First Quarter Fiscal Year 2024 Financial Results
Conference Call Commentary
January 31, 2024

BENNETT MURPHY:

Thank you. Good morning, good afternoon and thank you all for joining us for this conference call to discuss Cencora's fiscal 2024 first quarter 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 express 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.

Cencora delivered an exceptional start to fiscal 2024 with revenue up 15% year-over-year to over $72 billion in the quarter, and adjusted earnings per share up 21% year-over-year. Given our continued performance and execution, including our strong first quarter results, I am pleased that we are able to raise our fiscal 2024 full year guidance. The strength of our business is bolstered by the execution of our teams and powered by our commercial partnerships and strategic positioning. Teams across Cencora continue to prioritize customer centricity and enhance the services we provide. We are capitalizing on the positive trends across our business, creating value for our customers and stakeholders and building on the pivotal role we play in the global healthcare system.

Our core in pharmaceutical distribution and breadth of higher-margin, high growth businesses linked with our scale has provided us with a unique expertise, which positions us to support both upstream and downstream partners to achieve the best outcomes for patients. Our leadership in specialty has spanned 20-plus years, and over that time we have built an unparalleled suite of services that connects manufacturers and providers. Strategically positioning ourselves in the center of the specialty market, we have created opportunities to partner with leading innovators early in the drug development process through scientific development and consulting, safety and quality compliance, and clinical trial support and logistics. Our downstream services enhance provider efficiency, allowing physicians to spend more time with patients, and includes patient experience insights, as well as operational and financial solutions. Specialty medicines and services will continue to be a key area of focus for Cencora as ongoing innovation

and increasingly complex therapies drive opportunities for growth and allow us to demonstrate the differentiated value we can provide to our partners.

We partner with biopharma players who are developing innovative, life-changing medications to help improve the lives of patients and advance the standard of care. To support their clinical and commercial success, it is imperative that we invest in the capabilities we offer and position ourselves to meet their evolving needs. One example is our global specialty logistics business, which offers solutions to transport complex products across our extensive footprint and provides key logistics for clinical trials. We continue to invest to support the growing demand for specialty logistics by enhancing the solutions offered across our footprint and implementing new technologies to drive further efficiency. This quarter we announced three new transport stations strategically located across the United States that will improve our ability to handle products in trial and complex products coming to market commercially. Since many of these products require specialized temperature control, we have expanded cryogenic storage and capabilities globally. This ensures we are providing partners with the complex logistics they need for their clinical trial and specialty shipment needs while investing to remain the best-in-class partner for these promising therapies across geographies and categories, as innovation in cell and gene therapies continues to excite and advance. Innovation in life sciences motivates us at Cencora and we invest in our operational, technical and logistics capabilities to ensure we are also innovating to support their tremendous potential for improving patients' lives.

Growing our capabilities and solutions in higher-margin, high growth services positions us to be the partner of choice with market leading innovators, and to capitalize on opportunities presented by scientific advancement and the corresponding growing need for commercialization services and solutions. On the consulting side, Cencora's global pharma services group helps our partners to accelerate the speed at which their products go to market, by helping them navigate the complexity of clinical, regulatory and access challenges. As we continue to integrate PharmaLex, biopharma innovators are increasingly seeing the value we offer as a partner providing global pharma consulting, alongside our ability to support their logistics needs from clinical trial to 3PL and specialty and wholesale distribution, with expertise and significant presence in key markets in the U.S., Canada and Europe. Our expertise enables us to work with revolutionary medicines and products early in the development process and help support their commercial launches, giving Cencora a key role in healthcare innovation.

Our expanded and unified enterprise is advancing Cencora's presence as we continue to make investments and better leverage our infrastructure. Our legacy of investing in technology and enhancing operations to increase our efficiency continues to be front of mind as we pursue ways to enhance our services and customer experience. The sophistication, scale and flexibility of our infrastructure was on full display as we handled the significant volume of newly commercial and temperature sensitive, COVID vaccines in the US in the December quarter, without negatively impacting our ability to distribute our normal pharmaceutical volume. This is yet another proof point of the value we provide the healthcare system and validates our continued focus on advancing our capabilities to further Cencora's strength at the center of healthcare globally. As we continue to grow and unite as Cencora, we look for ways to capitalize on our range of services across our global enterprise and invest in platforms to improve the speed, precision and processes in which we serve customers. Cencora leads with market leaders and we must continuously progress and adapt to help our customers navigate the complexity of the healthcare landscape.

As a global pharmaceutical distributor, we are focused on investing to support the growth and needs of our market leading customers. We are able to use our scale, reach and expertise to build and advocate for programs aimed at mitigating drug shortages, supporting our customers' ultimate ability to better serve their patients. To that end, we are proud to collaborate with the

Drug Supply Chain Resilience and Advanced Manufacturing Consortium, whose mission is to work towards a resilient supply chain. Our work with the group involves partnering with stakeholders across the supply chain to identify effective policy solutions aimed at reducing the frequency and severity of drug shortages. These types of initiatives reflect our intellectual confidence and our organization's next-minded approach to addressing challenges and allow us to advance our purpose to create healthier futures for patients around the world. Our position at the center of healthcare uniquely equips our teams with knowledge to overcome the obstacles the supply chain faces and plan for future challenges, making us a trusted partner for organizations focusing on pharmaceutical supply chain resiliency.

Our ESG and DEI goals are meaningful to the success of our company and our ability to deliver on our purpose. We recognize the importance of operating in a responsible manner and set ESG goals aligned with our business that ensure we are maintaining resilient operations, prioritizing our people's growth and wellbeing in the workplace and supporting Cencora's long-term sustainable growth. We recently published our eighth annual ESG Report, which highlights our progress on our ESG programs and how these initiatives contribute to our overall success.

One of the key pillars of our ESG strategy is our team members, who remain at the center of our company. At Cencora, we prioritize creating a working environment that fosters growth and support for all our employees. We believe that having a diverse and inclusive team underpins our culture and strengthens our operations as we benefit from the insights that come from having a broader set views and experiences. As we seek to advance our culture, we have been focused on measuring inclusion and engagement in our workplace. We were pleased that in our second annual global inclusion survey, a majority of our team members indicated we have a highly inclusive culture. As a part of the survey, our team members provided leaders with valuable feedback and opportunities for improvement that will inform our efforts to strengthen our employee experience and working environment. Being purpose-driven to create healthier futures, we offer comprehensive benefits and apply policies and practices in our corporate culture that ensure all employees are able to perform to the best of their ability.

As an example of this, I am proud that Cencora was a recipient of the Equality 100 Award by the Human Rights Campaign Foundation for our work in providing equitable benefits, policies, and practices. This award recognizes companies that received a 100 on the foundation's Corporate Equality Index that measures policies and practices related to LGBTQ+ workplace equality. These achievements reflect the dedication by our team members who have taken an active role in creating an inclusive environment and delivering on our critical role in healthcare each day.

As we look ahead to the rest of our fiscal year, we are focused on continuing to capitalize on the strength of our business and the opportunities provided by our pharmaceutical-centric strategy in order to deliver value for our customers and other stakeholders. I remain inspired by our team members' execution and drive to deliver on our purpose by demonstrating passion and adaptability as we work through an ever-changing healthcare environment to improve lives every day.

I will now turn the call over to Jim for an in-depth review of our first quarter results and updated guidance. Jim?

JIM CLEARY:

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

Before I turn to my prepared remarks, as a reminder, my remarks today will focus on our adjusted, non-GAAP, financial results unless otherwise stated. For a detailed discussion of our GAAP results, please refer to our earnings press release and presentation.

Cencora delivered remarkably strong results in our first quarter of fiscal 2024 as our team capitalized on the opportunities provided by our pharmaceutical-centric strategy, commercial partnerships, robust infrastructure and team member execution. In the quarter, this drove over 20 percent growth for Cencora's adjusted operating income and adjusted diluted EPS. Our strong performance in the quarter and expectation for continued execution and growth in the balance of year, leads us to meaningfully raise our full year fiscal 2024 guidance.

I'll now turn to a review of our consolidated first quarter results, starting with revenue.

Our Consolidated Revenue was $72.3 billion, up 15 percent, with strong revenue growth in both segments. We continue to see good utilization trends broadly across our business in addition to continued growth in sales of GLP-1 products, particularly in the U.S. Excluding the increase in sales of GLP-1s, our consolidated revenue growth would have been 12 percent.

Consolidated Gross Profit was $2.4 billion, up nearly 13 percent, with double-digit gross profit growth in each segment. Consolidated gross profit margin was 3.31 percent, a decrease of 7 basis points. Similar to the past several quarters, our gross profit margin comparison continues to be impacted by sales growth for low margin GLP-1s and less volume of government-owned COVID treatments. The impact of these two items was partially offset by the full-quarter contribution from the distribution of commercial COVID-19 vaccines, which have higher gross profit margins given the complexity associated with the products.

Consolidated operating expenses were $1.5 billion, up 8 percent due to higher distribution, selling and administrative expenses to support revenue growth and incremental operating expenses in the International segment related to the acquisition of PharmaLex which we closed in January of 2023.

Consolidated operating income was $886 million, an increase of 21 percent compared to the prior year quarter. The increase in operating income also included double-digit growth in both segments, which I will discuss in more detail in the segment level results.

Moving now to our Net Interest Expense and effective tax rate for the first quarter. Net Interest Expense was $41 million, down 12 percent primarily due to higher interest income resulting from higher interest rates on investments and lower interest expense due to the September 2023 divestiture of our less-than-wholly-owned subsidiary in Egypt.

Regarding income taxes, our effective income tax rate was 21 percent compared to 19.1 percent in the prior year quarter. We continue to expect our full year effective tax rate to be in the range of 20 to 21 percent.

Turning now to diluted share count - our Diluted Share Count was 201.8 million shares, a 2 percent decrease compared to the prior year first quarter. This was primarily driven by opportunistic share repurchases over the course of fiscal 2023 and, also, repurchases in the quarter including $135 million in open market repurchases and $250 million in repurchases in November concurrent with a transaction completed by Walgreens Boots Alliance.

Regarding our cash balance and adjusted free cash flow, we ended the quarter with approximately $2.9 billion of cash and generated $763 million in adjusted free cash flow. In December, we made a commitment to exercise the prepayment option permitted under our opioid settlement agreements. This prepayment of approximately $238 million was made in January and represents the net present value of a future obligation of approximately $345 million. Since this prepayment was unplanned and non-recurring, it will not be included in our adjusted free cash flow, consistent with our practices for unplanned and non-recurring payments or receipts relating to legal settlements. We will continue to include the annual, planned cash payments associated

with our settlement agreements in our adjusted free cash flow, and continue to expect adjusted free cash flow to be approximately $2.5 billion for the fiscal year.

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

U.S. Healthcare Solutions segment revenue was $65.2 billion, up approximately 16 percent, as we continued to see broad-based growth in our distribution businesses, which benefitted from strong utilization trends, including continued volume growth in GLP-1s, growth in sales to specialty physician practices and health systems, and commercial COVID-19 vaccine sales.

U.S. Healthcare Solutions segment operating income increased 22% to $698 million driven by strong performance across our distribution businesses, including commercial COVID-19 vaccine sales, and operating leverage as a result of strong volumes and the expense management actions we called out on our May earnings call last year. Similar to last quarter, we saw broad-based strength across our human health distribution businesses with good volumes and trends in both specialty and full-line distribution. Cencora continues to benefit from leading with market leaders, and, as a result, we continue to see good growth across customer segments and broad pharmaceutical utilization trends. We also had particularly strong growth in our animal health business, which delivered good performance in the quarter and benefitted from an easier comparison given industry-wide pressures in the prior year December quarter that we called out last year.

Before turning to a review of our International Healthcare Solutions segment performance, I would like to provide an update on COVID-19 related contributions in the U.S. segment for both exclusive therapies and the commercial COVID-19 vaccines.

First, regarding exclusive product distribution: In the quarter, we had 6 cents of contribution related to exclusive COVID-19 product distribution in the U.S., a 3 cent headwind from the 9 cents of segment-level contribution in the prior year quarter. This contribution was in-line with the 2 to 10 cents of contribution we guided on our November earnings call related to our first quarter of fiscal 2024. For the balance of the year, we expect a 21 cent headwind from exclusive Covid treatments in the segment, in-line with our previous expectations and guidance. We do not expect a material contribution from these Covid treatments in the balance of the year.

Second, regarding COVID-19 vaccines: This quarter, we saw an incremental and higher than expected benefit from distributing commercial COVID-19 vaccines – and as we said on our November earnings call – this was comparing to a prior year period where vaccines were distributed by other parties, prior to their movement to a traditional commercial distribution model in September. The contribution to our operating income from COVID-19 vaccine distribution in the December quarter was highly concentrated in the October and November months, and in total, was more than double the contribution in the September quarter.

Excluding both the commercial COVID-19 vaccine and exclusive COVID-19 treatment distribution contributions, segment-level operating income growth would have been 12 percent as our team's strong execution and our pharmaceutical-centric strategy have allowed us to capitalize on good underlying prescription utilization trends and deliver significant growth.

I will now turn to our International Healthcare Solutions segment.

In the quarter, International Healthcare Solutions revenue was $7.1 billion, up 7 percent on a reported basis, or up 9 percent on a constant currency basis.

International Healthcare Solutions operating income was $188 million, up 16 percent on a reported basis, or up 20 percent on a constant currency basis. In the quarter we benefitted from

higher shipment weights and improvements in airfreight costs in our global specialty logistics business, incremental operating income from the PharmaLex acquisition, and excellent performance in our Canadian business, offsetting foreign currency pressure and the September 2023 divestiture of the non-wholly owned subsidiary in Egypt, which was profitable in the first quarter of fiscal 2023.

That completes the review of our segment level results, I will now discuss our updated 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.

I wi'll begin with EPS and then provide detail on the income statement items contributing to the increase. We are raising our full year diluted EPS guidance to a range of $13.25 to $13.50, up from our prior range of $12.70 to $13.00, representing growth of 11 to 13 percent. The increase reflects our expectation for continued strong performance throughout our fiscal year and the incremental benefit from COVID-19 vaccine distribution in the first quarter.

Now moving to revenue, we expect consolidated revenue growth to be in the range of 10 to 12 percent on both an as reported and constant currency basis, up from previous expectations of 7 to 10 percent. The updated guidance reflects an increase in our U.S. Healthcare Solutions segment revenue growth where we now expect growth of 11 to 13 percent, up from our previous expectations of 7 to 10 percent growth. The new guidance range reflects the strong revenue growth we saw in the first quarter, including the year-over-year growth of GLP-1s, and continued good growth for the remainder of the year driven by expected broad-based prescription utilization trends.

Moving to operating income, we expect consolidated operating income growth to be in the range of 8 to 10 percent, up from our previous guidance of 4 to 6 percent. On an ex-Covid basis, which as a reminder excludes the benefit from exclusive COVID-19 contributions in fiscal 2023 and fiscal 2024, we now expect consolidated operating income growth to be in the range of 11 percent to 13 percent, up from our prior guidance of 7 to 9 percent.

In the U.S. Healthcare Solutions segment, we now expect operating income growth to be in the range of 9 to 11 percent, up from our prior range of 4 to 7 percent.

For our ex-Covid guidance in the U.S., I will remind you that we only exclude the contributions from exclusive COVID-19 therapies in fiscal 2023 and fiscal 2024, and do not exclude COVID-19 vaccine contributions since they are traditional, commercially distributed products. On this ex-COVID basis, we expect U.S. segment operating income growth to be in the range of 12 to 14 percent, up from our prior range of 7 to 10 percent. The increase in our U.S. segment guidance reflects our strong first quarter and continued momentum across our business as we continue to benefit from our leadership in specialty and alignment with market leading customers allowing us to capitalize on broad pharmaceutical utilization trends.

Turning now to the International Healthcare Solutions segment, on an as-reported basis we now expect operating income growth to be in the range of 5 to 8 percent, up from our previous range of 1 to 4 percent. On an ex-Covid basis, we now expect operating income growth to be in the range of 7 to 10 percent, up from our previous range of 3 to 6 percent. The updated as-reported guidance reflects solid underlying performance trends and a slight benefit from current foreign exchange rates versus rates at the time of our initial guidance. Year-over-year currency translation continues to be a moderate full-year headwind to our business, and on a constant currency basis, we expect segment operating income growth to be in the range of 9 to 12 percent, or 10 to 13 percent when excluding COVID contributions.

Finally, turning to interest expense – we now expect interest expense to be in the range of $185 million to $215 million, from our previous range of $210 million to $230 million as our cash flow generation in the first quarter was stronger than expected. From a quarterly cadence perspective, we would expect interest expense to step up meaningfully in the 2nd quarter, similar to the prior year quarter, given typical seasonality and cash use.

That concludes our updated guidance assumptions. Before I turn to my closing remarks, I would like to briefly comment on our recently published ESG report. This week, as Steve mentioned, we published our 8th annual ESG report that details initiatives we are taking to ensure our business is equipped to operate resiliently, support our team members and create healthier communities where we live and work. We are proud of the business-aligned approach we take to our ESG strategy, and I would encourage those interested to visit our microsite at esg.cencora.com. The report aligns with a number of reporting standards and describes some exciting new initiatives launched over the past year including our Cencora Healthier Futures Grant Program that aims to support nonprofits and charities around the world doing work to advance access to care. We remain committed to fostering transparency and reporting on progress on our ESG strategy. In recognition of these efforts, we were pleased to be named to Sustainalytics' 2024 ESG Top-Rated Companies List on both their Region Top Rated and Industry Top Rated lists.

In closing, Cencora clearly delivered outstanding results in the first quarter of our fiscal year. I am incredibly proud of our team's dedication and ability to consistently drive strong performance quarter-after-quarter. Leveraging the breadth and depth of our pharmaceutical-centric solutions, we continue to find opportunities to capitalize on commercial strengths and build upon the momentum in our business to drive value for our stakeholders.

Now I will turn the call over to the operator to open the line for questions. Operator?