



**Second Quarter Fiscal Year 2024 Financial Results  
Conference Call Commentary  
May 1, 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 second 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](http://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.

Before turning to discuss our second quarter results, I want to take a moment to introduce Bob Mauch, our current COO, who we announced in March will be succeeding me as CEO on October 1st.

For nearly 2 decades, Bob has been an integral partner in shaping and implementing our strategy. In Bob's time leading operations across our businesses, he has developed deep relationships with our partners and team members, and his knowledge of our business and considerable expertise will significantly benefit the company as he leads Cencora into our next chapter. I want to extend my sincerest congratulations to Bob and will now turn the call to him to make some brief comments. Bob?

**BOB MAUCH:**

Thank you, Steve. I am excited to be joining today's call and look forward to deepening my relationships with our investor and analyst stakeholders in the quarters to come. It is an honor to succeed you to become Cencora's third CEO on October 1st.

Cencora's position as a leading healthcare solutions organization is rooted in our purpose, pharmaceutical-centric strategy, and growth mindset. Our purpose, capabilities and the critical role that pharmaceuticals have in healthcare and patient outcomes motivate me personally and professionally. My parents owned independent community and long-term care pharmacies, so I



grew up appreciating firsthand the critical role that pharmaceuticals play in positive patient outcomes. That experience helped shape my 30-plus year career in pharmaceutical care, leading me to found Xcenda, a health outcomes consulting firm for pharmaceutical manufacturers, and setting me on the path that eventually brought me to Cencora. Since then, I have had the pleasure of leading businesses across our company, building and fostering our strong relationships with market leading customers and partners, and developing strong teams that are differentiated by their unique backgrounds and expertise.

Throughout my 17 years at Cencora, I have worked closely with Steve and our teams to help shape our strategy. During that time, I've had the opportunity to benefit from Steve's leadership and mentorship, and his fierce devotion to our people and purpose. I am grateful that I will be able to continue to work closely with Steve throughout this transition over the next several months, and I look forward to benefitting from his continued leadership, partnership and guidance in his new role of Executive Chair later this year.

Thank you to our Board of Directors and our team members for the trust and opportunity as I move into this new role. Together we will continue to drive value for all our stakeholders both now and in the years to come. I'm pleased to have had the opportunity to join today's call and share how excited I am for my future role. With that said, I'll leave it to Steve and Jim to answer your questions as usual. I look forward to speaking with you all more in the weeks and months ahead. I'll now turn the call back to Steve to discuss our fiscal second quarter.

**STEVE COLLIS:**

Thank you, Bob. I also wanted to take a moment to acknowledge Gina Clark, our EVP and Chief Communications and Administration Officer, who we announced this morning will be retiring at the end of our fiscal year. Gina has had a distinguished career and made an enduring impact, leading large-scale initiatives across the organization, including uniting our company under our new, globally inclusive identity, Cencora. Congratulations and thank you, Gina, for your significant contributions.

Now, turning to our second quarter, our ongoing focus on operational excellence and our team members' execution on our pharmaceutical-centric strategy drove another quarter of strong financial performance, with revenue growth of 8% and adjusted EPS growth of 9%. Our role at the center of healthcare is core to our strategy, and our positioning allows us to serve as a trusted partner, while capturing opportunities presented by innovation. Leveraging, and investing in, our infrastructure and extensive capabilities, we support access and efficiency across healthcare.

Our multinational distribution footprint and global platform of commercialization services make us a natural partner for manufacturers bringing their products to market. With our increasing presence in pharma services, we are able to cultivate relationships with pharma early in the development process, and position ourselves as, not only a provider of logistics and distribution services, but also as an integrated partner able to support the successful commercialization of their products. Connecting with our manufacturer partners is key to better understanding and anticipating their ever-evolving needs and challenges. In early April, we hosted our first ThinkLive series of the fiscal year, in which representatives from over 30 manufacturer partners and the Cencora team came together to share their insights on new ways we can collaborate and work to support ongoing innovation in the pharmaceutical space. Over the course of the year, we will host a number of these events focused on the different needs of our manufacturer partners from biopharmas and cell and gene therapy developers to the largest established manufacturers.

The discussions we are having with pharma innovators provide us with a deep understanding of their pipelines for life-altering innovations, giving us a direct line-of-sight to development opportunities for our commercialization services portfolio. Additionally, for products



that have been launched, our role at the center of the supply chain and our global footprint allow us to capitalize on valuable insights and shared commercial opportunities, including for launches in additional geographies. Cencora has always endeavored to be a trusted industry partner and our integrated approach to commercialization is increasingly sought out and appreciated by our pharma partners. To this end, we were pleased to win another integrated services and distribution contract with an emerging biotech this quarter. While small in the context of the Cencora enterprise, wins like this are important proof points that demonstrate our integrated model and global capabilities are differentiated and resonating with manufacturers. As we continue to advance our commercialization capabilities, we further strengthen our ability to contribute to pharmaceutical outcomes and support innovation.

As the entire healthcare ecosystem continues to advance, we are embracing the latest technology to support our customers' growth and providing actionable insights to our partners, leveraging data and analytics. We continue to develop solutions for our provider customers, allowing them to focus on patient care and efficiently run their practices. Recently, we introduced an enhanced application that combines clinical, pharmacy, and financial information in one place for specialty physicians. With this integrated platform, our customers can seamlessly aggregate data about their practices across our solution set to analyze their performance and drive success through customizable, easy-to-use dashboards. Similarly, given investments we have made in our infrastructure to enhance the security of the U.S. pharmaceutical supply chain, we are now able to provide actionable insights to manufacturers, leveraging our scale and rich data sets. As we continue to invest in our technology and capabilities, we increasingly see opportunities to create value-added, data-informed solutions that drive innovation and differentiation.

Our minority investment in OneOncology is another example of our approach to adding solutions that will deepen and expand our relationships with our partners, allowing us to support better healthcare outcomes in critical areas. Since completing our investment in OneOncology last June, the platform has continued to grow as oncologists increasingly recognize the value of joining a physician-led network of likeminded, community-based practitioners. To enhance its value-proposition to physicians, OneOncology has advanced key IT and practice management technologies while investing in important clinical research and real-world evidence solutions to make community provider participation in clinical trials more seamless. We are taking our learnings from our investment in OneOncology to unlock new growth opportunities for all our community oncology customers, while allowing them to maintain their independence and treat cancer patients with high-quality and cost-effective care in their local communities. Our continued partnership with OneOncology's leadership team and TPG, brings together our collective strengths as we work jointly to advance accessible, quality cancer care. Our commitment to, and investment in, community oncology has been well-received, as we are clearly focused on supporting the long-term vitality of community providers across the U.S.

Our extensive capabilities, scaled platform and deep expertise enable us to collaborate with customers to overcome evolving challenges across the healthcare landscape. During the quarter, the healthcare industry faced an impactful disruption that prevented providers across the U.S. from receiving the claims payments they rely on to run their practices and ultimately care for patients. Our customers, particularly community providers, found themselves in a difficult position, uncertain if they could make payroll for their employees or cover expenses for critical medications needed for patient care. Much like we did during the COVID-19 pandemic, our cross-functional teams were nimble in developing solutions including offering flexible payment terms to allow our customers to keep their businesses running without jeopardizing care until claims processing was restored. By providing solutions and working to address our customers' needs, we deepened our relationships while supporting continuity and access to care.



The work we do would not be possible without our purpose-driven team members, who diligently work to support our customers and their patients. At Cencora, we are focused on fostering a globally united culture that promotes the well-being of our 46,000 team members across our footprint. A recent example of the strength of our culture was in Lithuania, where we operate both a distribution business and a Cencora Business Services center. We were proud to be recognized by the Lithuanian Ministry of Social Security and Labour with the “Safest Emotional Environment” award for our shared services center, adding to the accolades the office has received in the past several years. This award is just one example of the strong culture Cencora has built, and recognized key elements of our People and Culture strategy, including our leading benefits offering. I am proud our teams have embraced our multinational presence, which better allows us to serve our customers’ needs across geographies and time zones, while maintaining our purpose-driven culture. As we continue to grow as a globally united enterprise, we prioritize building a culture that celebrates the unique backgrounds and experiences of our team members and will provide diverse, differentiated perspectives, enhancing our business.

As a crucial link in the pharmaceutical supply chain, it is imperative that Cencora has robust business resiliency plans to ensure the delivery of crucial pharmaceuticals, including in the face of a changing climate. As we further our business resiliency efforts, we are mindful of the impact our operations have on the environment and work closely with our partners to drive sustainability initiatives, help them understand their emission footprints and, ultimately, report on our joint progress. In partnering with stakeholders across the supply chain on these important topics, we amplify our impact across our footprint. While we continue to advance our work in our own operations and in partnership with other stakeholders, we were pleased that our efforts were acknowledged by Newsweek on its inaugural list of “America’s Greenest Companies,” that recognizes the top 300 companies in the United States who are making progress to positively change their sustainability footprint. Running an environmentally responsible business will continue to be an important aspect of our business resiliency planning and aligns closely with our purpose of creating healthier futures.

In closing, the ever-changing healthcare environment necessitates that we remain agile and adaptive alongside our partners both up- and downstream. I am incredibly proud of our purpose-driven team members who exemplified their customer-centric approach and intellectual confidence to help providers maintain access to care during a challenging time. As we move into the second half of our fiscal year, we remain focused on creating a best-in-class customer experience, embracing innovation and investing in our infrastructure to drive our pharmaceutical-centric strategy forward, creating value for all our stakeholders.

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

**JIM CLEARY:**

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

Before I turn to my prepared remarks, I want to extend my congratulations to both Steve and Bob on our recently announced leadership succession plan. Since joining Cencora in 2015, I have had the pleasure of working closely with both Steve and Bob as we have executed on our pharmaceutical-centric strategy and focused on creating long-term value. Steve’s purpose-driven leadership and strategic vision have shaped Cencora into the company it is today, characterized by our foundation in pharmaceutical distribution, complementary solutions up- and downstream, and longstanding leadership in specialty. I look forward to continuing to benefit from Steve’s expertise as he steps into the Executive Chair role in October. Like Steve, Bob has deep knowledge in, and passion for, supporting positive patient outcomes through pharmaceutical-



centric care. Bob's experience leading our commercial operations and building talented, customer-focused teams will benefit our company and all its stakeholders in the years to come.

Now turning to our results, Cencora delivered strong performance in our second quarter and we are pleased to raise our adjusted operating income guidance for the full fiscal year. Our teams continue to execute and stay focused on providing customer-centric services and solutions, as evidenced in the quarter when we leveraged the strength of our balance sheet to support our customers during a time of industry-wide need. The important role we play at the center of healthcare, powered by our people and the long-term partnerships we have forged, positions us well to continue to innovate, solve problems for customers and create significant value across the pharmaceutical supply chain.

I'll now turn to a review of our consolidated second quarter results, and 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.

Starting with revenue, our Consolidated Revenue was \$68.4 billion, up 8%, with solid growth in both segments. In the quarter, we saw continued strong trends in sales of specialty products to physicians and health systems and growth in sales to some of our larger customers, offsetting the manufacturer price reductions in certain product classes – which were known well in advance. While we have continued to see growth in sales of GLP-1 products, this quarter the growth rate moderated as we lapped the rapid adoption of the products in the second quarter of our fiscal 2023, and due to GLP-1 supply constraints in the quarter.

Consolidated Gross Profit was \$2.5 billion, up 7%. Consolidated gross profit margin was 3.70%, a decrease of 1 basis point.

Consolidated operating expenses were \$1.5 billion, up 5% due to higher distribution, selling and administrative expenses to support revenue growth, offset in part by the efficiency actions we called out last year on our May earnings call.

Consolidated operating income was \$1.0 billion, an increase of 11% compared to the prior year quarter with good growth in both segments, 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 second quarter. Net Interest Expense was \$64 million, flat year-over-year. As you will recall, we called out an expected sequential step-up in interest expense on our 1st quarter earnings call, given the typical seasonal, intra-period short-term borrowings and cash use. Higher interest expense in the second quarter compared to the prior year was offset by higher interest income and the September 2023 divestiture of our less-than-wholly-owned subsidiary in Egypt. During the quarter, we issued \$500 million in senior notes due 2034 at a coupon of 5.125%. We intend to use the proceeds from the notes issuance to repay our 2024 notes due this month.

Regarding income taxes, our effective income tax rate was 20.9% compared to 19.0% in the prior year quarter.

Turning now to diluted share count - our Diluted Share Count was 201.2 million shares, a 2% decrease compared to the prior year second quarter. This was primarily driven by opportunistic share repurchases during the second half of fiscal 2023 and continued share repurchases in fiscal 2024, including \$50 million in repurchases in the second quarter in conjunction with Walgreens Boots Alliance's block sale in February.

Regarding our cash balance and adjusted free cash flow, we ended the quarter with approximately \$2.1 billion of cash and year-to-date adjusted free cash flow of approximately half



a million dollars. During the quarter, many of our customers were impacted by the Change Healthcare outage that severely limited customers' cash flows as claims payments were delayed. To help our partners, we provided customers in need with extended payment terms, giving them the financial flexibility to maintain their operations and focus on caring for their patients. The support we provided to our customers created a cash flow headwind in the second quarter of approximately \$600 million, which, we fully expect, will reverse in our third fiscal quarter. The strength of our balance sheet and execution by our team members has allowed us to play a pivotal role in supporting our customers during this challenging time, and I am appreciative of our team members who worked diligently and collaboratively to understand our customers' needs and be agile in the face of uncertainty, while being prudent to ensure we also protect Cencora and its shareholders.

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

U.S. Healthcare Solutions segment revenue was \$61.3 billion, up 8%, with solid growth in our distribution businesses, including continued growth in sales to specialty physician practices and health systems and volume growth in GLP-1s. Excluding sales of GLP-1 products, which increased by \$1.3 billion, segment revenue growth would have been nearly 6.5%.

U.S. Healthcare Solutions segment operating income increased 11% to \$841 million as we continued to benefit from our leadership in specialty, both oncology and non-oncology, and solid utilization trends. In the quarter, we also saw a benefit from our focus on managing operating expense growth, as we compared to a period with elevated expenses prior to the efficiency actions we took last Spring.

As it relates to COVID contributions, in the quarter we saw a decline in demand for commercial COVID-19 vaccines, and contributions related to exclusive COVID treatment distribution were not meaningful, as expected. As we no longer expect contribution from exclusive COVID treatment distribution, we no longer plan to provide guidance for ex-COVID growth rates. As a reminder, in the first quarter we recognized 6 cents of exclusive treatment contribution, which is the only contribution expected in the segment this fiscal year, compared to 31 cents in the U.S. of the total 38 cent Consolidated contribution for exclusive treatments in fiscal 2023.

I will now turn to our International Healthcare Solutions segment.

In the quarter, International Healthcare Solutions revenue was \$7.1 billion, up 5% on a reported basis, or up 10% on a constant currency basis.

International Healthcare Solutions operating income was \$193 million, up 10% on a reported basis due primarily to growth for: our less-than-wholly owned distribution business in Brazil and our Canadian business.

In the quarter, our European distribution business delivered growth and benefitted from manufacturer price adjustments in a developing market country, which offsets the decline in value of local currency. On a constant currency basis, International Healthcare Solutions segment operating income growth was 22%.

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 EPS and then provide detail on the income statement items driving our updated EPS guidance. We are raising the lower end of our fiscal 2024 EPS guidance and now expect EPS to be in the range of \$13.30 to \$13.50, from our previous range of \$13.25 to \$13.50,



representing growth of 11 to 13%. The updated range reflects our expectation for continued growth and execution in the balance of our fiscal year and, also, updated expectations on a few items below the operating income line.

Moving now to revenue, our guidance for consolidated revenue growth is unchanged at 10% to 12%.

In the International Healthcare Solutions segment, we are narrowing our guidance range for segment-level revenue growth and now expect as-reported revenue growth of 4% to 7%, from the previous range of 4% to 8% and constant currency revenue growth of 7% to 10%, from the previous range of 7% to 11%.

Turning now to adjusted operating income, we expect consolidated adjusted operating income growth to be in the range of 9% to 11%, up from our previous guidance of 8% to 10% due to our updated expectations for the U.S.

In the U.S. Healthcare Solutions segment, we now expect operating income growth to be in the range of 10% to 12%, up from our prior range of 9% to 11%. Our increased guidance reflects our strong performance to date and continued growth in the second half, though at a more moderate rate, primarily due to COVID-19 vaccine seasonality and comparing to the prior year 4th quarter – which was the initial quarter that had a meaningful commercial COVID vaccine contribution. As context, in the first half we saw segment-level operating income growth of 16%, well-above our initial expectations. When excluding commercial COVID-19 vaccine contributions, our growth was 8% in the first half.

Switching now to exclusive COVID therapies - as a reminder, in the 3rd and 4th quarters, we will have headwinds of 5 cents and 8 cents, respectively, as we lap prior year contributions from exclusive COVID therapy distribution.

Turning now to our International Healthcare Solutions segment, our as-reported operating income growth guidance remains unchanged and reflects the strengthening of the dollar in recent weeks. On a constant currency basis, we now expect segment-level operating income growth to be in the range of 10% to 13%, up from our previous range of 9% to 12%.

Regarding our adjusted effective tax rate, we now expect our adjusted effective tax rate to be approximately 21%, from our previous range of 20% to 21%.

Moving now to share count, we now expect our weighted average shares outstanding to be in the range of 201 to 202 million shares, from our previous range of 200 to 202 million shares.

Finally, turning to adjusted free cash flow, our guidance remains unchanged and we expect to generate approximately \$2.5 billion in adjusted free cash flow.

In closing, our teams across Cencora have continued to execute allowing us to deliver strong financial results. As I reflect on the second quarter, I am impressed by the way our talented team members came together to support our customers, exemplifying customer-centricity and agility in responding to challenges. As we look to the second half of our fiscal year, our pharmaceutical-centric strategy, investments to enhance our infrastructure and drive innovation, and our commitment to our purpose will continue to drive differentiated value creation for all our stakeholders.

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