Third Quarter Fiscal Year 2024 Financial Results
Conference Call Commentary
July 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 third 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, Jim Cleary, Executive Vice President and CFO, and Bob Mauch, Executive Vice President and COO.

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-Q.

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.

As I prepared for this, my 53rd and last earnings call as Cencora's CEO, I looked back at my prepared remarks from my first ever earnings call as CEO. On that call 13 years ago, I highlighted that it was the first time the company had eclipsed the $20 billion revenue mark for a quarter and the company reported $0.66 cents in diluted EPS. Fast forward to today, and Cencora is proudly reporting quarterly revenue of over $74 billion and adjusted diluted EPS of $3.34, representing year-over-year growth of 11% and 14%, respectively. Further, we are pleased to be raising our full year outlook as Cencora continues to execute well against our pharmaceutical-centric strategy. The healthcare landscape continues to rapidly evolve, and our strategic position as a global leader in healthcare coupled with the agility and expertise of our teams places us at the forefront of innovation. We continue to leverage our commercial strengths to capitalize on the opportunities presented by positive pharmaceutical trends and innovation to drive increased value for our customers, partners, and shareholders.

Cencora's differentiated footprint and robust suite of services make us a partner of choice, providing integrated solutions to support pharmaceutical commercialization and access. Our teams collaborate cross-functionally, creating a seamless process to efficiently bring new products to market. We remain differentiated in the market by our comprehensive approach, which leverages expertise developed from our position at the center of healthcare and our deep

collaboration. As an example, Cencora is serving as an integrated launch partner to a biopharma company launching their product outside the US. Cencora is supporting both market access and efficient distribution to ensure providers, and ultimately the patients, have reliable access to the novel therapy. Partnerships like this exemplify how our holistic pharmaceutical solutions are providing value to our pharma customers and serve as a testament to how our diverse capabilities allow us to capture opportunities to drive innovation and access throughout the industry.

Many of these innovations are increasingly complex, which creates challenges to access and opportunities for Cencora to differentiate ourselves as a partner. This quarter we continued our ThinkLive tradeshow series by hosting a 2-day Cell and Gene Therapy conference where leaders across the biopharmaceutical and healthcare industry came together to share a range of perspectives on the developments and challenges throughout the developing market. By hosting events like this, we foster collaborative relationships and effective strategies that enable the launch of groundbreaking therapies and reduce barriers to patient access.

On the provider side, just last week we also hosted our annual ThoughtSpot pharmacy tradeshow and conference, in collaboration with our Good Neighbor Pharmacy network of independent customers. Our ThoughtSpot conference provides thousands of community pharmacists with the opportunity to connect with peers, attend educational sessions on the latest developments and technologies, and celebrate the positive impact community pharmacies have as trusted healthcare providers. We truly believe that by bringing our customers together, we help advance the healthcare landscape and promote a deeper collaboration across our teams. Independent pharmacies play a vital role in promoting access to healthcare in their local communities, and we are proud that Good Neighbor Pharmacy ranked number one in Customer Satisfaction among Chain Drug Store Pharmacies in JD Power's U.S. Pharmacy Study for the eighth consecutive year in a row. The Good Neighbor Pharmacy network is clearly made up of leaders providing differentiated service for patients across the country.

Forging deep strategic partnerships with market-leading customers is a strategic imperative and key differentiator for Cencora. Through these relationships we better understand the challenges our customers are facing, which allows us to strengthen our services and solutions, driving mutual value and growing better together. As we work to enhance our customer experience, one area of particular focus has been evolving how we leverage innovative technology and analytics to enhance our efficiency and effectiveness. This is important for continuing to improve our day-to-day operations, and also finding new and creative ways to analyze and grow their business with actionable data Cencora can harness.

These strategic relationships with customers also allow us to capture areas of opportunity in rapidly advancing sectors of the market. I am particularly proud of our specialty distribution and services offering. For close to three decades, we have been a leader and innovator in this space. Importantly, we continue to make forward-thinking investments that position us to capitalize on addressing the complexities these products pose in handling and distribution, and connect us with downstream providers where we are positioned to equip practices with offerings that advance the strength of their business. As specialty continues to grow across all therapeutic areas, we are able to expand and develop the partnerships we have with customers, furthering our leading market position. Our leadership in specialty remains a key tenet of our long-term growth and strategy. We make forward-thinking investments in our infrastructure and emerging technologies to position Cencora as the best partner to address our customers' current and future needs.

The value we create throughout the supply chain and for our shareholders is driven by our global team members and their commitment to our purpose. Our team members execute at

the impressive level they do because of our purpose-driven culture, which promotes differing perspectives and points of view. In June, we celebrated our team members that identify as a part of the LGBTQ+ community by hosting a global Pride Celebration and events throughout the month. In recognition of our commitment to fostering an inclusive and supportive workplace for all our team members, we are also proud to have been recognized as a “Best Place to Work for Disability Inclusion” by Disability:IN, for a second consecutive year. Our leaders are dedicated to fostering a working community and culture that celebrates and embraces our team members as their authentic self, which includes providing a safe and inclusive working environment for all, as our talent’s engagement and commitment to our purpose drives our business resiliency and long-term strategic growth.

Cencora continues to efficiently adapt to industry changes, operate and draw on our business synergies, and execute across the geographies we serve, which results in our continued growth and resiliency. Our team members’ diligence and passion for our purpose is inspiring and is fundamental to our success. With that, I will now hand the call over to Bob, our incoming CEO effective October 1. Bob?

BOB MAUCH:

Thank you, Steve. As I continue to prepare to transition to CEO in October, I am focused on speaking to and learning from our team members and our customers. In my conversations with customers, I reinforce the value of Cencora’s strategy, leadership and expertise, and how we are investing and innovating to be the partner that they need now and into the future. In working closely with leaders in healthcare across every channel, prioritizing customer-centric solutions, maintaining a learning mindset, and embracing our enterprise-powered capabilities, we differentiate ourselves as partners, grow together and anticipate advancements throughout healthcare.

Our team members are motivated by the important work that we do, the collective strength of our businesses and the collaboration we enjoy across our company to deliver on our mission. Our culture and the pride our team members have in their work drive our purpose as we create healthier futures, and our success is a direct reflection of our teams’ pursuit of operational excellence. We champion the diverse perspectives and backgrounds that our team members bring to the table, which enables us to take thoughtful and creative approaches to addressing industry challenges, enhancing the value we provide to our customers, partners, shareholders and the broader healthcare industry.

Looking forward, we will continue to execute against our pharmaceutical-centric strategy – driving efficiency throughout the supply chain, and supporting the growth of innovative products, through our higher-margin, high growth services.

In closing, I am incredibly honored to have the opportunity to succeed Steve as Cencora’s next CEO. Cencora’s position in healthcare is a direct result of Steve’s vision and next minded approach in growing and advancing the depth and breadth of our services, and I want to take a moment to congratulate Steve on his incredible tenure and the mark he made on this company as well as the industry. Under Steve’s leadership, Cencora has delivered tremendous growth and demonstrated our crucial role to our stakeholders. Steve has led the company through major strategic decisions and initiatives that position Cencora for long-term value creation, including forming customer partnerships with leading healthcare organizations; expanding our geographical footprint and the services and solutions we offer; and successfully navigating significant national and global challenges; all while remaining committed to our purpose and supporting our team members. Thank you, Steve, for your service to Cencora and your unwavering commitment to our purpose. I continue to work closely with Steve to ensure a seamless transition, and I look forward to his continued leadership, partnership, and guidance

as he transitions to the role of Executive Chair. It is a privilege to work alongside Cencora's inspiring and passionate team members, and I look forward to building on our momentum, as we are optimistic and excited about the future of Cencora and intend to keep up the track record of execution and performance.

I will now turn the call over to Jim for a review of our fiscal 2024 third quarter financial performance. Jim?

JIM CLEARY:

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

Before I turn to a review of our consolidated third quarter results, as a reminder my remarks 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 another strong performance in the third quarter as we continued to benefit from positive utilization trends, our leadership in specialty and the strong free cash flow generation of our business. As Steve mentioned, adjusted diluted EPS increased 14 percent to $3.34 as we benefitted from strong results in the U.S. Healthcare Solutions segment, lower net interest expense and a lower share count due in part to approximately $550 million dollars in opportunistic share repurchases in the quarter as we continue to thoughtfully deploy capital and return value to shareholders.

Beginning with our Consolidated Revenue, in the quarter we had $74.2 billion dollars in revenue, up 11 percent, with continued growth in our distribution businesses including increased sales of GLP-1 products, increased sales of specialty products to physician practices and health systems and growth in sales to some of our largest customers. Our strong revenue growth was offset in part by the January 1 manufacturer price reductions in certain product classes. Sales of GLP-1 products in the quarter increased by $2.1 billion dollars or 38 percent compared to prior year and increased 30 percent sequentially from the March quarter when there was a notable slowdown in growth due to supply constraints, which have clearly now subsided. Excluding GLP-1s, consolidated revenue growth would have been approximately 8 percent.

Turning now to gross profit – Consolidated Gross Profit was $2.4 billion dollars, up 6 percent compared to the prior year quarter. Consolidated gross profit margin was 3.19 percent, a decrease of 14 basis points compared to the prior year quarter, as the reacceleration of low margin GLP-1 product sales negatively impacts our gross profit margin.

Moving now to operating expenses, in the quarter Consolidated Operating Expenses were $1.5 billion dollars, up 6 percent due to higher distribution, selling and administrative expenses to support revenue growth and lapping the efficiency actions we called out last year on our May earnings call.

Consolidated operating income was $878 million dollars, an increase of 7 percent compared to the prior year quarter with strong growth in the U.S. Healthcare Solutions segment, which I will discuss in more detail when reviewing the segment level results.

Moving now to our Net Interest Expense and effective tax rate for the third quarter. Net Interest Expense was $31 million dollars, a decrease of 46 percent year-over-year as interest income increased as a result of particularly strong cash flow in the quarter in part due to our successful unwinding of the extended payments program we launched in the March quarter to support our customers during the Change Healthcare outage. The combination of strong cash flow early in the quarter and higher investment rates compared to the prior year drove the significant decline in net interest expense year-over-year.

Turning to income taxes, our effective income tax rate was 21.0 percent compared to 21.5 percent in the prior year quarter.

Finally, our Diluted Share Count was 200 million shares, a 2 percent decrease compared to the prior year third quarter primarily driven by opportunistic share repurchases. In Fiscal 2024, we have repurchased almost $1 billion dollars of our shares, including $700 million dollars directly from Walgreens Boots Alliance.

Regarding our cash balance and adjusted free cash flow, we ended the quarter with a cash balance of $3.3 billion dollars and $2.3 billion dollars of adjusted free cash flow as the $600 million dollar impact from the Change Healthcare outage that I just spoke about reversed early in the third quarter.

This completes the review of our Consolidated results.

Now, I'll turn to our Segment results for the third quarter.

U.S. Healthcare Solutions segment revenue was $67.2 billion dollars, up 12 percent, reflecting strong script utilization trends including increased sales of GLP-1 products and specialty products to physicians and health systems. Excluding sales of GLP-1 products, segment revenue growth would have been approximately 10 percent.

U.S. Healthcare Solutions segment operating income increased 10 percent to $698 million dollars as our specialty distribution business saw strong growth in both oncology and ophthalmology in addition to strong overall prescription volumes and biosimilar conversions.

I will now turn to our International Healthcare Solutions segment.

In the quarter, International Healthcare Solutions revenue was $7.1 billion dollars, flat compared to prior year on an "as reported" basis, or up 6 percent on a constant currency basis.

International Healthcare Solutions operating income was $179 million dollars, a decrease of 4 percent on an "as reported" basis due to continuation of higher information technology expenses for our European distribution business and lower operating income at our global specialty logistics business as there were less international shipments and lower weights per shipment, all of which was partially offset by positive results at our Canadian business. On a constant currency basis, International Healthcare Solutions segment operating income increased 1 percent. Our global specialty logistics business is starting to see some good early signs on the demand side and the business continues to invest to further differentiate its global strength in its complex, high-touch market.

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 will start with updated adjusted diluted EPS guidance and then provide greater detail on the income statement items driving our improved earnings expectations. Today, we are pleased to raise our fiscal 2024 EPS guidance for the 4th time this fiscal year. We now expect EPS to be in the range of $13.55 to $13.65, representing growth of 13 to 14 percent, up from our intra-period provided EPS guidance range of $13.35 to $13.55. Our updated guidance range reflects our expectation for continued growth in the U.S. Healthcare solutions segment, tapered expectations in the International Healthcare Solutions segment and lower net interest expense expectations for the fiscal year.

Beginning with revenue, we now expect both our “as reported” and constant currency consolidated revenue growth to be approximately 12 percent, from our previous guidance ranges of 10 percent to 12 percent given our increased guidance in the U.S. segment.

In the U.S. Healthcare Solutions segment, we now expect segment-level revenue growth of 12 percent to 13 percent, from the previous range of 11 percent to 13 percent.

In the International Healthcare Solutions segment, we now expect “as-reported” segment-level revenue growth of 4 percent to 6 percent, from the previous range of 4 percent to 7 percent and constant currency revenue growth of 7 percent to 9 percent, from the previous range of 7 percent to 10 percent.

Moving to adjusted operating income, we now expect our “as reported” consolidated adjusted operating income growth to be in the range of 10 percent to 11 percent, as we narrow our guidance from the previous range of 9 percent to 11 percent, and constant currency growth to be in the range of 11 percent to 12 percent, narrowed from the previous range of 10 percent to 12 percent. Updated guidance reflects expected continued growth toward the upper end of our previous guidance range in the U.S Healthcare Solutions segment and growth toward the lower end of our previous guidance ranges in the International Healthcare Solutions segment.

In the U.S. Healthcare Solutions segment, we now expect our segment-level adjusted operating income growth to be in the range of 11 percent to 12 percent, from our previous range of 10 percent to 12 percent due to our continued strong growth expectations for the remainder of the fiscal year. As a reminder, in the 4th quarter we will lap the prior year contribution of 8 cents from exclusive COVID therapy distribution, and also will begin comparing to prior year quarters that had contributions from commercial COVID vaccines – which we expect to be comparable year-over-year.

In the International Healthcare Solutions segment, we now expect our segment-level adjusted operating income growth to be in the range of 5 percent to 7 percent, from our previous range of 5 percent to 8 percent. On a constant currency basis, we now expect adjusted operating income growth to be in the range of 10 percent to 12 percent, from our previous range of 10 percent to 13 percent. We are modestly narrowing our International operating income guidance range, bringing down the top end of the range due to our third quarter results in the segment and some softness in demand at PharmaLex.

Moving now to net interest expense and share count, we now expect our net interest expense to be in the range of $170 million dollars to $190 million dollars, down from our previous range of $185 million dollars to $215 million dollars, driven by our better-than-expected free cash flow.

For weighted average shares outstanding, we now expect our full year share count to be under 201 million shares, as a result of our opportunistic share repurchases in the quarter. As you will recall, on May 22, we announced that we had completed $550 million dollars in share repurchases in the month, including $400 million dollars repurchased from Walgreens Boots Alliance, decreasing our weighted average diluted share count.

Finally, turning to adjusted free cash flow, we now expect to generate $2.5 billion dollars to $3.0 billion dollars, up from our previous expectation of approximately $2.5 billion dollars in adjusted free cash flow in the fiscal year given our strong free cash flow generation in the third quarter.

That completes the review our updated guidance for fiscal 2024.

As we near the end of the fiscal year, I am proud of the strong results our purpose-driven team members have produced. The dedication and execution by our team members continue to

drive our growth and enable us to deliver on our pharmaceutical-centric strategy. Cencora continues to demonstrate our ability to deliver long-term sustainable growth and create value for our customers, partners and all our stakeholders.

Before handing the call back over to Steve I want to extend my congratulations once again to both him and Bob as our company is well positioned to continue creating value in the short and long-term with the company's thoughtful leadership transition plan. Cencora has benefitted from having such a purpose-driven leader in Steve for well over a decade, and his vision for the company has created a strong foundation for value creation for our customers, partners and shareholders. Under Bob's leadership we will continue to build on Cencora's momentum and commercial strengths and drive further value for our stakeholders on our path toward our purpose of creating healthier futures. Congratulations to you both once again. Steve?

STEVE COLLIS:

Thank you, Jim. With this being my final earnings call, I want to take a moment to thank our team members, Board, and stakeholders for the opportunity to serve as Cencora's CEO these last thirteen years. In my first call as CEO, I highlighted that we would pursue opportunities to increase our value offering to existing customers, add to our strengths in core competencies and increase shareholder value. Throughout my tenure, we have delivered on that framework and grown significantly – operationally, geographically and financially -- as we built upon our scale and expertise as a pharmaceutical distributor and leader in specialty by deepening and broadening our relationships upstream with pharma and advancing our solutions downstream with our provider customers. We have advanced our core distribution capabilities, through organic and inorganic growth opportunities, in turn expanding our reach and providing more patients with the life-saving medications they need. Our leadership and capabilities in specialty make Cencora a driving force in supporting access and intelligence for cutting edge therapies. Cencora's demonstrated growth over the past decade-plus speaks to the strength of our execution against our pharmaceutical centric strategy. Our team's relentless focus has allowed us to continually capitalize on growth across healthcare and to be the partner of choice for both upstream biopharma and downstream providers.

Cencora is strategically positioned at the center of healthcare, and as Bob steps into the role as CEO on October 1st, the company will continue to build on our momentum, relationships and capabilities, guided by his leadership, to drive results and create value for all our stakeholders. I have had the pleasure of working alongside Bob for almost 20 years and am excited to watch him lead Cencora into the future. Bob's deep understanding of all facets of pharmaceutical distribution, logistics and commercialization, experience leading all our businesses during his tenure and his integral role in helping to shape our strategy over the years make him incredibly well-equipped to be the company's third ever CEO. It has been an honor and a pleasure to be a part of the company's evolution, and I look forward to seeing how Cencora advances into the future. The numbers that I talked about at the opening of the call would not have been possible without the enormous contribution of so many of my colleagues throughout my thirty-year career with the company and I am sincerely grateful and humbled by their achievements and dedication to being "united in our responsibility to creating healthier futures." With that, we will now move to Q&A, operator?