



Cardinal Health Inc. (CAH)

Updated January 30th, 2025, by Nathan Parsh

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	-1.0%	Market Cap:	\$31 B
Fair Value Price:	\$87	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/28/25 ¹
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date:	04/15/25 ²
Dividend Yield:	1.6%	5 Year Price Target	\$111	Years Of Dividend Growth:	38
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

Dublin, Ohio-based Cardinal Health is one of the “Big 3” drug distribution companies along with McKesson (MCK) and AmerisourceBergen (ABC). Cardinal Health serves over 24,000 United States pharmacies and more than 85% of the country’s hospitals. The company has operations in more than 30 countries with approximately 47,000 employees. With 36 years of dividend increases, the \$31 billion market cap company is a member of the Dividend Aristocrats Index.

On May 5th, 2022, Cardinal Health announced that its prior agreement to pay \$6 billion over 18 years in a national opioid settlement was finalized. More than 98% of lawsuits are included in this settlement.

On May 7th, 2024, Cardinal Health increased its quarterly dividend 1% to \$0.5056.

On January 30th, 2025, Cardinal Health announced results for the second quarter of fiscal year 2025 for the period ending December 31st, 2024. For the quarter, revenue decreased 3.7% to \$55.3 billion, but this was \$330 million above estimates. On an adjusted basis, earnings of \$468 million, or \$1.93 per share, compared favorably to earnings of \$464 million, or \$1.89 per share, in the prior year. Adjusted EPS was \$0.17 better than expected.

For the quarter, revenue for the Pharmaceutical and Specialty Solutions segment was down 4% to \$50.8 billion, but segment profit improved 7% to \$495 million. An expiring customer contract impacted revenue. Excluding this, revenue was higher by 17% for the period as this segment continues to benefit from higher sales to existing customers and strength in brand and specialty pharmaceuticals. Revenue for the Global Medical Products and Distribution segment grew 1% to \$3.2 billion. Segment profit of \$18 million compared favorably to \$11 million in the prior year. Volumes improved due to higher demand from existing customers. The Pharmaceutical and Specialty Solutions segment makes up the bulk of revenues, but the Global Medical Products and Distribution segment remains important due to its higher margins and growth potential.

Cardinal Health provided updated guidance for fiscal year 2025 as well, with the company now expecting adjusted earnings-per-share in a range of \$7.85 to \$8.00, up from \$7.75 to \$7.90 and \$7.55 to \$7.70 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.38	\$5.24	\$5.40	\$5.00	\$5.28	\$5.45	\$5.57	\$5.06	\$5.85	\$7.53	\$7.93	\$10.12
DPS	\$1.41	\$1.61	\$1.81	\$1.86	\$1.91	\$1.93	\$1.94	\$1.96	\$1.98	\$2.00	\$2.02	\$2.12
Shares³	328	322	316	309	298	294	294	275	254	245	242	235

Cardinal Health has grown earnings-per-share by an average compound rate of 6.2% and 7.5% over the last 10- and five-year periods of time, respectively. Since fiscal 2015, the dividend has grown at 4.0% annually, but this has slowed to 0.9% for the last five years. Moving forward we do anticipate slightly lower growth rates. We are now forecasting 5% intermediate-term earnings growth, up from 3% previously. Our subdued growth rate view could turn out to be

¹ In millions.

² In millions.

³ In millions.

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conservative, especially with the company's penchant for share repurchases. However, given the company's earnings performance in 2016 through 2020 and a hot-topic drug pricing environment we are cautious for now. Cardinal Health held up well during and after the COVID-19 the pandemic, especially with elective procedures making a comeback. We expect dividends to grow at just 1% annually moving forward given the recent rate of increases.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.1	14.9	14.4	14.6	9.5	9.2	9.8	10.4	16.3	13.1	16.1	11.0
Avg. Yld.	1.7%	2.1%	2.3%	2.9%	3.8%	3.8%	3.6%	3.7%	2.1%	2.0%	1.6%	1.9%

Shares of Cardinal Health have increased \$12, or 10.3%, since our November 2nd, 2024 report. The stock has traded hands with an average P/E ratio of 13.1 times earnings dating back to 2015, with the average valuation falling to less than 12 times earnings more recently. We have raised our target P/E to 11 from 10 to better reflect the medium-term average multiple. Reaching our valuation target by 2030 would reduce annual returns by 7.4% over this period. The dividend yield remains lower than it has been in several years, primarily due to a higher share price and lower increases. While the pace of dividend growth has slowed, the starting yield is still slightly above the average yield for the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

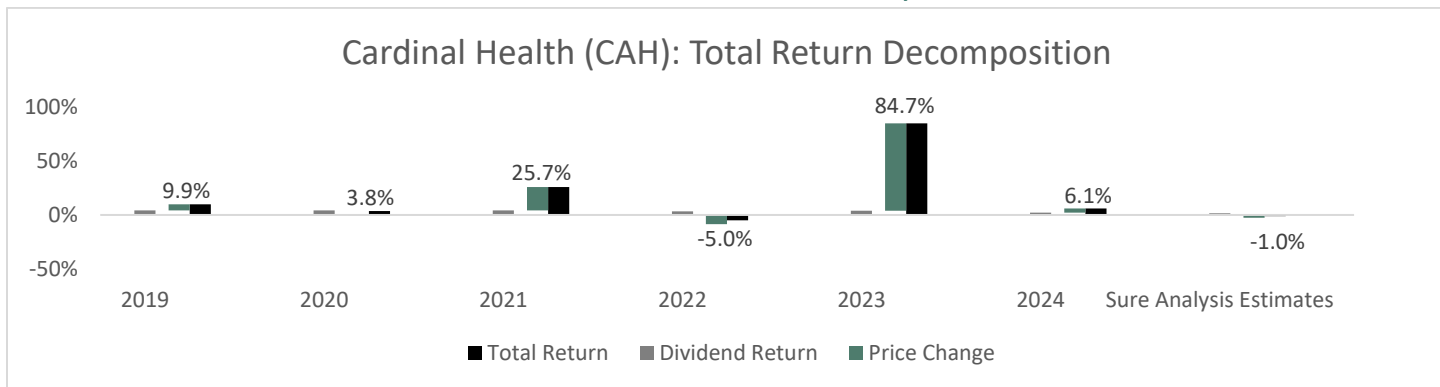
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	32%	31%	34%	37%	36%	35%	35%	39%	34%	27%	25%	21%

Collectively the three major pharmaceutical wholesalers have a competitive advantage in the industry. Competition is held at bay by the massive scale already in place and the exceptionally low margins. Cardinal Health has proven to be a solid operator in many ways – strong earnings for the past decade, a growing dividend and ample interest coverage. The dividend payout ratio had ticked up slightly in recent years, but its back to about a third of expected profits. In turn, the company has the ability to repurchase a meaningful number of shares. As of the most recent report the company held \$3.8 billion in cash and equivalents, \$35.8 billion in current assets, and \$47 billion in total assets against \$35.2 billion in current liabilities and \$47 billion in total liabilities. Long-term obligations stood at \$7.1 billion.

Final Thoughts & Recommendation

Cardinal Health is projected to return -1.0% annually through fiscal year 2030, compared to our prior estimate of a return of -2.6%. Our forecast stems from a 5% growth rate and a 1.6% dividend yield that are more than offset by a high single-digit headwind from multiple contraction. Cardinal Health has settled most of its opioid lawsuits and management once again raised its guidance for the fiscal year. However, we believe that much of the good news is already priced into the stock. We have raised our five-year price target \$20 to \$111 to reflect revised EPS, growth, and valuation targets, but we continue to view shares of Cardinal Health as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue (\$B)	102.5	121.5	130.0	136.8	145.5	152.9	162.5	181.3	205.0	226.8
Gross Profit	5,712	6,543	6,544	7,181	6,834	6,868	6,778	6,484	6,874	7,414
Gross Margin	5.6%	5.4%	5.0%	5.2%	4.7%	4.5%	4.2%	3.6%	3.4%	3.3%
SG&A Exp.	3,240	3,648	3,775	4,596	4,480	4,572	4,533	4,512	4,800	5,000
D&A Exp.	451	641	717	1,032	1,000	913	783	692	692	710
Operating Profit	2,191	2,436	2,242	1,878	1,733	1,772	1,794	1,648	1,789	2,130
Operating Margin	2.1%	2.0%	1.7%	1.4%	1.2%	1.2%	1.1%	0.9%	0.9%	0.9%
Net Profit	1,215	1,427	1,288	256	1,363	(3,696)	611	(938)	330	852
Net Margin	1.2%	1.2%	1.0%	0.2%	0.9%	-2.4%	0.4%	-0.5%	0.2%	0.4%
Free Cash Flow	2,240	2,506	797	2,384	2,394	1,585	2,029	2,788	2,363	3,251
Income Tax	755	845	630	(487)	386	(79)	(289)	153	332	348

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	30,142	34,122	40,112	39,951	40,963	40,766	44,453	43,878	43,349	45,121
Cash & Equivalents	4,616	2,356	6,879	1,763	2,531	2,771	3,407	4,717	4,076	5,133
Acc. Receivable	6,523	7,405	8,048	7,800	8,448	8,264	9,103	10,561	11,108	12,084
Inventories	9,211	10,615	11,301	12,308	12,822	13,198	14,594	15,636	16,119	14,957
Goodwill & Int.	6,018	9,426	9,207	12,229	11,808	11,275	10,094	7,629	6,085	6,450
Total Liabilities	23,886	27,551	33,284	33,892	34,633	38,974	42,659	44,584	46,306	48,333
Accounts Payable	14,368	17,306	17,906	19,677	21,535	21,374	23,700	27,128	29,934	31,759
Long-Term Debt	5,492	5,539	10,395	9,013	8,031	6,775	6,236	5,315	4,701	5,092
Total Equity	6,256	6,554	6,808	6,059	6,328	1,789	1,791	(709)	(2,958)	(3,213)
LTD/E Ratio	0.88	0.85	1.53	1.49	1.27	3.79	3.48	(7.50)	(1.59)	(1.58)

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.3%	4.4%	3.5%	0.6%	3.4%	-9.0%	1.4%	-2.1%	0.8%	1.9%
Return on Equity	19.2%	22.2%	19.2%	4.0%	22.0%	-91.0%	34.1%	-172.4%		
ROIC	11.0%	12.0%	8.8%	1.6%	9.3%	-32.2%	7.4%	-14.8%	10.4%	47.0%
Shares Out.	328	322	316	309	298	294	294	275	254	245
Revenue/Share	306.06	368.32	406.18	434.31	483.50	521.92	552.61	649.91	782.36	918.33
FCF/Share	6.69	7.59	2.49	7.57	7.95	5.41	6.90	9.99	9.02	13.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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