Fourth Quarter Fiscal Year 2023 Financial Results
Conference Call Commentary
November 2, 2023

BENNETT MURPHY:

Good morning, good afternoon and thank you all for joining us for this conference call to discuss Cencora's fiscal 2023 fourth quarter and full year results. I am Bennett Murphy, Senior Vice President, Head of Investor Relations and Treasury. Joining me today are Steve Collis, Chairman, President and CEO, and Jim Cleary, Executive Vice President and CFO.

On today's call, we will be discussing non-GAAP financial measures. Reconciliations of these measures to GAAP are provided in today's press release, which is available on our website at Investor.Cencora.com. We have also posted a slide presentation to accompany today's press release on our investor website.

During this conference call, we will make forward-looking statements about our business and financial expectations on an adjusted, non-GAAP basis including, but not limited to, EPS, operating income and income taxes. Forward-looking statements are based on management's current expectations and are subject to uncertainty and change. For a discussion of key risks and assumptions, we refer you to today's press release and our SEC filings, including our most recent 10-K.

Cencora assumes no obligation to update any forward-looking statements, and this call cannot be rebroadcast without the permission of the Company.

You will have an opportunity to ask questions after today's remarks by management. We ask that you limit your questions to one per participant in order for us to get to as many participants as possible within the hour. With that, I will turn the call over to Steve.

STEVE COLLIS:

Thank you, Bennett. Good morning and good afternoon to everyone on the call. Welcome to our fourth and final earnings call for fiscal 2023 and our first earnings call as Cencora. Today my remarks will focus on the continued execution and success of our business in fiscal 2023 and how our strategy and capabilities as a global healthcare services company position us to further drive value for stakeholders in 2024 and beyond.

Fiscal 2023 was a seminal year for Cencora as we united together under our new, globally inclusive identity and took key steps to advance our position at the center of healthcare. I am proud of how we continue to deliver strong results through execution by our team members as we capitalize on the strength of our business, while strategically deploying our capital by both returning capital to our shareholders and making meaningful internal and external investments. PharmaLex and OneOncology were important investments made this year that extended the services and opportunities we have, to continue to differentiate the solutions we provide our core customers. Our evolution to Cencora unites our team members under a name that better reflects our impact on healthcare as we continue to build on our commercial strengths.

We entered 2023 from a position of strength and have continued to build on the momentum throughout the year, delivering full-year adjusted EPS growth of 9 percent. Guided by our purpose, powered by our foundation in pharmaceutical distribution, and differentiated by the breadth of solutions we provide our partners, we continue to execute on our strategic imperatives to advance our core business and enhance our capabilities to drive value in the years to come.

This year, we expanded our leadership in specialty by enhancing our suite of services for pharmaceutical partners and adding to the solutions we offer providers. In January, we closed on our acquisition of PharmaLex, which broadened our suite of end-to-end commercialization service offerings. PharmaLex complements our capabilities in market access strategy, patient access and adherence and specialty logistics. The business provides us a global platform of solutions to drive our long-term growth in supporting pharma partners across the development and commercialization journey. On the provider side, we made a minority investment in OneOncology, allowing us to deepen our relationships with community oncologists and which represents the next evolution of our longstanding leadership in specialty. Over the past 20 years, we have been proud to build this leadership in specialty, through strategic partnerships and investments to continuously expand the breadth and depth of solutions we provide to both downstream providers and upstream innovators. The acquisitions and investments we completed during fiscal 2023 complement our core business and are a testament to our commitment to advancing our leadership in specialty.

We also consistently invest in innovation to strengthen our ability to efficiently and effectively serve our customers. Teams across Cencora, from our sales teams to distribution center operations, to consultants in the field, actively embrace innovative technology to drive our business forward and support our pharma partners. One example is our premier global specialty logistics business, which continues to drive innovation by adding services to support clinical trial logistics and commercial time-and-temperature sensitive products through enhanced cryogenic shipping capabilities and expanded use of real-time tracking for shipments. Technologies like these are vital, allowing us to transport highly specialized products while giving our customers 24/7 visibility to their critical shipments, enabling them to better serve patients.

Innovation, and the rapidly evolving healthcare landscape, necessitate that we remain agile and adaptive to support our customers' needs. As pharmaceutical innovation continues to advance, so too must our capabilities in supporting it. Earlier this year, we opened a new state-of-the-art specialty distribution facility in California. As the specialty space continues its rapid growth, the new distribution center increases our scale and allows us to better support our customers and partners by providing efficient and reliable distribution for these complex products.

Cencora's customer-centric approach prioritizes understanding the challenges our partners face and exploring how we can provide them the solutions and services they need to reach and better serve patients. As pharmacists continue to be recognized for their role as accessible care providers who can bridge care gaps, particularly in underserved populations, we aim to provide tools and technology to enable them to spend more time with patients. In August, we hosted our annual ThoughtSpot conference in partnership with our Good Neighbor Pharmacy network. The conference brought together thousands of independent community pharmacists and gave them the opportunity to attend education sessions on the evolving healthcare environment and latest technology solutions, connect and learn from industry peers, and celebrate the impact community pharmacies have in healthcare. Our recently launched Cencora Marketplace, which was showcased at the conference, allows independent pharmacies to streamline their ordering process for consumer products in one centralized location. The solutions we provide our pharmacy customers allow them to spend more time caring for their patients and understanding their needs, an important role that has been recognized for the seventh year in a row by JD Power with Good Neighbor Pharmacy ranking number one in Customer Satisfaction among Chain Drug Store Pharmacies in its 2022 U.S. Pharmacy Study. Pharmacists also play a critical role in hospitals by working in alignment with physicians and nurses to treat patients, and one way in which they do this is in keeping medications stocked and up-to-date for immediate use. Recognizing the time hospitals spend on inventory

management, our teams looked for ways to leverage technology to provide a solution to make this process more seamless. Through RFID tagging, hospital pharmacists can quickly identify out of stock or soon-to-be expired medications, ensuring that patients have access to the medication they need, when they need it. This tagging is conveniently done at our distribution sites before medications are delivered to our health system customers. By understanding our customers' needs, our team is able to leverage innovation and create solutions to promote efficiency and address their challenges, advancing our shared goal of improving patients' quality of care.

Each day, we are enhancing reach and efficiency in the pharmaceutical supply chain and leveraging the breadth of our global healthcare services to help our customers navigate the increasingly complex environment they face. Driven by customer and patient needs, and our focus on contributing to prescription outcomes, we have forged innovative partnerships aimed at ensuring a stable supply of essential medications. Earlier this year, we announced a relationship with a nonprofit entity that partners with healthcare systems to reduce and prevent drug shortages. As the exclusive distributor of their contracted products, we provide supply chain support and ensure that their crucial products reach their members in a timely and safe manner.

We have also cemented our role at the center of healthcare by building long-term relationships with market-leading customers. We provide our customers with valuable services ranging from distribution and logistics to consulting to grow their businesses, which in turn supports our own growth. We are creatively resourceful and next minded as we assess our talents and strengths and plan for future opportunities to create value for all of our stakeholders. Since the beginning of fiscal 2023, we have welcomed four new independent Directors with valuable experience and backgrounds that adds to the strength of our board. These new directors add complementary expertise and diverse perspectives to support our advancement, both internally and externally, as a global healthcare services leader.

Our commitment to elevating talent and advancing Cencora's capabilities is pivotal in delivering on our strategic growth initiatives. This year I am proud to announce we have reached 100% dollar-for-dollar pay equity in the United States and set three ESG goals that we believe are relevant to, and aligned with, our business. Our first goal involved business impact assessments across our footprint to inform our business resiliency planning, our second goal was focused on female representation in global leadership roles and our third goal targeted our team member experience in elevating our culture of inclusion. Coupled with the importance of achieving pay equity in our workplace, we know we must be conscious of our culture and footprint to ensure we have the highest caliber talent, engaged team members and resilient businesses. The sustainability of our operations and collective power of our team members drives our ability to live our purpose, strengthens our business and culture, and enables our leadership in healthcare.

Cencora's long-term growth and commitment to creating differentiated value drives our investments internally in our people. Our team members are the core of everything we do, power our purpose and drive our execution with their diverse backgrounds and experiences. We are motivating our leaders to foster an environment of inclusion that embraces diversity across the organization. Leveraging unique, global views across our enterprise and enhancing ways of working drives efficiency and differentiated customer experience for our partners.

We are very proud of our team members, whose dedication and execution powered the successful year we had in fiscal 2023. As we move into fiscal 2024, we are inspired by our ability to unlock new opportunities united as Cencora and support the continued evolution of healthcare. As a global organization united under our new name, we are even better positioned to execute our growth strategy as a leader in pharmaceutical distribution, complemented by our

higher-margin, high-growth commercialization solutions. While our purpose and who we are as an organization remain the same, I as well as our 46,000 team members are tremendously proud to now be a part of Cencora. We are confident in our strategy, and by building on our foundation and established services, we are expanding, diversifying, and enhancing our position as a partner of choice for our customers and partners, both now and into the future.

Now, I will turn the call over to Jim for a more in-depth review of our fourth quarter and fiscal year 2023 results, and to discuss our expectations for fiscal 2024. Jim?

JIM CLEARY:

Thanks Steve --- good morning and good afternoon, everyone.

Fiscal 2023 was a milestone year as we became Cencora, uniting under a name and stock ticker that are more meaningful and reflective of the important role that we play at the center of healthcare. Solid underlying business fundamentals, broad-based utilization trends, and execution by our team members allowed us to deliver strong results in the quarter and the year. In Fiscal 2023 we continued to do what we do best, now as Cencora, driving strong execution, deepening relationships with our partners, and continuing to invest in our strengths to advance our pharmaceutical-centric strategy and help drive long-term growth.

Now turning to our results, and as a reminder, my remarks today will focus on our adjusted, non-GAAP, financial results unless otherwise stated. Growth rates and comparisons are made against the prior year September quarter and fiscal year. For a detailed discussion of our GAAP results, please refer to our earnings press release.

Beginning with our fourth quarter results: we finished the quarter with adjusted diluted EPS of $2.86, an increase of 10 percent, which was driven by operating income growth in both segments and a lower share count, as a result of opportunistic share repurchases.

Our Consolidated Revenue was $68.9 billion dollars, up nearly 13 percent, with strong revenue growth in the U.S. Healthcare Solutions segment and, also, in the International Healthcare Solutions segment. In the quarter, our U.S. Healthcare Solutions segment continued to see significant growth in sales of low margin GLP-1 products, and excluding GLP-1s, our Consolidated revenue growth would have been 10 percent.

Consolidated Gross Profit was $2.3 billion dollars, up 9 percent, due to gross profit growth in both segments – particularly in the International Healthcare Solutions segment, which also benefited from the addition of PharmaLex. Consolidated gross profit margin was 3.34 percent, a decrease of 10 basis points. Similar to last quarter, and as expected, the gross profit margin comparison is negatively impacted by two U.S. Healthcare Solutions segment items:

- First - continued volume growth in low gross profit margin GLP-1 products; and
- Second - decreased volumes of government-owned COVID treatments, which have higher margins.

Consolidated Operating Expenses were $1.5 billion dollars, up 10 percent. This growth was largely driven by higher operating expenses in the International Healthcare Solutions segment, including the addition of PharmaLex.

Consolidated operating income was $801 million dollars, up 8 percent compared to the prior year quarter. The increase in operating income was driven by growth in both segments, which I will discuss in more detail when reviewing segment-level results.

Moving now to our Net Interest Expense and effective Tax Rate for the fourth quarter. Net Interest Expense was $61 million dollars, an increase of 18 percent, due to an increase in

intra-period borrowings and related interest rates. Our effective Income Tax rate was 21.6 percent compared to 19.8 percent in the prior year quarter.

Our Diluted Share Count was 203.4 million shares, a 3 percent decrease compared to the prior year fourth quarter, driven by $1.2 billion dollars of opportunistic share repurchases completed over the course of fiscal 2023, including $250 million dollars in August concurrent with the underwritten transaction completed by Walgreens Boots Alliance.

This completes the review of our Consolidated results. Now, I'll turn to our Segment results for the fourth quarter.

U.S. Healthcare Solutions segment revenue was $61.9 billion dollars, up 13 percent versus the fiscal 2022 fourth quarter. This was driven by sales growth across our distribution businesses and the continued volume growth we have seen in low-margin GLP-1 products.

U.S. Healthcare Solutions segment operating income increased by 9 percent to $633 million dollars. In the quarter, we continued to benefit from our leadership in specialty distribution to both physician practices and health systems, broad-based strong prescription utilization trends in human health distribution, and a great fourth quarter for our animal health business. As we said last quarter, we expected 1 to 2 cents of contribution related to exclusive COVID-19 product distribution, we ended the quarter with 8 cents of contribution in the quarter, due to the late-summer uptick in COVID-19 cases. Additionally, in the month of September, we began distributing commercial COVID-19 vaccines, which was an incremental benefit in the quarter. This contribution is comparing to a period where vaccines were government managed and being distributed by other parties. Given the complexities, temperature requirements, and customer channels associated with COVID-19 vaccines, we captured a larger market share in Covid vaccine distribution than we would have previously expected, having used flu vaccine distribution market share as an initial proxy.

That completes my review of the U.S. Healthcare Solutions segment, I will now turn to our International Healthcare Solutions segment.

In the quarter, International Healthcare Solutions revenue was $7.0 billion dollars, an increase of 10 percent on both an as-reported and constant currency basis.

International Healthcare Solutions segment operating income was $168 million dollars, up 3 percent on an as-reported basis and up 4 percent on a constant currency basis. In the quarter, we saw good performance from our global specialty logistics business, which offset a continued degradation of results at Alliance Healthcare's less-than-wholly owned subsidiary in Egypt. We recently completed the divestiture of the stake in the Egyptian subsidiary, and the results of that business will no longer be consolidated beginning in fiscal 2024. Egypt was a headwind for the International segment throughout the year, including generating an operating loss in the fourth quarter, and we are pleased to have divested our stake in this non-core business. In the quarter, we also had higher bad debt expense in International – driven primarily by a reserve established related to a specific pharmacy customer in Europe.

That concludes our fiscal fourth quarter discussion. Now, I will turn to a discussion of our full-year fiscal 2023 results.

Our consolidated Revenue was $262 billion dollars, up 10 percent, driven by growth in both segments. On a constant currency basis, consolidated revenue grew 11 percent.

Consolidated operating income was $3.3 billion dollars, an increase of 4 percent due to the strong performance in our U.S. Healthcare Solutions segment, offset in part by the International Healthcare Solutions segment which was negatively impacted by the results of the

Egyptian business that I just mentioned and the effects of foreign currency translation for much of the year. On a constant currency basis, consolidated operating income grew 6 percent.

From a segment perspective, U.S. Healthcare Solutions had operating income growth of 6 percent driven by strong prescription utilization trends, including continued growth in specialty, and good execution in our businesses. International Healthcare Solutions operating income fell 2 percent on an as reported basis, due to the now divested Egyptian business. Excluding Egypt, International Healthcare solutions operating income would have been up over 3 percent. On a constant currency-basis, the segment delivered 7% operating income growth.

In fiscal 2023, we had 38 cents of contribution of adjusted EPS related to exclusive COVID-19 product distribution on a consolidated basis compared to 72 cents in fiscal 2022. At the segment level, we had 31 cents of contribution to adjusted EPS in the U.S. Healthcare Solutions segment and 7 cents in the International Healthcare Solutions segment in fiscal 2023.

Turning now to interest expense – in fiscal 2023 net interest expense was $229 million dollars, an increase of 9 percent as a result of higher-intra period borrowings for parts of the year due to timing of capital deployment, debt repayment and cash flows, as well as higher average interest rates on intra-period borrowings.

Regarding taxes, our adjusted effective tax rate for fiscal 2023 was 20.3 percent compared to 20.6 percent in fiscal 2022.

Turning now to EPS – our full year adjusted diluted EPS was $11.99, an increase of 9 percent driven by our strong operating income growth and strategic capital deployment.

Finally, in fiscal 2023 we generated $3.1 billion dollars of adjusted free cash flow and ended the year with a cash balance of $2.6 billion dollars. We continue to be a strong free cash flow generator and have a balanced approach to capital deployment. In addition to our internal capital expenditures, our acquisition of PharmaLex and our investment in OneOncology in fiscal 2023, this year we also repurchased $1.2 billion dollars of our shares opportunistically and, just this morning, announced that our Board of Directors has approved a 5 percent increase in our quarterly dividend. The dividend increase demonstrates our commitment to maintaining a reasonable growing dividend, and this is our 19th consecutive year of increasing our dividend.

Turning now to discuss our fiscal 2024 guidance expectations – as a reminder, we do not provide forward-looking guidance on a GAAP basis, so the following metrics are provided on an adjusted, non-GAAP, basis. I will also provide certain guidance metrics on a constant-currency basis. We have also provided a detailed overview of guidance metrics on slides 11 and 12 of our earnings presentation.

First, starting with EPS, in fiscal 2024, we are guiding for adjusted diluted EPS to be in the range of $12.70 to $13.00, representing growth of 6% to 8%, driven by growth in each segment and contributions from capital deployment.

Before I detail the building blocks of our solid EPS growth for fiscal 2024, I want to spend some time discussing our approach to COVID-19 contributions in the coming year. Over the past several years, we have recognized benefits related to our role as the exclusive distributor of a number of COVID-19 products, which we have normalized for by providing ex-COVID numbers. As we have indicated from the onset, we fully expected the exclusive distribution products to move to a normal commercial distribution model in the U.S. and, as we all now know, that will now occur during the first quarter of our fiscal 2024. The key products driving our exclusive COVID contribution are moving to a commercial model this month. In fiscal 2024, we are anticipating the remaining benefit from exclusivity to be as low as 2 cents or as high as 10 cents. We do not anticipate that there will be a meaningful contribution from any remaining

exclusive COVID products beyond our first quarter. As we have been doing for some time, we will plan to provide an update on the contribution we recognize from the exclusive distribution of these COVID products.

Excluding the benefit from exclusive COVID-19 contributions in fiscal 2023, our fiscal 2024 EPS guidance represents growth in the range of 9 to 12 percent – with a small 2 cent to 10 cent contribution from exclusive COVID products in fiscal 2024. On page 13 in our earnings presentation, we have provided a bridge showing the components of our adjusted diluted EPS growth from the adjusted baseline in fiscal 2023.

As I mentioned when discussing our fourth quarter results, we began distributing COVID-19 vaccines in the U.S. in September and recognized a benefit from gaining access to these products now that they are commercially available. As I also mentioned, we have seen better-than-expected share in the products given the complex handling requirements of these temperature-sensitive vaccines and the customer channels. Since these products are normal commercial arrangements, we will include contributions related to these products in our as-reported results and will not provide a category-level contribution on them, consistent with our approach to the other pharmaceuticals that we distribute commercially. We continue to monitor trends for these vaccines, which have generally experienced higher-than-expected, presumably seasonal, demand alongside flu vaccines.

Now I will discuss the key income statement items that drive our adjusted EPS guidance.

Starting with revenue, we expect consolidated revenue growth to be in the range of 7 to 10 percent on both an as-reported and constant currency basis. At the segment level, we also expect U.S. Healthcare Solutions revenue growth to be in the range of 7 to 10 percent as we continue to see strong prescription utilization trends, including continued growth in products in the GLP-1 class. For the International Healthcare Solutions segment, on an as-reported basis, using October foreign exchange rates, we expect revenue growth to be in the range of 4 to 8 percent. On a constant currency basis, we expect revenue growth for the International segment to be in the range of 7 to 11 percent.

Moving to operating income, we expect consolidated operating income growth to be in the range of 4 to 6 percent, or 5 to 7 percent on a constant currency basis. Excluding the COVID-19 contributions I detailed, we expect consolidated operating income growth to be in the range of 7 to 9 percent, or 8 to 10 percent on a constant currency basis.

In the U.S. Healthcare Solutions segment, we expect operating income growth to be in the range of 4 to 7 percent in fiscal 2024.

On an ex-Covid basis, we expect U.S. segment operating income growth to be in the range of 7 to 10 percent as we benefit from continued strong fundamentals in our core pharmaceutical distribution business, our leadership in specialty, and good contributions from our animal health and upstream pharma services businesses in the U.S.

For our International Healthcare Solutions segment, we expect operating income growth to be in the range of 1 to 4 percent on an as-reported basis, or 5 to 8 percent on a constant currency basis. On an ex-Covid basis, we expect segment operating income growth to be in the range of 3 to 6 percent on an as-reported basis, or 7 to 10 percent on a constant currency basis. The International Healthcare Solutions segment has seen strong performance from our global specialty logistics business and good execution in our European distribution business which we expect to continue in fiscal 2024.

Now turning to interest expense, we expect our interest expense to be between $210 and $230 million dollars.

Moving on to tax rate. We expect our tax rate to be approximately 20 to 21 percent for fiscal 2024, similar to the prior two years.

Turning now to share count, we expect that our full year average share count will be between 200 and 202 million shares in fiscal 2024.

Moving now to our adjusted free cash flow and capital expenditure expectations. In fiscal 2024, we expect adjusted free cash flow to be approximately $2.5 billion dollars. Our continued generation of strong free cash flow supports our ability to grow our dividend and opportunistically return capital to shareholders through share repurchases, while also making important investments to advance our business both externally and internally. With regards to internal investments, we again expect capital expenditures to be approximately $500 million dollars for the year. We remain focused on ensuring our business is well positioned by investing in our systems and infrastructure to support our current and future growth.

In closing, fiscal 2023 was a successful year for Cencora as we delivered strong financial performance and took key steps to advance our strategy. We made investments to support our people and culture, and united together as Cencora. As we have demonstrated, our business is well positioned to capture opportunities, driven by the strength of our infrastructure, breadth of our capabilities across the supply chain, and the thought-leadership of our team members to proactively navigate complexities. We move into fiscal 2024 with strong momentum as we continue to capitalize on the opportunities presented by our pharmaceutical-centric strategy and capabilities, and remain focused on delivering on our purpose as we create value for our upstream and downstream customers, our team members, shareholders, and the communities where we live and work.

With that, I will turn the call over to the operator to open the line for questions. Operator?