

Cencora Inc

Impressive start to the year across the board

Maintain Rating: BUY | PO: 228.00 USD | Price: 220.53 USD

EPS raised to start FY24, ahead of consensus/BofA

Cencora's FY1Q'24 results were strong across the board with total revenue, adj. EPS, and EBIT ahead of our/consensus estimates. FY1Q revenues were 4.6% above the Street with adj. EPS 13.5% above and EBIT 11.9% above. The company pointed to core growth in the US Healthcare segment driven by overall market growth, which will likely provide support for the distributor group as a whole. COR also noted strength in GLP-1s, specialty, and Covid vaccines in the quarter. Meanwhile, the International segment also performed well, with both segment revenue and EBIT exceeding consensus estimates, although revenues were below our estimates. The guidance raise of \$0.52-\$0.53 at the midpoint is greater than the \$0.39 beat in the quarter, a positive. Core FY24 US Healthcare segment EBIT guidance and International EBIT guidance were also raised likely reflecting the strong start to FY24. Overall, the quarter demonstrates COR as having durable long-term growth. We maintain our Buy rating ahead of the 8:30AM ET call.

EPS ahead of BofA/consensus driven by both segments

Adjusted EPS of \$3.28 was above Visible Alpha consensus EPS estimates of \$2.89 and our EPS of \$2.84. Revenue of \$72.25Bn was above the Street's estimate of \$69.10Bn and our estimate of \$68.71Bn. US Healthcare Solutions revenue of \$65.18Bn was ahead of the Street's estimate of \$62.18Bn and our estimate of \$61.57Bn. US Healthcare Solutions EBIT came in at \$698.1MM vs. the Street's estimate of \$625.6MM and our estimate of \$608.6MM. International EBIT came in at \$187.6MM vs. the Street's estimate of \$167.9MM and our estimate of \$167.8MM.

FY24 EPS guide raised, above BofA/consensus

COR increased FY24 revenue growth guidance from 7-10% to 10-12% and raised adj. EPS from \$12.70-\$13.00 to \$13.25-\$13.50. This compares to Visible Alpha consensus estimates of \$12.90 and our estimate of \$12.85. Adjusted operating growth was increased from 4-6% (7-9% ex-Covid) to 8-10% (11-13% ex-Covid). COR increased US Healthcare Solutions operating income growth from 4-7% to 9-11%, and from 7-10% to 12-14% ex-Covid. International Healthcare Solutions operating income was increased from 1-4% to 5-8%. Finally, net interest expense was updated from \$210-\$230MM to \$185-\$215MM.

Key topics for the call

We think the most important topic will be any commentary around current script growth trends and how utilization trends across the channel factors into guidance. We also look for the trajectory of brand and generic inflation expectations for FY24. Additionally, we look for color around growth expectations for OneOncology, PharmaLex, and the impact of GLP-1s in the quarter. Finally, a further breakdown of FY24 guidance and the tailwinds/headwinds associated with overall growth, including more color into recent US strength and the cadence of OpEx growth relative to the full year US segment guidance will be important.

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31 January 2024

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Stock Data

Price	220.53 USD
Price Objective	228.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	147.48 USD - 221.31 USD
Mkt Val (mn) / Shares Out (mn)	43,981 USD / 199.4
Free Float	84.4%
Average Daily Value (mn)	280.74 USD
BofA Ticker / Exchange	COR / NYS
Bloomberg / Reuters	COR US / COR.N
ROE (2024E)	208.3%
Net Dbt to Eqty (Sep-2023A)	329.5%
ESGMeter™	High

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GLP-1 - Glucagon-like peptide-1

Exhibit 1: COR Variance Analysis

Strength in US Healthcare and International drove the EBIT beat in the quarter

(\$ in millions, except per share data)

Fiscal Year Ending September 30,	1Q'24E	1Q'24A	Delta - %	VA Consensus	Delta vs VA %	1Q'23A	Y-o-Y Growth
Revenue							
US Healthcare Solutions	\$61,579.1	\$65,183.8	5.9%	\$62,184.5	4.8%	\$56,236.6	15.9%
International Healthcare Solutions	7,140.2	7,070.2	(1.0%)	\$7,041.6	0.4%	6,611.3	6.9%
Intersegment Eliminations	(1.0)	(1.2)	20.9%	(\$1.2)	1.7%	(1.0)	16.7%
Total Revenue	\$68,718.2	\$72,252.8	5.1%	\$69,101.6	4.6%	\$62,846.8	15.0%
Cost of Revenue	66,436.8	69,863.5	5.2%	\$66,902.5	4.4%	60,722.1	15.1%
Gross Profit	\$2,281.4	\$2,389.3	4.7%	\$2,311.4	3.4%	\$2,124.7	12.5%
SG&A	1,505.1	1,503.6	(0.1%)	\$1,433.0	4.9%	1,391.0	8.1%
Adjusted EBIT	\$776.4	\$885.7	14.1%	\$791.2	11.9%	\$733.7	20.7%
US Healthcare Solutions EBIT	608.6	698.1	14.7%	\$625.6	11.6%	572.4	22.0%
International Healthcare Solutions EBIT	167.8	187.6	11.8%	\$167.9	11.7%	161.3	16.3%
Depreciation & Amortization	107.5	104.9	(2.4%)	\$125.0	(16.1%)	100.1	4.8%
EBITDA	\$883.9	\$990.6	12.1%	\$914.3	8.3%	\$833.8	18.8%
Interest Expense	55.0	40.6	(26.2%)	\$57.9	(29.9%)	46.0	(11.8%)
Other	(3.0)	5.5	—	\$3.4	59.5%	(1.1)	—
Pre-Tax Income	\$724.4	\$839.7	15.9%	\$734.9	14.3%	\$688.8	21.9%
Income Taxes	151.0	176.3	16.8%	\$152.8	15.4%	131.6	34.0%
Net Income	\$573.4	\$663.4	15.7%	\$496.6	33.6%	\$557.2	19.0%
Minority Interest / Other	(1.0)	1.9	—	\$2.2	(11.6%)	(2.4)	—
Adjusted Net Income	\$574.4	\$661.4	15.2%	\$585.5	13.0%	\$559.6	18.2%
Adjusted EPS	\$2.84	\$3.28	15.5%	\$2.9	13.3%	\$2.71	20.8%
Fully Diluted Share Count	202.4	201.8	(0.3%)	202.5	(0.3%)	206.3	(2.2%)

Source: Company Filings, Visible Alpha, and BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Cencora Inc (COR)

Our \$228 price objective is based on about 17x 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

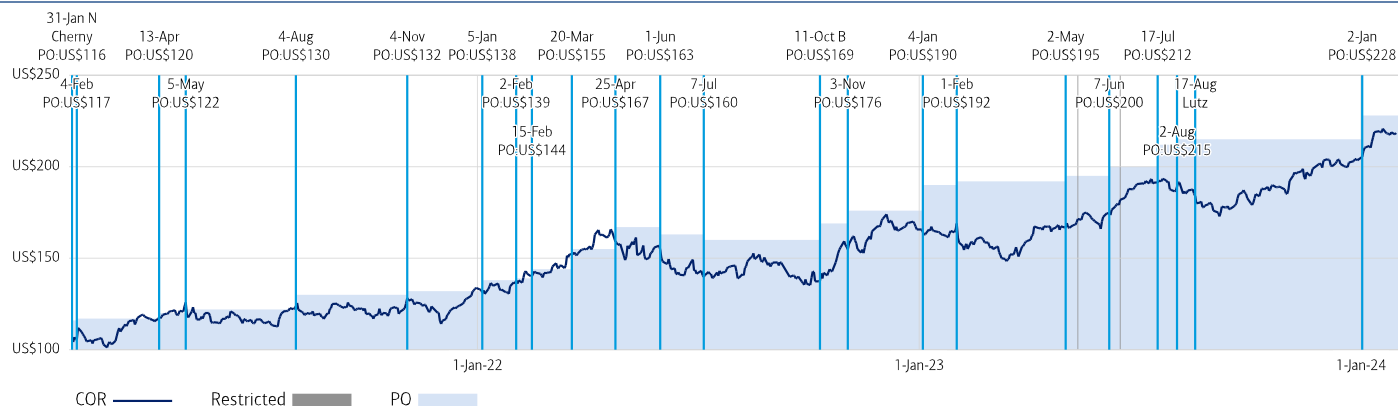
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Cencora Inc (COR) Price Chart



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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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