

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% |

Risk Metrics

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

Geographic Exposure

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

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: 12–15%
- **Underweight: 3–5%**

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 | 0.36 |

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

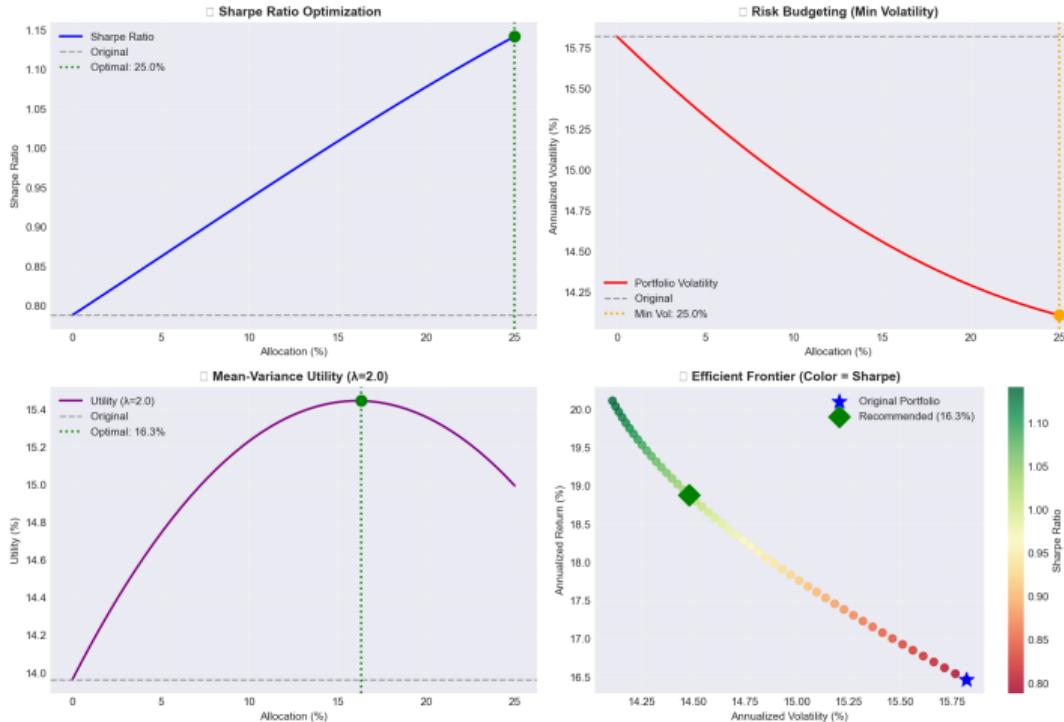
Solution: ETF Proxy Approach

| 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 & Optimization

Optimal Allocation Analysis: Cencora Inc. (COR)
Recommended: 16.3% via Mean-Variance Utility ($\lambda=2.0$, $y=0.5$)



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*

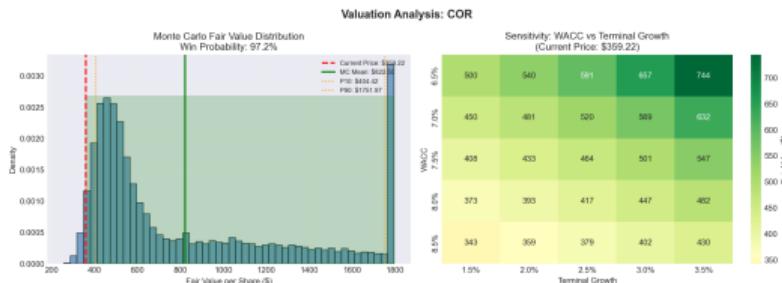
| WACC | 2.0% | 2.5% | 3.0% |
|------|-------|--------------|-------|
| 7.0% | \$505 | \$542 | \$588 |
| 7.5% | \$428 | \$464 | \$499 |
| 8.0% | \$376 | \$405 | \$436 |

Conclusion:

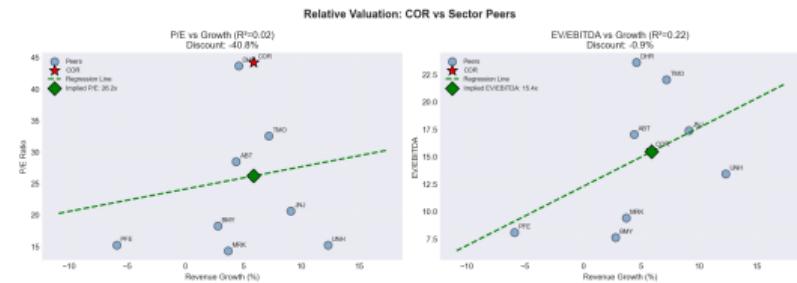
- Base case offers strong margin of safety
- Even in stress case (WACC 8%), price > \$376 (Positive Upside)

Valuation: Robustness (Monte Carlo & Relative)

1. Monte Carlo (Upside Case)



2. Relative Valuation (Market Check)



- **Method:** 10,000 randomized scenarios
- **Mean Fair Value:** **\$822.50** (+129%)
- **Win Prob:** 97.2%
- *Captures significant tail upside*

- **Method:** Regression (P/E vs Growth)
- **Insight:** COR trades **below trend**
- **Peers:** MCK, CAH
- *Confirms structural undervaluation*

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 |
|------------|--------|-------|
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| Volatility | 15.8% | 14.5% |
| Sharpe | 0.788 | 1.027 |
| Tech | 26.5% | 22.2% |
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Thank You

Questions?

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

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

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