

Cencora Inc

Clean beat-and-raise across the board w/
path to sustained LT growth

Reiterate Rating: BUY | PO: 256.00 USD | Price: 232.68 USD

FY1Q beat and raise positions COR for strong FY24

Cencora's fiscal first quarter results underpins broad-based utilization strength, specialty momentum, and steady execution across both the US Healthcare and International segments. The FY24 guidance increase was a key focus of the call, with the impressive raise reflecting strength in the quarter as well as incremental contributions from commercial Covid distribution. While the FY24 EPS raise was partially attributed to lower interest expense, we see the stable utilization backdrop (with ongoing growth in specialty), continued moderating generic deflation trends, and OpEx leverage as supporting underlying profit growth in FY24. We remain optimistic on the company's ability to achieve long-term adj. EPS growth of 8-12% (on a constant currency, ex-Covid basis) with today's FY24 adj. EPS guidance increase representing 12.4% y/y growth at the midpoint. We view COR's consistent stability in the core business as a positive and should be positioned for ongoing mid-to-high single digit EBIT growth across the US Healthcare segment which drives ~80% of earnings. We reiterate our Buy rating and increase our PO to \$256 (from \$228), based on ~18.5x CY24E P/E (~17x CY24E P/E prior). We increase our target multiple about a 4.5 turn premium to its 10-year average of ~14x driven by strong execution and a stable end-market environment.

Raising FY24 and FY25 EPS on increased EBIT estimates

We are increasing our FY24E adj. EPS estimate from \$12.85 to \$13.45, on the strength of the quarter and higher EBIT in both the U.S. Healthcare Solutions and International Healthcare Solutions segments. We are increasing our FY25E EPS from \$14.37 to \$14.75 driven by higher segment EBIT estimates.

Upcoming catalysts for COR: mainly execution

Upcoming catalysts for COR and the rest of the distributors would be any new commentary on script sales/volume trends, color on branded price increase and generic pricing dynamics, and any potential implications from Congress - including the Inflation Reduction Act. We also look for updates on insulin pricing and GLP-1 adoption although we don't view these as central to fundamentals at this juncture.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.03	11.99	13.45	14.75	16.16
GAAP EPS	8.33	8.36	10.22	11.36	12.74
EPS Change (YoY)	11.2%	8.7%	12.2%	9.7%	9.6%
Consensus EPS (Bloomberg)			12.91	14.14	15.29
DPS	1.85	1.95	2.04	2.04	2.04
Valuation (Sep)					
P/E	21.1x	19.4x	17.3x	15.8x	14.4x
GAAP P/E	27.9x	27.8x	22.8x	20.5x	18.3x
Dividend Yield	0.8%	0.8%	0.9%	0.9%	0.9%
EV / EBITDA*	16.3x	15.6x	14.3x	13.2x	12.3x
Free Cash Flow Yield*	4.8%	7.4%	6.2%	6.8%	7.3%

* For full definitions of *IQmethod*SM measures, see page 9.

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	228.00	256.00
2024E EPS	12.85	13.45
2025E EPS	14.37	14.75
2026E EPS	15.91	16.16
2024E EBITDA (m)	3,900.7	4,049.8
2025E EBITDA (m)	4,240.0	4,378.6
2026E EBITDA (m)	4,576.8	4,719.0

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Stock Data

Price	232.68 USD
Price Objective	256.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	147.48 USD - 221.31 USD
Mrkt Val (mn) / Shares Out (mn)	46,415 USD / 199.5
Free Float	84.4%
Average Daily Value (mn)	279.94 USD
BofA Ticker / Exchange	COR / NYS
Bloomberg / Reuters	COR US / COR.N
ROE (2024E)	207.9%
Net Dbt to Eqty (Sep-2023A)	329.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

GLP-1 - Glucagon-like peptide-1

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Timestamp: 31 January 2024 06:02PM EST

iQprofileSM Cencora Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.5%	18.4%	18.7%	18.4%	18.3%
Return on Equity	710.5%	665.0%	207.9%	111.9%	78.9%
Operating Margin	1.3%	1.3%	1.2%	1.3%	1.3%
Free Cash Flow	2,207	3,453	2,890	3,141	3,391

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.6x	1.3x	1.2x	1.2x
Asset Replacement Ratio	6.9x	-3.3x	-2.3x	-2.9x	-3.5x
Tax Rate	20.6%	20.3%	20.9%	21.0%	21.0%
Net Debt-to-Equity Ratio	NM	329.5%	95.5%	17.4%	-14.3%
Interest Cover	15.0x	14.4x	18.2x	20.8x	23.6x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	238,587	262,173	292,367	309,110	325,361
% Change	11.4%	9.9%	11.5%	5.7%	5.3%
Gross Profit	8,402	9,012	9,999	10,570	11,125
% Change	25.2%	7.3%	11.0%	5.7%	5.3%
EBITDA	3,546	3,702	4,050	4,379	4,719
% Change	14.1%	4.4%	9.4%	8.1%	7.8%
Net Interest & Other Income	(218)	(224)	(197)	(187)	(178)
Net Income (Adjusted)	2,329	2,452	2,694	2,943	3,190
% Change	12.7%	5.3%	9.9%	9.3%	8.4%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,667	1,733	2,694	2,943	3,190
Depreciation & Amortization	382	413	449	480	505
Change in Working Capital	(140)	1,208	(125)	198	261
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	794	558	371	49	(9)
Capital Expenditure	(496)	(458)	(500)	(529)	(556)
Free Cash Flow	2,207	3,453	2,890	3,141	3,391
% Change	-1.0%	56.5%	-16.3%	8.7%	7.9%
Share / Issue Repurchase	(390)	(1,120)	(1,061)	(1,000)	(1,250)
Cost of Dividends Paid	(392)	(399)	(409)	(407)	(403)
Change in Debt	(923)	(623)	(286)	(249)	(200)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,388	2,592	2,661	3,670	4,732
Trade Receivables	18,453	20,911	23,399	24,739	26,040
Other Current Assets	17,749	19,296	21,676	23,081	24,467
Property, Plant & Equipment	2,135	2,135	2,591	2,909	3,243
Other Non-Current Assets	14,836	17,625	18,683	18,957	19,228
Total Assets	56,561	62,559	69,010	73,358	77,711
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	42,407	48,190	52,934	55,876	58,823
Long-Term Debt	5,703	4,787	4,501	4,252	4,052
Other Non-Current Liabilities	8,379	8,915	9,649	9,893	10,088
Total Liabilities	56,489	61,892	67,084	70,021	72,963
Total Equity	71	666	1,926	3,336	4,748
Total Equity & Liabilities	56,561	62,559	69,010	73,358	77,711

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Healthcare Technology & Distribution

Company Description

COR is one the largest drug distributors in the US with a sizable global generic sourcing joint venture in partnership with Walgreens Boots Alliance. COR has an animal health unit operating in both companion and production animal distribution. COR also offers various supply chain services, specialty transportation and logistics, and technology. The company is based in Chesterbrook, PA.

Investment Rationale

Our Buy rating is driven by steady performance across the US distribution business with upside potential from specialty and the eventual introduction of biosimilars. This should help offset Fx headwinds within the International segment on top of what otherwise should be a steady core performance. When combined with a discounted relative valuation to history and peers, we see upside optionality from current levels.

Stock Data

Average Daily Volume 1,203,098

Quarterly Earnings Estimates

	2023	2024
Q1	2.71A	3.28A
Q2	3.50A	3.80E
Q3	2.92A	3.23E
Q4	2.86A	3.14E

FY1Q'24 call takeaways

Prepared Remarks

- Revenue up 15% y/y to \$72Bn in 1Q. FY24 guidance increased due to momentum
- Leadership in specialty has spanned 20+ years
- Partner with biopharma players – to support clinical success, must embed capabilities. One e.g., is transport logistics.
- Announced 3 new transport stations
- Focused on innovating to support biopharma
- On consulting side – accelerating product go-to-market
- Ability to handle temperature sensitive COVID vaccines in December speaks to logistical strengths
- Partnering with stakeholders across supply chain to address drug shortages
- Recipient of award for corporate equality
- 1Q results:
 - Revenue growth up 15% y/y
 - Continue to see good utilization trends and sales of GLP-1 products in U.S.
 - Ex-GLP-1, rev growth would be 12%
 - GP margin impacted by sales growth from lower margin GLP-1 and govt. owned COVID
 - Commercial COVID vax distributions with higher margins offset
 - Consolidated adj. operating income up 20.7% y/y
 - 22% y/y operating income growth in U.S. Healthcare Solutions
 - 16.3% y/y operating income growth in International
 - Net interest expense down – Primarily due to higher interest income/lower interest expense (divestiture of Egypt subsidiary)
 - \$135MM open market repurchases
 - Generated \$763MM in adj. FCF
 - Exercised prepayment of \$238MM – made in January. Unplanned and non-recurring, not in adj. FCF
- US Segment:
 - Revenue up 16% - utilization trends and volume in GLP-1s



- Operating income up 22% - driven by distribution businesses, including commercial COVID sales and operating leverage from scale + cost actions
- Seeing broad pharma utilization trends
- Particularly strength in animal health – better comps
- Exclusive product - \$0.06 contribution for COVID. Expect \$0.21 headwind for FY24
- Saw incremental and higher than expected benefit from distribution of commercial COVID vaccines
 - Contribution more weighted to back-half of quarter
- Ex-COVID, segment operating income growth would be 12-14%
- International:
 - Operating income up 20% on constant currency (cc)
 - Higher shipment weights and improvements in air-freight costs
 - Offset forex pressure and divestiture in Egypt
- Guidance:
 - Adjusted diluted earnings per share to be in the range of \$13.25 to \$13.50, up from the previous range of \$12.70 to \$13.00. Represents 11-13% growth.
 - Revenue growth to be in the range of 10 to 12 percent (reported and cc), up from the previous range of 7 to 10 percent
 - Reflects better utilization trends
 - U.S. Healthcare Solutions revenue growth to be in the range of 11 to 13 percent, up from the previous range of 7 to 10 percent
 - Adjusted consolidated operating income growth to be in the range of 8 to 10 percent, up from the previous range of 4 to 6 percent. Excluding certain contributions related to COVID-19, adjusted consolidated operating income growth to be in the range of 11 to 13 percent, up from the previous range of 7 to 9 percent
 - U.S. Healthcare Solutions segment operating income growth to be in the range of 9 to 11 percent, up from the previous range of 4 to 7 percent. Expectations for segment operating income growth excluding exclusive COVID-19 therapy contributions to be in the range of 12 to 14 percent, up from the previous range of 7 to 10 percent
 - International Healthcare Solutions segment operating income growth to be in the range of 5 to 8 percent, up from the previous range of 1 to 4 percent
 - Slight benefit from foreign exchange as well

- Net interest expense to be in the range of \$185 to \$215 million, down from the previous range of \$210 to \$230 million
 - CF generation stronger than expected in 1Q
 - Expect cash expenses to step up in 2Q

Q/A

- Beat in the core business and sustainability? Shipping headwinds?
 - Commercial COVID vaccines and strong pharma utilization trends – favorable volume trends, including in specialty
 - Strong execution across businesses
 - Very good performance on operating expenses – OpEx focus and volumes
 - Pricing – continued signs of moderate generic deflation
 - Commercial COVID vaccines expected to come down significantly FY2Q-4Q aside from a pick-up in September
 - Ex- COVID – operating income growth of 12% in US vs. 22% reported
 - Expect positive trends to continue OpEx trends. Effective. Comps on OpEx get more difficult in 2H'24
 - Business has proved over many geo/economic events to be very resilient
 - Nothing specific to call out on shipping/disruptions
- International business and global specialty logistics, anything to call out? Generic deflation stabilization as number 5 vs. more of a key driver?
 - Global performing well – expect to see continued growth
 - Moving to Cencora global programs. Significant interest to manufactures.
 - Key elements of growth – in EU, have stronger competitors. Every country is a little bit different.
 - Moderation of generic deflation:
 - There has been a moderation in specific pockets in the market (smaller headwinds)
 - If sustained, and more broad, would be a continued benefit by reducing FY headwind
 - Volumes were so strong, 15% revenue growth, 13% GP growth and 8% OpEx growth, that delta really driving margin growth
- Gross profit was strong despite GLP volumes. How have GP's and volumes trended? When was shift in discount?



- GLP-1 profitability and impact to business: have continued to see growth in drugs for GLP-1, grew by \$2.2Bn y/y
- Consolidated revenue ex-GLP-1 up 12%
- Profitability – GLP-1s more impactful from revenue growth and minimally profitable. Brand with cold-chain requirements also
- International side – strength in Canadian business. Is there anything outside of COVID driving Canadian strength?
 - Has been a strong business. Have an integrated business model – Infusion centers, patient programs, 3PL.
 - Health system that is very relevant for expansion into other countries. Illustrative of types of pharmacy/healthcare models in EU
 - Growth in vaccines in Canada, but a small part of growth. Core grew very well in Canada
- PharmLex business growing well – is there any outsourcing headwinds?
 - Market has been a little bit softer than last two years (market pressures, inflation, geopolitics)
 - Thesis of investment in gene therapy
 - Focused on becoming best in class for PharmaLex – see role for Cencora in commercialization of this
 - Happy with team and U.S. presence. Should continue to benefit. Little bit affected by economic cycles, but long-term trends in place
- Brand pricing and mid-year price increases?
 - January price increase activity broadly in-line with expectations
 - Brand inflation is less important for Cencora – well over 95% of brand buy-side dollars are fee-for-service
 - Balance of the year – no specific guidance metrics, but expectations in model are generally in-line with last couple of years
- On GLP-1, is there a way to achieve better economics? Animal health alternative channels?
 - Some of the formulations are going to switch. On the sell side have 3-5 years. This is a different category on what the mutual requirements are.
 - Serious topline significant. Intend to do more work with manufactures.
 - Encouraging independent pharmacies to stay involved in dispensing of these products
 - Should see that they become typical economics
 - Animal Health:

- Particularly strong growth in Q
- Good performance benefited from easy comp due to prior year Dec industry pressures
- Strong operating income growth. Low DD rev growth in companion and production animal. Strong in companion animal
- Interactions with retail customers due to reimbursement changes?
 - Work with Elevate
 - Industry leader changes is important and would like to see a fair and transparent pricing system
 - Encouraging that there is some adoption of cost-plus model in industry
 - Will see how payors, industry respondents. Could support base community pharmacists' profitability
- International operating margin. Parse out Egypt. Believe adj. operating income would be up even more ex-Egypt divestiture. How much of raise is not related to GLP-1 outlook?
 - Operating income growth higher in quarter ex-Egypt. Egyptian business was profitable in F1Q last year, flat in 2Q-3Q and loss in 4Q. Slightly profitable business in FY23, not much of an impact on a FY24 comp.
 - US healthcare solutions revenue growth 11-13% growth up from 7-10%. New guidance reflects strong revenue growth including GLP-1s
 - GLP-1s contributed 3% of growth in 1Q. Expect continued good growth through balance of the year
- How is performance on biosimilar space?
 - Feel very good about growth prospects
 - Global pharma services like CenterX are a key part of growth and long-term guidance



Price objective basis & risk

Cencora Inc (COR)

Our \$256 price objective is based on about 18.5x CY24E P/E. This multiple is at about the five-year high, although we would argue that was artificially high due to the period of generic inflation. This also represents a bigger discount to the S&P 500 vs. the last five years. We think this discount is warranted given it incorporates the modest growth slowdown seen by COR and the rest of the supply chain as well as encompasses some competitive risks.

Downside risks to our PO are incrementally worse drug pricing pressure, increased competition creating gross profit headwinds, the risk of Amazon or another disruptive force entering the supply chain market, ongoing uncertainties and headlines related to the opioid litigation process, fundamental questions tied to EU-related profit pressures and Fx headwinds, inability to mitigate hyperinflation in Türkiye, any market volatility tied to the COVID outbreak, and potential government intervention in drug pricing controls.

Upside risks to our PO are any potential volume pickup, increases in buy-side/sell-side spreads, further opportunities for cost savings, upside related to the Alliance Healthcare acquisition, incremental contributions from COVID antiviral pills, and a deepening relationship with Walgreens, COR's largest customer.

Analyst Certification

I, Allen Lutz, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omniceil Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

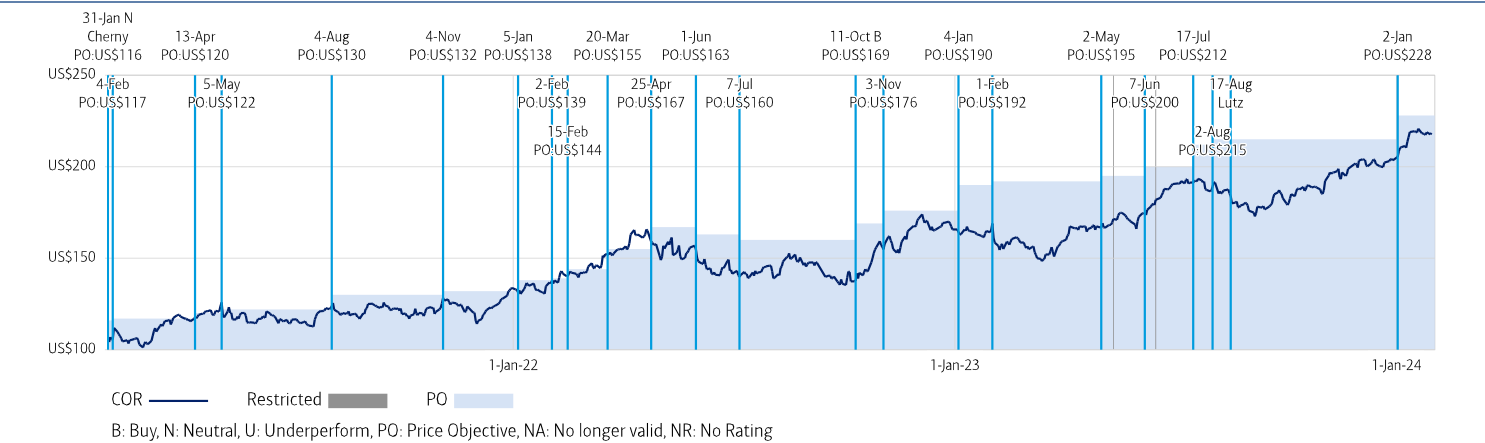
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Disclosures

Important Disclosures

Cencora Inc (COR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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the report: Cencora Inc.

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