Q1 FY21 Cardinal Health, Inc. Earnings Conference Call

November 5th, 2020 8:30AM Eastern

Kevin Moran: Good morning. This is Kevin Moran, Vice President of Investor Relations. Today we will discuss Cardinal Health's first quarter fiscal 2021 results along with an update to our outlook.

You can find today's press release and presentation on the IR section of our website at ir.cardinalhealth.com. Joining me today is 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 these 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 are 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 will now turn the call over to Mike.

Mike Kaufmann: Thanks, Kevin, and good morning to everyone joining us. I'll begin with a few high level thoughts on our first quarter then have Jason review our results and updated fiscal '21 outlook. I'll close with an update on strategic actions we are taking to carry our positive momentum forward.

Our strong first quarter results were due to great execution on key strategic priorities and additional aggressive cost controls in response to the uncertainties from the pandemic.

Regarding COVID-19, we saw continued utilization improvement in the quarter, particularly in elective procedures. These dynamics, along with the disciplined execution I mentioned, contributed to better than expected performance in our medical segment. We saw significant year-over-year growth.

And in pharma we continue to be encouraged by the resilience of our business, which grew in the first quarter, despite volume softness related to the pandemic.

As a result of the strong start to our fiscal year, we have increased confidence in the full year and we are raising both our EPS guidance range and our medical segment outlook. Overall we remain focused on serving our customers and their patients as we optimize our core businesses and invest for growth to fulfill our critical role in healthcare now and into the future.

With that, I'll now turn it over to Jason.

Jason Hollar: Thanks, Mike, and good morning everyone. I will review our first quarter performance and updated expectations for fiscal '21.

Beginning with consolidated company results, our first quarter EPS came in at $1.51 growing 19% versus the prior year and exceeding our expectations.

Total first quarter revenue increased 5% to $39.1 billion, driven primarily by sales growth from existing customers. Total gross margin grew 2% to $1.7 billion.

Despite higher revenue, SG&A was flat at $1.1 billion, demonstrating our enterprise-wide commitment to disciplined expense management.

Total operating earnings grew 7% to $618 million, driven primarily by strong medical segment performance.

Interest and other expense decreased 52% versus the prior year to $38 million, driven by lower interest expense as a result of our ongoing commitment to reduce debt as well as multiple other favorable items, such as FX and deferred compensation.

Our effective tax rate for the quarter was 23%, which includes a few small favorable discrete items. Although discrete adjustments may cause our quarterly tax rate to deviate from our guidance range of 24% to 26%, at this time we still believe this range is appropriate for the full year.

Average diluted shares outstanding were 295 million, about 2 million fewer shares than the prior year, reflecting the repurchases completed last year.

We generated operating cash flow of $270 million during the quarter. As a reminder, the day of week in which the quarter ends, affects point in time cash flows.

We ended the first quarter with a cash balance of $2.7 billion and no outstanding borrowings under our credit facilities.

Now turning to the segments, beginning with medical on Slide 6, medical revenue increased 1% in the first quarter to $4 billion, driven by sales growth in our at-Home Solutions business.

Segment profit increased 36% to $230 million, driven by cost savings, including global manufacturing efficiencies.

The following factors contributed to first quarter medical performance above our expectations. First, while elective procedure volumes were still below prior year levels, they ramped-up more quickly than expected.

Given our portfolio's general orientation around the OR, this volume improvement resulted in increased demand for many of our higher margin offerings, including our custom surgical kits and patient recovery products.

Second, our lab business, which has grown consistently over the past few years to product portfolio expansion and favorable market trends, experienced a tailwind from increased demand for COVID-19 testing products.

And finally, as Mike mentioned, our team delivered strong expense management in response to uncertainties related to COVID-19. These measures position us to operate and invest in the business for continued growth.

As we have previously discussed, we continue to incur significantly higher procurement costs for certain PPE product categories due to global supply challenges during the pandemic. To help mitigate these cost increases, we implemented price increases on select PPE products with the goal of maintaining neutral margin dollars.

PPE cost increases and corresponding mitigation efforts did not have a material net impact on our results for the quarter. I will discuss the potential effects of these dynamics in the segment for the full year when I share updated assumptions.

Now transitioning to the pharma segment on Slide 5, revenue increased 5% to $35.1 billion, driven by sales growth from pharmaceutical distribution and specialty solutions customers.

Despite expected COVID-19 related volume declines, segment profit increased 1% to $402 million, driven by a higher contribution from brand sales mix. Additionally, the pharma team remained focused on diligent expense management.

During the quarter we saw improving pharmaceutical demand, enabling us to finish generally in line with our COVID-19 expectations for this point in the fiscal year.

Our specialty solutions business also demonstrated improvement in the quarter, resulting in strong overall growth.

Our nuclear business, as expected, was down year-over-year, but experienced significant volume recovery in the quarter. We've mentioned nuclear has been particularly affected by the pandemic due to the mix of higher margin products and the business' higher fixed cost structures.

We continue to believe we are well positioned to capture long-term value in the radiopharmaceutical industry. Finally we're encouraged to see another quarter of consistent market dynamics within our generics program which, excluding the impact of COVID-19, was a net tailwind in the quarter.

Next, on Slide 8, I will move to our updated fiscal '21 outlook. As a result of our strong first quarter performance, we are raising our earnings guidance range to $5.65 to $5.95 per share, which at the midpoint represents 6% EPS growth from the prior year. We are reaffirming the guidance ranges for each of our other corporate assumptions.

This increased EPS guidance is driven by an improved outlook for our medical segment, depicted on Slide 9. Because of our strong execution on cost savings, including increased global manufacturing efficiencies and the lower impact of COVID-19 related volume declines, we now expect low double digit profit growth in the segment.

With one quarter of additional insight, we are updating our segment revenue growth to mid to high single digits for the full year. To be clear, the increase in our revenue guidance relates to better clarity on the impact of PPE pricing.

And we expect this increased revenue to be more than offset by the higher cost of procuring PPE products, which will adversely impact our margin rate. Mike will provide more color on our PPE supply assurance efforts for our customers later in his remarks.

As it relates to the pharma segment, we are reiterating our assumptions of mid-single digit revenue growth and low single digit profit growth.

With respect to our enterprise COVID-19 assumptions, we are not assuming that the virus triggers another wave of widespread reductions in elective procedures or physician office visits. However we are closely monitoring virus trends, patient utilization and the health of the global economy, including unemployment trends, all of which currently have varying degrees of uncertainty.

At this time we anticipate the total net impact of COVID-19 in the second quarter to be relatively consistent to what we experienced in the first quarter. This is primarily due to the improved utilization environment, offset by cost absorption on our self-manufactured products and the previously mentioned higher costs of procuring PPE.

We continue to expect a lower total COVID-19 impact in the second half of the year, and we assume utilization will exit the year at or near pre-pandemic levels. Furthermore we continue to explore opportunities to mitigate these impacts on our business through cost controls and more permanent improvements to our operational cost structure.

Now I want to mention a notable item included in our GAAP results. Recall that in the first quarter of fiscal '20, we accrued $5.6 billion pre-tax related to an agreement in principle amongst a leadership group of State Attorney's general to resolve pending and future opioid litigation claims by states, cities and counties.

While the definitive terms for settlement continue to be negotiated with better visibility into a potential outcome, we accrued an additional $1 billion pre-tax in the quarter. The estimated total cash component for Cardinal Health would be $6.6 billion, with the majority currently expected to be paid over a period of 18 years.

Considering this accrual update in the dynamic global environment, let me remind you of our capital allocation approach, which we are prioritizing in the following manner.

First, we are investing in key areas of our business to enable our strong pipeline of organic growth opportunities. Second, we are focused on taking appropriate action to maintain our investment grade balance sheet. And third, we are committed to returning cash to shareholders, primarily through our dividend. We believe this prioritization of capital best positions us to both maintain flexibility and to generate significant value over the long term.

I'll now turn it back over to Mike.

Mike Kaufmann: Thanks, Jason. We aspire to be health care's most trusted partner by delivering products and solutions that improve the lives of people every day.

To achieve this mission, we leverage our scale and expertise to excel in our traditional spaces and expand into adjacencies. I'll share how we are doing both, while simultaneously addressing the challenges of the ongoing pandemic through targeted investments in pursuit of this mission.

First, we are enhancing our IT infrastructure in key areas to increase capabilities, simplify processes and improve the customer experience. These multiyear initiatives will generate significant benefits in the future, some of which we are beginning to realize.

For example in our pharmaceutical distribution business, our teams are preparing to deploy the next iteration of our technology platform enhancements, creating greater operational efficiencies and better data visibility. Also, initiatives in our corporate functions will harness the potential of AI and machine learning to enable stronger insights, both for our business and for our customers.

In medical our work to streamline our global supply chain network and processes continues, and we are seeing significant efficiencies.

We are also strategically investing to expand in high growth areas to support new technologies and therapies and to drive innovative care delivery. For example in specialty, we are developing partnerships and making thoughtful investments that combine the technology, scale and expertise of our business with new innovations in cell and gene therapy, biosimilars and value-based care models.

Our 3PL continues its strong growth with the recent launches in traditional markets, as well as emerging markets. Also we recently made an investment in Vineti, the first commercial cloud-based platform to integrate logistics, manufacturing and clinical data for cell and gene therapies.

In our at-Home Solutions business, as trends and technologies accelerate in the increasingly virtual world of the pandemic, we are focused on optimizing our product portfolio and enhancing the customer experience.

We are deepening partnerships with patients, payers and manufacturers to meet their evolving needs and expand our capabilities. We are also investing in our operating systems and digital commercialization capabilities with a pipeline of AI initiatives to lower our cost to serve and provide fully integrated medical and pharmacy billing solutions for our customers.

These work streams will make us uniquely positioned to lead in the developing, interconnected health-at-home space. Across the company, we are working diligently to meet our customers' current needs while also looking ahead to what they might need in the future. While doing all of this, we remain highly focused on our internal and external responses to the pandemic.

In medical we implemented multiple measures to address ongoing supply challenges for PPE product categories. For example, we established our supply assurance program to provide consistent, long-range supply for our products, including exam gloves, gowns and masks.

The program has been positively received, and this collaboration with our customers will enable us to collectively navigate supply volatility and deliver critical products for patient care.

In pharma we are constantly monitoring evolving treatment patterns, collaborating with the team at Red Oak to ensure supply and focusing on delivering the industry's highest service levels. And across the company, we continue to aggressively control our expenses to ensure we deliver on all of our commitments and create long-term value.

As I said earlier, we aspire to be health care's most trusted partner and create the greatest value for our customers, shareholders, communities and employees. I want to thank our employees around the globe for their integrity, adaptability and persistent dedication to this mission.

We are confronting today's challenges and developing tomorrow's solutions with the tenacity, agility and innovation that makes Cardinal Health essential to care.

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

Operator: Operator Instructions

Mike Cherny: Good morning. Congratulations on the good quarter. Yes, I guess, I don't know if this is a question for Mike or Jason, but I just wanted to dive in a little bit to the medical performance in the quarter and the strength that you saw, especially against the backdrop with some of the PPE dynamics.

If you can even parse it a little further, was there anything that was more short-term in nature in terms of what you saw in the quarter? And as you think about the risk weighting of the various different tailwinds, headwinds you have tied to the guidance increase, where do you think are the most sources for potential upside-downside or what I guess maybe on the downside are the most concerning or the most risky in terms of how to achieve the various levels of that profit expectation?

Mike Kaufmann: Yes, thanks for the question. I'll start and then I'll turn it over to Jason. First of all, I would just emphasize, we are really excited about the efforts we're seeing in our medical segment.

The team did a really good job this quarter of staying not only focused on driving expenses for the quarter in relation to the uncertainty of the pandemic but also, continuing to get after the longer-term expense initiatives we had and working on a lot of the other strategic initiatives we talked about, like our commercial work.

So a lot of really good progress with Steve and his team. But I am going to turn it over to Jason, so he can give you a little bit more of some of the color you would like to hear.

Jason Hollar: Sure. Thanks, Mike. Yes, first of all, we should start with the COVID impacts. And the key point is that within the quarter, there was a relatively minimal impact on the business on a net basis.

Of course, there's a lot going on within that. So there is still a headwind year-over-year as it relates to the lower elective volume. However, that was offset in part by some of those COVID specific costs that Mike had referenced, but also increased volume in our lab testing business. So all those items came together in a way that effectively offset one another.

Another key point that you referenced, and I didn't reference here, is PPE. For the quarter, we saw that the increased costs that we did recognize were mitigated through price increases that also happened in the quarter.

So for the first quarter that all kind of offset. I'll come back to that point in a second but for the rest of the performance within medical, for the segment, for the quarter, there were also additional cost savings.

As Mike indicated, this was led by the ongoing multi-year effort into building healthier future initiative that was really getting after global manufacturing and supply chain transformation. So that was very much consistent with our expectations.

But as Mike highlighted, there were also some additional aggressive cost controls that we put in place due to the uncertainties in the quarter. And we saw some really great flow through of those actions in terms of delaying some open positions and managing third party spend.

That may be a bit more temporary in nature and is something that we'll continue to work to see if we can make more permanent. So we have a good balance included within our guidance for all those items.

Going back to PPE as it relates to the rest of the year, that is the one area that we do anticipate having higher net costs in the second quarter, versus the first quarter and that's just due to the timing.

We have procured these higher cost PPE inventory items, but it's in transit. A lot of that volume is in transit. So we know that we will be incurring those costs. A lot of it's already on our balance sheet and our inventory.

And we will recognize that higher cost in the second and perhaps third and fourth quarter as we sell those items. And, of course, we're also raising prices, consistent with that. However there are some timing elements that don't line up perfectly between the two.

So that's the one element from Q1 to Q2 for the medical business that we would see a bit of additional headwind.

Now on the flipside, we would expect in the pharma business, there is a little bit of lesser of a headwind from Q1 to Q2 as that environment is a little bit more normalized. But I would not call that significant.

Michael Cherny: Great. Thanks.

Operator: We'll now take a question from Steven Valiquette with Barclays.

Steven Valiquette: Yes. Hey, I just wanted to mention sort of on the open litigation and the extra charge you took. You know, one of your peers also took a charge this morning and they made a point in the press release that included not only the states but also the counties and municipalities and other government entities as well.

So I'm just curious with your total, you know, charge that you have now, do you - what percent of your total liability do you think that would cover? Is it pretty comprehensive or will there still be other cases? Just some more color around that. Thanks.

Mike Kaufmann: Sure. Thanks Steve. I'll give you a little bit of color here. Our view has always been that it is a global settlement that takes into account all of the states as well as the political subdivisions in the state. So that accrual represents our assumption around that.

What's not in there, is any private party plaintiff cases. You know individual or some other non-political subdivision or state. Those are still out there. We intend to defend ourselves vigorously against those. But that accrual takes into account all, both the states and the political subdivisions.

Steven Valiquette: Okay. And also a few questions just from investors on the run rate of medical profits on a quarterly basis. Obviously this fiscal first quarter was very strong. Any additional thoughts on, you know, kind of quarterly run rates from here might be helpful as well. Thanks.

Jason Hollar: Yes, I don't think there is too much more to add than what I just went through where again from a Q1 to Q2 perspective, we definitely anticipate there being a greater headwind related to the PPE recognition of that cost. But for the other elements, you know, we continue to see relatively consistent types of dynamics there.

And then as I also mentioned, and Mike touched on as well, you know, as it relates to the underlying cost controls, we feel really good about our performance in the first quarter.

Some of those were absolutely permanent and a part of those structural cost reductions that we've been putting into place for the last several years. But other elements were very specific to the pandemic and we're really tightly managing our costs and then perhaps in a little bit of a shorter term.

We'll continue to evaluate those initiatives and see if we can make them more permanent by changing the way in which we do on certain things, which is very consistent with our building healthier future initiatives elsewhere. But we need a little bit more time to work that through.

Mike Kaufmann: The only other thing I would add is that we did exit the quarter roughly mid-single digits down on electives and so that was better than our expectations. And as Jason said, we expect to finish the year near pre-COVID levels.

So a lot of the upward trajectory already has occurred in the first quarter. So you wouldn't see that sequential. It is not as big as maybe it was historically when we were first thinking about this. So I think that's one component also to keep in mind. Next question, please.

Operator: And our next question will come from Adam Heussner from Credit Suisse.

Adam Heussner: Hi. In terms of the cost savings which were partially contributing to the EPS raise, just curious of how much of the improvement there had already been planned versus if you expedited those cost initiatives. Thanks.

Jason Hollar: Yes. So as I think about the - let's just step back and think about the raise for the full year guidance. That is entirely due to the medical performance and you saw that we raised the outlook there as well.

And so within that, we had two key components. First of all COVID is better, less of a headwind than what we had anticipated although still a headwind for the year. And that is the most meaningful impact.

But also significant within that, not insignificant, is the underlying cost reductions that we've been referencing. So, you know, both go into it. But I would say COVID is a little bit more of a benefit there versus the cost savings but still very meaningful.

Mike Kaufmann: And then I would just add, we've also seen really good performance of our lab business in the first quarter that we would expect to continue through the rest of the year. And so some of our other components of our business performed very strong too.

Jason Hollar: And one other item, maybe just to make sure we reference this, is our tax rate for the first quarter was a couple hundred basis points lower than the midpoint and lower than the range that we have.

That is just the timing of some discrete items that were all anticipated when we established our guidance range. So we'll continue to have some fluctuations there. But that does look like, you know, an impact in the first quarter that we would expect to revert more to the mean by the time we get to the end of the year.

Adam Heussner: Thanks.

Operator: Now we'll move to Adam Noble with UBS.

Adam Noble: Great, thanks for the question. I just wanted to go back to the lab business. Just curious if you guys can kind of size how big a business that is within the overall medical segment? Then just curious, is that mainly the hospital channel or do you have a significant presence with outpatient labs and other areas of the lab testing universe?

Mike Kaufmann: Yes. Our lab business has been a business that we've had for a really long time. It has been a consistent grower for us, both on the top and bottom line for a lot of years.

Its main customers are basically the outpatient labs and other hospital lab type of businesses. So those are who we are supplying. We have a very robust product line, some of which is our self-manufactured or sourced items as well as we work with all of the national brand players.

And so while it has always been a business that has performed well and grown nicely for us, with the increase in COVID testing, that business has had some, you know, additional growth this year.

They've also been a real leader in getting reagents out, testing equipment, working with folks on helping on the swab supply early on. So it's a business we're really proud of the team there and continue to feel good about their growth this year.

And we actually are evaluating how much of that might continue on going forward as we continue to look at that business going forward. But really strong performance by the lab business.

Adam Noble: Got you. That's super helpful. With regards to the medical business overall, I'm just curious if you could talk about the recovery and utilization there between the US as well as some of your international footprints.

And, you know, your comments around not expecting to see a real drop in elective procedures, probably most likely in the US in COVID, I'm just curious, given some of the lockdowns that have recently been implemented in Europe, whether there is any heightened concern there?

Mike Kaufmann: Yes, it's a great question. I think the first thing I think we all need to keep in mind is, it will probably be very choppy over the next 6 to 12 months. It's hard to know how long, but I do think it will be choppy.

We are even seeing small shutdowns here and there in US and obviously potentially in Europe in different spots. The majority of our product is going through our US channels.

And as I said as it relates to electives, we exited Q1 down mid-single digits and expect to get at or near pre-COVID levels by the end of the year. And while that's not a huge sequential growth, we do expect it to be somewhat choppy and it's hard to exactly predict on a quarterly basis.

But we feel good about our current guidance as it relates - again assuming there is no major shutdown. If we had everybody shutting down again like in our Q4 that would create some different types of concerns. But as long as we just see spotty types of - lumpy type of shutdowns, we would expect that - you know, we can manage through that.

As far as in Europe, again, that is just product sales. We don't do distribution over there. And our current guidance does assume against some choppiness over there and we're not looking for major shutdowns over there either.

Adam Noble: Great. Thanks for the questions.

Mike Kaufmann: Thanks.

Operator: We will now take a question from Lisa Gill with JPMorgan.

Lisa Gill: Thanks very much. Good morning, Mike and Jason. Just as we think about the pharmaceutical distribution business on a go forward basis, Mike, can you talk about maybe what you saw in the quarter around new prescription volume trends and expectations?

We understand that people are starting to go back to the physician office but just looking at IQVIA data, it doesn't look like trends for new prescriptions are back to what they were historically. So if you can talk about what trends you're seeing there.

And then secondly, when we think about your guidance and think about your pharmaceutical distribution component, can you talk about your expectation for biosimilars in your numbers? Do you have an expectation that that's going to be a positive for you for this fiscal year? And how do we think about potential margin differentials?

Mike Kaufmann: Yes, I'll just start with the biosimilars first and move on to the Rx trends. We do continue to see biosimilars gain momentum with increased adoptions across multiple sites of care. And we've been successful working with the suppliers and our customers in this area.

We think we're really well positioned to distribute and provide services, both upstream and downstream, to the biosimilar players. Generally biosimilar margins are similar to branded margins. It depends on the individual supplier and the product.

There are some opportunities when you are able to move share through your GPOs and stuff to make some potential extra margins on that. But generally, as I've said in the past, the real margin opportunity for us in biosimilars over the mid to long term, will be is if they have an interchangeable designation.

And then I think that will increase the opportunities for us to really make more meaningful contributions to our bottom line. So while we continue to be very excited about the future potential for biosimilars, they have really not, at this time, reached a level of materiality for us.

And then flipping to your other question around Rx trends, I think the first comment I would make is the real resilience of the pharma segment in general, this is a business that it seems like whenever we go through large challenges in the US, it's a business that continues to - while it may have some headwind continues to be very resilient to the overall marketplace.

Now we also know in our pharma segment that includes our nuclear business, which as Jason mentioned, was coming back nicely in the quarter and tracking well. So we're glad that we maintained both the people and the resources and commitments there because we did see that bounce back still below prior levels but bouncing back nicely.

As far as your comment around the IQVIA data, I actually would say that what we're seeing is that our general business tracks pretty closely to it, around both new Rx's, generics, et cetera. So we're not really seeing any trends within our business that I would call out that are much different than what we're seeing in the overall IQVIA data.

Lisa Gill: Okay, great. Thank you.

Operator: Now moving to Joseph Amato with Evercore.

Joseph Amato: Hi. Just a quick question on Cardinal Health at-Home. Could you give us a sense for kind of how you see demand trending as you progress through 2021? Thanks.

Mike Kaufmann: Yes, this is a business we continue to be super excited about. As we've said, a couple of different times, it's one of those areas that we've called out as one of our strategic growth areas with both specialty, our services businesses and Cardinal Health at-Home.

We are a leader in the space and we intend to stay that going forward. And so we did see very nice revenue trends in that business. We continue to make investments in that business, specifically to continue to grow and have a very nice, both mid and long-term view of that business.

So we remain excited about the team, our resources. The pipeline of opportunities we're working on feels really good in that business. Next question, please.

Operator: We will now move to our next question. And we'll hear from Eric Percher with Nephron Research.

Eric Percher: Thank you. I wanted to ask for a little bit more detail on the nuclear business. And I'm curious to hear if some of that strength has been in specific areas across cardiology or neuro or oncology. And has that been a pretty good forward indicator for upticks in volume and maybe getting back to the new scripts you were talking about?

Mike Kaufmann: Yes, that's a great question. We have seen a little bit of difference between oncology coming back faster than cardiology. So we do a lot of work in both of those spaces in our nuclear business.

And really as we expected, it has bounced back nicely. But to your point, what we've seen both in nuclear and in our specialty businesses that oncology has bounced back much faster than other ologies, whether it be cardiology, rheumatology, nephrology, but particularly to nuclear, our cardiology business has bounced back a little bit slower than oncology.

Eric Percher: And with your cost reduction there, that may come back as you get back to full speed?

Mike Kaufmann: You know, actually it's a business that is a pretty fixed cost business. And we took appropriate cost reductions. But I wouldn't say we took aggressive cost reductions because we really believed in that business over the long-term.

We think it has a very nice pipeline of projects we're working on with manufacturers for clinical trials. The theragnostic area we think is a real good growth area for us.

So we decided essentially, as we kind of talked about last quarter, just to hold on to our people, because the rest of our assets, being whether it's our manufacturing facilities with our cyclotrons or our individual pharmacies, which still needed to be staffed, we didn't make extra aggressive cost reductions there.

And so it's nice to see it bounce back and deliver the type of results that we saw in our Q1.

Eric Percher: Thank you.

Mike Kaufmann: Next question.

Operator: And our next question will come from Ricky Goldwasser with Morgan Stanley.

Ricky Goldwasser: Yes, hi. Good morning. One question related to specialty. You know, obviously, there was some big news on Biogen yesterday, and we're getting questions from investors on how should we think about drugs like that as potential contributors to your business? Should we think about it as going through core distribution, through specialty?

And then also any thoughts about a potential role for Cardinal in distribution of COVID vaccine once it's available for the general population?

Mike Kaufmann: Yes. As far as the specialty products, I would say is this. What I really like about our position is we can manage both.

We have the capabilities for a manufacturer to choose going through our pharma distribution business. Obviously we serve one of the largest chains, the largest grocery chain, the largest mail order, insurer.

So we've got a lot of strong customer base as well as a strong presence in the acute space that our pharma distribution business has the reach to be able to manage specialty drugs that way. And then also with our specialty business, they can go that way.

So that's something that we feel really good about, that we talk to manufacturers all the time and can work with them in either way. But a lot of manufacturers, you know, it depends on who the ultimate customer is and who they're trying to reach, which one they may choose.

And sometimes they'll choose both, you know, depending on certain customers will go one way and other ones will go the other. So it's hard to specifically talk about any individual drugs. We don't really like to do that.

But in terms of having the capabilities, I'm confident that we can do that anywhere. Even up to and including if it's a smaller company that's launching a drug and needs services all the way from, you know, soup to nuts.

The third party logistics business we have is performing incredibly well in our specialty space. So someone that needs customer service, shipping, billing, collections, et cetera, we can do that too.

As far as the COVID vaccine, as you know, as far as Phase 1 has been, one of our competitors has been chosen to do that in Phase 1. We continue to have daily conversations with the folks in the government around being part of it.

We have the absolute capabilities to do it. We've been shipping many different types of vaccines for years. So we have both ambient and cold chain storage capabilities and shipping capabilities to do that.

And my belief at least from what I think is probably best for making sure that the product is available for our customers and the fact that we're going to our customers every day is that down the line, I think it would make the most sense for all the key distributors to be part of the Phase 2 of this when the products become more readily available. And we stand ready to do that, when that happens.

Ricky Goldwasser: Thank you.

Mike Kaufmann: Next question.

Operator: And our last question today will come from George Hill with Deutsche Bank.

George Hill: Hey, good morning guys. Thanks for sneaking me in. And, Mike, I'll apologize if you touched on this already, but as you think about the guidance for the balance of this fiscal year, can you quantify what your guidance implies in the core drugs business, I guess, as a percent of return to baseline from pre-COVID?

Like is the - I guess, does the guidance assume that we get 95% back, 98% back? I would just be interested on any color you can provide around that.

Mike Kaufmann: Well I can talk specifically to pharma. We really feel like we're tracking very similar to the IQVIA data and the Rx trends. Remember, our year end being June 30, would be at or near pre-COVID levels by the time we exit the year.

And so that's kind of how we would see it progressing over the next three quarters. Again with the caution of there being some potential lumpiness as things happen specific to RX's. Did that answer your question, George?

George Hill: Yes, it does. And maybe if I could just do a quick follow-up. One of the things that we've also seen from the IQVIA data is that flu vaccine volumes have been strong. I guess, have you guys participated in that? And kind of the derivative thought there, have you seen any change in mix as we think about kind of what has been going on in the drug business over the last three to six months?

Mike Kaufmann: Yes, it's an interesting question. Flu vaccines have been significantly up this year, and we do distribute those. And we've distributed significantly more flu vaccines this year than we have in historical years.

Probably, with the combination of the fact more people are getting vaccinated as well as, you know, practicing distancing, wearing masks, washing hands et cetera, we would expect a much lighter flu season this year than historically.

But we're not seeing any big necessary mix changes in our, you know, pharma business at this time. But we are keeping an eye on it because, you know, as different physicians get back into work, and people start visiting them, we may see a little bit of mix but right now nothing I would call out as material. But again, I just keep focused on that word. We do expect it to be non-linear, a little bit lumpy over the rest of the year.

George Hill: Helpful. Thanks, Mike.

Operator: And ladies and gentlemen, this will conclude your question-and-answer session. I'll turn the call back over to Mike Kaufmann for any closing remarks.

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Mike Kaufmann: Yes, I want to thank all of you for joining us this morning and on behalf of all of us at Cardinal Health, I hope you and your families stay safe and well. And we look forward to speaking to all of you sometime soon. Take care.

Operator: Ladies and gentlemen, this will conclude your conference today. We do thank you for your participation. And you may now disconnect.