UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: March 31, 2023

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-41186

EMBECTA CORP.

(Exact name of registrant as specified in its charter)

Delaware	**87-1583942**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
300 Kimball Drive, Suite 300, Parsippany, New Jersey	**07054**
(Address of principal executive offices)	**(Zip code)**

(862) 401-0000

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**EMBC**	**The Nasdaq Stock Market LLC (Nasdaq Global Select Market)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒		
Emerging growth company	☐	Smaller reporting company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of Embecta Corp. common stock outstanding as of May 3, 2023 was 57,293,549 shares, par value $0.01 per share.

Embecta Corp.

Form 10-Q

For the Quarterly Period ended March 31, 2023

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data.

Condensed Consolidated Statements of Income

Embecta Corp.

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2023	2022	2023	2022
Revenues	$ 277.1	$ 274.5	$ 552.8	$ 563.8
Cost of products sold[1]	87.3	83.3	174.2	168.7
Gross Profit	$ 189.8	$ 191.2	$ 378.6	$ 395.1
Operating expenses:				
Selling and administrative expense	85.2	66.9	158.0	129.1
Research and development expense	22.1	18.0	39.0	34.7
Other operating expenses	26.9	7.4	37.2	15.8
Total Operating Expenses	$ 134.2	$ 92.3	$ 234.2	$ 179.6
Operating Income	$ 55.6	$ 98.9	$ 144.4	$ 215.5
Interest expense, net	(26.8)	(4.9)	(52.4)	(4.9)
Other income (expense), net	(4.3)	(0.1)	(11.4)	(0.1)
Income Before Income Taxes	$ 24.5	$ 93.9	$ 80.6	$ 210.5
Income tax provision	10.5	14.3	31.4	32.1
Net Income	$ 14.0	$ 79.6	$ 49.2	$ 178.4
Net Income per common share:				
Basic	$ 0.24	$ 1.38	$ 0.86	$ 3.09
Diluted	$ 0.24	$ 1.38	$ 0.85	$ 3.09

[1] For periods prior to the Separation, this income statement line includes cost of products sold from related party inventory purchases. For the three and six month periods ended March 31, 2022, cost of products sold from related party inventory purchases were $10.6 million and $22.1 million, respectively.

See notes to the Unaudited Condensed Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Condensed Consolidated Statements of Comprehensive Income

Embecta Corp.

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2023	**2022**	**2023**	**2022**
Net Income	$ 14.0	$ 79.6	$ 49.2	$ 178.4
Other Comprehensive Income (Loss), net of tax				
Foreign currency translation adjustments	2.7	(7.1)	28.7	(15.9)
Other Comprehensive Income (Loss)	$ 2.7	$ (7.1)	$ 28.7	$ (15.9)
Comprehensive Income	$ 16.7	$ 72.5	$ 77.9	$ 162.5

See notes to the Unaudited Condensed Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Condensed Consolidated Balance Sheets

Embecta Corp.

	March 31, 2023 (Unaudited)	September 30, 2022
Assets		
Current Assets		
Cash and cash equivalents	$ 346.4	$ 330.9
Trade receivables, net (net of allowance for doubtful accounts of $1.1 million and $1.3 million as of March 31, 2023 and September 30, 2022, respectively)	19.1	22.2
Inventories:		
Materials	29.9	23.4
Work in process	8.7	5.6
Finished products	119.0	93.8
Total Inventories	$ 157.6	$ 122.8
Amounts due from Becton, Dickinson and Company	133.6	110.9
Prepaid expenses and other	99.6	77.9
Total Current Assets	$ 756.3	$ 664.7
Property, Plant and Equipment, Net	313.5	301.6
Goodwill and Other Intangible Assets	24.0	24.6
Deferred Income Taxes and Other Assets	116.2	95.5
Total Assets	$ 1,210.0	$ 1,086.4
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 52.5	$ 41.4
Accrued expenses	146.6	104.3
Amounts due to Becton, Dickinson and Company	74.3	66.5
Salaries, wages and related items	35.7	48.5
Current debt obligations	9.5	9.5
Current finance lease liabilities	3.6	3.6
Income taxes	35.5	27.2
Total Current Liabilities	$ 357.7	$ 301.0
Deferred Income Taxes and Other Liabilities	46.9	46.1
Long-Term Debt	1,596.0	1,598.1
Non Current Finance Lease Liabilities	32.0	32.6
Commitments and Contingencies		
Embecta Corp. Equity		
Common stock, $0.01 par value Authorized - 250,000,000 Issued and outstanding - 57,287,537 as of March 31, 2023 and 57,055,327 as of September 30, 2022	$ 0.6	$ 0.6
Additional paid-in capital	18.1	10.0
Accumulated deficit	(545.1)	(577.1)
Accumulated other comprehensive loss	(296.2)	(324.9)
Total Equity	$ (822.6)	$ (891.4)
Total Liabilities and Equity	$ 1,210.0	$ 1,086.4

See notes to the Unaudited Condensed Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Condensed Consolidated Statements of Equity

Embecta Corp.

(Unaudited)

	Common Stock						
	Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Net Investment from Becton, Dickinson and Company	Accumulated Other Comprehensive (Loss) Income	Total
Balance at January 1, 2022	—	$ —	$ —	$ —	$ 829.8	$ (279.3)	$ 550.5
Net income attributable to Diabetes Care Business	—	—	—	—	79.6	—	79.6
Other comprehensive loss, net of taxes	—	—	—	—	—	(7.1)	(7.1)
Net transfers to Becton, Dickinson and Company	—	—	—	—	(1,590.5)	—	(1,590.5)
Balance at March 31, 2022	—	$ —	$ —	$ —	$ (681.1)	$ (286.4)	$ (967.5)
Balance at January 1, 2023	57,213,757	$ 0.6	$ 12.7	$ (550.5)	$ —	$ (298.9)	$ (836.1)
Net income attributable to Embecta Corp.	—	—	—	14.0	—	—	14.0
Other comprehensive income, net of taxes	—	—	—	—	—	2.7	2.7
Stock-based compensation plans	—	—	5.6	—	—	—	5.6
Common dividends ($0.15 per share)	—	—	—	(8.6)	—	—	(8.6)
Issuance of shares related to stock-based compensation plans	73,780	—	(0.2)	—	—	—	(0.2)
Balance at March 31, 2023	57,287,537	$ 0.6	$ 18.1	$ (545.1)	$ —	$ (296.2)	$ (822.6)

See notes to the Unaudited Condensed Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified.

	Common Stock						
	Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Net Investment from Becton, Dickinson and Company	Accumulated Other Comprehensive (Loss) Income	Total
Balance at October 1, 2021	—	$ —	$ —	$ —	$ 864.8	$ (270.5)	$ 594.3
Net income attributable to Diabetes Care Business	—	—	—	—	178.4	—	178.4
Other comprehensive loss, net of taxes	—	—	—	—	—	(15.9)	(15.9)
Net transfers to Becton, Dickinson and Company	—	—	—	—	(1,724.3)	—	(1,724.3)
Balance at March 31, 2022	—	$ —	$ —	$ —	$ (681.1)	$ (286.4)	$ (967.5)
Balance at October 1, 2022	57,055,327	$ 0.6	$ 10.0	$ (577.1)	$ —	$ (324.9)	$ (891.4)
Net income attributable to Embecta Corp.	—	—	—	49.2	—	—	49.2
Other comprehensive income, net of taxes	—	—	—	—	—	28.7	28.7
Stock-based compensation plans	—	—	11.1	—	—	—	11.1
Common dividends ($0.30 per share)	—	—	—	(17.2)	—	—	(17.2)
Issuance of shares related to stock-based compensation plans	232,210	—	(3.0)	—	—	—	(3.0)
Balance at March 31, 2023	57,287,537	$ 0.6	$ 18.1	$ (545.1)	$ —	$ (296.2)	$ (822.6)

See notes to the Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Condensed Consolidated Statements of Cash Flows

Embecta Corp.

(Unaudited)

	Six Months Ended March 31,	
	2023	2022
Operating Activities		
Net income	$ 49.2	$ 178.4
Adjustments to net income to derive net cash provided by operating activities:		
Depreciation and amortization	15.2	15.1
Amortization of debt issuance costs	3.2	0.1
Stock-based compensation	11.3	8.5
Net periodic pension benefit and other postretirement costs	2.6	3.6
Deferred income taxes	1.2	—
Change in operating assets and liabilities:		
Trade receivables, net	4.3	133.3
Inventories	(30.7)	(10.0)
Due from/due to Becton, Dickinson and Company	(14.9)	—
Prepaid expenses and other	(16.0)	(2.4)
Accounts payable, accrued expenses and other current liabilities	19.5	(15.3)
Income and other net taxes payable	10.6	9.7
Other assets and liabilities, net	(8.1)	0.4
Net Cash Provided by Operating Activities	$ 47.4	$ 321.4
Investing Activities		
Capital expenditures	$ (10.5)	$ (9.7)
Acquisition of intangible assets	—	(0.4)
Net Cash Used for Investing Activities	$ (10.5)	$ (10.1)
Financing Activities		
Proceeds from the issuance of long-term debt	—	1,450.0
Payments on long-term debt	$ (4.8)	$ —
Payment of long-term debt issuance costs	—	(33.3)
Payment of revolving credit facility fees	—	(5.6)
Payments related to tax withholding for stock-based compensation	(3.0)	—
Payments on finance lease	(1.8)	—
Dividend payments	(17.2)	—
Net consideration paid to Becton, Dickinson and Company in connection with the Separation	—	(1,266.0)
Net transfers to Becton, Dickinson and Company	—	(189.3)
Net Cash Used for Financing Activities	$ (26.8)	$ (44.2)
Effect of exchange rate changes on cash and cash equivalents	5.4	(2.8)
Net Change in Cash and cash equivalents	$ 15.5	$ 264.3
Opening Cash and cash equivalents	330.9	—
Closing Cash and cash equivalents	$ 346.4	$ 264.3

See notes to the Unaudited Condensed Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Notes to Unaudited Condensed Consolidated Financial Statements

Embecta Corp.

Note 1 — Background

Embecta Corp. ("Embecta" or the "Company") is a leading global medical device company focused on providing solutions to improve the health and well-being of people living with diabetes. The Company has a broad portfolio of marketed products, including a variety of pen needles, syringes and safety devices, which are complemented by a proprietary digital application designed to assist people with managing their diabetes. The Company primarily sells products to wholesalers and distributors that sell to retail and institutional channels who in turn sell to patients or use the products to deliver insulin injections to patients.

On April 1, 2022, Embecta and Becton, Dickinson and Company ("BD") entered into a Separation and Distribution Agreement (the "Separation and Distribution Agreement"). Pursuant to the Separation and Distribution Agreement, BD agreed to spin off its diabetes care business ("Diabetes Care Business") into Embecta, a new, publicly traded company (the "Separation").

The Separation occurred by means of a pro-rata distribution of all of Embecta’s issued and outstanding shares of common stock on the basis of one share of Embecta common stock, par value $0.01 per share, for every five shares of BD common stock, par value $1.00 per share, held as of the close of business on March 22, 2022, the record date for the distribution. Embecta is now a standalone publicly traded company and, on April 1, 2022, regular-way trading of Embecta common stock commenced on the Nasdaq Global Select Market under the ticker symbol "EMBC".

In connection with the Separation, BD and Embecta entered into various agreements to provide a framework for the relationship between BD and Embecta after the Separation, including, but not limited to, a separation and distribution agreement, a transition services agreement, a tax matters agreement, an employee matters agreement, a cannula supply agreement, contract manufacturing agreements, an intellectual property matters agreement, a logistics services agreement, distribution agreements, factoring and receivables agreements, local support and service agreements and other transaction documents.

Note 2 — Basis of Presentation

On April 1, 2022, the Company became a standalone publicly traded company, and its financial statements are now presented on a consolidated basis. Prior to the Separation on April 1, 2022, the Company’s historical combined financial statements were prepared on a standalone basis and were derived from BD's Consolidated Financial Statements and accounting records. The unaudited financial statements for all periods presented, including the historical results of the Company prior to April 1, 2022, are now referred to as "Condensed Consolidated Financial Statements", and have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and disclosures required by United States generally accepted accounting principles ("GAAP") for complete consolidated financial statements are not included herein. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year. In the Company’s opinion, all adjustments necessary for a fair statement of these interim statements have been included and are of a normal and recurring nature. These interim statements should be read in conjunction with the audited financial statements and notes thereto included in Embecta’s Annual Report on Form 10-K for the year ended September 30, 2022 filed with the Securities and Exchange Commission on December 22, 2022 (the "2022 Form 10-K").

Prior to the Separation, the Company was referred to as the Diabetes Care Business. The assets, liabilities, revenue and expenses of the Diabetes Care Business were reflected in the Condensed Combined Financial Statements on a historical cost basis, as included in the consolidated financial statements of BD, using the historical accounting policies applied by BD. The Condensed Combined Financial Statements did not purport to reflect what the Company’s results of operations, comprehensive income, financial position, equity or cash flows would have been had the Company operated as a standalone public company during the periods presented.

The Diabetes Care Business had historically functioned together with the other businesses controlled by BD. Accordingly, the Diabetes Care Business relied on BD’s corporate and other support functions for its business. Therefore, for the period prior to the Separation, certain corporate and shared costs were allocated to the Diabetes Care Business based on a specific identification basis or, when specific identification was not practicable, a proportional cost allocation method. Refer to Note 2 of the audited Consolidated Financial Statements in the 2022 Form 10-K for additional details on Embecta's basis of presentation during periods prior to the Separation, at Separation and post Separation.

As the separate legal entities that made up the Diabetes Care Business were not historically held by a single legal entity, *Net Investment from Becton, Dickinson and Company* was shown in lieu of stockholders’ equity in these Condensed Consolidated Financial Statements. *Net Investment from Becton, Dickinson and Company* represented BD’s interest in the recorded assets of the Diabetes Care Business and the cumulative investment by BD through the date of the Separation, inclusive of operating results.

For periods prior to the Separation, income tax expense and tax balances in the Condensed Combined Financial Statements were calculated on a separate tax return basis. The separate tax return method applies the accounting guidance for income taxes to the standalone financial statements as if we were a separate taxpayer and a standalone enterprise. Management believes the assumptions supporting the allocation and presentation of income taxes on a separate return basis are reasonable.

As part of the Separation, *Net Investment from Becton, Dickinson and Company* was reclassified as *Common Stock* and *Accumulated Deficit*.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates or assumptions affect reported assets, liabilities, revenues and expenses, including determining the allocation of shared costs and expenses from BD, depreciable and amortizable lives, sales returns and allowances, rebate accruals, inventory reserves and taxes on income as reflected in the Condensed Consolidated Financial Statements. Actual results could differ from these estimates.

The following provides updates to our "Summary of Significant Accounting Policies" as disclosed in the Form 10-K.

Cloud Computing Arrangements

The Company capitalizes costs incurred to implement cloud computing arrangements that are service contracts within *Prepaid expenses and other* and *Deferred Income Taxes and Other Assets* in the Company's Condensed Consolidated Balance Sheets. Implementation costs associated with cloud computing arrangements are capitalized when incurred during the application development phase. The Company amortizes the costs over the expected term of the hosting arrangement using the straight-line method to the same income statement line as the associated cloud operating expenses. The total balance of capitalized costs associated with these arrangements as of March 31, 2023 is $15.4 million which primarily relates to the implementation of the Company's new enterprise resource planning system ("ERP"). Once the implementation of the new ERP is complete and ready for its intended use, the capitalized costs are expected to be amortized over the term of the hosting arrangement which is expected to be five years.

Recently Adopted Accounting Standards

In October 2021, the Financial Accounting Standards Board issued Accounting Standards Update 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new guidance requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with Accounting Standards Codification 606, Revenue from Contracts with Customers, as if it had originated the contracts. The Company adopted this guidance at the beginning of fiscal year 2023 and it did not materially impact the Company's Condensed Consolidated Financial Statements.

Reclassification

Certain prior period amounts have been reclassified to conform to current year presentation.

Note 3 — Third Party Arrangements and Related Party Disclosures

Pursuant to the Separation, BD ceased to be a related party to Embecta and accordingly, no related party transactions or balances are reported subsequent to April 1, 2022.

In connection with the Separation, the Company entered into the Separation and Distribution Agreement, which contains provisions that, among other things, relate to (i) assets, liabilities and contracts to be transferred, assumed and assigned to each of Embecta and BD (including certain deferred assets and liabilities) as part of the Separation, (ii) cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of Embecta's business with Embecta and financial responsibility for the obligations and liabilities of BD's remaining businesses with BD, (iii) procedures with respect to claims subject to indemnification and related matters, (iv) the allocation among Embecta and BD of rights and obligations under existing insurance policies with respect to occurrences prior to completion of the Separation, as well as the right to proceeds and the obligation to incur certain deductibles under certain insurance policies, and (v) procedures governing Embecta's and BD's obligations and allocations of liabilities with respect to ongoing litigation matters that may implicate each of BD's business and Embecta's business.

Agreements that Embecta entered into with BD that govern aspects of Embecta's relationship with BD following the Separation include, but are not limited to the Transition Services Agreements ("TSA"), Trade Receivables Factoring Agreements ("Factoring Agreements"), Distribution Agreements, Cannula Supply Agreement, Tax Matters Agreement, Logistics Services Agreement, employee matters agreement, an intellectual property matters agreement, local support services agreements, certain other manufacturing arrangements and a process services agreement and lease agreement for a manufacturing facility located in Holdrege, Nebraska. For details on the rights and responsibilities of the parties under these agreements refer to Note 4 to the audited Consolidated Financial Statements in the 2022 Form 10-K.

The amount due from BD under the above agreements was $133.6 million at March 31, 2023 and is reflected in *Amounts due from Becton, Dickinson and Company*. The amount due to BD under these agreements was $74.3 million at March 31, 2023 and is included in *Amounts due to Becton, Dickinson and Company*.

The closing of the transfers of certain assets and liabilities related to the Diabetes Care Business in certain jurisdictions, including China, Mexico, and Italy, as contemplated by the Separation and Distribution Agreement did not occur at Separation. The transfers of the relevant local assets and liabilities for these deferred countries are expected to close at a future date. As of March 31, 2023, the Company estimates that amounts due to BD related to certain assets and liabilities in deferred close jurisdictions is $45.9 million and are reflected in *Accrued expenses*. As of March 31, 2023, the Company estimates that amounts due from BD related to certain assets and liabilities in deferred close jurisdictions are $6.3 million and is reflected in *Prepaid expenses and other*.

Prior to the Separation, the Company did not operate as a standalone business and the Condensed Combined Financial Statements were derived from the consolidated financial statements and accounting records of BD. The following disclosure summarizes activity between the Company and BD up to the Separation, including the affiliates of BD that were not part of the Separation.

Corporate and Medical Segment Allocations from BD

Prior to the Separation, BD provided significant corporate, finance, human resources, information technology, facilities, and legal services, among others (collectively, “General Corporate Expenses”) to the Company. Some of these services continue to be provided by BD to the Company on a temporary basis under the Transition Services Agreement. For purposes of these Condensed Consolidated Financial Statements for the periods prior to the Separation, the General Corporate Expenses have been allocated to the Company.

The allocations of General Corporate Expenses are reflected in the Condensed Consolidated Statements of Income as follows:

	Three months ended March 31,	Six months ended March 31,
	2022	2022
Cost of products sold	$ 0.7	$ 2.3
Selling and administrative expense	23.5	47.9
Research and development expense	1.8	3.5
Other (income) expense, net	0.4	(0.6)
Total General Corporate Expenses	$ 26.4	$ 53.1

These expenses were allocated to the Company on a pro rata basis of global and regional revenues, headcount, research and development spend and other drivers. Management believes the assumptions underlying the Condensed Consolidated Financial Statements, including the assumptions regarding allocating General Corporate Expenses from BD, are reasonable. Nevertheless, the Condensed Consolidated Financial Statements for periods prior to the Separation may not include all of the actual expenses that would have been incurred and may not reflect the Company’s consolidated results of operations, financial position and cash flows had it been a standalone public company during the periods presented. Actual costs that would have been incurred if the Company had been a standalone public company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

Related party transactions

The following transactions represent activity in the ordinary course of business between the Company and BD prior to the Separation for certain materials for use in production of certain medical products that were not at arm’s length. The following table summarizes related party purchases for the three month and six month periods ended March 31, 2022:

	Three months ended March 31,	Six months ended March 31,
	2022	2022
Purchases from BD	$ 13.6	$ 28.0

Dollar amounts are in millions except per share amounts or as otherwise specified.

All significant intercompany transactions between the Company and BD prior to the Separation have been included in the Condensed Consolidated Financial Statements and are considered to be effectively settled for cash at the time the transaction is recorded. For the period prior to the Separation, the total net effect of the settlement of these intercompany transactions is reflected in the Condensed Consolidated Statements of Cash Flows as a financing activity and in the Condensed Consolidated Balance Sheets as *Net Investment from Becton, Dickinson and Company.*

Prior to the Separation, net transfers to BD were included within *Net Investment from Becton, Dickinson and Company*. in the Condensed Consolidated Statements of Equity and represent the net effect of transactions between the Company and BD.

The following table summarizes the components of net transfers to BD for the three months ended March 31, 2022:

Cash pooling and general financing activities[1]	$	78.5
Corporate and segment allocations, excluding non-cash stock-based compensation		(30.6)
Taxes deemed settled with BD		1.6
Net consideration paid to BD in connection with the spin off		1,266.0
Related party senior secured notes		197.0
Other transfers to (from) BD, net		78.0
Net transfers to BD	$	1,590.5

The following table summarizes the components of the net transfers to BD for the six months ended March 31, 2022:

Cash pooling and general financing activities[1]	$	255.9
Corporate and segment allocations, excluding non-cash stock-based compensation		(50.4)
Taxes deemed settled with BD		0.0
Other Separation related adjustments, net		(16.2)
Net transfers to BD as reflected in the Condensed Consolidated Statements of Cash Flows		189.3
Stock-based compensation expense		(8.5)
Pension expense		(3.6)
Net Consideration paid to BD in connection with the Separation		1,266.0
Related party senior secured notes		197.0
Other transfers to (from) BD, net		84.1
Net transfers to BD	$	1,724.3

(1) The nature of activities includes financing activities for capital transfers, cash sweeps and other treasury services. As part of this activity, cash balances were swept to BD on a daily basis under the BD Treasury function and the Company receives capital from BD for its cash needs.

Note 4 — Collaboration Agreement

In March 2023, the Company entered into a collaboration agreement with a third-party to develop and commercialize an interoperable automated glycemic controller ("iAGC") to complement the Company's insulin patch pump currently in development. The Company believes that both parties are active participants in the operating activities of the collaboration and exposed to certain risks and rewards depending on commercial success. The transaction included an upfront payment of $2.5 million for project costs, which was expensed to *Research and development expense* during the three and six month periods ended March 31, 2023. Upon successful commercialization of the iAGC, the Company will be responsible for the sales and marketing effort and would pay a royalty to the third-party based on future product sales to customers. The Company expects that it will be the principal in the end customer sale and 100% of product sales will be included in Revenues and any royalty payments and continued project costs after commercialization will be included in Cost of products sold as they are incurred.

Note 5 — Other Operating Expenses

Dollar amounts are in millions except per share amounts or as otherwise specified.

In connection with the Separation, the Company incurred separation and stand-up costs of approximately $25.6 million and $35.5 million during the three and six months ended March 31, 2023, respectively. There were $7.4 million and $15.8 million of separation and stand-up costs incurred during the three and six months ended March 31, 2022, respectively. The costs incurred primarily consist of costs associated with accounting, auditing, legal services, supply chain, employee retention, and certain other costs to establish certain stand-alone functions to assist with the transition to being a stand-alone entity.

Note 6 — Contingencies

The Company was not a party to any material legal proceedings at March 31, 2023 or September 30, 2022, nor is it a party to any material legal proceedings as of the date of issuance of these Condensed Consolidated Financial Statements.

Note 7 — Revenues

The Company's policies for recognizing sales have not changed from those described in the 2022 Form 10-K. The Company sells syringes, pen needles and other products used in the management of diabetes which are primarily sold to wholesalers and distributors that sell to retail and institutional channels who in turn sell to patients or use the products to deliver insulin injections to patients. End-users of the Company's products include healthcare institutions, physicians, life science researchers, clinical laboratories, the pharmaceutical industry, and the general public.

Measurement of Revenues

Payment terms extended to the Company's customers are based upon commercially reasonable terms for the markets in which the Company's products are sold. Because the Company generally expects to receive payment within one year or less from when control of a product is transferred to the customer, the Company does not generally adjust its revenues for the effects of a financing component. The Company's allowance for doubtful accounts reflects the current estimate of credit losses expected to be incurred over the life of its trade receivables. Such estimated credit losses are determined based on historical loss experiences, customer specific credit risk, and reasonable and supportable forward-looking information, such as country or regional risks that are not captured in the historical loss information. Amounts are written off against the allowances for doubtful accounts when the Company determines that a customer account is uncollectible. The allowance for doubtful accounts for trade receivables is not material to the Company's Condensed Consolidated financial results.

The Company's gross revenues are subject to a variety of deductions which are recorded in the same period that the underlying revenues are recognized. Such variable consideration includes rebates, sales discounts, and sales returns. Because these deductions represent estimates of the related obligations, judgment is required when determining the impact of these revenue deductions on gross revenues for a reporting period. Rebates provided by the Company are based upon prices determined under the Company's agreements primarily with its end-user customers. Additional factors considered in the estimate of the Company's rebate liability include the quantification of inventory that is either in stock at or in transit to the Company's distributors, as well as the estimated lag time between the sale of product and the payment of corresponding rebates.

The Company's liability attributed to variable consideration at March 31, 2023 and September 30, 2022 was $37.9 million and $43.8 million, respectively. Sales deductions recorded as a reduction of gross revenues for the three months ended March 31, 2023 and 2022 were $95.2 million and $78.1 million, respectively. Sales deductions recorded as a reduction of gross revenues for the six months ended March 31, 2023 and 2022 were $187.8 million and $163.9 million, respectively.

Disaggregation of Revenues

Disaggregation of revenue by geographic region is provided within Note 8.

Contract Assets and Liabilities

The Company does not have contract liabilities. Contract assets consist of the Company's right to consideration that is conditional upon its future performance pursuant to private label agreements and are presented within *Prepaid expenses and other* in the Condensed Consolidated Balance Sheets.

The Company's contract asset balance was $1.2 million as of March 31, 2023 and September 30, 2022, respectively.

Note 8 — Segment and Geographical Data

Operating segments are identified as components of an enterprise in which discrete financial information is available for evaluation by the chief operating decision-maker ("CODM") in making decisions regarding assessing business performance and allocating resources and capital. Management has concluded that the Company operates in one segment based upon the information used by the CODM in evaluating the performance of the Company's business and allocating resources and capital.

Disaggregation of Revenues

The Company has distribution agreements with regional or national distributors (including wholesalers and medical suppliers) to ensure broad availability of its products as well as a direct sales force in certain countries and regions around the world. In the United States and Canada, the Company utilizes its large and small key account managers that call on payers, retailers, wholesalers and institutional customers, and field-based territory managers that call on health care providers and pharmacies. In certain markets within Europe, the Company has dedicated sales representatives and in certain regions of the Middle East and Africa, the Company has distribution agreements. In Greater Asia, the Company has distribution agreements, and in China the Company relies on its own commercial team to support sales execution. In Latin America, the Company maintains distribution agreements and direct sales representatives.

The Company disaggregates its revenue by geography as management believes this category best depicts how the nature, amount, and timing of revenues and cash flows are affected by economic factors.

Revenues by geographic region are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2023	**2022[1]**	**2023**	**2022[1]**
United States	$ 146.4	$ 141.3	$ 295.7	$ 292.2
International[2]	130.7	133.2	257.1	271.6
Total	$ 277.1	$ 274.5	$ 552.8	$ 563.8

(1) $1.5 million was reclassified between United States and International for both the three and six months ended March 31, 2022 respectively to conform to the current year presentation.

(2) For the three and six months ended March 31, 2023 and 2022, no individual country outside of the United States generated net revenues that represented more than 10.0% of total revenues.

Note 9 — Stock-Based Compensation

Time Vested Restricted Stock Units ("TVUs")

During the six months ended March 31, 2023, Embecta granted 634,032 of restricted stock units ("RSUs") in the form of TVUs to employees which vest ratably over three years, subject to continued employment of the recipients.

Performance Based Restricted Stock Units ("PSUs")

During the six months ended March 31, 2023, Embecta awarded 244,192 of RSUs in the form of PSUs to certain executive officers and employees which vest after three years, subject to continued employment of the recipients and the achievement of certain performance metric targets. The Company has identified certain performance metrics associated with these awards and certain targets will be fully established at a future date. The Company has determined that the service inception date precedes the grant date for these awards as (a) the awards were authorized prior to establishing an accounting grant date, (b) the recipients began providing services prior to the grant date, and (c) there are performance conditions that, if not met by the accounting grant date, will result in the forfeiture of the awards. As the service inception date precedes the accounting grant date, the Company recognizes stock-based compensation expense for each separately-vesting tranche over the requisite service period based on the fair value at each reporting date. Stock-based compensation expense for these awards for the three and six months ended March 31, 2023 was $0.5 million and $0.6 million, respectively.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Stock-Based Compensation Expense

Total direct and allocated stock-based compensation expense for the three and six months ended March 31, 2023 and 2022 and the respective income tax benefits recognized by the Company in the Condensed Consolidated Statements of Income are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2023	2022	2023	2022
Cost of products sold	$ 0.6	$ 0.7	$ 1.2	$ 1.7
Selling and administrative expense	4.7	2.8	9.3	5.7
Research and development expense	0.5	0.4	0.8	1.1
Total Stock-Based Compensation Expense	$ 5.8	$ 3.9	$ 11.3	$ 8.5
Tax benefit associated with stock-based compensation costs recognized	$ 0.7	$ 1.0	$ 1.5	$ 2.0

A summary of stock appreciation rights ("SARs") outstanding as of March 31, 2023 and changes during the six months ended March 31, 2023 are as follows:

	SARs (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at October 1	1,916.7	$ 28.98		
Granted	—	—		
Exercised*	(25.0)	21.98		
Forfeited, canceled or expired	—	$ —		
Balance at March 31	1,891.7	$ 28.08	8.2	$ 0.7
Vested and expected to vest at March 31	1,816.9	$ 29.05	8.2	$ 0.7
Exercisable at March 31	532.1	$ 27.44	7.1	$ 0.6

*The amounts exercised include shares withheld for taxes that are not formally issued to the market.

SARs with an intrinsic value of $0.3 million and grant date fair value of $0.6 million were exercised during the six months ended March 31, 2023.

A summary of time-vested RSUs and performance-based RSUs outstanding as of March 31, 2023 and changes during the six months ended March 31, 2023 are as follows:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at October 1	977.5	$ 28.34
Granted	695.1	32.38
Distributed*	(311.6)	27.97
Forfeited, canceled or expired	(30.0)	28.18
Nonvested at March 31	1,331.0	30.54
Expected to vest at March 31	1,257.9	$ 30.54

*The RSUs distributed include shares withheld for taxes that are not formally issued to the market.

The weighted average grant date fair value of time restricted stock units granted during the six months ended March 31, 2023 is $32.38 and the total fair value of time vested stock units vested during the six months ended March 31, 2023 is $8.8 million.

At March 31, 2023, the weighted average remaining vesting term of time vested restricted stock units is 2.0 years.

The amount of unrecognized compensation expense for all non-vested stock-based awards granted as of March 31, 2023, is approximately $40.4 million, which is expected to be recognized over a weighted-average remaining life of approximately 2.2 years. At March 31, 2023, 3.5 million shares were authorized for future grants under the 2022 Employee and Director Equity Based Compensation Plan.

Note 10 — Goodwill and Other Intangible Assets

Goodwill and Other Intangible Assets consisted of:

	March 31, 2023	September 30, 2022
Amortized intangible assets		
Patents – gross	$ 9.4	$ 9.4
Less: accumulated amortization	(4.2)	(3.9)
Patents – net	$ 5.2	$ 5.5
Customer Relationships and Other – gross	$ 5.2	$ 5.2
Less: accumulated amortization	(2.1)	(1.8)
Customer Relationships and Other – net	$ 3.1	$ 3.4
Total amortized intangible assets	$ 8.3	$ 8.9
Goodwill	15.7	15.7
Total Goodwill and Other Intangible Assets	$ 24.0	$ 24.6

Note 11 — Long-Term Debt

Credit Agreement

On March 31, 2022, Embecta entered into a credit agreement (the “Credit Agreement”), providing for:

- a Term Loan B Facility (the "Term Loan") in the amount of $950.0 million, with a seven-year term that matures in March 2029. The interest rate is 300 basis points over the secured overnight financing rate (“SOFR”), with a 0.50% SOFR floor. The Term Loan was issued at a discount of 0.50%. Principal and interest payments on the Term Loan commenced on June 30, 2022. Such quarterly principal payments are calculated as 0.25% of the initial principal amount, with the remaining balance payable upon maturity; and
- a Revolving Credit Facility (the "Revolving Credit Facility") in an aggregate principal amount of up to $500.0 million, with a five-year term that matures in 2027. Borrowings under the Revolving Credit Facility bear interest, at Embecta’s option, at an annual rate equal to (a) in the case of loans denominated in United States dollars (i) the SOFR or (ii) the alternate base rate or (b) in the case of loans denominated in Euros, the EURIBOR rate, in each case plus an applicable margin specified in the credit agreement. A commitment fee applies to the unused portion of the Revolving Credit Facility, equal to 0.25% per annum. As of March 31, 2023, no amount has been drawn on the Revolving Credit Facility.

The Credit Agreement and the indentures for Embecta's outstanding 5.00% senior secured notes due February 2030 (the "5.00% Notes") and 6.75% senior secured notes due February 2030 (the "6.75% Notes") contain customary financial covenants, including a total net leverage ratio covenant, which measures the ratio of (i) consolidated total net debt to (ii) consolidated earnings before interest, taxes, depreciation and amortization, and subject to other adjustments, must meet certain defined limits which are tested on a quarterly basis in accordance with the terms of the Credit Agreement and the 5.00% Notes and 6.75% Notes. In addition, the Credit Agreement contains covenants that will limit, among other things, Embecta’s ability to prepay, redeem or repurchase its subordinated and junior lien debt, incur additional debt, make acquisitions, merge with other entities, pay dividends or distributions, redeem or repurchase equity interests, and create or become subject to liens.

Dollar amounts are in millions except per share amounts or as otherwise specified.

The following is a summary of Embecta's total debt outstanding as of March 31, 2023:

Term Loan due March 2029	$	940.5
5.00% Notes due February 2030		500.0
6.75% Notes due February 2030	$	200.0
Total principal debt issued	$	1,640.5
Less: current debt obligations		(9.5)
Less: debt issuance costs and discounts		(35.0)
Long-term debt	$	1,596.0

The debt issuance costs on the Term Loan, 5.00% Notes, 6.75% Notes and the discount on the Term Loan are reported in the Condensed Consolidated Balance Sheets as a reduction of debt and are amortized as a component of *Interest expense, net* over the term of the related debt using the effective interest method.

The schedule of principal payments required on long-term debt for the next five fiscal years and thereafter is as follows:

2023	$	4.8
2024	$	9.5
2025	$	9.5
2026	$	9.5
2027	$	9.5
Thereafter	$	1,597.7

The estimated fair value of long-term debt (including current portion) at March 31, 2023 was $1,561.8 million compared with a carrying value (which includes a reduction for unamortized debt issuance costs and discounts) of $1,605.5 million. Fair value was estimated using inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability and would be considered Level 2 in the fair value hierarchy.

Note 12 — Earnings per Share

On April 1, 2022, the date of the Separation, 57,012,925 shares of Embecta's common stock, par value $0.01 per share, were distributed to BD shareholders of record as of March 22, 2022, the record date of the distribution. This share amount is utilized for the calculation of earnings per basic and diluted common share for all periods presented prior to the Separation.

The calculation of earnings per basic and diluted common share for the three and six months ended March 31, 2023 and 2022 was as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
($ in millions and shares in thousands, except per share amounts)	**2023**	**2022**	**2023**	**2022**
Net Income attributable to Embecta	$ 14.0	$ 79.6	$ 49.2	$ 178.4
Basic weighted average number of shares outstanding	57,260	57,798	57,186	57,798
Stock awards and equity units (share equivalent)	253	—	426	—
Diluted weighted average shares outstanding	57,513	57,798	57,612	57,798
Earnings per common share - Basic	$ 0.24	$ 1.38	$ 0.86	$ 3.09
Earnings per common share - Diluted	$ 0.24	$ 1.38	$ 0.85	$ 3.09

For periods prior to the Separation, it is assumed that there were no dilutive equity instruments as there were no equity awards of Embecta outstanding prior to the Separation.

For periods subsequent to the Separation, earnings per diluted share is computed by giving effect to all potentially dilutive stock awards that are outstanding. The computation of earnings per diluted share excludes the effect of the potential exercise of stock-based awards, when the effect of the potential exercise would be anti-dilutive. For the three and six months ended March 31, 2023, 2.2 million and 1.8 million, respectively, of dilutive share equivalents issuable under stock-based compensation plans were excluded from the diluted shares outstanding calculation because the result would have been antidilutive.

Note 13 — Income Taxes

The Company is subject to income tax in the various jurisdictions in which it operates. A significant portion of the Company's earnings are taxed in jurisdictions with tax rates that are lower than the statutory tax rate of the United States. The effective tax rate can vary from quarter to quarter because of changes in the global pretax income or geographical mix of the Company's earnings, changes in tax laws and matters related to tax audits.

The effective tax rates were 42.9% and 15.2% for the three months ended March 31, 2023 and 2022, respectively, and 39.0% and 15.2% for the six months ended March 31, 2023 and 2022, respectively. The increase in the Company’s effective tax rates from both prior comparative periods are primarily due to the establishment of a valuation allowance against the utilization of interest expense carryforwards generated during the current periods resulting from U.S. interest deduction limitation rules, higher tax expense on undistributed earnings of foreign subsidiaries and higher U.S. taxes on the earnings of foreign subsidiaries. This was partially offset by tax benefits from non-taxable permanent differences.

Note 14 — Financial Instruments and Fair Value Measurements

The following reconciles *Cash and cash equivalents* reported within the Condensed Consolidated Balance Sheets as of March 31, 2023 and September 30, 2022, to the total amounts shown in the Condensed Consolidated Statements of Cash Flows:

	March 31, 2023	September 30, 2022
Cash and cash equivalents	$ 346.4	$ 330.9

Cash and cash equivalents as of March 31, 2023 includes cash held in money market funds and other cash equivalents. All cash and cash equivalents are Level 1 in the fair value hierarchy.

Foreign Currency Risks and Related Strategies

The Company has foreign currency exposures throughout Europe, Greater Asia, Canada and Latin America. Transactional currency exposures that arise from entering into transactions, generally on an intercompany basis, in non-hyperinflationary countries that are denominated in currencies other than the functional currency are mitigated primarily through the use of forward contracts.

The notional amounts of the Company’s foreign currency-related derivative instruments were as follows as of March 31, 2023 and September 30, 2022, respectively:

	Hedge Designation	
Foreign exchange contracts (a)	Undesignated	$ 5.1

a. Represent hedges of transactional foreign exchange exposures resulting primarily from intercompany payables and receivables. Gains and losses on these instruments are recognized immediately in *Other income (expense), net*. These gains and losses are largely offset by gains and losses on the underlying hedged items, as well as the hedging costs associated with the derivative instruments. Gains and losses recognized to date on these instruments were not material to the Company's Condensed Consolidated Financial Statements.

Nonrecurring Fair Value Measurements

Non-financial assets, including property, plant and equipment as well as intangible assets, are measured at fair value when there are indicators of impairment and these assets are recorded at fair value only when an impairment is recognized. These measurements of fair value are generally based upon Level 3 inputs, including values estimated using the income approach.

Concentration of Credit Risk

Historically and prior to the Separation, the Company’s operations formed part of BD’s monitoring of concentrations of credit risk associated with financial institutions for which BD conducted business.

Dollar amounts are in millions except per share amounts or as otherwise specified.

As of March 31, 2023, the Company had transferred the majority of its trade receivables to BD under the Factoring Agreements (see Note 3). As a result, the Company is no longer exposed to credit risk associated with those transferred receivables and does not have material credit risk exposure associated with the remaining $19.1 million of trade receivables.

Three of the Company’s customers represent at least 10.0% of total gross revenues individually and, in the aggregate, represented approximately 39.6% for the three months ended March 31, 2023, and three of the Company's customers represented at least 10.0% of total gross revenues individually and, in the aggregate, represent 40.0% of total revenues for the six months ended March 31, 2023.

Substantially all of the Company’s trade receivables are due from public and private entities involved in the healthcare industry. The Company does not normally require collateral from its customers.

Note 15 — Property, Plant and Equipment

Property, Plant and Equipment, Net consisted of:

	March 31, 2023	September 30, 2022
Land	$ 2.5	$ 1.4
Buildings	128.5	123.7
Machinery, equipment and fixtures	571.2	505.1
Leasehold improvements	6.6	6.5
Construction in progress	40.6	64.9
	$ 749.4	$ 701.6
Less: accumulated depreciation	(435.9)	(400.0)
Total Property, Plant and Equipment, Net	$ 313.5	$ 301.6

Note 16 — Leases

Finance Leases

Our finance lease assets and liabilities are attributed to our manufacturing site in Holdrege, Nebraska, which has an initial term of ten years and an option for the Company to extend the lease term for an additional period of up to five years. This lease is classified as a finance lease because the present value of the sum of the lease payments associated with the lease exceeds substantially all of the fair value of the manufacturing site.

Operating Leases

Our operating leases primarily relate to our real estate leases that are not classified as finance leases.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Aggregate Lease Information

Our leases are included in our Condensed Consolidated Balance Sheets as follows:

	March 31, 2023	September 30, 2022
Finance Leases		
Property, Plant, and Equipment, Net	$ 34.3	$ 35.5
Total Finance Lease Assets	$ 34.3	$ 35.5
Current finance lease liabilities	$ 3.6	$ 3.6
Non Current Finance Lease Liabilities	32.0	32.6
Total Finance Lease Liabilities	$ 35.6	$ 36.2
Weighted-average remaining lease term (years)	14.0	14.5
Weighted-average discount rate	6.8 %	6.8 %
Operating Leases		
Other Assets	$ 18.5	$ 6.3
Total Operating Lease Assets	$ 18.5	$ 6.3
Accrued expenses	$ 3.7	$ 2.0
Deferred Income Taxes and Other Liabilities	15.4	4.3
Total Operating Lease Liabilities	$ 19.1	$ 6.3
Weighted-average remaining lease term (years)	8.0	3.2
Weighted-average discount rate	7.0 %	5.9 %

Supplemental cash flow information related to leases for the six months ended March 31, 2023 and 2022 were as follows:

	March 31, 2023	March 31, 2022
Right of use assets obtained in exchange for lease liabilities		
Operating Leases	14.0	—

On April 1, 2022, the Company entered into a real estate lease for a new Corporate Headquarters located in Parsippany, NJ. The lease commenced during the second quarter of fiscal year 2023 and has an initial term of ten years. The Company has an option to extend the lease for additional periods of six years and four years, respectively.

Maturities of our finance and operating lease liabilities as of March 31, 2023 by fiscal year are as follows:

	Finance Leases	Operating Leases	Total
2023	$ 1.8	$ 1.5	$ 3.3
2024	3.6	3.8	7.4
2025	3.7	2.8	6.5
2026	3.7	2.7	6.4
2027	3.8	2.2	6.0
Thereafter	40.1	13.3	53.4
Total lease payments	$ 56.7	$ 26.3	$ 83.0
Less: amount representing interest	21.1	7.2	28.3
Present value of lease liabilities	$ 35.6	$ 19.1	$ 54.7

Dollar amounts are in millions except per share amounts or as otherwise specified.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Certain Factors Affecting Forward-Looking Statements

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying notes contained elsewhere in this Quarterly Report on Form 10-Q. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and other factors described throughout this discussion and analysis, particularly in the section “Cautionary Statement Concerning Forward-Looking Statements.”

Company Overview

We are a leading global medical device company focused on providing solutions to improve the health and well-being of people living with diabetes. Over the close to 100 year history of our business, we believe that our products have become one of the most widely recognized and respected brands in diabetes management in the world. We estimate that our products are used by nearly 30 million people in over 100 countries for insulin administration and to aid with the daily management of diabetes. Our business traces its origins to 1924, when BD developed the first dedicated insulin syringe. Since then, we have built a world-class organization with a unique manufacturing, supply chain and commercial footprint.

We have a broad portfolio of marketed products, including a variety of pen needles, syringes and safety injection devices, which are complemented by our proprietary digital application designed to assist people with managing their diabetes. Our pen needles are sterile, single-use, medical devices, designed to be used in conjunction with pen injectors that inject insulin or other diabetes medications. We also sell safety pen needles, which have shields on both ends of the cannula that automatically deploy after the injection to help prevent needlestick exposure and injury during injection and disposal. Our traditional and safety pen needles are compatible and frequently used with widely available pen injectors in the market today. In addition to pen needles, we sell sterile, single-use insulin syringes, which are used to inject insulin drawn from insulin vials. We also sell safety insulin syringes, which have sliding safety shield that can be activated with one-hand after the injection to help prevent needlestick exposure and injury during injection and disposal.

We primarily sell our products to wholesalers and distributors that sell to retail and institutional channels who in turn sell to patients or use the products to deliver insulin injections to patients.

Separation from BD

Pursuant to the Separation and Distribution Agreement, the Separation from BD was completed on April 1, 2022. On March 22, 2022, the record date for the distribution, 57,012,925 issued and outstanding shares of Embecta common stock were distributed pro-rata to BD stockholders as of the close of business, determined by applying a ratio of one share of Embecta common stock for every five shares of BD common stock. "Regular-way" trading of Embecta common stock began on April 1, 2022, under the ticker symbol "EMBC".

Periods Prior to Separation

Prior to the Separation, the Company was referred to as the Diabetes Care Business. For periods prior to April 1, 2022, the Condensed Consolidated Financial Statements included certain assets and liabilities that were historically held at the BD corporate level but are specifically identifiable or otherwise allocable to the Diabetes Care Business.

Periods Post Separation

For the periods subsequent to April 1, 2022, as a standalone publicly traded company, Embecta presents its financial statements on a consolidated basis. The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Key Trends Affecting Our Results of Operations

Competition. The regions in which we conduct our business and the medical devices industry in general are highly competitive. We face significant competition from a wide range of companies in a highly regulated industry. These include large companies with multiple product lines, some of which may have greater financial and marketing resources than us, as well as smaller more specialized companies. Non-traditional entrants, such as technology companies, are also entering into the diabetes care industry and its adjacent markets, some of which may have greater financial and marketing resources than us.

Pricing Pressures. The increased scrutiny by regulators on healthcare spending, which has accelerated in light of the COVID-19 pandemic, along with a shift towards volume-based procurement and group purchasing organizations, which generally values lower cost over product features, benefits and quality, have placed significant pressure on Embecta to lower pricing. These trends may reduce our operating margins, which are only partially offset by our ability to differentiate our products and sell at higher prices.

Commoditization of Injection Devices. Given the growing demand for medical devices to assist in the treatment of diabetes and difficulties around access to diabetes care due to complex and costly insurance plans, patient care is increasingly focused on providing more affordable products, which has led to the commoditization of more traditional injection delivery devices, such as insulin syringes and pen needles. Existing and new local and regional low-cost providers, in combination with a shift from insulin vials to insulin pens, have made the pen needle category highly competitive. This has forced providers to provide clinical evidence to differentiate their products.

Changes in Clinical Practice. Introduction of new drugs and increased penetration of oral anti-diabetic drugs (e.g., SGLT-2s) and GLP-1s and GLP-1 combination products have delayed initiation of insulin therapy and contributed to less demand for our products.

Continuing Impact From COVID-19 on Delivery and Allocation of Healthcare. The COVID-19 pandemic has accelerated the adoption of, and reimbursement by governments and private payers for, the delivery of healthcare using digital technologies, including telehealth technologies and other at-home self-care solutions and various media for virtual engagement with healthcare providers. Our ability to adapt the delivery of our products and sales and marketing efforts to these trends, including with the development of our diabetes care app, may materially affect our results of operations. The pandemic has also caused hospitals and other healthcare providers to reassess their prioritization and allocation of their healthcare resources. In many cases, providers were forced to balance between diverting resources toward COVID-19 needs and maintaining routine care, including for people living with long term conditions. If this trend persists, particularly in regions where COVID-19 continues to spread, it could have an adverse impact on the delivery of care for people with diabetes and our sales and marketing efforts.

Decentralization of Chronic Care. Many countries are facing an aging population and a rapidly growing number of people living with diabetes. While healthcare investments in certain regions continue to grow, there is an increased burden on physicians and longer wait times for patients. Healthcare delivery for non-emergency diabetes care is expected to continue shifting outside of hospitals to primary care providers, which could have a material impact on our results of operations.

Political and Economic Instability in Emerging Markets. We operate in a number of emerging markets, many of which are subject from time to time to significant political and economic disruptions. However, the number of countries we provide products to and our proactive channel management strategies help us manage this variability.

Recent Developments

COVID-19 Pandemic Impacts and Response and Global Economic Conditions

Various governmental measures to slow and control the spread of COVID-19 have led to a shift in healthcare priorities, supply chain constraints and the disruption of economic activities worldwide. As further discussed below, our future operating performance may be subject to further volatility due to the significant uncertainty with respect to the duration and overall impact of the COVID-19 pandemic. The impacts of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows are dependent on certain factors including:

- the extent to which resurgences in COVID-19 infections or new strains of the virus, result in the imposition of new governmental lockdowns, quarantine requirements or other restrictions that may disrupt our operations;
- the continued momentum of the global economy’s recovery from the pandemic and the degree of pressure that a weakened macroeconomic environment would put on the global demand for our products; and
- the effectiveness of vaccines and vaccination efforts.

We continue to face increases in the cost and disrupted availability of raw materials, components, and other inputs necessary to manufacture and distribute our products due to constraints and inflation within the global supply chain, as well as increases in the cost and time to distribute our products. To date we have been able to successfully mitigate this disruption and provide uninterrupted supply to our customers by increasing our inventory levels and taking other measures.

The military conflict in Russia and Ukraine and the sanctions imposed by the United States government and other nations in response to this conflict have caused significant volatility and disruptions to the global markets. For all periods presented, our net sales in Russia and Ukraine were not material to our consolidated net revenues. Although operations in both Russia and Ukraine do not constitute a material portion of our business, there is uncertainty around the military conflict and the impact it will have on the global economy, supply chains and energy prices generally, and therefore our business. Refer to the "Risk Factors" set forth in the 2022 Form 10-K for further details.

In addition, our revenues and results of operations may and have been affected by various fluctuations in macroeconomic conditions and regulatory and policy changes, both on a global level and in particular markets, which include inflation and slowing economic growth and contractions, a rising interest rate environment, supply chain interruptions, tariff policy changes, volatility in capital markets and the availability of credit, tax rates and the rate of exchange between the U.S. dollar and foreign currencies. The nature and extent of the impact of these factors among others varies by region and remains uncertain and unpredictable and may affect our business.

Results of Operations

Our unaudited Condensed Consolidated Statements of Income are as follows:

	Three months ended March 31,			Six months ended March 31,		
	2023	2022	%	2023	2022	%
Revenues	$ 277.1	$ 274.5	0.9 %	$ 552.8	$ 563.8	(2.0)%
Cost of products sold	87.3	83.3	4.8	174.2	168.7	3.3
Gross Profit	189.8	191.2	(0.7)	378.6	395.1	(4.2)
Operating expenses:						
Selling and administrative expense	85.2	66.9	27.4	158.0	129.1	22.4
Research and development expense	22.1	18.0	22.8	39.0	34.7	12.4
Other operating expenses	26.9	7.4	263.5	37.2	15.8	132.5
Total Operating Expenses	134.2	92.3	45.4	234.2	179.6	30.4
Operating Income	55.6	98.9	(43.8)	144.4	215.5	(33.0)
Interest expense, net	(26.8)	(4.9)	nm	(52.4)	(4.9)	nm
Other income (expense), net	(4.3)	(0.1)	nm	(11.4)	(0.1)	nm
Income Before Income Taxes	24.5	93.9	(73.9)	80.6	210.5	(61.7)
Income tax provision	10.5	14.3	(26.6)	31.4	32.1	(2.2)
Net Income	$ 14.0	$ 79.6	(82.4)%	$ 49.2	$ 178.4	(72.4)%
Net Income per common share:						
Basic	$ 0.24	$ 1.38	nm	$ 0.86	$ 3.09	nm
Diluted	$ 0.24	$ 1.38	nm	$ 0.85	$ 3.09	nm

nm = not meaningful

Three Months Ended March 31, 2023 Summary (on a comparative basis)

Key financial results for the three months ended March 31, 2023 were as follows:

- Revenue increased by $2.6 million to $277.1 million from $274.5 million;
- Gross profit decreased by $1.4 million to $189.8 million from $191.2 million. Gross profit as a percent of revenue was 68.5%, as compared to 69.7% in the prior year comparative period;
- Operating income decreased by $43.3 million to $55.6 million from $98.9 million; and
- Net income decreased by $65.6 million to $14.0 million from $79.6 million.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Six Months Ended March 31, 2023 Summary (on a comparative basis)

Key financial results for the six months ended March 31, 2023 were as follows:

- Revenue decreased by $11.0 million to $552.8 million from $563.8 million;
- Gross profit decreased by $16.5 million to $378.6 million, compared to $395.1 million. Gross profit as a percent of revenue was 68.5%, as compared to 70.1% in the prior year comparative period;
- Operating income decreased by $71.1 million to $144.4 million from $215.5 million; and
- Net income decreased by $129.2 million to $49.2 million from $178.4 million.

Revenues

Our revenues increased by $2.6 million, or 0.9%, to $277.1 million for the three months ended March 31, 2023 as compared to revenues of $274.5 million for the three months ended March 31, 2022. Changes in our revenues are driven by the volume of goods that we sell, the prices we negotiate with customers and changes in foreign exchange rates. The increase in revenues was driven by favorable impacts of $11.0 million related to increase in price and volume period over period in our international regions and the U.S. Contract manufacturing revenue in the current period also contributed to the increase period over period. This was partially offset by an unfavorable $8.4 million related to the impact of foreign currency translation primarily due to the strengthening of the U.S. dollar.

Our revenues decreased by $11.0 million, or 2.0%, to $552.8 million for the six months ended March 31, 2023 as compared to revenues of $563.8 million for the six months ended March 31, 2022. The decrease in revenues was primarily driven by an unfavorable $24.0 million related to the impact of foreign currency translation primarily attributed to the strengthening of the US dollar. This was partially offset by favorable impacts of $13.0 million related to increase in price and volume period over period in our international regions and the U.S. Contract manufacturing revenue in the current period also contributed to the increase period over period.

Revenues by geographic region are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2023	2022	2023	2022
United States	$ 146.4	$ 141.3	$ 295.7	$ 292.2
International	130.7	133.2	257.1	271.6
Total	$ 277.1	$ 274.5	$ 552.8	$ 563.8

Cost of products sold

Cost of products sold increased by $4.0 million, or 4.8%, to $87.3 million for the three months ended March 31, 2023 as compared to $83.3 million for the three months ended March 31, 2022. Cost of products sold as a percentage of revenues was 31.5% for the three months ended March 31, 2023 as compared to 30.3% for the three months ended March 31, 2022. Cost of products sold increased by $5.5 million, or 3.3%, to $174.2 million for the six months ended March 31, 2023 as compared to $168.7 million for the six months ended March 31, 2022. Cost of products sold as a percentage of revenues were 31.5% for the six months ended March 31, 2023 as compared to 29.9% in the six months ended March 31, 2022. The increases in cost of products sold for the three and six month comparative periods were primarily driven by the impact of inflation on costs of certain raw materials (including freight), direct labor, and overhead. We intend to continue to work to improve productivity to help partially offset these increased costs.

Selling and administrative expenses

Selling and administrative expenses increased by $18.3 million, or 27.4%, to $85.2 million for the three months ended March 31, 2023 as compared to $66.9 million for the three months ended March 31, 2022. Selling and administrative expenses increased by $28.9 million, or 22.4%, to $158.0 million for the six months ended March 31, 2023 as compared to $129.1 million for the six months ended March 31, 2022. The increases for the three and six month comparative periods were primarily driven by an increase in compensation and benefit costs due to increased headcount attributed to the Separation and Embecta becoming a stand-alone publicly-traded company.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Research and development expenses

Research and development expenses increased by $4.1 million, or 22.8%, to $22.1 million for the three months ended March 31, 2023 as compared to $18.0 million for the three months ended March 31, 2022. Research and development expenses increased by $4.3 million, or 12.4%, to $39.0 million for the six months ended March 31, 2023 as compared to $34.7 million for the six months ended March 31, 2022. The increases for the three and six month comparative periods were primarily driven by amounts paid in connection with a collaboration arrangement and the timing of research and development projects. For details on the collaboration arrangement refer to Note 4 within the *Notes to Condensed Consolidated Financial Statements* within this Form 10-Q.

Other operating expenses

We incurred other operating expenses of $26.9 million and $7.4 million for the three months ended March 31, 2023 and 2022, respectively, and $37.2 million and $15.8 million for the six months ended March 31, 2023 and 2022, respectively, driven by costs related to the Separation. The costs incurred primarily relate to accounting, auditing, and legal services, including costs to establish certain stand-alone corporate functions and other transaction costs attributed to being a stand-alone publicly traded company.

Interest expense, net

Interest expense, net increased to $26.8 million and $52.4 million for the three and six months ended March 31, 2023, primarily as a result of debt outstanding for a longer period of time for fiscal year 2023 as compared to fiscal year 2022 and higher interest rates on our variable rate debt that was issued on March 31, 2022.

If the United States Federal Reserve continues to raise the benchmark interest rate, then we would expect the interest expense on our variable rate debt to increase during the remainder of fiscal 2023. See "Liquidity and Capital Resources" below and Note 11 to the Condensed Consolidated Financial Statements included elsewhere in this report for a further description of our long-term debt.

Other income (expense), net

Other income (expense), net, was $(4.3) million and $(11.4) million for the three and six months ended March 31, 2023, respectively. The costs incurred primarily relate to amounts due to BD for income taxes payable incurred in deferred jurisdictions where BD is considered the primary obligor.

Costs incurred for the three and six months ended March 31, 2022 were not material.

Income tax provision

The effective tax rates were 42.9% and 15.2% for the three months ended March 31, 2023 and 2022, respectively, and 39.0% and 15.2% for the six months ended March 31, 2023 and 2022, respectively. The increase in the Company’s effective tax rates from both prior comparative periods are primarily due to the establishment of a valuation allowance against the utilization of interest expense carryforwards generated during the current periods resulting from U.S. interest deduction limitation rules, higher tax expense on undistributed earnings of foreign subsidiaries and higher U.S. taxes on the earnings of foreign subsidiaries. This was partially offset by tax benefits from non-taxable permanent differences.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our cash and our cash equivalents and cash from operations, together with our borrowing capacity under our revolving credit facility, will provide sufficient financial flexibility to fund seasonal and other working capital requirements, capital expenditures, debt service requirements and other obligations, cash dividends on common shares, share repurchases and additional growth opportunities for the foreseeable future. However, should it become necessary, we believe that our credit profile should provide us with access to additional financing in order to fund normal business operations, make interest payments, fund growth opportunities and satisfy upcoming debt maturities.

In February 2022, and in connection with the Separation, Embecta issued $500.0 million aggregate principal amount of 5.00% senior secured notes due February 15, 2030. Interest payments on the 5.00% Notes are due semi-annually in February and August until maturity, with the first interest payment beginning in August 2022.

In March 2022, we entered into a credit agreement, providing for the Term Loan in the amount of $950.0 million, with a seven-year term that matures in March 2029 and a Revolving Credit Facility in an aggregate principal amount of up to $500.0 million, with a five-year term that matures in 2027. The interest rate on the Term Loan is 300 basis points over SOFR, with a 0.50% SOFR floor. Principal and interest payments on the Term Loan began on June 30, 2022. Such quarterly principal payments are calculated as 0.25% of the initial principal amount, with the remaining balance payable upon maturity. Principal amounts repaid under the Term Loan may not be reborrowed by us. Borrowings under the Revolving Credit Facility bear interest, at Embecta's option, initially at an annual rate equal to (a) in the case of loans denominated in United States dollars (i) the SOFR or (ii) the alternate base rate or (b) in the case of loans denominated in Euros, the EURIBOR rate, in each case plus an applicable margin specified in the credit agreement. A commitment fee applies to the unused portion of the Revolving Credit Facility, equal to 0.25% per annum. As of March 31, 2023, no amount has been drawn on the Revolving Credit Facility.

Additionally we have outstanding the 6.75% Notes, which carry an interest rate of 6.75% and are due February 2030. Interest payments on the 6.75% Notes are due semi-annually in February and August until maturity, with the first interest payment beginning in August 2022.

The credit agreement and the indentures for the 5.00% Notes and the 6.75% Notes contain customary financial covenants, including a total net leverage ratio covenant, which measures the ratio of (i) consolidated total net debt to (ii) consolidated earnings before interest, taxes, depreciation and amortization, and subject to other adjustments, must meet certain defined limits which are tested on a quarterly basis in accordance with the terms of the credit agreement and 5.00% Notes and the 6.75% Notes. In addition, the credit agreement contains covenants that limit, among other things, our ability to prepay, redeem or repurchase our subordinated and junior lien debt, incur additional debt, make acquisitions, merge with other entities, pay dividends or distributions, redeem or repurchase equity interests, and create or become subject to liens. As of March 31, 2023, we were in compliance with all of such covenants.

The following is a summary of Embecta's total debt outstanding as of March 31, 2023:

Term Loan	$	940.5
5.00% Notes		500.0
6.75% Notes	$	200.0
Total principal debt issued	$	1,640.5
Less: current debt obligations		(9.5)
Less: debt issuance costs and discounts		(35.0)
Long-term debt	$	1,596.0

The schedule of principal payments required on long-term debt for the next five years and thereafter is as follows:

2023	$	4.8
2024	$	9.5
2025	$	9.5
2026	$	9.5
2027	$	9.5
Thereafter	$	1,597.7

Certain measures relating to our total debt outstanding as of March 31, 2023 were as follows:

Total debt	$	1,605.5
Short-term debt as a percentage of total debt		0.6 %
Weighted average cost of total debt		6.7 %

For additional information related to the Company's debt related activities, refer to Note 11 within the *Notes to Condensed Consolidated Financial Statements* within this Form 10-Q.

Dollar amounts are in millions except per share amounts or as otherwise specified.

Leases

In conjunction with the Separation, we entered into a lease agreement with BD pursuant to which the Company would lease approximately 278,000 square feet of manufacturing space and equipment at BD's manufacturing facility in Holdrege, Nebraska for an initial term of ten years. The lease is classified as a finance lease. The Company has an option to extend the lease term for an additional period of up to five years.

On April 1, 2022, we entered into a real estate lease for a new Corporate Headquarters located in Parsippany, New Jersey, United States. The lease commenced during the second quarter of fiscal year 2023 and has an initial term of ten years. The lease is classified as an operating lease. The Company has an option to extend the lease for additional periods of six years and four years, respectively.

Maturities of our finance lease and operating lease liabilities as of March 31, 2023 by fiscal year are as follows:

	Finance Lease	Operating Leases	Total
2023	$ 1.8	$ 1.5	$ 3.3
2024	3.6	3.8	7.4
2025	3.7	2.8	6.5
2026	3.7	2.7	6.4
2027	3.8	2.2	6.0
Thereafter	40.1	13.3	53.4
Total lease payments	$ 56.7	$ 26.3	$ 83.0

For additional information related to our leases, refer to Note 16 within the *Notes to Condensed Consolidated Financial Statements* of this Form 10-Q.

Factoring Agreements

In conjunction with the Separation, we entered into the Factoring Agreements with BD. Embecta owes BD a service fee calculated as 0.1% of annual revenues related to countries subject to the agreement, in exchange for the services provided by BD pursuant to the Factoring Agreements.

Access to Capital and Credit Ratings

In January 2023 and February 2023, Moody’s Investor Services and Standard & Poor’s Ratings Services published updates to our credit ratings of Ba3 and B+, respectively. These ratings remain unchanged from the initial published ratings from January 2022.

The following table summarizes our Condensed Consolidated Statements of Cash Flows:

	Six Months Ended March 31,	
	2023	2022
Net cash provided by (used for)		
Operating activities	$ 47.4	$ 321.4
Investing activities	$ (10.5)	$ (10.1)
Financing activities	$ (26.8)	$ (44.2)

Dollar amounts are in millions except per share amounts or as otherwise specified.

Net Cash Flows from Operating Activities

Net cash provided by operating activities during the six months ended March 31, 2023 was attributable to net income of $49.2 million and net adjustments of $1.8 million, which includes $33.5 million of non-cash adjustments that primarily relate to depreciation and amortization, stock-based compensation, deferred income taxes and pension expense, and a use of cash of $35.3 million related to changes in our assets and liabilities. This was driven by a $30.7 million increase in inventories which is primarily driven by a concerted effort to build inventory to meet expected demand as we execute our separation and stand-up projects; an increase of $16.0 million in prepaid expenses and other as a result of increased subscription contracts and increases in net assets for deferred closing entities; an increase in amounts due from BD of $14.9 million, which is primarily related to factored receivables for which payment has not yet been collected from BD as of March 31, 2023; and an $8.1 million increase in other assets and liabilities, net, is primarily due to costs capitalized related to the implementation of the Company's new ERP. This was partially offset by an increase of $19.5 million in accounts payable, accrued expenses and other current liabilities, due to increases in net liabilities for deferred closing entities, which was offset by our annual incentive bonus payment in January 2023; and an increase of $10.6 million in income and other net taxes payable that is primarily due to the timing of required tax payments. All other movements related to working capital were due to timing of payments and receipts of cash in the ordinary course of business.

Net cash provided by operating activities during the six months ended March 31, 2022 was attributable to net income of $178.4 million and net adjustments of $143.0 million, which includes $27.3 million of non-cash adjustments related to depreciation and amortization, stock-based compensation, and pension expense, and $115.7 million of cash provided relating to changes our assets and liabilities. Cash provided relating to changes in our assets and liabilities was driven by a decrease in trade receivables of $133.3 million, an increase of $9.7 million in income and other net taxes payable, and a decrease of $0.4 million in other assets and liabilities, net, partially offset by an increase in inventories of $10.0 million, a decrease of $15.3 million in accounts payable, accrued expenses and other current liabilities, and an increase in prepaid expenses and other of $2.4 million. The decrease in trade receivables can be attributed to the timing of payments made in the normal course of business and a decrease in certain rebate and cash discount reserves. The increase in income and other net taxes payable that is primarily due to the timing of required tax payments. The increase in inventories is primarily driven by a concerted effort in the first six months of fiscal year 2022 to build inventory in preparation for the spin-off. The decrease in accounts payable, accrued expense and other current liabilities is mainly driven by the timing of payments made in the normal course of business for managed care rebates payments and a decrease in accrued professional services in connection with various market research and consulting projects.

Net Cash Flows from Investing Activities

Net cash used for investing activities was primarily comprised of capital expenditures of $10.5 million and $9.7 million during the six months ended March 31, 2023 and 2022, respectively, to support further expansion of our business and operations.

Net Cash Flows from Financing Activities

Net cash used for financing activities for the six months ended March 31, 2023, was attributable to $17.2 million of dividend payments, $4.8 million of required payments on long-term debt, $3.0 million of payments related to tax withholding for stock-based compensation, and $1.8 million in payments on our finance lease.

Net cash used for financing activities for the six months ended March 31, 2022, was attributable to $1,266.0 million of net consideration paid to BD in connection with the Separation, $189.3 million related to net transfers to BD, $33.3 million of payments for long-term debt issuance costs, and $5.6 million of payments for debt fees associated with the Revolving Credit Facility. This was offset by proceeds from the issuance of long-term debt of $1,450.0 million.

On May 12, 2023, the Company’s Board of Directors declared a quarterly dividend of $0.15 for each issued and outstanding share of the Company’s common stock. The dividend is payable on June 13, 2023 to stockholders of record at the close of business on May 29, 2023.

Contractual Obligations

Our contractual obligations as of March 31, 2023, which require material cash requirements in the future, consist of purchase obligations and lease obligations. Purchase obligations are enforceable and legally binding obligations for purchases of goods and services which include inventory purchase commitments. Over the next several years, we expect to incur significant costs associated with information technology infrastructure as we transition to our own systems. Lease obligations include lease agreements for which a contract has been signed even if the lease has not yet commenced. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2022 Form 10-K for further details. As of March 31, 2023, there have been no material changes to our contractual obligations outside the ordinary course of business.

Critical Accounting Policies

Our significant accounting policies, which include management’s best estimates and judgments, are included in Note 3 to the Consolidated Financial Statements included in our 2022 Form 10-K. See Note 2 within the *Notes to Condensed Consolidated Financial Statements* of this Form 10-Q for information on the adoption of new accounting standards during the current fiscal year. A discussion of accounting estimates considered critical because of the potential for a significant impact on the financial statements due to the inherent uncertainty in such estimates are disclosed in the Critical Accounting Policies section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Embecta's 2022 Form 10-K. There have been no changes to our critical accounting policies as of March 31, 2023.

Cautionary Statements Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements that constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995 and other securities laws. Forward-looking statements include those containing such words as “anticipates,” “believes,” "can," “could,” “estimates,” “expects,” “forecasts,” “goal,” “guidance,” “intends,” “may,” “outlook,” “plans,” "possible," “projects,” “seeks,” “sees,” “should,” “targets,” “will,” “would,” or other words of similar meaning. All statements that reflect Embecta’s expectations, assumptions or projections about the future, other than statements of historical fact, are forward-looking statements, including, without limitation, forecasts relating to discussions of future operations and financial performance (including volume growth, pricing, sales and earnings per share growth and cash flows) and statements regarding Embecta’s strategy for growth, future product development, regulatory clearances and approvals, competitive position and expenditures. Forward-looking statements are based upon our present intent, beliefs or expectations, are not guarantees of future performance and are subject to numerous risks, uncertainties, and changes in circumstances that are difficult to predict. Although Embecta believes that the expectations reflected in any forward-looking statements it makes are based on reasonable assumptions, it can give no assurance that these expectations will be attained and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. Such risks and uncertainties include, but are not limited to:

- Competitive factors that could adversely affect Embecta’s operations, including new product introductions by Embecta’s competitors, the development of new technologies, lower cost producers that create pricing pressure and consolidation resulting in companies with greater scale and market presence than Embecta.
- Any events that adversely affect the sale or profitability of one of Embecta’s key products or the revenue delivered from sales to its key customers.
- Any failure by BD to perform its obligations under the various separation agreements entered into in connection with the Separation and Distribution, including the cannula supply agreement.
- Increases in operating costs, including fluctuations in the cost and availability of oil-based resins, other raw materials, and energy as well as certain components, used in its products, the ability to maintain favorable supplier arrangements and relationships, and the potential adverse effects of any disruption in the availability of such items.
- Changes in reimbursement practices of governments or private payers or other cost containment measures.
- The adverse financial impact resulting from unfavorable changes in foreign currency exchange rates, as well as regional, national and foreign economic factors, including inflation, deflation, and fluctuations in interest rates, and their potential effect on its operating performance.
- The impact of changes in United States, federal laws and policy that could affect fiscal and tax policies, healthcare and international trade, including import and export regulation and international trade agreements. In particular, tariffs or other trade barriers imposed by the United States or other countries could adversely impact its supply chain costs or otherwise adversely impact its results of operations.
- Any continuing impact of the COVID-19 pandemic or geopolitical instability on Embecta’s business, including disruptions in its operations and supply chains.
- New or changing laws and regulations affecting Embecta’s domestic and foreign operations, or changes in enforcement practices, including laws relating to healthcare, environmental protection, trade, monetary and fiscal policies, taxation (including tax reforms that could adversely impact multinational corporations) and licensing and regulatory requirements for products.
- The expected benefits of the Separation from BD.
- Risks associated with indebtedness and our use of indebtedness available to us.

- The risk that dis-synergy costs, costs of restructuring transactions and other costs incurred in connection with the Separation will exceed Embecta's estimates.
- The impact of the Separation on Embecta's businesses and the risk that the Separation may be more difficult, time-consuming or costly than expected, including the impact on its resources, systems, including enterprise resource planning, procedures and controls, diversion of management’s attention and the impact on relationships with customers, suppliers, employees and other business counterparties.
- The risk that we may not complete strategic collaborative partnerships and acquisition opportunities that enable us to accelerate our growth or strategic collaborative opportunities that give us access to innovative technologies, complementary product lines, and new markets.

There can be no assurance that the transactions or uncertainties described above will in fact be consummated or occur in the manner described or at all. As a result, you should not place undue reliance upon our forward-looking statements. The above list of factors is not exhaustive or necessarily in order of importance. For additional information on identifying factors that may cause actual results to vary materially from those stated in forward-looking statements, see the discussions under “Risk Factors,” included within the 2022 Form 10-K. Any forward-looking statement speaks only as of the date on which it is made, and Embecta expressly disclaims and assumes no obligation to update or revise such statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in information reported since the filing of the Company's 2022 Form 10-K except as follows:

Foreign Currency Exchange and Other Rate Risks

We operate on a global basis and are exposed to the risk that changes in foreign currency exchange rates could adversely affect our financial condition, results of operations and cash flows.

From time to time, we enter into foreign currency forward exchange contracts with major financial institutions to manage currency exposures for transactions denominated in a currency other than an entity’s functional currency. As a result, the impact of foreign currency gains/losses recognized in earnings are partially offset by gains/losses on the related foreign currency forward exchange contracts in the same reporting period. Refer to Note 14, *Financial Instruments and Fair Value Measurements* of the Notes to Condensed Consolidated Financial Statements for further information.

Consequently, foreign currency exchange contracts would not subject us to material risk due to exchange rate movements, because gains and losses on these contracts offset gains and losses on the assets, liabilities or transactions being hedged.

Interest Rate Risk

Debt - Our interest rate risk relates primarily to our Term Loan. The interest rate is set at 300 basis points over SOFR, with a 0.50% SOFR floor. Based on our outstanding borrowings at March 31, 2023, a 100 basis points change in interest rates would have impacted interest expense on the Term Loan by $9.4 million on an annualized basis. To the extent we borrow on our revolving credit facility, we will be subject to risks related to changes in SOFR.

Item 4. Controls and Procedures.

An evaluation was carried out by Embecta’s management, with the participation of Embecta’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Embecta’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2023. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were, as of the end of the period covered by this report, effective and designed to ensure that material information relating to Embecta and its consolidated subsidiaries would be made known to them by others within these entities.

During the TSA period, we will continue to rely on certain material processes and internal control over financial reporting performed by BD. There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, Embecta’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

There have been no material changes to Embecta's risk factors from those described in "Risk Factors" included within the 2022 Form 10-K.

Item 6. Exhibits.

Exhibit Number	Exhibit Description
10.1*	Form of Employee and Director PSU and RSU Awards under the 2022 Employee and Director Equity Based Compensation Plan and Conditions of Awards (November 26, 2022)
31.1*	Certification of Chief Executive Officer, pursuant to SEC Rule 13a–14(a)
31.2*	Certification of Chief Financial Officer, pursuant to SEC Rule 13a–14(a)
32.1**	Certification of Chief Executive Officer, pursuant to Rule 13a–14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code
32.2**	Certification of Chief Financial Officer, pursuant to Rule 13a–14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code
101*	The following materials from this report, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

Dollar amounts are in millions except per share amounts or as otherwise specified.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMBECTA CORP.

By:	/s/ Devdatt Kurdikar
Name:	Devdatt Kurdikar
Title:	President and Chief Executive Officer (Principal Executive Officer)

Date: May 12, 2023

By:	/s/ Jacob Elguicze
Name:	Jacob Elguicze
Title:	Senior Vice President, Chief Financial Officer (Principal Financial Officer)

Date: May 12, 2023

By:	/s/ Brian Capone
Name:	Brian Capone
Title:	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)

Date: May 12, 2023

Exhibit 10.1

Embecta Corp. 2022 Employee and Director Equity-Based Compensation Plan Terms and Conditions of Awards

November 26, 2022

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT ARE REGISTERED UNDER THE SECURITIES ACT OF 1933

Embecta Corp.

Introduction

The following describes the terms and conditions of the awards granted under the Embecta Corp. Long-Term Incentive Program. All awards are subject to the terms of the Embecta Corp. 2022 Employee and Director Equity-Based Compensation Plan (referred to herein as the Plan), the terms of which are hereby incorporated by reference.

These terms and conditions should be read together with the Plan and the related Prospectus that accompany this document. The Prospectus includes important information, including the U.S. federal tax consequences of the awards. In the event of any inconsistency between these terms and conditions and the terms of the Plan, the terms of the Plan will control. Any capitalized term used in these terms and conditions that is not defined will have the same meaning as in the Plan.

Performance Units

1. Awards. A Performance Unit award represents the right to receive shares of Embecta common stock upon vesting. A Performance Unit award is denominated in terms of a target number of shares. The actual number of shares of Embecta common stock, if any, issuable under the award will be based on how Embecta performs against the performance targets described below during the Performance Period, as determined by the Committee.

2. Vesting Period. Except as provided below, Performance Units vest on the third anniversary of the grant date.

3. Performance Period. The performance period applicable to the Performance Units is the period beginning on October 1, 2022 and ending on September 30, 2025 (referred to as the Performance Period).

4. Performance Measures. The performance measures for the Performance Units are set forth on Exhibit A attached hereto.

5. Calculation of Shares Issuable. To determine the number of shares issuable under an award of Performance Units, a Preliminary Payout Factor will be calculated, based on the satisfaction of the performance measures and formula set forth on Exhibit A attached hereto.

6. No Dividend Equivalent Rights. No dividend equivalent rights will be granted with respect to a Performance Unit award.

7. Termination of Employment. The following provisions will apply in the event your employment with Embecta terminates.

    (a) *Voluntary Termination or Termination for Cause*. In the event you voluntarily terminate employment with Embecta (other than Retirement) or your employment with Embecta is terminated for Cause prior to completion of the three-year vesting period, you will forfeit the Performance Unit award.

(b) *Retirement or Involuntary Termination Without Cause*. In the event of your Retirement or involuntary termination without Cause prior to the completion of the three-year vesting period, you will vest in a pro rata amount of the shares that would otherwise become distributable under the award, based on the portion of the vesting period that you were employed by Embecta. In such event, the shares will not be distributed to you until after the Performance Period is completed and the satisfaction of the performance measures has been determined by the Committee.

(c) *Death or Disability*. Upon your death or termination of employment due to Disability prior to the completion of the three-year vesting period, the award will become vested with respect to a pro rata amount of the award's share target based on the portion of the vesting period that you were employed by Embecta. In certain cases of Disability, however, the distribution of the shares will be deferred until the completion of the vesting period.

8. Distribution of Shares. Any shares that are issuable under a Performance Unit award will be distributed as soon as practicable following vesting and, if applicable, the Committee's determination of the satisfaction of the performance measures.

Time-Vested Restricted Stock Units

1. Rights of Holder. Each Time-Vested Restricted Stock Unit (TVU) entitles you to receive one share of Embecta common stock upon the vesting of the TVU.

2. Vesting Period. Except as provided below, a TVU award will vest in three annual installments, beginning on the first anniversary of the grant date.

3. No Dividend Equivalent Rights. No dividend equivalent rights will be granted with respect to a TVU award.

4. Termination of Employment. The following provisions will apply in the event your employment with Embecta terminates.

(a) *Involuntary Termination Without Cause, Voluntary Termination or Termination for Cause*. In the event of your involuntary termination without cause, voluntarily termination of employment with Embecta (other than Retirement) or termination of employment for Cause, you will forfeit any unvested TVUs.

(b) *Retirement, Death or Disability*. In the event your employment terminates due to your Retirement, death or Disability, any unvested TVUs will become fully vested.

5. Distribution of Shares. Any shares that are issuable under a TVU award will be distributed as soon as practicable following vesting. However, if your employment terminates prior to a scheduled vesting date due to Retirement or Disability and you were

a specified employee at the end of the prior calendar year, the distribution of the award may be delayed for a period of six months following your separation from service.

Withholding Taxes

As authorized by the Plan, Embecta may withhold from any distribution of shares under any award a sufficient number of whole shares to provide for the payment of any taxes required to be withheld with respect to such distribution.

Administration of the Plan

Any shares that become distributable to you under an award will be deposited in an account maintained for you with Morgan Stanley. While Embecta will endeavor to cause such shares to be distributed to you as soon as practicable after they become issuable, Embecta will not be responsible for any delay in such distribution. Subject to certain exceptions, you will automatically be enrolled in dividend reinvestment with respect to these shares unless and until you notify Morgan Stanley that you wish to receive your dividends in cash. For more information regarding your account, including information regarding Morgan Stanley's fees and selling commissions, please consult the Morgan Stanley website at https://www.stockplanconnect.com.

Additional Terms

1. Neither the Plan nor any award granted to you under the Plan gives you any right to continued employment with Embecta or any Embecta affiliate, or shall interfere in any way with any right of Embecta or any Embecta affiliate to terminate your employment. Both the existence of the Plan, and the awards granted under the Plan, are entirely discretionary by Embecta, and you should not consider any award as any indication of future action by Embecta. Embecta retains the right to terminate the Plan or to preclude your future participation in the Plan at any time, in its sole discretion.

2. Any award issued under this Policy is subject to any applicable Embecta policy regarding the recovery of compensation, as may be adopted by the Board or Committee.

3. By accepting any Award issued under the Plan, you agree, understand, and acknowledge that you shall be bound by, and shall abide by the Restrictive Covenants, if any, set forth in any agreement with Embecta that applies to your Award under the Plan.

4. “Change in Control” shall have the meaning set forth in the Plan. If upon a Change in Control of Embecta, your employment is terminated involuntarily without cause (or you voluntarily terminate your employment for Good Reason) within two years of such Change in Control, all awards will become fully vested and exercisable, and any restrictions applicable to any award will automatically lapse. In such event, Performance Units will vest at the greater of target and actual performance (as determined by the Committee as soon as practicable following such termination). In certain cases, the distribution of shares to associates eligible for the Embecta Corp. Executive Severance and Change in Control Plan are subject to terms specified in that plan.

5. “Retirement” means a Separation of Service on or after attainment of your “Early Retirement Date” or “Normal Retirement Date”, as such terms are defined in the Embecta Corp 2022 Employee and Director Equity-Based Compensation Plan.

6. No fractional shares will be issued in connection with any award. Any fractional shares otherwise issuable under an award will be rounded up to the nearest whole share.

7. All awards issued under the Plan are nontransferable, other than by will or the laws of descent and distribution. Any shares issued pursuant to an award will only be transferable in accordance with applicable law and Embecta policies.

8. An award does not represent an equity interest in Embecta. You will not have any rights of a shareholder of Embecta with respect to any award until shares have been delivered to you pursuant to the award.

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT ARE REGISTERED UNDER THE SECURITIES ACT OF 1933

Exhibit A

November 26, 2022 Performance Share Unit Grant

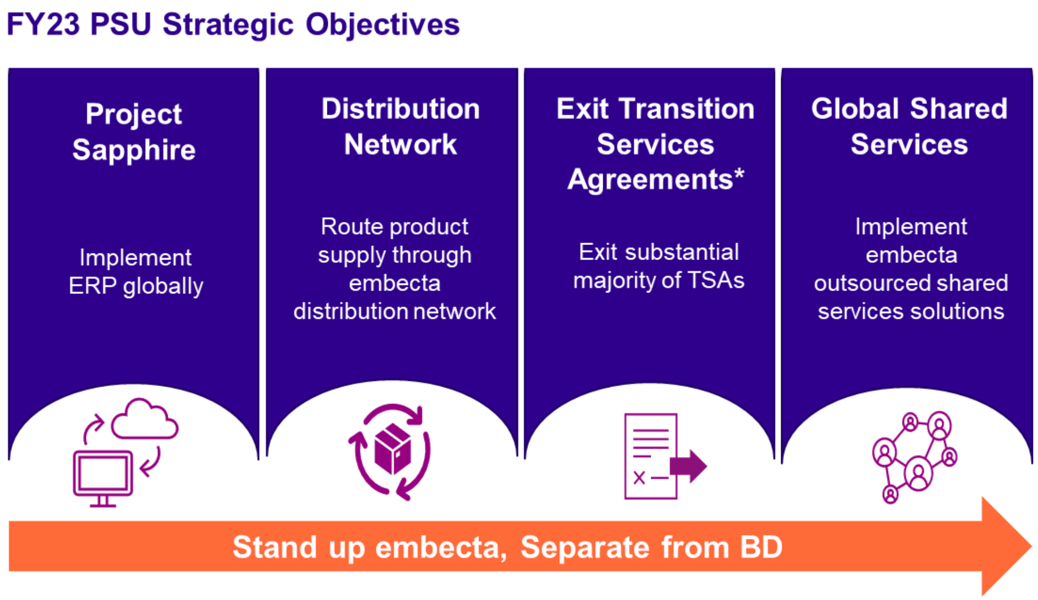
Performance and Payout Ranges

Weight	Metric		Below Threshold	Threshold	Target	Max	Slope <Target / >Target
45%	Adj Revenue Growth (%)	% of Target	<80%	80%	100%	120%	2.5 / 5.0
		Performance Factor	0%	50%	100%	200%	
30%	Adj Operating Profit ($)	% of Target	<75%	75%	100%	125%	2.0 / 4.0
		Performance Factor	0%	50%	100%	200%	
25%	Strategic Objectives	Assessment Scale	N/A[1]	Achieved Some	Achieved All	Exceeded	-
		Performance Factor	0%	50%	100%	200%	

- For the purposes of measuring performance vs target, actual results to be calculated using same FX rates used to develop targets.
- Financial metrics are Adj Revenue Growth % and Adj Operating Profit $ (on a constant currency basis).
- Payouts between threshold and target and target and max would be interpolated on a straight-line basis.
- If Adjusted EBITDA Margin % does not exceed 20% cumulative for the first two years of the performance period, none of the PSU awards subject to the Adjusted Revenue Growth % (FXN) and Adjusted Operating Profit $ metrics will vest regardless of the Adjusted Revenue Growth % (FXN) and Adjusted Operating Profit $ performance achieved.

Strategic Objective Targets

The four strategic objectives are 3-year goals with an equivalent transformational impact on embecta with equal weighting for each objective.



Notes

- *TSAs: Including facilities and Logistics Services Agreements, but not Contract Manufacturing Arrangements

Exhibit 31.1

CERTIFICATION

I, Devdatt Kurdikar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Embecta Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [language omitted in accordance with Exchange Act Rule 13a-14(a)] for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2023

/s/ Devdatt Kurdikar

Devdatt Kurdikar
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jacob Elguicze, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Embecta Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [language omitted in accordance with Exchange Act Rule 13a-14(a)] for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2023

/s/ Jacob Elguicze

Jacob Elguicze
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, in connection with the Quarterly Report on Form 10-Q of Embecta Corp. for the quarter ended March 31, 2023 as filed with the Securities and Exchange Commission (the “Report”).

I, Devdatt Kurdikar, the Chief Executive Officer of Embecta Corp., certify that, to the best of my knowledge:

1. such Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Embecta Corp.

Date: May 12, 2023

/s/ Devdatt Kurdikar

Devdatt Kurdikar

President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, in connection with the Quarterly Report on Form 10-Q of Embecta Corp. for the quarter ended March 31, 2023 as filed with the Securities and Exchange Commission (the “Report”).

I, Jacob Elguicze, the Chief Financial Officer of Embecta Corp., certify that, to the best of my knowledge:

1. such Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Embecta Corp.

Date: May 12, 2023

/s/ Jacob Elguicze

Jacob Elguicze
Chief Financial Officer