Fourth Quarter Fiscal Year 2024 Financial Results
Conference Call Commentary
November 6, 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 fourth quarter and full year results. I am Bennett Murphy, Senior Vice President, Head of Investor Relations and Treasury. Joining me today are Bob Mauch, President and CEO, and Laz Krikorian, Senior Vice President and Chief Accounting Officer.

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

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

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

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

BOB MAUCH:

Thank you, Bennett. Hi everyone and thank you for joining Cencora's fiscal 2024 fourth quarter earnings call.

Before we get started today, I would like to let everyone know that our CFO Jim Cleary has been under the weather for the past few days, after successfully and impressively completing the New York City marathon. Jim is unable to join the call today, but he was part of preparing today's remarks which will be presented by our Chief Accounting Officer Laz Krikorian. We wish Jim a speedy recovery and I know he is looking forward to engaging with everyone in the coming weeks.

It is a pleasure to be speaking with you today, for the first time since assuming the role of President and CEO of this incredible Company, to discuss the strong results our global enterprise has delivered this year, including growing our adjusted earnings by 15 percent. I am honored to take the helm of a purpose driven, growth-oriented business with an unparalleled portfolio of customers ranging from pharmaceutical companies to health care providers across continents. I am focused on continuing to execute our strategy while amplifying the things within our culture that have made us successful.

In fiscal 2024, Cencora continued to benefit from the strength of our customer relationships, the capabilities of our businesses, our international footprint, and the collective expertise of our team members. This year we made important progress by investing in our core

distribution infrastructure, deepening strategic partnerships, leveraging data and analytics, and continuing to build on our strength in Specialty.

Specialty has been a key differentiator for Cencora for decades, and Specialty pharmaceuticals are now everywhere across our business and an important part of almost every customer relationship. As we engage with customers, they are focused on specialty products and how Cencora can help them – this is true for physicians, health systems and specialty pharmacies and now also for community pharmacy as patients are accessing GLP1s locally. While GLP1s present economic challenges in the pharmaceutical supply chain, they are an important innovation and the pharmacists handling these products are helping to drive positive outcomes for patients, particularly those with comorbidities, which is an important proof point for the industry. Pharmaceutical innovation continues to advance patient care and Cencora has the capabilities and resources to enable us to partner with our leading customers, upstream and downstream.

In fiscal 2023, we talked about how our investment in OneOncology was a natural evolution of our leadership in specialty, as the addition of a management services organization, or MSO, in the Oncology space expanded the solutions we provide an important community provider customer base. This morning, I am excited to talk about our agreement to acquire Retina Consultants of America, or RCA, a clear leader in the retina MSO space, which broadens our community provider relationships in a high growth segment. In addition to being a proven, established MSO, RCA has differentiated clinical research capabilities that we believe will build on Cencora's value proposition to pharma, supporting innovative new therapies and furthering our ability to contribute to better outcomes for patients. This acquisition fits squarely in Cencora's pharmaceutical-centric strategy and furthers our ability to execute on our strategic imperatives of leading with market leaders, investing in innovation, contributing to prescription outcomes and expanding on our leadership in specialty. We have developed deep relationships with RCA's leadership over the years as we have served their practices. Their clinical excellence and focus on pharmaceutical innovation align closely with Cencora's purpose and strategy. Community providers face an increasingly complex operating environment. By aligning with Cencora – a partner that supports the voice and leadership of physicians – they are better able to navigate changes, advance their growth and focus on providing patient care.

Cencora's global distribution infrastructure is the backbone of our business. We continue to invest in our distribution centers to support the logistics needs presented by pharmaceutical innovation and focus on utilizing technology to create actionable data and insights for our partners.

In the U.S., we made investments in our distribution infrastructure to support the increasing amount of temperature-controlled volume we handle and to increase the level of granularity on traceability and product-specific movement. Through our data-driven approach, we are focused on creating actionable insights that allow manufacturers to strengthen their processes, increase efficiencies, and comply with the latest industry regulatory standards. This is an example of Cencora's forward-thinking mindset and ability to not only adapt to industry changes but capitalize on and expand the role we play. Healthcare is dynamic, which creates opportunities for us to leverage our growing strengths and expertise to advance clinical and business objectives of our customers.

By aligning ourselves with the right strategic partners and prioritizing key markets, we are able to grow with our customers and develop innovative solutions. Listening and responding to customers is table stakes. We will actively learn – understanding deeply the strategies of our partners allowing us to anticipate their needs, both opportunities and challenges they are facing now and into the future.

As an example, for our health system customers, we have enhanced the services we provide to help accelerate pharmacy solutions by developing a unified portfolio to optimize operations, improve financial performance and expand care. One example of our enhancements is the increased support we now offer during the procurement process. These enhanced services leverage advanced analytics to provide customer transparency, opportunities to drive product and cost efficiency, and evaluate and mitigate risk, all to enhance the customer experience.

Internationally, we have been strategically investing in the distribution center network of our European wholesale and 3PL businesses to increase the level of automation, and enhance our capabilities to improve business continuity. Outside of distribution, our global specialty logistics business continues to navigate a challenging market, operating efficiently while we continue to invest in solutions to support clinical innovation across geographies. And unfortunately, as you saw in the earnings release this morning, we took a goodwill impairment on our PharmaLex business. The business growth is not keeping up with our original expectations as the outsourced pharma services market faces broader demand challenges. PharmaLex remains a key long-term strategic asset in our ability to differentiate our commercialization solutions with our pharma and biotech partners and we are confident in our ability to grow the business. As the market rebounds, we are positioned as a partner of choice to enhance new product development and commercialization through a compelling suite of services from clinical trial support to regulatory, scientific affairs, and pharmacovigilance, specialty logistics, market access, as well as our 3PL and distribution reach across continents.

I am confident in Cencora's ability to drive success across our enterprise because of the strength of our talent. I want to take a moment to thank the global Cencora team members, who drive our business objectives, capture opportunities with our partners and customers through their close collaboration and perform their work with a purpose-driven mindset. I am honored to be working alongside and learning from each of our team members, whose expertise and excellence in their work drive us forward. Our most important investment is in our people, and I have seen how diverse teams with differing perspectives create the best results, so as we think about fiscal 2025 and the future of Cencora, we will prioritize building on our strong team to continue our track record of impressive performance. Our Enterprise Leadership Team's responsibility is to equip our team members with resources to perform best-in-class work, and I am committed to supporting them.

Having been in this role for a little over a month now, I am continuously asked what is next for Cencora. Cencora is an incredible purpose-driven company, guided by a differentiated strategy, culture, and portfolio of solutions across the geographies we serve, which has allowed us to build strategic customer partnerships – and consistently deliver strong results. Thinking about fiscal year 2025 and beyond, we will continue to lead with a customer centric approach, take on an enterprise powered mindset and focus on innovation, which will ensure our differentiated value-proposition remains intact and accelerates our position as a leader in healthcare. On the talent side, we have strong leadership and we have taken steps to evolve the leadership team to help deliver on this focus – adding new external hires, including a Chief Data and Information Office as well as a new Head of Corporate Strategy and Development. We have also elevated existing commercial leaders to ensure that we continue to bring the voice of the customer to the table.

In closing, Cencora has an incredible foundation, built on the strength of our strategy. We are well positioned in key services and solutions, with our core in pharmaceutical distribution and complementary services for our upstream and downstream customers. Our global operations allow us to integrate our solutions across the markets we serve to create

differentiated capabilities. I am inspired by our team members' pride in their work and deep dedication to our purpose – We are united in our responsibility to create healthier futures.

With that, I will now turn the call over to Laz for an in-depth review of fourth quarter and full year fiscal 2024 results as well as fiscal 2025 guidance. Laz?

LAZ KRIKORIAN:

Thanks Bob --- good morning and good afternoon, everyone. It is an honor and a privilege to fill in today as Jim continues to recover. We all know Jim so we all know that he is listening to the call right now, and I will try my best to do him proud.

Before I turn to a review of our fourth quarter and full fiscal year 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.

Throughout fiscal 2024, Cencora has demonstrated our ability to capitalize on the opportunities presented to us by our pharmaceutical-centric strategy, long-lasting customer relationships and robust solutions; and the fourth quarter was a continuation of our momentum as we finished the year strong. Driven by the strength of our business, and execution of our team members, we delivered adjusted diluted EPS of $3.34 in the fourth quarter, representing a 17 percent increase compared to the prior year quarter, and full fiscal year 2024 adjusted diluted EPS of $13.76, a 15 percent increase compared to the prior fiscal year.

Turning now to an in-depth review of our fourth quarter results compared to the prior year quarter, Consolidated Revenue was $79.1 billion dollars, up 15 percent, driven by growth in both reportable segments, as the U.S. Healthcare Solutions segment continued to see strong script utilization and the International Healthcare Solutions segment benefitted from growth at our European and Canadian businesses.

Moving now to gross profit - Consolidated Gross Profit was $2.5 billion dollars, up 7 percent, due to gross profit growth in the U.S. Healthcare Solutions segment. Consolidated gross profit margin was 3.1 percent, a decrease of 24 basis points compared to the prior year quarter due to higher growth in our U.S. Healthcare Solutions segment, which has a lower gross profit margin than our International Healthcare Solutions segment. Additionally, our U.S. Healthcare Solutions' gross profit margin experienced continued pressure from increased sales of low margin GLP-1 products and a lack of sales in the current year quarter of exclusive COVID-19 therapies, which had higher gross profit margins.

Consolidated Operating Expenses were $1.6 billion dollars, up 7 percent as a result of higher distribution, selling and administrative expenses in the quarter to support our revenue growth.

Turning now to operating income - Consolidated Operating Income was $851 million dollars, up 6 percent compared to the prior year quarter. The increase in operating income was driven by strong growth in the U.S. Healthcare Solutions segment, partially offset by a decline in the International Healthcare Solutions segment, which I will discuss in more detail when reviewing segment-level results.

Moving now to our Net Interest Expense for the fourth quarter. Net Interest Expense was $21 million dollars, a decrease of 66 percent, driven by strong free cash flow, enabling an increase in interest income as a result of higher investment rates and investment cash balances in the quarter, and a decrease in interest expense due to lower foreign subsidiary borrowings and the September 2023 divestiture of our less-than-wholly-owned subsidiary in Egypt.

Our Effective Tax Rate in the fourth quarter was 20.3 percent compared to 21.6 percent in the prior year quarter, bringing our full year 2024 effective tax rate down to 20.8 percent.

Finally, our Diluted Share Count was 198.1 million shares, a 3 percent decrease compared to the prior year fourth quarter, driven by approximately $500 million dollars of opportunistic share repurchases in the quarter including a $250 million dollar share repurchase from Walgreens Boots Alliance in August as they sold all of their remaining unencumbered shares.

This completes the review of our Consolidated results.

Now, I will review our Segment results for the fourth quarter beginning with the U.S Healthcare Solutions segment.

U.S. Healthcare Solutions segment revenue was $71.7 billion dollars, up 16 percent versus the prior year, reflecting strong prescription utilization trends including sales of GLP-1 products, increased sales of specialty products to physician practices and health systems, and growth in sales to our largest customers, all of which was partially offset by the January 1 manufacturer price reductions in certain product classes. In the quarter, sales of GLP-1 products were up $3.1 billion dollars, representing a 55 percent increase compared to the prior year quarter, and a sequential increase of 14 percent from the June quarter. Excluding sales of GLP-1 products, fourth quarter revenue growth would have been approximately 12 percent.

U.S. Healthcare Solutions segment operating income increased by 10 percent to $697 million dollars driven by increased volumes across our distribution businesses stemming from strong utilization trends. In the quarter, we continued to see strong demand for specialty products from physician practices and health systems, outpacing overall prescription market growth.

Moving to the International Healthcare Solutions segment.

In the quarter, International Healthcare Solutions revenue was $7.4 billion dollars, an increase of almost 6 percent on an “as reported” basis, and an increase of 8 percent on a constant currency basis.

International Healthcare Solutions segment operating income was $154 million dollars, a 9 percent decrease on an “as reported” basis and an 8 percent decline on a constant currency basis, due to higher information technology expenses at our European distribution business and lower operating income at our Canadian business, all of which was partially offset by positive operating income results at our global specialty logistics business.

As Bob mentioned, and as noted in our press release, our GAAP operating income results for the fourth quarter include a $418 million dollar goodwill impairment relating to PharmaLex as a result of the business not keeping up with our original expectations as the industry experiences broader pressures due to lower demand from pharma and biotech for outsourced services. PharmaLex remains a strategic asset for Cencora and we expect the business to continue to be a key component of our commercialization services value proposition for our upstream partners. Please note that this one-time item only impacts our GAAP results and is excluded from our non-GAAP adjusted results for the quarter.

That concludes my discussion of our fiscal fourth quarter financials.

Now, I will turn to our full year fiscal 2024 results compared to the prior year, beginning with revenue.

Our Consolidated Revenue was $294 billion dollars, up 12 percent, driven by growth of 13 percent in the U.S. Healthcare Solutions segment and 4 percent growth in the International Healthcare Solutions segment.

Consolidated Operating Income was $3.6 billion dollars, an increase of 11 percent due to growth in both the U.S. Healthcare Solutions segment and the International Healthcare Solutions segment.

From a segment perspective, U.S. Healthcare Solutions had operating income growth of 13 percent driven by increased sales of specialty products to physician practices and health systems, increased sales to our largest customers, and commercial COVID-19 vaccines. As a reminder, commercial COVID-19 vaccines drove the higher year-over-year operating income growth in the first half of fiscal 2024.

International Healthcare Solutions had operating income growth of 3 percent on an “as reported” basis driven by increases at our Canadian business, our global specialty logistics business, and our less-than-wholly-owned Brazil full-line distribution business, partially offset by foreign currency pressure and higher information technology operating expenses in our European distribution business. On a constant currency-basis, the segment delivered 9 percent operating income growth.

Rounding out the discussion of our full year fiscal 2024 results, we generated $3.1 billion dollars of adjusted free cash flow and ended the year with a cash balance of $3.1 billion dollars, as we experienced better-than-expected quarter-end receipts.

In fiscal 2024, we returned $1.9 billion dollars to shareholders through a combination of dividends and share repurchases, including $1.5 billion dollars in opportunistic share repurchases. This morning, we announced our 20th consecutive annual dividend increase, as our Board of Directors approved an 8 percent increase to our quarterly dividend. This is 3 percent higher than our previous annual dividend increases of 5 percent and aligns with our long-term guidance of 8 percent to 12 percent adjusted diluted EPS growth.

This completes the review of our full fiscal year results.

Turning now to discuss our fiscal 2025 guidance expectations – as a reminder, we do not provide forward-looking guidance on a GAAP basis, so the following metrics are provided on an adjusted, non-GAAP, basis. I will also provide certain guidance metrics on a constant-currency basis. We have also provided a detailed overview of guidance metrics on slides 11 and 12 of our earnings presentation.

First, I will start with adjusted diluted EPS and then provide greater detail on the components of our earnings growth and financial expectations for the fiscal year.

In fiscal 2025, we expect adjusted diluted EPS to be in the range of $14.80 to $15.10, representing growth of 8 percent to 10 percent, at or above our preliminary implied guidance provided in early September due to opportunistic share repurchases in September and October and continued momentum in the business. As stated in our press release this morning, our fiscal 2025 guidance does not include the impact of the RCA acquisition, which will be incorporated into our expectations following the transaction close.

As a reminder, in fiscal 2025 we continue to expect year-over-year headwinds from:

- COVID products, including a headwind from commercial COVID vaccines in the first half of fiscal 2025;
- a 6-cent headwind from exclusive COVID therapies in the first quarter of fiscal 2025; and

- the potential June 2025 loss of an oncology customer due to its previously announced pending acquisition.

All of these factors remain largely unchanged from our preliminary guidance expectations and are offset by our momentum and business initiatives.

Moving to revenue, we expect consolidated and segment growth rates to be in the range of 7 percent to 9 percent reflecting continued growth across both segments.

Turning to operating income, we expect consolidated and segment operating income growth rates to be in the range of 5 percent to 6.5 percent.

At the segment level, we expect U.S. Healthcare Solutions segment operating income to benefit from continued pharmaceutical utilization trends, growth in key markets, and internal efficiencies, more than offsetting COVID-related headwinds and the potential loss of an oncology customer in the fourth quarter of fiscal 2025. For the International Solutions segment, operating income is expected to benefit due to growth from its key businesses and a lower information technology expense growth rate.

Now moving to interest expense, we expect our interest expense to be between $150 million dollars and $170 million dollars, based on our standalone operating expectations, which do not include the potential impact from financing the RCA acquisition.

Turning to income taxes, we expect our effective tax rate to be approximately 21 percent for fiscal 2025.

Moving now to share count, we expect that our full year average share count will be approximately 196 million shares in fiscal 2025, reflecting the impact of our significant share repurchase activity over the last 12 months, including over $600 million dollars in repurchases since mid-September.

Regarding our capital expenditure expectations, in fiscal 2025 we expect capital expenditures to be approximately $600 million dollars, a modest increase in comparison to fiscal 2024 as we continue to invest in our business to support growth and to increase the strength of our infrastructure.

As it relates to free cash flow, we expect full year adjusted free cash flow to be in the range of $2 billion dollars to $3 billion dollars, due primarily to timing and mix. We continue to generate strong free cash flow to support our growing dividend and continue to execute our capital allocation priorities to contribute to the growth our business. This morning's announced of RCA is an example of that – as it clearly fits our pharmaceutical-centric strategy, builds on our MSO solutions and hits on Cencora's strategic imperatives which are key to our past and future success.

As was stated in this morning's releases, the fiscal 2025 guidance we are presenting this morning does not currently include the impact of the RCA acquisition, which will be incorporated into expectations following the transaction close. We plan to fund the transaction through a combination of debt and cash on hand. Given the recent use of cash to opportunistically repurchase shares, and the use of cash in our second quarter due to the seasonality of our business, we are currently expecting to fund approximately 20 percent of the acquisition price from cash on hand. Upon closing, the acquisition is expected to be approximately $0.35 accretive, net of estimated financing costs, for its first twelve months.

Cencora is committed to maintaining our strong investment grade credit rating and will prioritize de-leveraging in the years following transaction close.

In closing, the fourth quarter captured a strong year at Cencora. I am proud of our purpose-driven team members, the strength and diversity of our talent, and our continued execution to deliver on our strategic imperatives to advance our position at the center of healthcare. We are well positioned for continued growth in fiscal year 2025 and investing to ensure we are preparing for continued success in the future.

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