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ABC.N - Q3 2023 Amerisourcebergen Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello, and welcome to today's AmerisourceBergen Q3 Fiscal '23 Earnings Call. My name is Jordan, and I'll be coordinating your call today. (Operator Instructions) I'm now going to hand over to Bennett Murphy, the Senior VP and Head of Investor Relations and Treasury, to begin. Bennett, please go ahead.

Bennett S. Murphy - *AmerisourceBergen Corporation - SVP of IR and Treasury*

Thank you. Good morning, good afternoon, and thank you all for joining us for this conference call to discuss AmerisourceBergen's fiscal 2023 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; 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.amerisourcebergen.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. AmerisourceBergen assumes no obligation to update any forward-looking statements.

And this call cannot be broadcast as an 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.

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Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

Thank you, Bennett. Good morning and good afternoon to everyone on the call. Today, I am pleased to discuss how AmerisourceBergen's pharmaceutical-centric businesses, the strength of our balance sheet and execution by our team members have continued driving our strong performance in fiscal 2023.

In the quarter, we saw continued momentum across our businesses, delivering revenue growth of 11% and adjusted EPS growth of 11%. We are once again raising our fiscal 2023 guidance as we continue to benefit from good underlying business fundamentals and our focus on operating more efficiently. As I said last quarter, we are leveraging our commercial and organizational strength to find ways to better collaborate with a focus on enhancing the way we go to market with our customers. Operating efficiently is critical to our role in the supply chain, and to our ability to invest as we seek to drive further differentiation in our business.

Guided by our pharmaceutical-centric strategy, we advanced our business by focusing on 4 key areas: community providers, specialty medicine and services, global access and opportunity and customer partnerships. We leverage our robust commercial strengths to provide solutions and forge deep relationships with customers and partners globally. Community providers from specialty physicians and local health centers to pharmacies and veterinarians are the cornerstone of access and care in their communities. We work closely with our customers to provide solutions to support their operational needs and strategic initiatives, as they enhance their patient impact.

By leveraging our scale and expertise we offer a broad range of solutions to our community provider customers from those designed to help them solve for everyday challenges like marketing and contracting to those designed to help evolve and broaden their reach. One example of this is our Alphega network of community pharmacies across Europe, where we recently introduced an oncology support program. This program provided community pharmacists with improved training to support patients undergoing cancer treatment. Alphega oncology support equips pharmacists to interact frequently with cancer patients with resources to help address topics such as mental health, managing side effects related to treatment and adjusting to lifestyle habits and changes.

By providing these types of valuable services, we are able to help elevate the role community pharmacists play as critical health care providers within their communities. In the United States, the completion of our minority investment in OneOncology marked an important step in evolving AmerisourceBergen support of community oncology providers. Over the past several decades, we have built our leadership in oncology and been a strong supporter of community oncologists. Leveraging our expertise, we partner with our customers to drive innovation and share best practices to support the health and vitality of those crucial community providers in this spirit.

Our investment in OneOncology further expands our footprint within the oncology space allowing us to deepen our already strong ties to community oncologists. We look forward to enhancing the value we provide to all our partners as the oncology landscape continues to grow and evolve. As we continue to expand our downstream solutions in specialty, our focus on specialty medicine and services, differentiates us to our pharmaceutical manufacturer partners across the commercialization process, from clinical development to patient access.

As pharmaceutical innovation continues to advance medical care and health in our communities, we have positioned ourselves as a differentiated leader. AmerisourceBergen's ability to provide global access and opportunity by offering U.S. and pan-European logistics reach. And commercialization support makes us a partner of choice for pharmaceutical manufacturers, particularly as specialty medicines with higher commercial and distribution complexity, are making up a bigger portion of the pharmaceutical development pipeline.

Our offering is particularly unique in the cell and gene space, where we can integrate logistics with essential patient support services and orchestration technology. While still in early days with cell and gene, we have had positive receptivity to our integrated solutions for these highly specialized products from their biopharmaceutical innovators. Cell and gene therapy is a key area for innovation as it represents an evolving and expanding market with considerable long-term growth opportunities.

Following the launch of our Cell Gene and Therapy integration hub in April, we announced our support for the commercialization of a recently approved gene therapy. We will serve as the exclusive distributor of the product and provide commercialization support, including 3PL, kitting and storage. Our goal is to simplify the commercialization process for our partners and help them achieve their desired outcomes.

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AmerisourceBergen is well positioned to support the next evolution of innovative products, and we will continue to invest in developing technologies and solutions to increase our value to our partners. Our ability to drive innovation and establish new solutions to serve our customers and partners, is key to advancing our strategy and long-term growth. Transparency into the supply chain has never been so broadly appreciated, and we are focused on providing actionable and timely insights to ensure the supply chain can operate in an efficient manner. Serving at the core of the pharmaceutical supply chain, we take our role seriously handling nearly $1 billion worth of orders daily across tens of thousands of products.

Our ability to manage thoughtfully, professionally and effectively through disruptions and shortages amplifies the importance of the expertise and diligence we provide in the pharmaceutical supply chain. To further our ability to provide confidence and transparency, we recently announced a partnership with ParcelShield, which will enhance our customers' view of the delivery of critical medications by providing them with real-time packaging, tracking and delivery updates. This example builds on other initiatives we have taken to enhance supply chain visibility, including the addition of real-time tracking on shipments in our global logistics business, and demonstrates how we are leveraging our infrastructure, enhancing our distribution efficiency and creating innovative partnerships to deliver value services for our customers and partners up and downstream.

We also drive value by leveraging our extensive customer partnerships to develop solutions that will expand access to high-quality care. In 2022, the innovative Test to Treat initiative began permitting pharmacists to administer COVID-19 tests and prescribe certain COVID treatments. This, in turn, increased accessibility to these treatments, particularly in underserved communities. Taking learnings from the success of this program, AmerisourceBergen has partnered with SteadyMD to pilot a telehealth solution for community pharmacies to expand the number of Test to Treat services they can offer. By working jointly with physicians through the SteadyMD platform, pharmacists can accelerate patient access to Accenture Pharmaceuticals before conditions become critical. These type of initiatives fortify our customer partnerships and support our customers' growth.

Guided by our purpose of creating healthier futures, we are focused on contemplating and building out other solutions to innovate how we support and grow with our partners as they improve patient care and outcomes. Over the last 2 decades, AmerisourceBergen has recognized the importance of being a purpose-driven company. And unifying under a new name that better represents who we are today and where we are going in the future will allow us to deliver on our purpose, and advance our impact across the health care industry. Today, I am tremendously excited to announce that effective August 30, 2023, and AmerisourceBergen will officially become Cencora and begin trading as COR which will unite our team members under a globally inclusive name and a ticker symbol that reflects our core role in health care.

This new identity will allow us to go to market as a unified enterprise to our customers and partners, showcasing the breadth and depth of our solutions across our footprint. The name Cencora also better represents our commitment to our people who are at the center of everything we do. Our team members are the key to our success and we are focused on creating an inclusive and engaging environment, where our people feel comfortable sharing the unique backgrounds and experiences. We pride ourselves on cultivating an inclusive culture and continually improving upon our efforts to ensure all our team members feel empowered and welcome. We've taken steps to further our inclusion efforts by signing the CEO disability inclusion letter published by Disability:IN to ensure an accessible and equitable environment within the AmerisourceBergen team.

We were also honored to be recognized as a "Best Place to Work" for disability inclusion after receiving a perfect score on the Disability Equality Index. We proactively set goals and action items to advance disability inclusion and equity, demonstrating our commitment to enacting change within the environment in which people with disabilities work. At AmerisourceBergen, we are powered by our people, and we are proud to promote a work environment that supports and empowers all backgrounds, abilities and genders. As we continue to grow and evolve under our new corporate identity, we will remain driven by our purpose. Our future success hinges on our people, environment and communities in which we live and work and I remain inspired by our team that delivers our purpose every day.

In the remaining months of our fiscal 2023 year, we look forward to executing on our strategy and investing in further innovation and growth. Building on AmerisourceBergen's strong legacy, Cencora will continue to be a differentiated force within the global health care system and provide value for all our stakeholders. The emphasis we place on innovation and efficiency sets us up for long-term growth and success as a leader in pharmaceutical centric healthcare. I will now hand the call over to Jim for a more in-depth look at our third quarter results and updated guidance going into the final quarter of fiscal 2023. Jim?

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James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

Thanks, Steve. Good morning and good afternoon, everyone. AmerisourceBergen delivered another quarter of strong results as our team members' execution continues to create significant value for all our stakeholders. Our results speak to the strength of our business and our continued work to drive efficiencies.

In the quarter, we also strategically deployed capital closing our minority investment in OneOncology, an example of investing to further our strengths and we continue to opportunistically repurchase shares to also return capital to our shareholders. Before I turn to our third quarter results, 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.

Turning now to our third quarter results. AmerisourceBergen had adjusted diluted EPS of $2.92 and an increase of 11% over the prior year quarter, driven by growth in both segments, and a lower share count due to opportunistic share repurchases over the past year. Our consolidated revenue was $66.9 billion, up 11.5%, driven by growth in both segments, particularly in the U.S. Healthcare Solutions segment, which had broad-based growth across our customer base, including growth in sales of products labeled for diabetes and weight loss in the GLP-1 class. Without this increase in GLP-1 products, our consolidated revenue growth would have been more in line with our consolidated gross profit growth.

Consolidated gross profit was $2.2 billion, up 8% due to growth in both segments. Consolidated gross profit margin was 3.33% and a decline of 11 basis points due primarily to lower contribution from COVID treatments, which have higher gross profit margins and continued volume growth in GLP-1s, which have lower gross profit margins. Both these margin impacts are to be expected given the unique characteristics of each of these product groups. Consolidated operating expenses were $1.4 billion, up 7.6%, primarily due to higher expenses in our International Healthcare Solutions segment. We continue to focus on creating efficiencies and working collaboratively to drive value for our stakeholders which contributed to the sequential year-over-year moderation of growth in operating expenses in the quarter, particularly in our U.S. Healthcare Solutions segment as a result of actions we have taken.

Consolidated operating income was $822 million, an increase of nearly 9% compared to the prior year quarter. Our operating income growth was driven by solid performance in both segments and I will provide more detailed business drivers when discussing segment level results. Moving now to our net interest expense. For the third quarter, net interest expense was $58 million, an increase of 9.5% versus the prior year quarter. As we look to the fourth quarter, we expect net interest expense to be at its highest level this fiscal year given cash use in the past few months. Now turning to income taxes. Our effective income tax rate was 21.5% compared to 20.2% in the prior year quarter. As we called out last quarter, we continue to expect our full year fiscal 2023 effective tax rate to be towards the bottom end of our guidance range of 20% to 21%.

Turning to diluted share count. Our diluted share count was 204.4 million shares a 3.5% decrease compared to the third quarter of fiscal 2022, driven by share repurchases we completed over the last 12 months. This included $100 million of repurchases in the third quarter in conjunction with transactions, Walgreens Boots Alliance executed. Going forward, we expect transactions to continue to occur and we anticipate continuing to collaborate and coordinate with Walgreens Boots Alliance as we have done over the past year. Regarding our cash balance and free cash flow, we ended the quarter with approximately $1.4 billion of cash. Our adjusted free cash flow for the 9 months ended June 30 was $1.5 billion, and we are now slightly improving our adjusted free cash flow guidance to be at least $2 billion for the fiscal year, up from approximately $2 billion. 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 $59.9 billion, up 12% for the quarter with broad-based growth across our customer base, including sales of products in the GLP-1 class and also sales of specialty products to physician practices and health systems. U.S. Healthcare Solutions segment operating income increased by 9.5% to $635 million as we saw good pharmaceutical utilization trends across our business, and our Animal Health business had another good quarter with growth in both the companion and production animal markets. Our operating income growth also benefited from an easier expense comparison as we lapped inflationary pressures that began in the March quarter of fiscal 2022 and from efficiency initiatives that we have taken, both of which we called out last quarter.

This combination of operating expense items helped improve our operating expense margin in the quarter, offsetting most of the gross profit margin pressure from lower COVID-19 treatment contributions and increased volumes of GLP-1s. In the quarter, U.S. Healthcare Solutions segment operating income margin did still have a year-over-year decline of 3 basis points to 1.06% as a result of our mix of those 2 product groups. As a

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reminder, COVID product volume has continued to decline as expected, and we are earning a fee for distributing government-owned products and GLP-1s are a big driver of revenue growth but not a meaningful driver of operating income growth.

I will now turn to our International Healthcare Solutions segment. In the quarter, International Healthcare Solutions revenue was $7.0 billion, up 5.6% on a reported basis or up 12.4% on a constant currency basis. In this segment, we saw growth in all our businesses. International Healthcare Solutions operating income was $187 million, up 6% on a reported basis or 7% on a constant currency basis, driven by solid performance in our Global Logistics business, and the inclusion of PharmaLex in the quarter, which offset the impact of the divestiture of our Brazilian specialty business in June of 2022. As a reminder, this divested business contributed nearly 2% of segment level operating income in the third quarter of fiscal 2022. That completes the review of our segment level results.

I will now discuss our updated fiscal 2023 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. Full details of our fiscal 2023 guidance can be found on Pages 8 and 9 of our earnings presentation on our Investor Relations website. Starting with revenue. We are raising our consolidated revenue guidance and now expect our revenue growth to be at least 8% to reflect stronger revenue growth in the U.S. Healthcare Solutions segment and favorable currency movements in the International Healthcare Solutions segment relative to our prior guidance.

In the U.S. Healthcare Solutions segment, we now expect revenue growth to be at least 9% and which reflects strong pharmaceutical utilization trends and also the increase in volume of GLP-1 products. In the International Healthcare Solutions segment, we are raising our as-reported revenue growth guidance to be in a range of 1% to 4%, up from our previous expectation of a 3% decline to flat due to favorable currency movements relative to our May guidance. Moving to operating income. We are narrowing our consolidated operating income guidance to a range of 3% to 4% growth from the previous range of 2% to 4% growth, primarily to reflect the strong performance we have seen in the U.S. Healthcare Solutions segment, and to reflect favorable currency movements in the International Healthcare Solutions segment.

In the U.S. Healthcare Solutions segment, we now expect segment operating income growth to be in the range of 4% to 5% from our previous range of 3% to 5%, excluding contributions related to COVID-19 treatment distribution. We now expect operating income growth to be in the range of 7% to 8% from our previous range of 6% to 8%, and we are more likely to be near the top end of that 7% to 8% range. In the third quarter, COVID-19 treatments contributed $0.06 to our consolidated EPS with about $0.05 in the U.S. and $0.01 in the International segment. This brings our total COVID treatment contribution year-to-date to $0.29. Our full year expectations for COVID treatment contributions remained generally unchanged and we expect only $0.01 or $0.02 of COVID-related contributions in the fourth quarter with the contribution occurring in the U.S. Healthcare Solutions segment.

In the International Healthcare Solutions segment, we now expect as-reported segment operating income growth to be in the range of flat to 4% growth, which reflects favorable FX rates relative to our previous guidance. As a result of these updates, we are raising our full year diluted EPS guidance from our prior range of $11.70 to $11.90 to a new range of $11.85 to $11.95, representing growth of 7% to 8% on an as-reported basis or 12% to 13%, excluding COVID-19 treatment contributions. As you turn to your models, there are a few items we wanted to remind you of as you think about the fourth quarter and the year ahead. In the fourth quarter of fiscal 2022, we had $0.17 of contribution from distributing COVID treatments, $0.16 of which was in the U.S. Healthcare Solutions segment.

As I mentioned, this year, we expect to only have $0.01 or $0.02 of COVID treatment contributions in this year's fourth quarter, which will impact year-over-year growth rates. It's also important to keep in mind, that in the fourth quarter of fiscal 2022, the dollar was at historically strong levels versus most major currencies. This should create a tailwind in the International Healthcare Solutions segment on an as-reported basis, as we lap that easier comparison and as reported growth is expected to be higher than constant currency growth in the fourth quarter of fiscal 2023. This dynamic is reflected in our increased as-reported operating income guidance at the International Healthcare Solutions segment level, and in our constant currency operating income guidance, which remains unchanged at the International Healthcare Solutions segment level.

We are in the middle of our planning process and feel confident that the strength and resilience of our core business, and our value-creating approach to capital deployment will allow us to deliver on our long-term growth guidance. While it remains early in our planning process, at this point, we would expect contributions related to COVID treatment distribution to be minimal in fiscal 2024. As usual, we will provide full fiscal 2024 guidance in November when it can be fully informed by our detailed planning process. Before I turn to my closing remarks, I would like to provide

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a brief update on one of our key ESG initiatives. As we have discussed, in fiscal 2023, we introduced an ESG metric within our executive compensation program that includes 3 quantifiable components focused on business resiliency, female representation in leadership roles, and employee inclusion and engagement.

During the quarter, we successfully completed the business resiliency target by completing business impact assessments across our locations. This exercise informs our resilience planning and ensures we are able to continue operating in the face of natural disasters and a changing climate. To this end, we were also proud to be recognized by Forbes on their first-ever Net Zero Leaders list. This list recognizes businesses that are leading the way not only in transitioning to a low-carbon economy by 2050, but also are embedding sustainability practices into their business and working to achieve sustainability targets. Companies were evaluated across industries for the robustness of the company's climate governance strategy and risk management principles. We continue to focus on maintaining strong business resilience practices to allow us to deliver on our role at the center of the pharmaceutical supply chain.

Reflecting on this being our last earnings call with the corporate name AmerisourceBergen, I am impressed by our company's track record of adapting and evolving over the years. We have executed on our pharmaceutical-centric strategy, building on our foundation and pharmaceutical distribution, and expanding our suite of solutions for both our customers and manufacturer partners. Looking ahead, I'm excited that on August 30, we will begin trading under the ticker symbol COR, C-O-R on the New York Stock Exchange. This ticker is more meaningful and reflective of our business and role in the supply chain. As we begin our next chapter at Cencora, I am confident that our team members will build upon the legacy we have created and continue to drive long-term growth for our stakeholders. Now I will turn the call over to the operator to open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Elizabeth Anderson of Evercore ISI.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Congrats on the quarter. One thing that was particularly impressive as we think about the performance in the quarter was obviously the improvement in the OpEx. Can you help us sort of think about the sustainability of that improvement as we think about maybe the fourth quarter and then maybe conceptually beyond that?

James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

Yes, thanks so much for asking that question, Elizabeth. One thing we were really pleased about -- there's obviously so many things we were pleased about during this quarter. But one of the things we were pleased with is that our OpEx growth was slower than our gross profit growth. So as I'm sure you saw our gross profit growth during the quarter was 8.0% and our OpEx growth was 7.6%. And really where we saw the improvement was in the U.S. Healthcare Solutions segment where our operating expense margin declined by 11 basis points.

And we really were able to achieve this by focusing on aligning our internal capabilities to our customers' needs and creating a more efficient organizational structure. And we had talked about that on the May call. And that's something that we were very focused on. And then we also benefited from lapping inflationary pressure that had started in the March quarter of fiscal year '22. And so we lapped that pressure, and so we had less cost pressure during the quarter. And so as we look towards the fourth quarter and we look towards fiscal year '24, this is something that our company is very focused on. We're very focused on efficiency, so we can really align our capabilities to our customers' needs and have an efficient organization. So thanks a lot for asking that.

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Operator

Our next question comes from Lisa Gill of JPMorgan.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Just want to understand a couple of things better on the margin side. So first, in your prepared comments, you talked about exclusive distribution relationships on cell gene therapies. And then you talked a little bit about the growth in GLP-1s, which I understand, high dollar value when we think about it branded, but probably a lower margin so as we think about your book of business.

How do I think about like the progression of margin, especially in the U.S. distribution component of the business as we think about; one, exclusive distribution relationships; two, the continued growth in GLP-1s; three, biosimilars, how that plays a role.

And then just lastly, like anything else that I should keep in mind, whether it's generic price deflation, which seems to have moderated as we start to think about not just the fourth quarter, but thinking about '24 as well.

James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

Yes. There's a lot there. And so let me start out by talking about GLP-1s because they were such a driver of revenue growth during the quarter. And I mentioned during my prepared remarks that we had about 11.5% revenue growth in the quarter and that if we backed out GLP-1s, our revenue growth would have been more in line with our GP growth of 8.0%.

And so GLP-1s really are a driver of top line revenue growth. But from an operating income standpoint, they are minimally profitable. And so they really are a driver of top line, but minimally profitable at the operating income line. And this is caused by the fact that the gross profit margins on them are low. And then, the operating expenses are a little higher because of the cold chain nature of the product. And then with regard to things like exclusive cell and gene relationships, of course, those sorts of things are very positive for the company and very strategically important. But in terms of dollars, small at this point in time.

Biosimilars, you asked about, they continue to be really kind of key and a growth opportunity and margin opportunity for AmerisourceBergen. You asked about generic deflation. And during the last few months, we have seen some moderation of generic deflation in certain pockets. This is too early to call a trend. But of course, if it were to broaden beyond a few pockets into a broader range of generics, it certainly would become a tailwind for the company. But you mentioned, in particular the U.S., and I think probably the thing that I'll point out -- and I talked about this in the prepared remarks on a consolidated basis.

But in the U.S. segment, the gross profit margin decline during the quarter was 13 basis points, and that was really driven by 2 things. One is less sales of COVID therapies, which are high margin and then greater sales of GLP-1s, which are lower-margin products and minimally profitable. But -- and so I think that addresses your questions, but I just want to finish by saying, we were really pleased by the results we had during the quarter, in particular, the operating income growth that was driven by several things, including strong, broad-based results across many businesses, good utilization trends we saw in the U.S. and then the good performance we made on the OpEx front that I had earlier talked about.

Operator

Our next question comes from Eric Percher of Nephron Research.

Eric R. Percher - *Nephron Research LLC - Research Analyst*

Thank you for the commentary on GLP-1s. I want to stay on that subject and it's good to hear they're minimally profitable for Amerisource, but what we're hearing from pharmacies, particularly independence is that they're not profitable. And it sounds like maybe even the same for chains.

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So given the importance of independents, have you had to help them offset that? Or is that the role of the manufacturer and others in the supply chain?

Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

Yes. So Eric, thanks. As you know, we price more on product category, so this would fit into a branded and indeed, oral category that's dispensed mainly in the retail sector. A fairly significant amount of this is going through mail order.

So it's -- we don't discount on a particular product category, even as significant as this product category is. But we do regard ourselves as a liaison. So of course, we'll be talking on behalf of Good Neighbor Pharmacies in particular, you look at the Elevate network, we discussed this as a key product category that is affecting profitability, reimbursement stability in the community pharmacy. But it's not anything that we are discounting on a particular item or a particularly category basis. So it just fits into that broader category. Of course, these products are extremely important, a good example of innovation and there is a lot of product, a lot of positives about the product as well.

I think we shouldn't only look at this in terms of the negatives. I mean, I think there will be a whole lot of benefits to the pharmacy industry as this category evolves including the monitoring of side effects, potentially anything else that pharmacists can do to help manage the health of their patients and AmerisourceBergen will, of course, be there to assist.

Operator

Our next question comes from Daniel Grosslight of Citi.

Daniel R. Grosslight - *Citigroup Inc., Research Division - Research Analyst*

Congrats on another strong quarter here. I just had a quick question on the adjusted operating income guidance for the rest of this year and how we should think about that going into '24. So if you back out the COVID impact and assume that you're going to be at the high end of the range for the fiscal year. It implies around a 2% sequential step-down from 3Q.

I'm curious if there was any pull-through from 4Q into 3Q that may be causing that sequential decline? Or is that kind of the normal seasonality now? And then going forward, is kind of a like low teens, high double -- high single-digit growth rate in that segment reasonable?

James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

Yes. Thank you for asking the question. And let me say, of course, we were really pleased with the results during the quarter. And as -- and due to that, we did really kind of across the board raised or narrowing of guidance for fiscal year '23. And we have a lot of confidence in our updated fiscal year '23 guidance, and we have a lot of confidence in our long-term guidance, which is, of course, 5% to 8% organic operating income growth. And then including capital deployment, it's double-digit compound annual growth rate for adjusted EPS at the midpoint of the range.

Of course, both those exclude COVID and exclude FX, but we -- there are, of course, a number of things that can impact results quarter-to-quarter and timing and those sorts of things. But rather than kind of get into the details there. I just want to say that as we are starting into fiscal -- excuse me, the fiscal fourth quarter, we've got a lot of good momentum in our business. We're seeing strong utilization trends in the U.S. We're seeing good performance in just a number of areas of the business, and that's what gives us a lot of confidence in both our fiscal year '23 full year guide and our long-term guidance that I talked about. And of course, we're just in the middle of our fiscal year planning process now, and we'll look forward to providing our fiscal year '24 guidance on the November call.

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Operator

Our next question comes from Charles Rhyee of TD Cowen.

Charles Rhyee - *TD Cowen, Research Division - MD & Senior Research Analyst*

Congrats on the quarter. I wanted to go back talking about sort of the services that you're looking to do that you are providing for pharma manufacturers here. You talked about more commercial support, the cell and gene therapy hub, et cetera. Can you talk about a little bit maybe how maybe OneOncology fits into this? You look at some of your peers and some of the efforts that they're making in terms of sort of upward facing services to manufacturers. I know you have a lot of that when we think about World Courier as well.

What is the broader strategy? And what are the services that many manufacturers are starting to ask from folks like you? And what's the unique position that you have here in -- and I guess, ultimately, how much share of a business do you think this will be when we think of Cencora going forward?

Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

Yes. Charles, thanks for the question. That's -- I'll try to cover all the elements you asked. Of course, one of the ways at AmerisourceBergen has a differentiated value proposition is our strong portfolio of distribution capabilities and key strategic relationships are really -- we juxtapose and relate those into our upstream relationships and try to provide more services to manufacturers.

So key themes that you should keep in mind is our presence in specialty distribution, where we've been the leading community oncology. And this will only be enhanced by the OneOncology acquisition, where we expect to have learnings. There's been a lot of activity, for example, recently in urology. But -- so that could be a future area of interest for us. As any of these physician dispensing capabilities, we come up in areas that we're already active in, including urology and rheumatology, ophthalmology, that will be of interest, and neurology could be one that we are very interested in as well. Aligned with our distribution capabilities to the dispensing physician and what we often call the Part B market is our GPO capabilities.

And then I'd have to say AmerisourceBergen has really focused and invested in the development and the breadth and depth of our commercialization services. The customer is the biopharmaceutical manufacturer who will actually be billing for a lot of these services. And I think if you look at the various businesses that we've been invested in, go back to '98 when we invested in Lash. We started our ICS business for pre-wholesale third-party logistics. We have always been a leader in this area as well. And our goal is to provide an end-to-end suite of solutions and support our partners at every stage of the commercialization journey.

So of course, as you have new more complex therapies, none more so than more intriguing than cell and gene therapies and you have -- when you launch them, you have cost issues, you have access issues, you have, of course, the distribution and storage issues, transportation issues. AmerisourceBergen is really creating a lot of services around this. And you've heard how we even -- for a unique product. Now we're doing some kitting and different sorts of handling for cell and gene product. So we will continue to evolve our business. There's a lot we can do. We can track outcomes on a therapy-specific level. In some cases, we've done that in the past. So we will be responsive to the needs of the market and continue to add value to -- for patients on the access front and to manufacturers on taking those different distribution and other points we have to get their products into the market and efficiently and effectively.

Operator

Our next question comes from Andrea Alfonso of UBS.

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Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

It's Kevin Caliendo for Andrea. Yes, on the International segment, you've discussed pricing visibility. And on World Courier, there's been a benefit from higher weight per shipment. Does that dynamic what increases pricing organically on a go-forward basis?

I guess what I'm really trying to -- try to understand here is what -- how should we think about what drives margin improvement here internationally besides operating cost, headwinds easing for the -- just for the whole international segment. Is that one of the big drivers? Or is there anything else we should think about in terms of the international margin or the potential for margin improvement in that business?

James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

Thanks for asking that question. And as we look at the international business, you asked about World Courier, and there has been some benefit from price. But I think as we look forward there, probably a good deal of the benefit we'll see from World Courier will be in volume growth.

As we look at margins overall in the international business, probably what will impact it more than anything else is a mix. And as we deploy capital like we did in PharmaLex, those will be in higher margin, higher growth businesses. And that will -- over a period of time, it should positively impact margin percentage growth in the international business. And I think that will be the key driver.

Operator

Our next question comes from Eric Coldwell of Baird.

Eric White Coldwell - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I'm going to shift topics here a little bit. We're seeing aging of receivables and weaker cash collections in certain of our health care services coverage. Biopharma clients simply trying to hold on to cash as long as possible to take advantage of interest rates. I know payments really never seen as a risk here, but at least on the pharma side.

But I'm just curious, what are you seeing in contract renewals, client negotiations when it comes to payment terms? And are you seeing any of your upstream or downstream accounts trying to hold on to cash longer than they have in the past?

Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

Yes. I can start out. It's an interesting question given the interest rate environment and the different -- the sort of near recession we've had, I'm not the economist on this call, but the terms in our business are very stable. There are longer terms often given to the physician segment, but we are not seeing anything discernible, noticeable on changes in terms.

Certainly, there's a tighter funding environment for biopharma manufacturers and especially start-up innovative products. But that's a cycle we think we may be seeing some sort of signs of optimism there. And we, of course, follow very closely some of the World Courier peers, larger life sciences type services companies and note their pronouncements, the comments on this. But nothing specific, I'd call Jim out on. When we are actually negotiating fee-for-service and clauses, I mean, the terms are pretty well established. And the last thing I would say is that with nearly 30 years in the business, the resiliency of the balance sheet that we have, the inventory, the overall majority of the manufacturers we have are -- and I'd say the vast majority of, we've had some few smaller manufacturers have run into financial problems in the last couple of quarters. But it's -- if you look at the gross business of AmerisourceBergen, it's fairly negligible. And very stable. Jim, you want to add something?

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James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

Yes. So this is, of course, something that we monitor and something that we manage very closely and constantly, and there's no meaningful change to call out. Of course, in a working capital management and ROIC and free cash flow are such key value drivers for us over the long term. This is something that we really stay on top of. And I said there's -- as I said, there's no major change to call out.

Operator

Our next question comes from A.J. Rice of Credit Suisse.

Jonathan Yong - *Crédit Suisse AG, Research Division - Research Analyst*

It's Jonathan Yong on for A.J. Just going back to the generic pricing commentary, and I appreciate that the improvement is in the pockets of products. I guess how are you thinking about this from a competitive landscape? Is the increased pricing perhaps providing an opportunity to gain share in the market if your purchasing might be better than others? Just curious to get your thoughts there.

James F. Cleary - *AmerisourceBergen Corporation - Executive VP & CFO*

So yes, like I said earlier, this is -- what we're seeing is the last few months is a moderation of deflation. And again, as you said, it's in pockets. So too early to call a trend. And -- but of course, but if it were a trend, it would be a benefit for us. And then on the sell side, which you talked about, what I'll say on the sell side is it's a competitive market, and it's a stable market also.

Operator

Our next question comes from Michael Cherny of Bank of America.

Dan Clark - *Bank of America*

This is Dan Clark on for Mike. Are you seeing any impacts to sterile injectable pricing margins or supply after the Pfizer plant was disrupted a little earlier this month or last month? And if so, how does that impact factored in the guidance?

Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

It's very quick. It's very soon. Obviously, that was a plant that manufactured a couple of injectable products. We've actually worked closely with Pfizer in this particular instance to see if we could help, we had a distribution center closed by the impacted manufacturer plant. But nothing to report yet. It's -- we're keeping our eye on this. Our supply chain group does a fantastic job, has managed through COVID has managed through all sorts of setbacks.

We had the farmer nationalism that we had on one of the calls. We had a lot of concerns about that. I don't think that one manufacturer plant will impact us. And also you're talking about one of the most well-established resilient manufacturers. I would imagine they have their contingency plans and business continuity plan. So I think we did -- Jim and I and Bob Mauch, our COO. We did have a call with our supply chain people to understand and nothing alarming yet, but we will keep a close eye on the situation, and we feel confident we can manage through this as we have a lot of the setbacks and -- not overall material to what AmerisourceBergen does.

Operator

Our next question comes from George Hill of Deutsche Bank.

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George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

And James, I want to come back to Eric's question talking about GLP-1s and generics. And I guess has the growth of the GLP-1 kind of changed the generic mix and kind of compliance hurdles in the independent channels? And I guess has this led to the independence kind of like artificially hitting generic compliance numbers with you guys to kind of offset the branded to generic mix. I would just kind of love to hear you delve into that dynamic a little bit more.

Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

George, it's a good question. I mean the growth of these products have been producing headlines, and it has altered. But we are -- far from a rigid organization. We have discussions with our customers. We stay very close to the customers. I think -- in fact, I think one of the things that I've been really proud about, the teams in the last few years is we don't just do all customers when it comes to RFPs, the large and the small customers.

We're trying to stay very close to them and we have a whole lot of new resources, including the telehealth attributes that we're trying to help with our venture capital funds, but also just the general communication tools that we have with customers and the coverage we have in the market. As Jim said, is competitive but stable. So we know our customers well, we know what's going on. And if we have issues, we help with them. And certainly, the growth of this product category is something that will be discussed and potentially could be adjusted for. But no clear trend yet, but it's definitely a good thought and we have our big retail trade show this weekend.

And I'm sure that this is going to come up because we have -- Bennett uses the term headline grabbing products and they are. I mean since the hepatitis drugs, we've never seen anything like it, but this is definitely more sustainable and even much bigger than that. So -- and of course, much different payer mixes, et cetera. But we want to make sure that our partners, community pharmacies in particular, are stable for the long term, and this would include the management of these products, which are important for their patients.

So last question?

Bennett S. Murphy - *AmerisourceBergen Corporation - SVP of IR and Treasury*

That was the last...

Steven H. Collis - *AmerisourceBergen Corporation - Chairman, President & CEO*

Okay. Well, thank you today. Thank you. We are kind of a little bit emotional here as we report our last quarter as AmerisourceBergen. And I know Dave Yost is going to be turning over. He doesn't like that we're having changes. But we are very, very excited to be talking in the future about Cencora. Cencora is a name that I think really resonates with myself and the team as we look towards a future where we're even more of a United Global Health Solutions leader.

This name has been studied very well by AmerisourceBergen, and we really believe that it resonates with our team and who we are. What's also extremely important, and I cannot understate this enough, is who we are, what we do and how we do it will not change. We will continue to be a purpose-driven pharmaceutical-centric leader powered by our team members and driven to provide differentiated solutions to our pharma partners and provider customers. We will continue to build on our foundation in pharmaceutical distribution, further our leadership in specialty distribution and services and carry forward our long track record of execution and creating value for all our stakeholders as Cencora. Thank you for your time and attention today.

Operator

Thank you. This concludes today's event. You may now disconnect your lines.

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