to repay at least $150 million of debt during 2026. As a reference, through the first nine months of 2026, we have repaid approximately $128 million in debt.

Lastly, in terms of free cash flow, our thoughts are largely unchanged from our prior expectation of generating free cash flow of approximately $100 million. This includes approximately $18 million to $20 million of capital expenditures, a significant majority of which we expect to occur in the fourth quarter of fiscal 2026.

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