

Cardinal Health

FY24 EPS guidance raised despite weaker than expected segment profit in FY2Q

Maintain Rating: NEUTRAL | PO: 112.00 USD | Price: 109.19 USD

FY2Q mixed w/ both segment EBIT below the Street

Cardinal Health's FY2Q results were mixed with better-than-expected overall performance on total revenue, gross profit, EBIT, and EPS but with operating profit metrics slightly worse than expected in both the Pharmaceutical and Medical segments. Pharmaceutical EBIT of \$518MM came in below consensus of \$523.7MM, but came in ahead of BofA of \$491.6MM. Medical EBIT of \$71.0MM came in below consensus of \$73.7MM and BofA of \$83.4MM. Recall, Cardinal updated its Medical EBIT guidance at a competitor conference last month for segment profit to be generally consistent with FY1Q, so these results are in-line with those updated expectations. Relative to the current strength of the distribution channel, we view the Pharma EBIT miss as somewhat surprising and note the miss was driven in part by higher operating expenses. Meanwhile, for the Medical segment we expect the guide down to be a key topic for today's call. While FY24 EPS guidance now captures performance in the first half of the fiscal year, we continue to look for greater visibility in achieving the targets updated for the Medical segment in 2H. With the FY24 guidance raised, we look for drivers on what led to the operational outlook changes. We maintain our Neutral rating ahead of the 8:30AM ET call.

Pharma and Medical segment EBIT below BofA/consensus

FY2Q total revenues of \$57.44Bn were above Visible Alpha consensus estimates of \$56.90Bn and our estimate of \$56.49Bn. Pharmaceutical revenues of \$53.52Bn were above the Street's estimate of \$53.04Bn and our estimate of \$52.67Bn while Medical revenues of \$3.92Bn were above the Street's estimate of \$3.89Bn and our estimate of \$3.81Bn. Total EBIT of \$562.0MM came in above the Street's estimate of \$555.7MM and our estimate of \$560.0MM. Adjusted Pharmaceutical EBIT of \$518.0MM was below consensus of \$523.7MM and above our estimate of \$491.6MM, while Medical segment EBIT of \$71.0MM was below consensus of \$73.7MM and below our \$83.4MM estimate. Adjusted EPS came in at \$1.82, above the Street's estimate of \$1.57 and BofA's \$1.50.

FY24 EPS guidance raised, ahead of consensus/BofA

CAH raised FY24 adjusted EPS guidance from the high end of \$6.75-\$7.00 (midpoint \$6.88) to \$7.20-\$7.35 (midpoint \$7.28), with the midpoint of the range above Visible Alpha consensus estimates of \$6.96 and our estimate of \$6.90. Pharma EBIT guidance was maintained at 7%-9% growth, wrapping our estimate of 7.6%. Medical EBIT guidance was lowered from \$400MM to \$380MM, below our estimate of \$382.0MM. Interest expense was updated from \$100-\$120MM to \$50-\$65MM and FY24 diluted weighted average shares outstanding was updated from ~249MM to ~247MM.

Key topics for the call

The key focus for the call will be FY24 guidance and the various moving pieces that build to results. This is particularly true of the Medical segment as investors will want to see where visibility lies in getting to the updated segment EBIT targets. Additionally, we look for granularity on at-Home Solutions and Nuclear given the recently updated reporting structure. Finally, we look for updates on the health of the core Pharma market.

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01 February 2024

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Stock Data

| | |
|---------------------------------|------------------------|
| Price | 109.19 USD |
| Price Objective | 112.00 USD |
| Date Established | 31-Jan-2024 |
| Investment Opinion | B-2-7 |
| 52-Week Range | 68.53 USD - 111.40 USD |
| Mrkt Val (mn) / Shares Out (mn) | 26,912 USD / 246.5 |
| Free Float | 99.3% |
| Average Daily Value (mn) | 223.24 USD |
| BofA Ticker / Exchange | CAH / NYS |
| Bloomberg / Reuters | CAH US / CAH.N |
| ROE (2024E) | NA |
| Net Dbt to Eqty (Jun-2023A) | NA |
| ESGMeter™ | High |

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Exhibit 1: CAH Variance Analysis

Overall results were mixed with revenue/EBIT/EPS above consensus, but segment level Pharma Medical EBIT missed

(\$ in millions, except per share data)

| Fiscal Year Ending September 30, | 2Q'24E | 2Q'24A | Delta - % | VA Consensus | Delta vs VA - % | 2Q'23A | Y-o-Y Growth |
|-------------------------------------|---------------|---------------|-----------|---------------|-----------------|---------------|--------------|
| Revenue | | | | | | | |
| Pharmaceutical Segment | \$52,678.7 | \$53,520.0 | 1.6% | 53,042.0 | 0.9% | \$47,673.0 | 12.3% |
| Medical Segment | \$3,816.9 | 3,928.0 | 2.9% | 3,893.1 | 0.9% | 3,797.0 | 3.5% |
| Intersegment Eliminations | (2.5) | (3.0) | 20.0% | (1.8) | 65.8% | (1.0) | 200.0% |
| Total Revenue | \$56,493.0 | \$57,445.0 | 1.7% | 56,908.2 | 0.9% | \$51,469.0 | 11.6% |
| Gross Profit | \$1,795.5 | \$1,846.0 | 2.8% | 1,785.1 | 3.4% | \$1,663.0 | 11.0% |
| SG&A | 1,235.5 | 1,284.0 | 3.9% | 1,243.0 | 3.3% | 1,196.0 | 7.4% |
| Adjusted EBIT | \$560.0 | \$562.0 | 0.4% | 555.7 | 1.1% | \$467.0 | 20.3% |
| Pharmaceutical Segment EBIT | 491.6 | 518.0 | 5.4% | 523.7 | (1.1%) | 464.0 | 11.6% |
| Medical Segment EBIT | 83.4 | 71.0 | (14.8%) | 73.7 | (3.7%) | 17.0 | 317.6% |
| Interest Expense | 32.0 | 8.0 | (75.0%) | 29.9 | (73.3%) | 25.0 | (68.0%) |
| Other | 5.0 | (15.0) | (400.0%) | (1.8) | 757.1% | (8.0) | 87.5% |
| Pre-Tax Income | \$523.0 | \$569.0 | 8.8% | 525.3 | 8.3% | \$450.0 | 26.4% |
| Income Taxes | 144.1 | 121.0 | (16.0%) | 131.8 | (8.2%) | 104.0 | 16.3% |
| Net Income | \$375.9 | \$447.0 | 18.9% | 389.2 | 14.9% | \$346.0 | 29.2% |
| Adjusted EPS | \$1.50 | \$1.82 | 20.8% | \$1.57 | 15.6% | \$1.32 | 37.2% |

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

BofA GLOBAL RESEARCH

Price objective basis & risk

Cardinal Health (CAH)

Our \$112 price objective is about 15.5x CY24E EPS. This multiple is above the five-year average of 11x, but below peer multiples. The discount incorporates differential in growth rates across both the comparable pharma distribution businesses as well as the long-term appeal of the ancillary businesses.

Upside risks to our PO are any potential volume pickup, increases in buy-side/sell-side spreads, quicker contribution from the various growth initiatives, accelerated capital deployment beyond what we currently forecast, and any value-added changes from the Board strategic review. 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 to finalizing the opioid litigation process, demand challenges caused by a COVID outbreak, and Medical revenue/profit shortfalls related to market-wide pricing dynamics as well as ongoing supply chain/inflation headwinds.

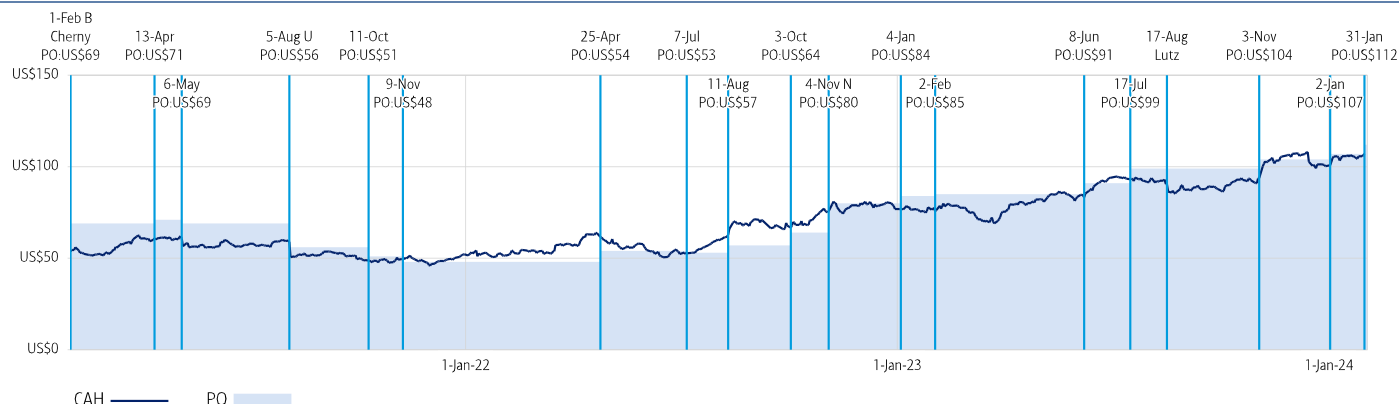
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Cardinal Health Inc (CAH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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| 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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|-------------------|---|--|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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