BDX Earnings Call Transcript

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Quarter: 3

Operator: Hello, and welcome to BD's Third Fiscal Quarter 2025 Earnings Call. At the request of BD, today's call is being recorded and will be available for replay on BD's Investor Relations website, investors.bd.com or by phone at (800) 839-1246 for domestic calls and area code +1 402 220-0464 for international calls. [Operator Instructions]. I will now turn the call over to Greg Rodetis, Senior Vice President, Treasurer and Head of Investor Relations.
Greg Rodetis: Good morning, and welcome to BD's earnings call. I'm Greg Rodetis, Senior Vice President, Treasurer and Head of Investor Relations. Thank you for joining us. This call is being made available via audio webcast at bd.com. Earlier this morning, BD released its results for the third quarter of fiscal 2025. The press release and presentation can be accessed on the IR website at investors.bd.com. Leading today's call are Tom Polen, BD's Chairman, Chief Executive Officer and President; and Chris DelOrefice, Executive Vice President and Chief Financial Officer. Following this morning's prepared remarks, Tom and Chris will be joined for Q&A; by our segment presidents, Mike Garrison, President of the Medical segment; Mike Feld, President of the Life Sciences segment; Rick Byrd, President of the Interventional segment; and Bilal Muhsin, President of our Future Connected Care segment. Before we get started, I want to remind you that we'll be making forward-looking statements. You can read the disclaimer in our earnings release and the disclosures in our SEC filings on our Investor Relations website. Unless otherwise specified, all comparisons will be made on a year-on-year basis versus the relevant fiscal period. Revenue percentage changes are on an adjusted FX-neutral basis unless otherwise noted. Reconciliations between GAAP and non-GAAP measures are included in the appendices of this earnings release and presentation. With that, I am pleased to turn it over to Tom.
Thomas E. Polen: Thank you, Greg, and good morning, everyone. As you saw in our press release, in Q3, we sequentially improved growth across the company. We accelerated commercial initiatives and increased our organic growth trajectory through market headwinds. We continued our strong track record of executing BD Excellence to drive gross margin upside. Additionally, we fulfilled our commitment to announce a definitive agreement to separate our Biosciences and Diagnostics business through a transaction that we believe will unlock meaningful value for our shareholders. Turning to details of the quarter. Revenue grew 8.5% to $5.5 billion or 3% organic. New BD organic growth was 4%. Our BD Excellence lean operating system remains a flywheel for value creation, delivering Q3 adjusted gross margin of 54.8%, up 50 basis points year-over-year. Adjusted operating margin of 25.8%, up 60 basis points year-over-year and supported delivering $3.68 in adjusted diluted EPS, each exceeded our expectations. As we communicated last quarter, we've been taking actions to accelerate revenue growth. This includes further investing in growth opportunities by adding selling and marketing resources, capitalizing on new product launches and continuing to drive BD Excellence to optimize product supply. The combination of these actions has already begun delivering results, as you saw play out in a number of key areas. Pharm Systems improved sequentially to nearly 5% growth as we delivered another quarter of double-digit growth in biologics. BDI accelerated to nearly 7% growth in the quarter, with double-digit growth in UCC and mid-single-digit growth in PI and Surgery. APM delivered double-digit pro forma growth ahead of our deal model. As expected, growth in both BDB and DS increased sequentially by approximately 250 basis points. This performance allowed us to deliver

sequentially improved growth across the company through continued market headwinds in China, certain subsegments of Pharm Systems such as vaccines and the life science research market. Building off our Q3 performance, we reaffirmed our organic revenue guide range for the year and raised our earnings guidance $0.18 at the midpoint. Turning to an update on several strategic initiatives. As committed last month, we announced that we entered into an agreement to combine our Biosciences and Diagnostic Solutions business with Waters through a tax-efficient Reverse Morris Trust. We strongly believe that Waters is the right partner and firmly believe in management's strategy and ability to unlock the value of these assets. The transaction is progressing well towards an expected closing around the end of the first quarter of calendar year 2026. We're pleased to have named Brooke Story to lead BD's integration and separation management office. Brooke has most recently led the integration of Edwards Critical Care, which she will continue to oversee as part of her expanded scope. Her rich experience, including her tenure as President of the Diagnostics business, makes her the ideal choice for this role. Upon closing, New BD will be established as a scaled pure-play medical technology company with uniquely leading positions and a best-in-class consumable revenue profile of over 90%, a deep innovation pipeline and strong margin expansion fueled by BD Excellence. The company's strong growth and earnings profile will be supported by enhanced capital allocation with an emphasis on share buybacks as we continue to pay competitive dividends and execute focused tuck-in M&A.; As previously communicated and aligned with our emphasis on share buybacks, we intend to use at least half of the approximately $4 billion cash distribution from Waters to buy back shares, with the balance for debt repayment as we continue to progress toward our 2.5x long-term net leverage target. Moving to an update on our innovation pipeline. We had some great launches and milestones this quarter as investment decisions we made at the start of BD 2025 are now advancing to market. In BD Life Sciences, BDB's innovation super cycle continued in Q3. We saw strong traction with the successful launch of FACSDiscover A8, which features breakthrough spectral and real-time cell imaging technologies and has exceeded our sales targets since launch. We're also launching our first Made in China for China clinical analyzer this quarter. BDB's R&D; pipeline includes over 25 new product launches across instruments, reagents and informatics as well as continued expansion in the high-growth Single-cell Multiomics segment. In DS, as blood culture momentum continues, we are excited about the next-generation BACTEC launch in fiscal 2026, which is expected to drive renewal of legacy systems and accelerate share gains. In molecular, innovation remains focused on leveraging the increased BD MAX installed base with continued growth of IVD revenue per system. Most customers today use just under 3 assays, while top users adopt 5 or more of our 14-assay menu. Our commercial team is focused on driving further menu adoption, supported by the upcoming launch of several new assays in 2026. Also in molecular, our BD COR platform is addressing a new $1 billion market for HPV testing. And last week, we submitted to FDA the first ever at-home self- collection kit for HPV screening using a simple dry swab. We expect approval in mid-FY '26. Today, in the U.S., approximately 30% of women have not been screened as recommended, and this population represents over 60% of cervical cancer deaths. We believe at-home self-collection can significantly improve access to screening and play an important role in reversing still rising deaths from cervical cancer. Moving to BD Medical. We recently announced that our BD Libertas Wearable Injector has entered into its first pharma-sponsored clinical trial. This device is being used for self-injection of complex biologic drugs by patients at home rather than going to an infusion clinic. We also announced another BD-sponsored studies that 100% of study participants would likely use the Libertas device if prescribed. Separately, we continue to expand signed agreements for GLP-1s, now reaching over 70 signed agreements for GLP-1 biosimilars. Biologics now represent 50% of total Pharm System sales, and we are exceptionally well positioned to capitalize on the wave of new molecules coming to market over the next decade. Moving to our portfolio of connected care solutions. Within MMS, we began limited commercial release of our new BD Pyxis Pro, completing installs at several customer sites with our BD Incada enterprise AI software to follow this quarter. Pyxis Pro is our first redesigned hardware platform and includes multiple new features designed to improve nurse workflow, enhance drug availability for patients and transform productivity using artificial intelligence. Pyxis Pro is our first product line to feed data into our new Incada AI platform and will be followed by Alaris, HemoSphere Alta Monitor and other devices, creating future data sets, which will be unique in our industry. While still very early in our introduction, we are looking forward to this innovative journey over the next coming years. Following the APM acquisition, we immediately began investing in capabilities to develop increased connectivity and interaction between our Alaris infusion system and our HemoSphere Alta to high hemodynamic monitoring system, recognizing that critical care nurses can spend 50% of their time manually adjusting infusions today. We're advancing through early milestones in our innovation process with prototypes now working in lab models. We have a strong cadence of new solutions under development across connected care that BD is uniquely positioned to deliver. And I'm pleased to have Bilal Muhsin, EVP and President of our Future Connected Care segment with us on the call today. Bilal joined BD in July from Masimo and is known for his deep knowledge of the sector, a strong track record of transformative innovation and his commercial focus on driving growth. This is an exciting next step in our journey to becoming the New BD, and I look forward to Bilal's partnership. In MDS, we recently received FDA clearance for CentroVena One, our rapid insertion central catheter, and we're on track to launch this quarter. This is BD's first entry into the $500 million central line market, and CentroVena is designed to transform the efficiency and safety of insertion and reduce the risk of serious complications. In our BD Interventional segment and advanced tissue regeneration platform, we continue to expand indications for Phasix with the EU launch of the world's first reservable scaffold with broad indications to prophylactically prevent incisional hernias. With more than 2.5 million laparotomies performed annually across the U.S. and Europe, incisional hernias affect an estimated 30% of patients and up to 50% among high-risk populations. These preventable hernias often lead to a cycle of complications such as recurrence, surgical site infections and reoperations. The U.S. clinical trial is ongoing with full patient enrollment anticipated in FY '26. Lastly, our BD Excellence operating system continues to be a key enabler of our strong margin execution and is expanding our competitive advantage in manufacturing, streamlining internal processes and optimizing our supply chains in today's tariff environment. In Q3, customer service levels measured as on-time in full deliveries, or OTIF, reached their highest level in over 5 years and continued positive momentum into Q4. Over the last 2 years, BD Excellence has been used to reduce manufacturing waste by more than 35% and OEE or efficiency of equipment is up significantly, creating capacity to produce an additional 2.5 billion units on the same production lines. We continue to be in the early innings of BD Excellence and see a long runway ahead across operations, commercial, R&D; and process excellence. This also applies to our Life Science businesses, which are being separated, where BD Excellence has accelerating momentum and margin expansion initiatives are progressing well. We'll be transitioning these capabilities to Waters to continue this progress. In closing, we achieved our objectives in Q3 and are fully engaged in executing our commercial initiatives to ensure we accelerate organic revenue growth through market dynamics. Simultaneously, we are focused on closing the transaction with Waters that will position BD for its next chapter of long-term success. With that, I'll turn it over to Chris.

Christopher J. DelOrefice: Thanks, Tom. Starting with our Q3 revenue performance. Revenues of $5.5 billion grew 8.5% or 3% organic. New BD organic growth was 4%. Regionally, total company organic growth was led by performance in the U.S. and Greater Asia outside of China, partially offset by China. In BD Medical, as we expected, Pharm Systems showed sequential improvement with 4.8% growth as we anniversaried the impact of customer inventory destocking and delivered another quarter of double-digit growth in biologics, driven by increased orders for GLP-1s. We continue to monitor market dynamics as volatility in subcategories such as generic anticoagulants and vaccines remain. MMS delivered solid mid-single-digit growth as we continue to secure competitive wins at several large health systems in the quarter across both infusion and dispensing and are tracking ahead of our goals for upgrading and securing our Alaris installed base. MDS grew low single digits as volume growth in vascular access management and hypodermics in the U.S. was offset by ongoing change in clinical practice following the fluid shortage and volume-based procurement pressure in China as expected. APM delivered 13% pro forma growth in the quarter. This was driven by strong commercial execution, incremental selling investment made as part of our acquisition thesis and new product innovation, including the recent launch of the HemoSphere Alta Monitor. Our Interventional segment delivered nearly 7% growth in the quarter with 12% growth in UCC, supported by the recent launches of PureWick Flex at Home and PureWick Male, which continued to outpace the new product ramp of PureWick Female. Surgery delivered mid-single-digit growth, driven by double-digit growth in our advanced tissue regeneration platform from incremental investments in our Phasix sales force, our recent Phasix umbilical launch and continued adoption of GalaFLEX for plastic and reconstructive surgery. Peripheral Intervention also grew mid-single digits. Our focus on commercial execution in new accounts and the creation of a dedicated women's health sales team all contributed to improved sequential performance in the business. Lastly, in BD Life Sciences, as expected, Biosciences and Diagnostic Solutions decreased low single digits with each demonstrating significant sequential positive momentum of approximately 250 basis points in the quarter. We expect continued positive momentum into Q4. In BDB, reagents and service, which represented about 75% of BDB revenues in Q3 grew at healthy mid-single digits, excluding the impact from the planned exit of a legacy platform. This was offset by a year-over-year decrease in instrument sales, driven by continued market dynamics in China and Europe. Sequentially, research instruments improved in the U.S. and EMEA by approximately 40% and 80%, respectively, driven by the launch of the FACSDiscover A8 with sales well ahead of our initial plans and strong demand heading into Q4. While research funding in Europe continued to be constrained within our prior expectations, the U.S. is showing early signs of stabilization in the academic and biopharma end markets. While year-over-year performance in Diagnostic Solutions reflects the decrease in our point-of-care business and in BACTEC due to the previous supply disruption, we are very encouraged by the sequential improvements that played out and expect the business to return to growth next quarter. In Q3, BACTEC utilization increased over 20 percentage points sequentially, exiting the quarter at over 80% of historic levels, and already in line with our Q4 planning assumptions. BD MAX IVD continue to grow double digits amid favorable reimbursement dynamics playing out in the molecular diagnostics space that are a growth tailwind for this platform. As these positive trends continue to take hold and temporary growth headwinds continue to fade, the Biosciences and Diagnostic Solutions business is on a sound trajectory back to its historic mid-single-digit plus growth rate. Rounding out the Life Sciences segment, year-over-year growth in specimen management was led by the BD Vacutainer portfolio, partially offset by China market dynamics. Turning to the P&L.; We continued strong execution down the P&L; and as a result, exceeded both our adjusted margin and earnings targets with Q3 adjusted operating income growing double digits and adjusted diluted EPS growing 5.1% to $3.68. We delivered strong adjusted gross margin of 54.8% and adjusted operating margin of 25.8%, which increased by 50 and 60 basis points year- over-year, respectively. Gross margin expansion continued to be primarily fueled by momentum in BD Excellence, driven by manufacturing productivity, waste improvement and network optimization. Further leverage in operating margin was driven by active management of shipping and G&A; costs while investing in selling and marketing to drive growth. Regarding cash and capital allocation, year-to-date free cash flows were approximately $1.7 billion, which increased sequentially by $1 billion. BD Excellence continued to drive productivity gains, allowing us to leverage capital expenditures. We also realized sequential cash benefits from improved collections and the timing of payables. This was partially offset by increased inventory levels and cash payments related to tariffs. We ended the quarter with net leverage of 2.8x and continue to make progress towards our 2.5x net leverage target. We also see share repurchases as a value-creating opportunity given our view of the intrinsic value of BD. We expect to complete our $1 billion buyback by the end of September, which is ahead of our original commitment. Moving to our updated fiscal '25 guidance. Building off our Q3 performance, we reaffirmed our currency-neutral revenue guidance, including total revenue growth of 7.8% to 8.3% and organic revenue growth of 3% to 3.5%. While uncertainty from market headwinds continue to persist, we expect year-over-year organic growth to improve sequentially in Q4. This improvement is largely driven by the expected contribution from APM's organic growth and continued momentum in BACTEC as well as a favorable comparison to the prior year in DS. Regarding foreign currency, based on current spot rates for illustrative purposes, we now expect translational FX to be immaterial or approximately a $10 million increase year-over-year to revenue. We raised our adjusted EPS guidance by $0.18 at the midpoint to a range of $14.30 to $14.45. This reflects growth of about 9.4% at the midpoint, which is an increase of approximately 1.4% compared to our prior guidance and reflects strong Q3 performance and incremental Q4 investments in selling and marketing to accelerate our organic growth trajectory. Based on current spot rates, we expect the FX impact to EPS to be about neutral for the full year. Our EPS guidance continues to include an estimated tariff impact of about $90 million or 2% to EPS growth for

the full year, which, as a reminder, is predominantly weighted to Q4. For the full fiscal year, given the strength of our continued gross margin expansion, including additional investments in selling and the impact from tariffs, we remain on track to deliver our goal of 25% operating margin by 2025. As you think about the full year impact of tariffs in fiscal 2026, the landscape remains fluid, but based on policies in place today, we currently anticipate a full year 2026 tariff impact of around $275 million. This is a notable improvement compared to initial expectations and reflects the results of our team's ongoing active mitigation efforts and tariff rates that moderated on a net basis since our last update. In closing, we remain focused on navigating the current environment to deliver on our revenue and increased earnings commitments while positioning BD with continued momentum beyond 2025. With that, let's start the Q&A; session. Operator, can you please assemble our queue?
Operator: [Operator Instructions]. And our first question will come from Patrick Wood with Morgan Stanley.
Patrick Andrew Robert Wood: I'd love on the RemainCo side, the plus 4% growth. If we think about flowing into Q4 and then to your point, APM drops into being organic, and we're seeing that biologics pipe flowing through into PS and urology is strong. I know we're not talking about '26 yet in the kind of midterm, but is it the right framework? Is there any reason we would be wrong to think that RemainCo should be stable in that kind of mid-single-digit plus kind of a range as just a conceptual framework? Is there anything that would be wrong with that thought process when we're looking a little bit more midterm?
Thomas E. Polen: Yes. Thank you for the question, Patrick. We are pleased with the performance, as you mentioned, across a number of areas, whether or not in the BD Interventional business, continued strength of UCC, which was underlying about 10% last quarter, continued that this quarter, strong performance across MMS. And as you mentioned, good to see as we expected, the recovery in Pharm Systems driven by double-digit biologic growth. And as you shared, we also continue to secure more and more contracts for biosimilars in that category in GLP-1s, which has been a key strategic focus of ours. You saw that continue to play out, as you mentioned, in areas across -- also the sequential improvements in the Life Science business, particularly 250 basis points in BDB and DS. As you said, 4% growth for the New BD, which is also about where we expect to be for the full year. And so those trends that you're seeing across BD Interventional, across the Connected Care medical segment. We expect those largely to continue. There's nothing different that we would expect fundamentally from those. I think as we -- as you also mentioned, we saw very strong growth in APM ahead of our deal model, 12% growth -- sorry, 13% growth for the quarter. And that's really driven by strong execution from that team, some great innovations hitting the market. And then as part of our deal thesis to start with, and we had shared this at the time of the announcement, we were going to make incremental investments in selling in certain areas of innovation, and the team has been executing those really well on those sales investments in APM, and you're starting to see that come through. You also saw us announce that we're making some outsized continued investments more broadly in the company behind areas of opportunity in Q4, specifically in our selling organization, think about areas like UCC, other areas in Interventional and in the Medical segment, Connected Care on some big new product launches like the Pyxis Pro that we're doubling down and investing behind as we go into Q4 to help set us up for FY '26 and beyond. So thank you, Patrick, for the question.
Operator: Our next question will come from Rick Wise with Stifel.
Frederick Allen Wise: Thinking about one question, I guess I'm going to focus on the -- just something nearer term. And maybe, Chris, you can talk a little bit about your implied operating margin guide for the fiscal fourth quarter. My initial back of the envelope calculation suggests that just as I do the math, that implies sort of a step down in operating margins relative -- flat or down, I should say, relative to the prior quarter. Just help us think through the headwinds or the mix issues that might relate to that? Is it China? Is it conservatism? Is this tariffs? Just help us think through the sequential margin dynamics given your excellent performance and outperformance this quarter.
Christopher J. DelOrefice: Yes, Rick, thanks. Look, we've been really strong this year in terms of quality P&L.; You see the benefit of BD Excellence playing out in our margin profile consistently quarter-over-quarter. I'd suggest we've been best-in-class in terms of margin, EPS flow-through. If you look at our full year guide now, 9.4% at the midpoint, a significant raise in the quarter. And that's while

absorbing 2 points for the full year of growth from total tariffs. So as you think of what to expect in Q4 as you squeeze the balance of the year, first of all, on gross margin, it's going to be about flat year-over-year. And by the way, just as a reminder, right? We have $90 million of tariffs that are all flowing through in Q4, right? So that's nearly 150 basis points. So that shows the power of BD Excellence and what we're getting in terms of net productivity, offsetting inflation that's fully absorbing in gross margin, the tariffs. The operating margin is as planned. There'll be a slight sequential step down quarter-to-quarter, and it's largely driven by just the timing of our investments. And as you saw in our updated guidance, we're actually fueling the business with more investment to continue to fuel those areas of momentum that Tom mentioned. So all in all, I think when you look at the print, it's extremely strong EPS. It really demonstrates the power of BD to compound earnings at a compelling growth rate despite macro factors. So we're very pleased with that.

Frederick Allen Wise: Chris, congrats again on the excellent performance this quarter.

Operator: Our next question will come from Larry Biegelsen with Wells Fargo.

Lawrence H. Biegelsen: Chris, 2 for you. I'm going to try to ask them both together. First, usually on the Q3 call, you give some helpful commentary on the following year, particularly on the P&L.; So is there anything you can share with us today on whether you can increase the margins year-over-year in fiscal '26 given the tariff impact? Color on FX today or high-level thoughts on EPS growth? And second, what can you say about the post-separation margin outlook? You've talked about it, the operating margin post separation being similar to the current BDX operating margin. Does that include TSAs and MSAs? And any color you can share with us today on below-the-line items like tax rate? Obviously, you know we're all trying to build RemainCo P&Ls; here.

Christopher J. DelOrefice: Yes. Thanks, Larry. Appreciate it. Maybe with the separation first, something that we shared. There's always a couple of ways to look at this. The key questions tend to be, do you have dislocation in margin. We shared last time publicly that there will actually be very difference in terms of operating margin pre-separation and post separation. So that's within a reasonable range, plus or minus. So you should see a healthy margin come out, plus you're going to continue to get the benefit of BD Excellence carrying through. So you'll continue to have those same dynamics. So that's very positive. There's always stranded costs when you have these things. There will be a TSA that largely offsets that. So those 2 factors, coupled with the fact that with the $4 billion cash we get and at least half of that going towards share buybacks, creates another lever that will create some EPS accretion tied to that. So we actually think when you kind of separate the pieces of BD and think of the earnings that goes with the separation that you're getting meaningful value for and then the earnings that's left and then the TSA on top of that and then the EPS accretion from the share buybacks positions us well to not have any leakage as you think of the sum of the parts there. And so it sets up nicely for New BD. Tom talked about the New BD growth rate, right? And so that's where we stand with the separation. We'll obviously provide more details as we give our November guide and help everyone try and bifurcate those pieces in more detail. It's still a bit early. As you think of '26, look, it's early given various macro factors, et cetera, to give full color. But a couple of things. One thing we shared on the call was our tariff outlook for '26. We know expectations out there were set last quarter. We said that it would be about $275 million in '26, which is a meaningful improvement from where you are. So as you think of where EPS may be sitting today based on prior expectations, that should be positive. I think the other thing I would say is, as you see us doing now, right? BD Excellence, we're in early innings there. That becomes a strong underlying favorable margin dynamic that will play out in our P&L.; Obviously, you do need to contemplate the incremental impact from tariffs, the $275 million, less than $90 million that we already have in our base. But it's a better outlook. Folks should see that as a better outlook versus where we were last quarter, rough math, I think, where most people were assuming that's about an $85 million benefit from where folks were sitting. So I think those 2 things are favorable things you should think about as we head into '26.

Operator: Our next question will come from Travis Steed with Bank of America.

Travis Lee Steed: I guess just a bigger picture question on kind of the growth outlook for the RemainCo business, kind of the New BD, if you will. Like what do you -- how do you kind of see this business growing kind of versus the 5.5% plus longer term? And then -- and also, how should we think about kind of capital deployment, the new strategy on capital deployment kind of post separation?

Thomas E. Polen: Yes. Thanks, Travis. I can start off with that. And obviously, I made some earlier comments, I think to Rick's question earlier, similarly related. Maybe I can -- we're obviously very focused on executing in '25 and chopping wood through the balance of the year, but I could give a little bit of -- and it's too early to talk details about '26, but maybe just give a little bit of thoughts to share related to that. So we're obviously encouraged by the recent sales performance across the portfolio as we execute our commercial initiatives. The series of new innovations that you see that we talked about on the call, particularly most of those we actually started investing in at the start of BD 2025 as part of the portfolio strategy we talked about them. Obviously, it takes a couple of years for those to come through. They're starting to hit the market. We're excited about those launches. And you're seeing us take incremental some of the flywheel benefits of the efficiencies we're getting from BD Excellence. We're reinvesting a portion of those behind those launches, behind our selling organization to keep driving that growth. And we're going to continue to lean into those investments as we go into Q4 to build on that momentum. Obviously, as we think going forward, too, we're going to continue to look at what is a dynamic macro environment. As we go into next year, we're going to be prudent about that. We're going to monitor. We're going to study how certain market dynamics play out, continuing to focus on China, certain subsegments of Pharma Delivery, specifically vaccines. And obviously, life science research market, will obviously give a Holdco guide as it comes to '26, and we'll incorporate all of those in. As we've talked about as well, we see BD Excellence still in early innings. And we expect to continue to benefit from that momentum and its impact on our margins. We still see more runway ahead there. And we're going to continue chopping wood on tariffs, too, right? We're pleased with the progress that we announced here this morning, but we're not done. We have teams still working on that, dedicated teams across each of the businesses, a sign to keep whittling that down. And there's very specific actions that we're taking on that. We've got -- obviously, we've talked about changing sourcing flows, things like Vacutainer and flush sourcing those for China out of markets other than the U.S. We've talked about changing components and kits to get more U.S.-made components in certain kits to allow them to comply with USMCA and tariff exemptions. And of course, we're working with suppliers to optimize our sourcing locations as well, too, as part of that matrix. And that's something that we've got a steering team on top of all over as we continue to look to offset that further. So hopefully, that gives a little bit of color of how we're thinking about things. And as we look ahead, we obviously look forward to giving more updates as we move in through Q4.

Travis Lee Steed: Great. And Chris, on the Q4 EPS, I think there's some investments there. Anything else kind of driving the change in the Q4 EPS?

Christopher J. DelOrefice: No, it's just -- I mean, largely, it's the investment profile really, Travis. There's nothing else there. Again, I mean, it was a strong quarter, a significant raise. I mean we took the midpoint up above our prior top end of the guide, 9.5% EPS growth at the midpoint with 0% FX benefit for the year, super strong. Margins remain intact. The only dynamic you have flowing through Q4 that's nuanced is really the tariff impact flowing through there, which is not new news. That stays intact. And then we want to continue to invest behind the business. Again, I think it's its best-in-class management of margin, EPS leverage and flow-through and I feel really good about that.

Operator: Our next question will come from Robbie Marcus with JPMorgan.

Robert Justin Marcus: Maybe on urology, it was a great print double-digit percent growth. Maybe just speak to the trends there. Was there anything onetime in the quarter? And how you're feeling about that and the Interventional business moving into next year?

Thomas E. Polen: Yes, Robbie, this is Tom. Thanks for the question. Now urology is continuing. There's nothing onetime there at all. It's a continuation of the trends. As we had said last quarter, of course, urology had a comp on a onetime settlement they had in Q2. But underlying that, when you exclude the settlement, which wasn't related to business performance, that business grew 10% last quarter. So this is really a continuation of that very strong momentum that they've been building as they've both been driving the male PureWick, which continues to scale even faster than the original female PureWick, it's doing fantastic. Obviously, continuing to expand PureWick into the home. We continue to advance our clinical study aimed at getting at-home reimbursement. And so the growth that we're getting at home is all out of pocket today. We see a meaningful opportunity to unlock additional

upside there through the trial that's progressing very well, and we expect to conclude in '26. We also have a series of new launches that will be coming up here very soon, including the first mobile PureWick. That next product that we'll be launching in Q4, actually heading into FY '26 will be for patients who are in wheelchairs because it will be the first wireless battery-driven version of a mobile PureWick and then we have versions coming in the future that would allow people to be completely to walk around with kind of a fanny pack type version. So we've got a strong runway ahead in continued innovation in that space that we're really excited about. I think as you think about the broader areas of the Interventional business, again, the acquisition we did at the start of BD 2025 of TIFA, the team is doing a really nice job iterating serially on new applications and indications with that biomaterial. So you saw Rick and the team start by getting indications in the hernia space to replace plastic mesh there. You then saw us start to -- you saw us get approval for the first application to prevent hernias after laparotomy surgeries first launching in Europe right now. We're investing behind that. That's one of the areas of incremental investment we're making is investing behind that launch and market shaping. And we've got that clinical trial underway to bring that innovation to the U.S. I think actually the first indication of that same biomaterial for GI indications launches next year in '26. So again, we're excited by what's happening there. In the surgery space, we like the innovation pipeline that we've built over the BD 2025 window here. And then, of course, in PI, solid growth there. They obviously feel the impact of VOBP in China. But in other areas, we're excited by some new launches coming up there, particularly one in the breast biopsy space as well as some new vascular applications that we're going to be getting into that we haven't been in before that start to launch in '26 that we've talked about in the past. So Robbie, I hope that gives some color, but really driven by innovation on the UCC side.
Robert Justin Marcus: Great. Maybe just to follow on to the last question. Chris, it sounds like there's increased SG&A; investment in fourth quarter coming in below Street expectations on EPS. How do we think about where that is, what it's funding? And should we carry that level of investment in SG&A; into next year?
Christopher J. DelOrefice: Look, I think a real positive thing we've talked about BD Excellence was not just the impact it has on margin and the opportunity to compound earnings, which we've done, right? Again, best-in-class margin and EPS flow-through with almost 9.5% at the midpoint. But importantly, we want to keep investing in both innovation and commercial execution. You've seen us do that throughout the year. And we're going to continue to invest behind all the areas of momentum. Tom has mentioned them a couple of times on the call, and that's part of our strategy. Again, we feel really good about an almost double-digit EPS number at the midpoint, and this sets us up to continue some momentum as we think about 2026, driving those areas of growth. Thanks, Robbie.
Operator: And this will conclude today's question-and-answer session. At this time, I'd like to turn the floor back over to Tom Polen for any additional or closing remarks.
Thomas E. Polen: Okay. Thank you, operator, and thanks, everyone, for joining today and for your support of BD. We look forward to connecting with everyone again in November.
Operator: Thank you. This does conclude this audio webcast. On behalf of BD, thank you for joining today. Please disconnect your lines at this time, and have a wonderful day.