Q3 FY21 Cardinal Health, Inc. Earnings Conference Call

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Operator: Good day, and welcome to the Cardinal Health, Inc. Third Quarter Fiscal Year 2021 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Kevin Moran, Vice President of Investor Relations. Please go ahead.

Kevin Moran: Good morning, and welcome. Today, we will discuss Cardinal Health's third quarter fiscal 2021 results, along with an update to our FY '21 outlook. You can find today's press release and presentation on the IR section of our website at ir.cardinalhealth.com. Joining me today are Mike Kaufmann, Chief Executive Officer; and Jason Hollar, Chief Financial Officer.

During the call, we will be making forward-looking statements. The matters addressed in the statements are subject to the risks and uncertainties that could cause actual results to differ materially from those projected or implied. Please refer to our SEC filings and the forward-looking statement slide at the beginning of our presentation for a description of these risks and uncertainties. Please note, that during the discussion today, our comments will be on a non-GAAP basis unless they're specifically called out as GAAP. GAAP to non-GAAP reconciliations for all relevant periods can be found in the schedules attached to our press release.

During the Q&A portion of today's call, we please ask that you try and limit yourself to one question so that we can try and give everyone an opportunity.

With that, I'll now turn the call over to Mike.

Mike Kaufmann: Thanks, Kevin, and good morning, everyone. Before I turn it over to Jason, I will provide a few high-level thoughts. We remain focused on serving our customers and their patients and continue to advance our strategic priorities. With our resilient business model, we are navigating the effects of the pandemic on our businesses. In the quarter, we continued to see strong demand for lab and PPE products and volume recovery in our nuclear business. Medical elective procedure utilization experienced some volatility, and we saw ongoing COVID-19 related softness in generics volumes, which we now expect to extend into the next fiscal year. With this updated assumption, we have revised our Pharma segment outlook.

Despite the impacts of COVID-19, our business fundamentals are strong, demonstrated by the underlying growth we are seeing in both segments, and we continue to advance our strategic priorities including optimizing our supply chain and portfolio as you saw in our recently announced agreement to sell the Cordis business. As we navigate the pandemic, our customer focus remains central to our activities. We deeply appreciate that it is our responsibility to serve health care providers, their patients and those on the front lines.

Although the operating environment remains dynamic, it has reinforced our critical role in the supply chain, and it highlights opportunities for us to enhance our operation and evolve for future growth. I'll discuss some of the changes we are making later in my comments, but first I'll turn it over to Jason to provide additional details on our results and outlook.

Jason Hollar: Thanks, Mike. Before I dive into the current quarter, as a reminder we are now comparing against a prior year quarter that included a benefit from accelerated pharmaceutical sales and increased PPE demand due to the onset of COVID-19.

Now for our consolidated third quarter results, total company revenue of $39.3 billion was inline with the prior year. Consolidated gross margin for the period was $1.8 billion. SG&A decreased nearly 4% to $1.1 billion, demonstrating our enterprise-wide commitment to disciplined expense management.

The net result for the quarter was operating earnings of $689 million, a decrease of 4% due to the impact of COVID-19, primarily concentrated in the Pharma segment. Adjusted for COVID-19, we estimate operating earnings would have grown mid-single digits in the quarter.

Moving below the line, interest and other income and expense decreased significantly in the quarter, driven by multiple items, including an increase in the value of our deferred compensation plan investments, lower interest expense from prior period debt reduction and one-time investment gains.

As we previously mentioned, deferred compensation gains or losses reported in interest and other are fully offset in corporate SG&A and net neutral to our bottom line. Average diluted shares outstanding were $294 million. Of note, during the quarter, we repurchased $200 million of shares.

Third quarter EPS was $1.53, which reflects an effective tax rate of 31.2%, approximately 5.5 percentage points above the prior year, due to the timing of discrete items. This includes adjustments for the resolution of all open issues with the IRS for fiscal years 2008 to 2010 as well as certain transfer pricing matters for fiscal years 2011 to 2014, which also impacted reserves for later years.

Turning to cash and the balance sheet, we generated operating cash flow of $277 million, bringing our year-to-date operating cash flow to $1.8 billion. As a reminder, the day of the week in which the quarter ends affects point-in-time cash flows.

We ended the quarter with a cash balance of $3.5 billion and no outstanding borrowings under our credit facilities.

Now for the segment results, beginning with Pharma on slide five. Pharma segment revenue was flat $35.1 billion. This reflects sales growth from Pharmaceutical Distribution and Specialty Solutions customers, compared against the previously mentioned COVID-19-related sales acceleration in the prior year. Segment profit decreased 4% to $511 million, primarily due to COVID-19-related volume declines in our generics program, which was partially offset by a higher contribution for brand sales mix. Excluding the volume impacts, our generics program continued to see generally consistent market dynamics.

Additionally, we were encouraged to see our Nuclear business continue its recovery as we saw an improvement in volumes as we exited the quarter. In Specialty, we continue to see year-over-year growth and are excited about recent wins in our 3PL and Hub businesses. And the pharma team remains focused on diligent expense management, delivering strong cost savings in the quarter.

Now, transitioning to Medical on slide six. Medical segment revenue increased 3% to $4.2 billion, driven primarily by a net positive impact from COVID-19 on products and distribution. As in prior quarters, we saw higher selling prices and volumes in PPE as well as higher volumes in our lab business, partially offset by lower demand for surgical products resulting from reduced elective procedures. Segment profit decreased 2% to $174 million. During the quarter, cost savings, including global manufacturing efficiencies, were offset by a decline in products and distribution. Additionally, segment profit experienced a slight net negative impact due to COVID-19, driven by the sell-through of PPE safety stock in the prior year.

Now, let me step back to help frame our performance sequentially within the context of the previously-discussed factors. During the third quarter, demand for surgical products used in elective procedures averaged approximately 90% of pre-COVID-19 levels compared to the 95% average in the prior quarter. We saw choppiness especially early in the quarter, consistent with the evolution of the virus in various geographies, but as we exited the third quarter, elective volumes rebounded back to around 95%. Our lab business continued to experience the tailwind from increased demand for COVID-19 testing products, though as expected, not quite at the peak level seen last quarter.

Regarding PPE, we continue to see elevated volumes. In the quarter, we were successful in managing the significant cost increases that we've incurred to procure select PPE products. As we previously mentioned, many of our customers have chosen to leverage our supply assurance program to manage market uncertainties, and we continue to expect timing variability as we support our customers through this dynamic environment.

Next, on slide eight, I will review updates to our fiscal '21 outlook. Based on our performance to date and increased visibility for the balance of the fiscal year, we are narrowing our EPS guidance to $5.90 to $6.05, which continues to reflect 10% EPS growth at the mid-point. We are making the following changes to our corporate assumptions.

We now expect interest and other in the range of $145 million to $160 million, driven primarily by the deferred compensation favorability to date, which as a reminder, is offset above the line. We are narrowing our effective tax rate to 23.5% to 25%, reflecting the previously mentioned IRS resolutions. We expect diluted weighted average shares outstanding of approximately 294 million shares, which includes the repurchases completed during the quarter. Additionally, capital expenditures are now expected in the range of $400 million to $430 million.

Moving to the segment outlook on slide nine. We are updating our Pharma segment profit outlook to flat to down low single digits due to updated expectations for COVID-19. Based on our third quarter exit rates and what we saw in April, we still expect brand pharmaceutical volumes to be at or near pre-COVID-19 levels as we exit the fiscal year, but we now expect the volume recovery of certain therapeutic classes within generics to extend into the end of calendar year 2021.

As for the Medical segment, we continue to expect elective procedures to be at or near pre-COVID levels by the end of the fiscal year as well as segment profit growth in the low to mid-20s percentage range for fiscal '21.

With respect to the enterprise, we now expect COVID-19 to be a minimal net year-over-year driver. This guidance assumes a meaningful year-over-year COVID-19 headwind for the Pharma segment and a similar tailwind for the Medical segment.

Before I conclude, let me take a moment to provide an update on capital allocation. We continue to manage our portfolio and the balance sheet in a prudent manner consistent with our priorities while at the same time driving improved financial flexibility. We expect the sale of Cordis to close in the first quarter of our fiscal '22. This transaction, along with the previously announced tax receivable, is expected to generate nearly $2 billion of incremental proceeds in the first half of our fiscal '22. We expect to utilize these proceeds in a manner consistent with our stated capital allocation priorities: investing in the business, maintaining a strong balance sheet and returning cash to shareholders.

With respect to our first priority, investing in the business to enable our strong pipeline of organic growth opportunities, we continue to be excited by the projects in flight. We expect this to remain our highest focus for capital deployment and to continue to prioritize investment in these areas. Regarding the balance sheet, as previously communicated, we expect to repay $1.4 billion of debt on or before June 2022. Combined with prior repayments, this would represent a total debt reduction of nearly $5 billion over five years. While we will continue to evaluate additional opportunities to reduce debt, we anticipate our future repayments will be more modest as we approach our leverage target.

At the same time, we are committed to our dividend, which remains an important component of our capital allocation strategy. With that in mind, our Board recently approved a 1% dividend increase for fiscal '22. Outside of these three key priorities, we'll continue to evaluate tuck-in M&A within our strategic growth areas and opportunistic share repurchases. As I mentioned, our improving financial flexibility enabled the deployment of capital for share repurchases during the third quarter. With that, I'll turn it back over to Mike.

Mike Kaufmann: Thanks, Jason. As I mentioned earlier, the last year has highlighted certain opportunities for growth, transformation and innovation, and we're confident that our strategic direction will deliver both short- and long-term success.

In Pharma, we are excited about the mid- to long-term trajectory of the segment. Our business model is resilient. We're expecting strong long-term growth in key areas like specialty and nuclear, both of which are rebounding well from prior COVID-related impacts, and we are executing a robust pipeline of initiatives in PD to support our customers' evolving needs. We also continue to invest in new technology solutions that enhance the customer experience and improve patient care.

In Specialty, our recently launched Navista Tech Solutions uses artificial intelligence to identify and match cancer patients to clinical trials. These insights enable oncologists to improve outcomes and reduce cost as they transition to value-based care. We are also offering digital solutions in the connected care businesses that we recently branded collectively as Outcomes.

Each year, medication non-adherence costs the U.S. health care system over $500 billion and contributes to around 275,000 avoidable patient death. With Outcomes, we've created a digital ecosystem that unites pharmacists, payers and pharmaceutical companies to improve medication adherence, drive better outcomes and lower the cost of care. Outcomes currently supports a network of 23 million patients and more than 60,000 pharmacy sites nationwide and through continued growth, it's positioned to address the challenge of medication adherence.

As I look towards the future, I am excited about these innovations across the segment that combine our heritage and strengths with new technologies to create unique solutions that support our customers' ever-changing needs and create long-term value across the continuum of care.

Turning to Medical. We continue to enhance our operations to better serve our customers and their patients. For example, we continue to diversify the geographic concentration of our sourcing and invest in our self-manufacturing capabilities. This includes producing 15 million more safety needles and syringes, 20 million more isolation gowns and 150 million more surgical and procedure masks annually in our own North American facilities.

We are also supporting customers' inventory needs with stockpile as-a-service storage solution in partnering with the Strategic National Stockpile to store and distribute 80,000 pallets of critical PPE. We are incorporating robotics, automation and data analytics across our warehouse and distribution process. We are piloting various technologies and being thoughtful about how and where to scale them across our network.

We also continue to invest in key areas across the segment. For example, we are expanding our lab kitting services to support home collection for a broad array of lab tests from wellness to infectious disease, and we are coupling these services with capabilities in our Cardinal Health at-Home and OptiFreight businesses to maximize value and create differentiated solutions. By meeting the patient where they are, our lab kitting supports testing protocol adherence and detection of early onset disease, ultimately, lowering the cost of care.

And in Medical Services, our OptiFreight Logistics business is launching innovative and comprehensive health care logistics offerings like our same-day solutions, which is being scaled nationally to support the time-critical logistics of our customers. Together, these work streams across Medical position us to support our customers and drive long-term growth. Along with these work streams in each segment, we are also focused on enterprise-wide investments as well as advancing our capital allocation, portfolio optimization and ESG priorities.

We continue to invest in our delivery networks, cold chain capabilities and supply chain capacity and visibility. For example, we are partnering with FourKites, the largest predictive supply chain visibility platform to create a cognitive network spanning both pharma and medical that combines real-time supply chain visibility, machine learning and artificial intelligence. This network facilitates inventory flow and gives our customers end-to-end visibility to see products in transit, enabling us to make any necessary adjustments for our customers in real time so they can better serve their patients.

Regarding our capital allocation priorities, we have strong momentum. We remain committed to investing for future growth, maintaining a strong balance sheet and returning capital to shareholders. We are on track to exceed our savings targets and are continuing to use some of these savings to reinvest in the business.

We also remain focused on optimizing our portfolio. The pending sale of Cordis is progressing as expected and this divestiture enables us to simplify our operating model, further optimize our infrastructure and focus on our strategic growth areas where we are an advantaged owner. We are committed to our strategy as a global medical products and distribution leader and are focused on conducting business in markets and areas that align with our priorities.

Finally, we're also advancing our environmental, social and governance activities. We recently partnered with AEP to power our global headquarters and our National Logistics Center with clean energy. And we remain deeply committed to advancing diversity, equity and inclusion at every level to ensure all of our employees can bring 100% of themselves to work every day.

To close, I want to thank each of our employees whose commitment and ingenuity enable us to support our customers, their patients and our collective communities.

With that, I'll pause to open it up for questions.

Operator: Thank you. And if you would like to ask a question, please signal by pressing "star" "1" on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, it is "star" "1" if you would like to ask a question. And we'll pause just for a moment to allow everyone an opportunity to signal for questions.

And we'll go ahead and take our first question from Michael Cherny from Bank of America. Please go ahead.

Michael Cherny: Good morning and thanks for taking the question. I want to dive in a little bit to a comment you made about your expected growth on the EBIT ex-COVID. And I believe you said that would be mid-single digits. By my simple math, if you assume it's 5%, that gets you to roughly $66 million headwind versus the base line. So along those lines, can you break down a little bit within that area, what some of the biggest drivers were of the underperformance? And then in particular, with regards to that question and the generic volumes, any more color you can give us on some of the classes that you expect to continue to contribute to weakness over the next couple of quarters?

Jason Hollar: Sure. Yes, this is Jason. Let me start with your first question there. And your math is very accurate. That would represent right around $60 million of overall enterprise impact due to COVID. That is entirely in the pharma segment. Within Medical, there was a very insignificant impact in the quarter due to COVID. Now there were a lot of moving pieces, pluses and minuses, but netted out for no significant impact within the quarter.

As it relates to the pharma business, that driver is driven by the generic volumes that Mike referenced in his comments and I referenced in my comments. And I think maybe, Mike, you can provide a little bit more color behind the second part of that question.

Mike Kaufmann: Yes. Michael, thanks for the question. And as it relates to generics, remember, we have -- what we always talk about is our overall generics program and what we're seeing here in our overall generics program is that market dynamics are generally consistent. The only thing that has any real material impact on the program right now is generic volumes in certain therapeutic classes related to COVID-19. And it's probably not hard to think about if you've been following the IQVIA data and the other data. There are certain classes, particularly around acute scripts where we don't see those getting back to pre-COVID levels prior to our fiscal year-end.

We think as kids get back to school, more people are unmasking and all those types of things. We would expect the environment to generally return, but we don't now seeing that set of certain therapeutic classes within generics returning to more pre-COVID levels until the end of the calendar year. So overall, again, good market, consistent market dynamics in the generics program really just focused on those few classes related to COVID.

Jason Hollar: And I'd just like to add one more thing that $60 million. Remember, there was a pull ahead last year. So only about half of it is an adverse impact in the current year. The other half is related to the comparison to the prior year.

Michael Cherny: Got it. Thanks.

Operator: And we'll go ahead and move on to our next question from Charles Rhyee from Cowen. Please go ahead.

Charles Rhyee: Yes, thanks for taking the question. If I could follow up on that. When you say certain therapeutic classes related to COVID, so are we talking like cold, cough and flu like kind of flu and antibiotics, these kind of generic that might have been -- we're not seeing it because we had a weak flu season and you wouldn't expect that until maybe this coming flu season?

Mike Kaufmann: Yes, it's a great question, and I'll try to be helpful here. Yes, I would say flu season, as we know, has been light. But we've also said in the past, generally, if it were just flu season itself and just flu specific, like focused on just like a Tamiflu and some of those, it wouldn't be that big of a driver. It would be a negative for us, but it wouldn't be probably a material driver that we would call out.

But you said it well at the beginning, it's really the broader list of categories. So it's antibacterials, antibiotics, antivirals and pain meds, those generics and those categories are what we're seeing that are -- have just not returned to pre-COVID levels. And if you look at the IQVIA data in these categories, what we're seeing both in our own data per -- as you can imagine, a lot of conversations across the various classes of trade, it's very consistent in what we're seeing in terms of those volumes coming back.

Charles Rhyee: Thanks. And if I could just follow up real quick. Were these -- were we seeing these dynamics last quarter? And is it more that -- more of this was prescribed last year during COVID versus this year? And so that's what we -- or is it the depression that people haven't been going to the doctors and you don't see people still really going back to the doctor as much that's driving this?

Mike Kaufmann: Yes. It's hard to know for sure, but I'll give you a couple of thoughts. One is I think it is somewhat related to the physician office visits. Second of all, people are masking, social distancing, washing hands. You don't have the people playing like sports at the same level and all those things and having the injuries related to pain meds and all of those things. So I think it's a combination of a lot of those things adding up.

We've been seeing this in monitoring all the categories. And we've been saying since the beginning of the year, our assumption for guidance for both pharma and the overall company has been about getting back to at or near pre-COVID levels by June 30. And it's good to note that we're seeing that in brands. We're still expecting that. We're seeing that in the majority of generics, particularly the chronic generics. Those are coming back. But we were hoping to see more of a ramp in these other ones. We're just not seeing it. So we believe that it's important not only through March, but we also looked at our April data. So it drove us to make a decision to change our pharma guidance for this year.

Charles Rhyee: Great. Thank you.

Operator: We'll go ahead and move on to our next question from Ricky Goldwasser from Morgan Stanley. Please go ahead.

Ricky Goldwasser: Yes, hi. Good morning. So my question is still on generics, but on pricing. Clearly, it's a big debate for investors now. So Mike, what are you seeing in terms of generic pricing? Are you seeing accelerated deflation or any other trends? And also, if you can talk a little bit about the sell, buy-side spread?

Mike Kaufmann: Yes. Thanks, Ricky. Thanks for the question. As you know, it's really hard to get into individual components of the generics program because as we've said for a while now, just calling out sell-side deflation without talking about the buy-side cost improvements or launches or overall volumes, it's -- you're really not giving a complete story. And that's why we've really been focused on just discussing how we see our overall generics program performing. And we really are seeing market dynamics that are generally consistent with the only driver in the programs I just mentioned being COVID-related volumes in certain categories.

Ricky Goldwasser: Okay. And a follow-up question there. When we think about the sell side, I think we also need to think about sort of contract renewals that could change dynamics. Are there any contract renewals either for your book of business or across the industry that either renewed recently or that are upcoming that you can point us to, if there are any?

Mike Kaufmann: Yes. As far as contract renewals go, on the ones that we specifically talk about, our three largest ones, which we have disclosed, those still have a couple of years left on them before there's any renewals of those contracts. And everything else as it relates to contract renewals for this year is generally tracking as expected. It's always one of those headwinds as a year-over-year basis, but everything is tracking as we expected at the beginning of this year.

Ricky Goldwasser: Thank you.

Operator: And we'll move on to our next question from Robert Jones from Goldman Sachs. Please go ahead.

Robert Jones: Great, thanks for the questions. I guess maybe just to move over to Medical, Mike. Obviously, COVID has created a couple cross currents in that business as far as PPE and then the lack of utilization. Could you maybe just tell us kind of of where we are today as we think about those two broad buckets, the benefits that obviously you had and probably continue to see from PPE and testing versus kind of the core business coming back as utilization starts to become more normal?

Jason Hollar: Yes. This is Jason. Thanks for the question. I'll start. Within -- let's just kind of step back from a COVID perspective overall for the medical business. As I mentioned in my prior answer, overall, for the quarter, there was an insignificant impact in the quarter related to COVID, a lot of moving pieces, and I'll get into a couple of the key drivers. As a reminder, just like the pharma comment earlier, there was a prior year pull-forward for PPE volume that we sold out of inventory.

So we do have a slight negative year-over-year impact, which is related to the prior year tailwind that did not repeat in the current quarter. So the pieces within the quarter that we saw was ongoing elective volume headwinds. And what we did see in the quarter was a little bit of a deterioration from the prior quarter.

So we saw -- in my comments in the prepared remarks, we saw that the utilization went down from 95% in the second quarter to closer to 90% in the third. But as I highlighted, it did improve at the tail end and back to the 90%. And that was very consistent with what we saw with the surge in the virus. And so we feel better about how we exited that quarter.

And why we did not change our guidance for the medical business as it relates to this topic as well just that we expected to be at or near pre-COVID levels by the end of the year. We did continue to see strength in our lab business, although it was a little bit less than what we had in the prior quarter, but still strength. And that was an offset.

And then we continue to see strong volumes with PPE. But again, you're comparing against a strong volume quarter last year. And we did have some favorability still for the timing of the recognition of the pricing cost associated with the much higher cost with PPE. And those dynamics continue to be somewhat fluid, but we do definitely still see higher costs, higher prices for some of the PPE products, especially gloves, some moderation, but generally still elevated.

And anything else to add, Mike?

Mike Kaufmann: No, I think that sums it up well.

Robert Jones: Great. Thanks.

Operator: And we'll move on to our next question from Steven Valiquette from Barclays. Please go ahead.

Steven Valiquette: Hey, thanks. Good morning, guys. Usually, when there is some negative supply/demand imbalance on commoditized products, it can impact price. So with the softer generic volume on those categories that you mentioned, the antibacterials, antibiotics, et cetera, I guess for me, I would just visualize that both the buy side and the sell-side pricing would maybe come down simultaneously on those products in conjunction with the softer Rx demand. I'm just curious if that's consistent with what you saw. I just want to confirm that one way or the other. So not to beat this topic to death, but just wanted to get some confirmation around that.

Mike Kaufmann: Yes. That's a hard question to answer in the sense of the level of detail of looking at all of our -- both our buy side and sell side for all those individual categories. Nothing pops out to me related to that component of the driver. As I said, really, overall, the generics program market dynamics were generally consistent. It was more just a volume-related item on those categories. Nothing stands out in pricing, whether it be buy or sell that I would call out.

Steven Valiquette: Okay. Okay. All right, thanks.

Operator: And we'll move on to our next question from Lisa Gill from JPMorgan. Please go ahead.

Lisa Gill: Great. Thanks very much, and good morning, Mike and Jason. Just really want to try to understand the puts and takes as we think about COVID going into 2022 from a comp perspective. Can you just remind us what the benefit or what the headwind has been for medical and pharmacy as we think about trying to model that going into next year?

Mike Kaufmann: Sure. Yes. I can start and then turn it over to Jason. As you know, our practice is that we're not -- we don't provide formal guidance on '22 until August, but we'll try to give you a little bit of color to be helpful. I'll start with the fact that we still feel really good about our growth areas. So when we think about specialty, at-home, nuclear, medical services and Outcomes, we feel really good about all of these businesses.

We think they all have strong industry trends, strong outlooks, complementary capabilities to our businesses and our -- we continue to adapt their offerings to focus on our customers' needs. So I would say we would still expect all of those growth areas to be positive drivers for next year. And then let me have Jason give you a little bit of color on maybe a few of the other dynamics.

Jason Hollar: Sure. Thanks, Mike. Yes. And to enable -- let me just start with, to enable those types of growth areas, we are making investments in our business, and we'll continue to make investments in those businesses. One thing to highlight is, as we've invested more capital over the last couple or several years, that will ultimately result in increased depreciation that we would expect to flow through.

But of course, we would also expect the benefits of the programs, but we'll have some varying pieces there going forward. Beyond that element, again, investing our business being our highest capital deployment priority, we have the other areas like debt reduction and returning capital to shareholders, some of which will be through share repurchases that should have a tailwind associated with it also. Getting into your question around COVID. That is, of course, where we'll see a lot of movement from a year-over-year perspective.

As a reminder, we highlighted in fiscal '20 that we had roughly $100 million headwind associated with COVID, which was more than all in the fourth quarter. Now this year, and then just in today's script, today's prepared remarks, we commented that it was a relatively consistent or flat impact year-over-year from a COVID perspective now in this update. So that implies roughly $100 million included in fiscal '21.

Now the key question is exactly how does that roll off down to '22. And I would first go back and highlight that a number of the areas we anticipate getting at or near pre-COVID levels by the end of the fiscal year, like the medical elective volumes, nuclear to a similar extent. The brand volumes we've highlighted are also similar. It's those very specific therapeutic drugs within generics will be deferred then until more like the middle of our fiscal '22. So there will be some offset there that will continue on into the next year.

Now there's going to be a lot of other moving pieces with COVID. We would expect there still to be some elevated demand for areas like PPE and the lab business. But we also have the timing elements associated with PPE pricing costs that we continue to track very closely, and it will really be a function of those pricing and cost dynamics as we go forward.

So when I think about the two different segments, what that really comes down to is that certainly, the greatest impact -- we have a headwind built into this guidance and that $100 million associated with the pharma business, and we have now more of a tailwind for the medical business.

And so we highlighted that from a year-over-year perspective as well in the prepared remarks that it's a meaningful impact in both this year. And so they will behave then differently next year. And then, of course, the other key piece to think about the puts and takes is the announcement of the sale of Cordis. So we do anticipate that being in the first quarter, hopefully, earlier in the first quarter. And we disclosed prior that, that business carries about a $60 million to $70 million annualized earnings rate. And so as we get more specific to the exact timing and other details around that, we will provide more color as to what the impact will be for our fiscal '22.

Lisa Gill: Great. Very helpful. Thank you.

Operator: And we'll move on to our next question from Eric Percher from Nephron Research. Please go ahead.

Eric Percher: Thank you. A question on the specialty business. It sounds like you're expecting that trend to normale in that business. I want to ask how the profitability levels have been running in that business, whether you're seeing benefits from biosimilars? And of late, there's been a call out of maybe some of the oral solid products that are more specialty generic and biosimilars. Are you participating in economics on those?

Mike Kaufmann: Yes. I would say there's nothing I would call out that's dramatically changing in our specialty, particularly as it relates to the sales of drugs to the -- into the physician office space that we're seeing generally consistent profitability. We are participating in the various different opportunities in there, whether it be actual generics that are in specialty, the biosimilars. We're participating in all of those activities. We're seeing increased volumes on certain key drugs.

And as you know, we've been saying for a while, we have seen oncology come back more quickly than the other areas, but we do expect all the classes of the trade at this point in time within specialty to be at or near pre-COVID levels by the end of our fiscal year. And then as it goes to our upstream services businesses like our 3PL, our hub and other businesses, those businesses continue to perform well and compete very effectively in the marketplace.

Kevin Moran: Next question, please.

Operator: And we'll move on to our next question from Jailendra Singh from Credit Suisse. Please go ahead.

Jailendra Singh: Yes, thanks, and good morning. I was wondering if you could double click into manufacturing efficiencies you highlighted in the Medical segment. Can you provide some details there? And are any of those efficiencies in the Cordis business that will be rolling off versus your core business?

Mike Kaufmann: Yes. I mean we've clearly had manufacturing efficiencies in our Cordis business, like all of our manufacturing businesses. The team there has just done an excellent job across all of our 30 or more global manufacturing plants at driving efficiencies. There's nothing in particular about the Cordis efficiencies that would change the estimate that Jason just gave you that, that business, when it rolls off, hopefully, in our -- early in our first quarter of next year would have about a $60 million or $70 million earnings associated with it.

Jailendra Singh: Okay. Thank you.

Operator: We'll move on to our next question from George Hill from Deutsche Bank. Please go ahead.

George Hill: Good morning, guys, and thanks for taking the question. Jason, you kind of alluded to this already, but have you been able to fully capture the pricing gap that occurred earlier this year as it related to PPE and supplies in the med business? And I guess also, could you update us on the supply side as we think about your things like access to gloves and gowns to provide for your customers? And then I'd tack on at the end to relate to Jailendra's question is, are there any dissynergies from the Cordis divestiture?

Jason Hollar: Sure. Yes. So yes, we have captured the cost increases. The Supply Assurance Program that we've referenced was created to do exactly that, to provide certainty to supply for our customers, but working with them closely to ensure that we're able to cover those costs. What I have referenced, I think, fairly consistently the last couple of quarters is that the timing of when that cost is recognized versus when the price is recognized can be uncertain, can be relatively volatile and that's what we continue to look at and to manage. But the overall economics of the program are as expected and intended, which is to cover that cost.

And then as it relates to -- I think your question was about access to the products. It continues to improve, but especially on the gloves side, it's still constrained, but improving day by day. There's clearly capacity that's being worked in to provide more supply. But especially in gloves, it just takes -- it's a longer process to get that supply to market.

As it relates to Cordis and any dissynergies, I wouldn't call it dissynergies. There are -- certainly, when we look at just our overall cost structure and stranded costs, there's things of that nature. But when we estimate the $60 million to $70 million, that's the all-in impact that's associated with that.

We would not anticipate that there are other issues. In fact, I'd go the opposite way. Part of what we've highlighted before about this transaction is that it allows us to focus and to simplify our operating structure around the remaining businesses. And so we think it will create some opportunities for additional synergies more of -- than more of dissynergies by being more focused on the cost efficiencies of what remains.

Mike Kaufmann: The only thing I would add to that, too, to be helpful is we have really invested in our overall own global manufacturing capabilities. And if you remember in my script, for instance, we're a large manufacturer of syringes. We've increased our capacity there by 15 million units on an annual basis. On gowns, we've added capacity to add 20 million self-manufactured gowns a year. And on masks were at 150 million more masks a year annually all in our own facilities, which are all either U.S. or near U.S., they're all North American types of facilities.

So we've done, I think, a very excellent job in the medical segment of increasing our capacity and -- which -- what really, I think, strengthens our supply chain. And we've also invested in our sourcing capabilities and broadened our relationships with suppliers. So we feel really good about some of the changes in developments we've made in our overall supply chain in Medical.

George Hill: Thank you.

Operator: And our last question comes from Kevin Caliendo from UBS. Please go ahead.

Kevin Caliendo: Thanks. Thanks for taking -- thanks for taking my question. I just want to go back to the sort of the headwinds and tailwinds for fiscal '22. If I'm sort of netting everything out, it sounds like COVID impact for Medical is going to be incremental, like you considered an incremental negative. Did I think about that right? Can we just go through that one more time?

Jason Hollar: Yes. For the medical business, I would anticipate that the impact of COVID in the fiscal year, so not a year-over-year comparison, but just what's the impact of COVID will be a tailwind for this year. So the question is, well, what are those same types of dynamics next year. Do we see more permanent longer-lasting PPE volumes, lab volumes. I've referenced the timing associated with the price and cost of PPE that could carry over into next year.

But if it goes all -- if everything goes back to what a pre-COVID world looked like, it would imply a headwind. Of course, we expect there to be a more significant tailwind opportunity on the pharma side, but specifically to the med business, that's the right way to look at it.

And just one thing to add additional color to where I'm sure you're trying to go with the question, is that when we think about our full year guidance of the low to mid-20s percentage growth, obviously, we have within that some of that benefit I'm talking about. And just to be real clear, even if you back that out, we do have growth in the medical business, but it is a key part of the growth that we're seeing this year as well.

Kevin Caliendo: Okay. Thank you.

Operator: And with that, that does conclude our question-and-answer session. At this time, I would like to turn the call over to Mike Kaufmann for closing remarks.

Mike Kaufmann: Yes. I just want to thank everyone for joining us today. And we and the entire Cardinal Health team hope you and your family stay safe and well, and we look forward to speaking with you again soon.

Operator: And with that, that does conclude today's call. Thank you for your participation. You may now disconnect.