



Cardinal Health Inc. (CAH)

Updated February 13th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	-1.8%	Market Cap:	\$20.5 B
Fair Value Price:	\$54	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/31/23
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.7%	Dividend Payment Date:	04/15/23
Dividend Yield:	2.5%	5 Year Price Target	\$62	Years Of Dividend Growth:	35
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

Dublin, Ohio-based Cardinal Health is one of the “Big 3” drug distribution companies along with McKesson (MCK) and AmerisourceBergen (ABC). Cardinal Health serves over 24,000 United States pharmacies and more than 85% of the country’s hospitals. The company has operations in more than 30 countries with approximately 46,000 employees. With 35 years of dividend increases, the \$20.5 billion market cap company is a member of the Dividend Aristocrats Index.

On May 5th, Cardinal Health announced that its prior agreement to pay \$6 billion over 18 years in a national opioid settlement was finalized. More than 98% of lawsuits are included in this settlement.

On May 10th, 2022, Cardinal Health increased its quarterly dividend 1% to \$0.4957.

On February 2nd, 2023, Cardinal Health released results for the second quarter of fiscal year 2023 for the period ending December 31st, 2022. For the quarter, the company’s revenue grew 13.2% to \$51.47 billion, which was \$1.44 billion more than expected. On an adjusted basis, the company’s posted earnings of \$467 million were flat year-over-year, but adjusted earnings-per-share of \$1.32 was up slightly from \$1.27 in the prior year because of a lower share count and interest expense. Adjusted earnings-per-share was \$0.23 above estimates.

For the quarter, Pharmaceutical sales of \$47.7 billion was a 15% increase year-over-year, while segment profit of \$431 million was up 9%. Branded pharmaceutical and specialty pharmaceutical benefited from new customers. Revenue for the Medical segment decreased 7% to \$3.8 billion while segment profit was down 66%. Inflationary pressures as well as lower volumes in products and distribution were the primary reasons for the declines. The Pharmaceutical segment makes up the lion’s share of revenues, but the Medical segment remains important due to its higher margins and growth potential.

Cardinal Health provided updated guidance for fiscal year 2023 as well, with the company expecting adjusted earnings-per-share of \$5.20 to \$5.50, up from \$5.05 to \$5.40 previously. At the midpoint, this would be a 5.9% improvement from the prior year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.73	\$3.84	\$4.38	\$5.24	\$5.40	\$5.00	\$5.28	\$5.45	\$5.57	\$5.05	\$5.35	\$6.20
DPS	\$1.09	\$1.25	\$1.41	\$1.61	\$1.81	\$1.86	\$1.91	\$1.93	\$1.94	\$1.96	\$1.98	\$2.41
Shares¹	340	337	328	322	316	309	298	294	294	275	261	255

In the 2013 through 2022 period, Cardinal Health has grown earnings-per-share by an average compound rate of 3.4% per year, while the dividend has grown at more than 6.7% annually. Moving forward we do anticipate slightly lower growth rates, especially considering the slowdown in earnings improvement in the last few years.

We are forecasting 3% intermediate-term earnings growth, from management’s now lower guidance. Our subdued growth rate view could turn out to be conservative, especially with the company’s penchant for share repurchases. However, given the company’s earnings performance in 2016 through 2020, opioid litigation, and a hot-topic drug

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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pricing environment we are cautious for now. In addition, while the COVID-19 pandemic has helped results in the short-term, the long-term outlook remains quite uncertain.

Cardinal Health held up well in the pandemic and after, with elective procedures making a comeback.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.7	17.9	19.1	14.9	14.4	14.6	9.5	9.2	9.8	10.4	15.0	10.0
Avg. Yld.	2.3%	1.8%	1.7%	2.1%	2.3%	2.9%	3.8%	3.8%	3.6%	3.7%	2.5%	3.9%

Shares of Cardinal Health are unchanged since our November 6th, 2022 report. The stock has traded hands with an average P/E ratio of 13.6 times earnings dating back to 2013. However, this was during a time when growth was much more robust. We have used a multiple of 10 times earnings as a starting place for fair value in recognition of our lower anticipated growth rate. Reaching our valuation target by 2028 would reduce annual returns by 7.7% over this period.

The dividend yield is now robust partly due to an expanding payout ratio, but mostly as a result of a lower share price in the last few years. While the pace of dividend growth has slowed, the starting yield is solid.

Safety, Quality, Competitive Advantage, & Recession Resiliency

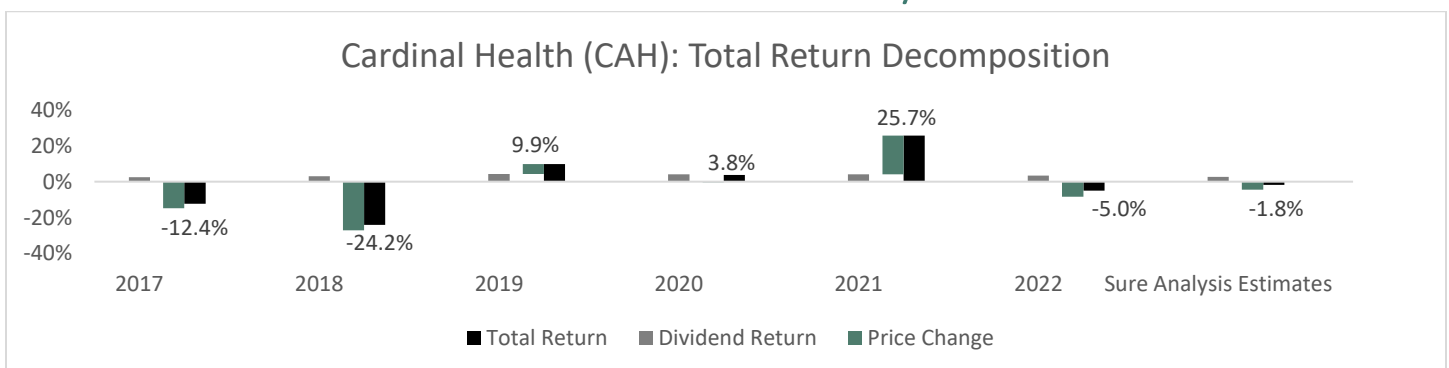
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	33%	32%	31%	34%	37%	36%	35%	35%	39%	37%	39%

Collectively the three major pharmaceutical wholesalers have a competitive advantage in the industry. Competition is held at bay by the massive scale already in place and the exceptionally low margins. Cardinal Health has proven to be a solid operator in many ways – strong earnings for the past decade, a growing dividend and ample interest coverage. The dividend payout ratio had ticked up slightly in recent years, but its back to about a third of expected profits. In turn, the company has the ability to repurchase a meaningful number of shares. As of the most recent report the company held \$3.65 billion in cash and equivalents, \$34.6 billion in current assets, and \$44.5 billion in total assets against \$33.2 billion in current liabilities and \$44.5 billion in total liabilities. Long-term obligations stood at \$4.69 billion.

Final Thoughts & Recommendation

Cardinal Health is projected to return a loss of 1.8% annually through fiscal year 2028, up from an expected loss of 2.1% previously. Our forecast stems from a 3% growth rate and a 2.5% dividend yield that are more than offset by a high single-digit headwind from multiple contraction. Cardinal Health has settled most of its opioid lawsuits, which should remove some of the overhang from the stock, though we find the valuation continues to leave a lot to be desired. We have raised our five-year price target \$1 to \$62 to reflect revised EPS estimates for the fiscal year, but continue to view shares of Cardinal Health as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	101.1	91.18	102.5	121.5	130.0	136.8	145.5	152.9	162.5	181.4
Gross Profit	4921	5161	5712	6543	6544	7181	6834	6868	6778	6545
Gross Margin	4.9%	5.7%	5.6%	5.4%	5.0%	5.2%	4.7%	4.5%	4.2%	3.6%
SG&A Exp.	2875	3028	3240	3648	3775	4596	4480	4572	4533	4557
D&A Exp.	397	459	451	641	717	1032	1000	913	783	692
Operating Profit	1888	1910	2191	2436	2242	1878	1733	1772	1794	1664
Operating Margin	1.9%	2.1%	2.1%	2.0%	1.7%	1.4%	1.2%	1.2%	1.1%	0.9%
Net Profit	334	1166	1215	1427	1288	256	1363	-3696	611	(933)
Net Margin	0.3%	1.3%	1.2%	1.2%	1.0%	0.2%	0.9%	-2.4%	0.4%	-0.5%
Free Cash Flow	1532	2275	2240	2506	797	2384	2394	1585	2029	2735
Income Tax	553	635	755	845	630	-487	386	-79v	-289	163

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	25819	26033	30142	34122	40112	39951	40963	40766	44450	43878
Cash & Equivalents	1901	2865	4616	2356	6879	1763	2531	2771	3407	4717
Acc. Receivable	6304	5380	6523	7405	8048	7800	8448	8264	9103	10561
Inventories	8373	8266	9211	10615	11301	12308	12822	13198	14590	15636
Goodwill & Int.	5574	5870	6018	9426	9207	12229	11808	11275	10090	7629
Total Liabilities	19844	19632	23886	27551	33284	33892	34633	38974	42660	44584
Accounts Payable	12295	12149	14368	17306	17906	19677	21535	21374	23700	27128
Long-Term Debt	3854	3972	5492	5539	10395	9013	8031	6775	6236	5315
Total Equity	5975	6401	6256	6554	6808	6059	6328	1789	1791	(709)
LTD/E Ratio	0.65	0.62	0.88	0.85	1.53	1.49	1.27	3.79	3.48	(7.50)

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.3%	4.5%	4.3%	4.4%	3.5%	0.6%	3.4%	-9.0%	1.4%	-2.1%
Return on Equity	5.5%	18.8%	19.2%	22.3%	19.3%	4.0%	22.0%	-91.1%	34.1%	-172%
ROIC	3.5%	11.5%	11.0%	12.0%	8.8%	1.6%	9.3%	-32.2%	7.4%	-14.8%
Shares Out.	340	337	328	322	316	309	298	294	294	275
Revenue/Share	293.88	264.01	306.06	368.32	406.18	434.31	483.50	521.92	552.61	650.05
FCF/Share	4.45	6.59	6.69	7.59	2.49	7.57	7.95	5.41	6.90	9.80

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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