Cencora Inc. (COR)

Strategic Portfolio Addition

ESSEC Club of Economics

February 4, 2026

Recommendation: BUY Target: **16.3%** Upside: **+29%** (DCF)

Current Portfolio: High Vulnerability

Sector Allocation

Technology	26.5%
Financials	12.5%
Commodities	12.1%
Healthcare	9.5%
Other	39.4%

Geographic Exposure

- US: 60% EU: 35% Other: 5%

Risk Metrics

Volatility	15.82%
Sharpe Ratio	0.788
VaR (95%)	-20.7%
Max Drawdown	-26.4%

Key Issues

- Tech concentration: 26.5%
- Healthcare underweight
- High correlation in top holdings

"We need a structural hedge, not a speculative bet."

Why Healthcare? The Structural Diversifier

1. Low Correlation with Tech

- Correlation: **0.45** (vs 0.7+ for others)
- Stability during tech corrections

2. Defensive Characteristics

- Sector Beta: 0.6–0.7
- Demographics-driven demand

3. Portfolio Gap

- Current: 9.5% / Optimal: 15–20%
- Underweight: 5–10%

Structural Tailwinds

Demographics
Aging population, chronic diseases

Infrastructure
Pharma distribution, supply chain

2026 Macro
Rates favor quality, defensive rotation

4. 2026 Context

- Rising rates pressure growth stocks
- Geopolitical uncertainty

Cencora Inc.: The Distribution Powerhouse

BUY

Allocation	**16.3%**
Price	\$359 → \$464
Upside	**+29%** (DCF)
Dividend	0.7%

Market Cap	\$68B
2026E Rev	\$340B
Op. Margin	1.5%
Beta	**0.67**

Why COR?

1. **Pharma Distribution Leader**
   - Top 3 US distributor (90% market)
   - Essential healthcare infrastructure
2. **Stable Cash Flow**
   - Revenue: \$321B+ (FY25)
   - 5–7% growth guidance (FY26)
   - Investment grade credit
3. **2026 Catalysts**
   - Specialty pharma expansion
   - Biosimilar distribution growth

Methodology: Portfolio Reconstruction

Challenge: Only Top 10 holdings (36%) → Need 100% for analysis

Solution: ETF Proxy Approach

Sector	**ETF Proxy**	**Gap**
Healthcare	IXJ (Global Healthcare)	9.5%
Commodities	MXI (Global Materials)	12.1%
Real Estate	REET (Global REIT)	8.7%
Communications	IXP (Global Telecom)	6.5%
Industrials	EXI (Global Industrials)	5.5%
Consumer Staples	KXI (Global Staples)	5.0%
Consumer Disc.	RXI (Global Discretionary)	5.0%
Other (Energy, Fin, Util)	IXC, IXG, JXI	9.2%

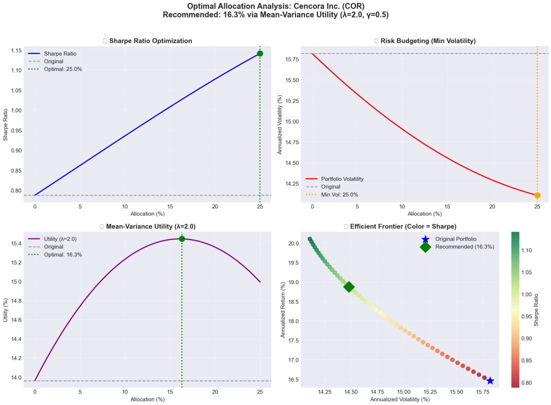
Result: Top 10 (36%) + ETF Proxies (64%) = **100% Portfolio**

Methodology: Screening & Allocation

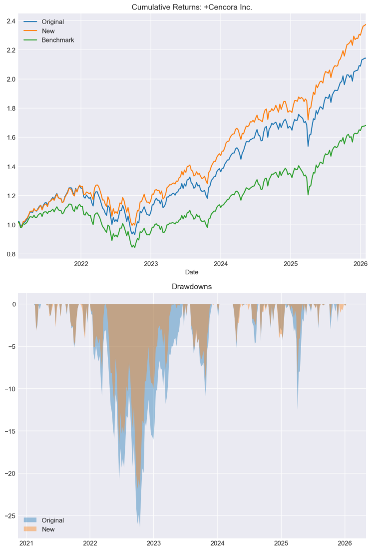
Screening Criteria:

- **Sector:** Healthcare
  (Pharma, MedTech, Services)
- **Market Cap:** > \$20B
  Large caps ensure liquidity
- **Beta:** < 0.8
  Low volatility / defensive
- **Revenue Growth (5y):** > 5%
  Avoid declining businesses
- **ROIC:** > 10%
  Quality capital allocation
- **FCF:** Positive
  Cash generation capability

Portfolio Allocation:



Portfolio Impact: Growth With Stability



Before vs After (+16.3% COR)

Metric	Before	After
Return	16.47%	**18.88%**
Volatility	15.82%	**14.48%**
Sharpe	0.788	**1.027**
Max DD	-26.4%	-21.8%

+2.4% return AND 1.3% vol reduction

New Weights: (assuming proportional reduction of original positions)

- Tech: 26.5% → 22.2%
- Health: 9.5% → **23.3%**

Valuation: DCF Base Case (Conservative)

Current Price: \$359 → Fair Value: \$464 → Upside: +29%

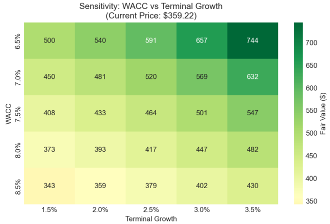
1. Conservative Assumptions

- **WACC (7.46%):** Reflects defensive profile (Beta 0.67) and stable cash flows.
- **Growth (8.6%):** Capped below historical 3Y CAGR (10.4%).
- **FCF Margin (1.0%):** Maintained flat despite scaling benefits.

2. Value Breakdown

Component	Value	% EV
PV of FCFs (10y)	\$31.9B	34%
PV of Terminal	\$61.6B	66%
Enterprise Value	**\$93.5B**	**100%**
(-) Net Debt	-\$3.3B	
Equity Value	**\$90.2B**	

3. Sensitivity Analysis *Impact of WACC and Terminal Growth on Fair Value*

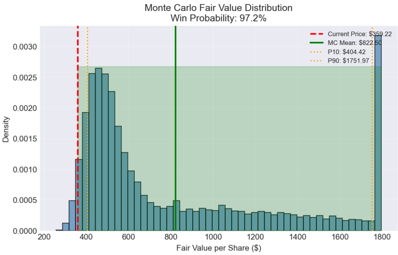


Conclusion:

- Base case offers strong margin of safety
- Even in stress case (WACC 8%), price > \$376 (Positive Upside)

Valuation: Robustness (Monte Carlo Simulation)

1. Simulation Results (10,000 Runs)



- **Mean Fair Value: $822.50** (+129%)
- **Median Value:** $583.02
- **Win Probability: 97.2%** (Price > $359)

Note: Mean > Median due to high upside tail cases.

2. Methodology & Parameters

Why Monte Carlo? Standard DCF is static. Monte Carlo tests **10,000 scenarios** to quantify uncertainty and upside potential.

Randomized Inputs (Normal Dist.):

- **FCF Margin:** 1.0% $\pm$ 2.0%
- **Revenue Growth:** 8.6% $\pm$ 2.0%
- **WACC:** 7.46% $\pm$ 0.5%

Coherency Check:

- Base Case ($464) uses conservative 1% margin.
- Upside cases (Margin > 2-3%) drive the higher Mean ($823).
- **Conservative Growth:** Model input (8.6%) is capped well below the historical 3Y CAGR (10.4%), providing a safety margin.

Risk Assessment

Risk	Prob.	Impact	Mitigation
Drug Pricing	Med-Hi	Revenue	Diversified customer base. Essential service.
Opioid Liability	Low	Legal	Major state settlements complete.
Competition	Med	Margins	Oligopoly structure. High barriers.
M&A Risk	Low	Delays	Strong integration history.
Margin Pressure	Med	Earnings	Specialty pharma growth offsets.

"Essential infrastructure, oligopoly protection, stable cash flows."

Recommendation: Build Resilience for 2026

Problem

- Tech overweight: 26.5%
- VaR too high: -20.7%

Solution

- COR at 16.3%
- Sharpe: +30%
- Volatility: -1.34%

Result

- Downside protection
- 18.9% annualized return

BUY COR

Allocation	**16.3%**
Entry	$359
DCF Target	$464 (+29%)
MC Mean	$823 (+129%)
Horizon	12–24 months

	Before	**After**
Return	16.5%	18.9%
Volatility	15.8%	14.5%
Sharpe	0.788	1.027
Tech	26.5%	22.2%
Health	9.5%	23.3%

Thank You

Questions?

All metrics, backtests, and visualizations were generated using my custom engine:

```
https://github.com/joshsssn/ECE-Portfolio-Analysis-Engine
```

ESSEC Club of Economics | February 4, 2026