

Initiated 2026-10-19 · Price \$252.61 (close 2026-10-19, stockanalysis.com) · Mkt cap \$59.4bn (235mm diluted shares) · Health care / drug and medical-products distribution · Model: verified

## Rating: Hold — Conviction: Low

Cardinal is executing well: specialty, MSO roll-ups and the Other segment drove FY2026 non-GAAP EPS up 33% excluding a tariff refund, and the FY2027 guide calls for another 13–15%. The stock already pays for that. At ~20x forward EPS and ~18x model-basis EBITDA, today's price sits just above the base case. Branded drug-pricing policy and a working-capital reversal make the downside deeper than the upside is high.

*Conviction tests (3a-v-c): T1 fail (Base -16.1% at +1pp reads Sell; +10.6% at -1pp stays Hold, so Hold → Sell at +1pp) · T2 pass (Gordon alone -3.3%, exit-multiple alone -6.5%; Hold on both) · T3 pass (every FY0 fact and historical series from EDGAR or company filings; no est. inputs) · T4 pass (CVS renewal signed as a binding LOI to 2032; IRS NOPAs ~\$1.4bn, ~\$6/sh, under 25%)*

### MODEL VALUE RANGE VS PRICE



## Business overview

Cardinal distributes branded, generic and specialty drugs to retail pharmacies, health systems and physician practices, and makes and distributes medical-surgical products. FY2026 (June year-end) revenue was \$254.2bn (+14%). Pharmaceutical & Specialty Solutions was \$234.8bn of revenue and \$2.78bn of segment profit (74%). GMPD was \$12.7bn and \$258mm, including a \$100mm IEEPA tariff refund. Other (nuclear, at-Home, OptiFreight) was \$6.8bn and \$707mm. Three variables drive earnings: generic sourcing margin and branded fees (a percentage of list price), specialty and MSO growth (Solaris, Integrated Oncology Network, ADS), and the GMPD turnaround. Customers are concentrated: CVS is 28% of revenue, the top five 43%, and Vizient and Premier GPOs 29% (FY2026 10-K).

## Competition

Three wholesalers control US drug distribution. McKesson's North American Pharmaceutical revenue rose 5% to \$86.8bn in its quarter to June 2026, and segment profit rose 19% on specialty and health-system growth. Cardinal's Q4 Pharma segment profit rose 21% to \$645mm in the same quarter, so the two are growing at similar rates. Cencora is the third. On 2026-10-01, Cardinal signed a binding LOI to extend its CVS agreement through June 2032; McKesson has only an agreement in principle for its CVS extension. Pressure would show up first in contract pricing at renewals and in generic margin, not in share. McKesson, the closest comparable, trades at 21.7x forward P/E and 17.6x aggregator EV/EBITDA, against Cardinal's 20.2x and 14.8x (stockanalysis.com, 2026-10-19).

## Bull case

1. **Specialty and MSO compounding** — oncology, urology and other MSO platforms plus GLP-1 volume keep revenue growth at 5–6% and lift mix. Plays out if FY2027 Pharma segment profit beats the +8–11% guide and the Other segment grows 15%+. *Model: rev\_growth, ebitda\_margin*
2. **GMPD and Other mix** — GMPD's recovery holds without the refund, and higher-margin nuclear and at-Home businesses grow faster than distribution. Margin reaches 1.80% by FY2031, against 1.47% in FY2026. Plays out if GMPD prints at or above the \$200–220mm guide. *Model: ebitda\_margin*
3. **Quality multiple holds** — the market keeps paying a McKesson-like multiple for double-digit EPS growth: a 16.0x exit, 7.3% WACC and 3.0% terminal growth. *Model: wacc, terminal\_growth, exit\_ev\_ebitda*

## Bear case

1. **Branded pricing policy** — January 2026 list-price cuts, IRA negotiated prices and the most-favored-nation executive order shrink the dollar base that fees are charged on (the 10-K flags all three). Revenue grows only 1.5–2% from FY2028 and margin slips back to 1.44%. Plays out if Pharma revenue growth falls below 3% in FY2027 quarters. *Model: rev\_growth, ebitda\_margin*
2. **GLP-1 moderation and concentration** — GLP-1 demand growth began moderating in FY2026 (10-K), and the CVS renewal's economics are undisclosed. *Model: rev\_growth*
3. **Multiple normalizes** — growth slows and the stock trades like Cencora less a concentration discount: an 11.5x exit, 8.8% WACC and 1.5% terminal growth. *Model: wacc, terminal\_growth, exit\_ev\_ebitda*
4. **Working-capital reversal** — FY2026 payables rose \$3.6bn. The FY2027 FCF guide of \$3.5–4.0bn, against \$5.0bn in FY2026, implies part of that unwinds. NWC moves from –3.2% to –2.5% of revenue. *Model: nwc\_pct\_rev, capex\_pct\_rev*

## Valuation & balance sheet

| Metric (definition)                                                                                                                                                | Current                                                                     | Own history (range or 5y avg)                                    | Peers                                                                        | Source, as-of                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------------------------|
| EV/EBITDA, model basis (EV \$67.7bn = mkt cap \$59.36bn – cash \$4.86bn + debt \$8.89bn + opioid accrual \$4.30bn; EBITDA = GAAP op. earnings + D&A + impairments) | 18.1x FY2026; ~16.3x FY2027E                                                | 22.0x / 26.2x on FY2025 / FY2024 EBITDA at today's EV            | aggregator TTM: MCK 17.6x · COR 13.8x · HSIC 12.2x (CAH 14.8x on that basis) | model-inputs.json ; stockanalysis.com 2026-10-19 |
| P/E                                                                                                                                                                | 20.2x forward (consensus); 20.2x on the \$12.40–12.60 FY2027 guide midpoint | 23.1x on FY2026 non-GAAP \$10.95 ex refund; 34.9x on GAAP \$7.23 | MCK 21.7x · COR 17.7x · HSIC 15.2x (forward)                                 | stockanalysis.com 2026-10-19; Q4 FY26 release    |
| FCF yield (aggregator TTM)                                                                                                                                         | 7.8%                                                                        | 5.9–6.7% on the FY2027 \$3.5–4.0bn adjusted FCF guide            | MCK 5.5% · COR 6.3% · HSIC 6.0%                                              | stockanalysis.com 2026-10-19; Q4 FY26 release    |

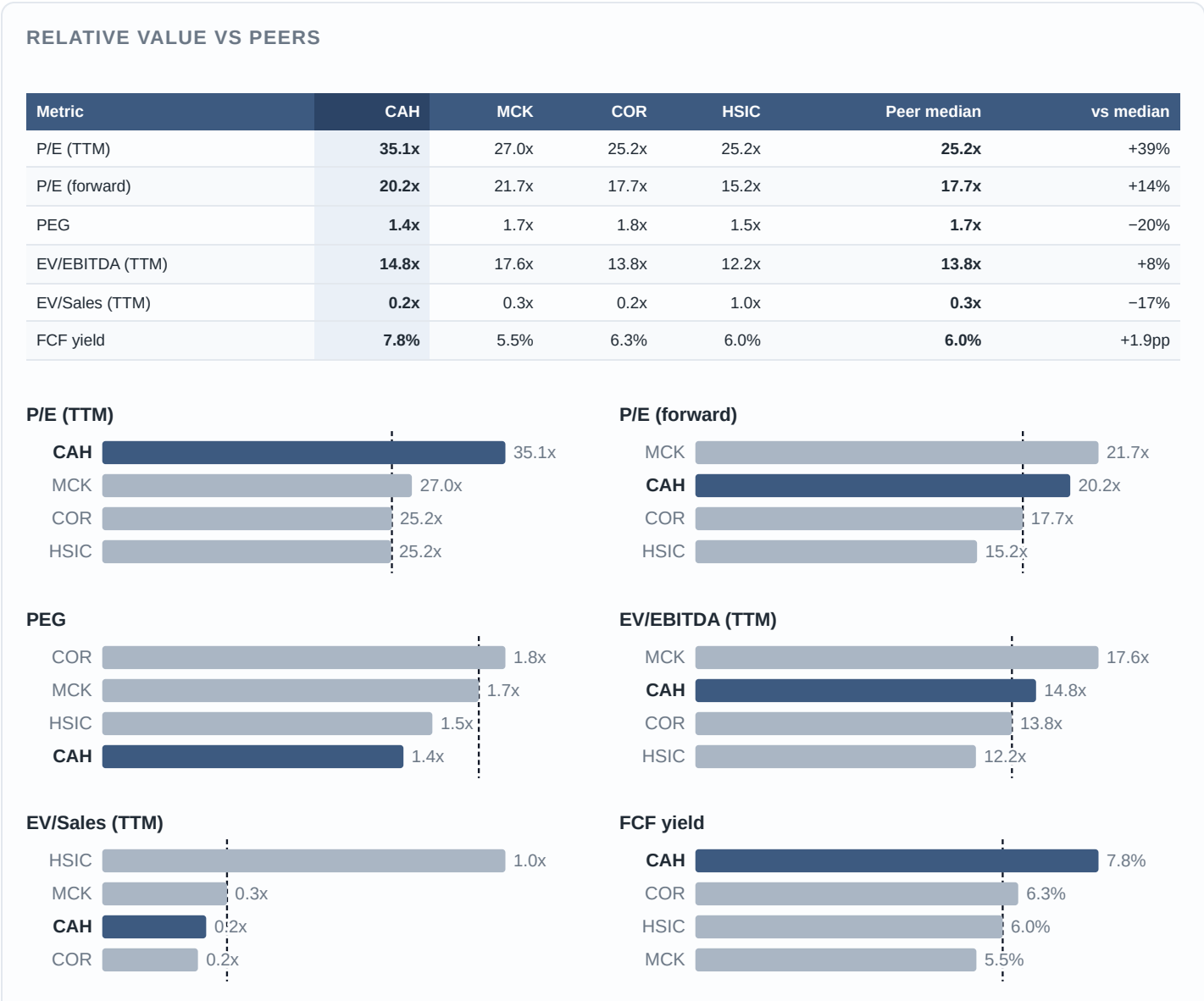
**Model-implied value range** (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$120.46 · Base \$240.18 · Bull \$344.08 per share, i.e. implied returns of –52.3% / –4.9% / +36.2% vs \$252.61. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits ~12% of the way from Base to Bull: the market is paying for guided execution plus a little of the bull case's mix gains.
- **Re-rating.** The Base exit of 14.0x is a ~23% de-rating from today's 18.1x model-basis multiple. The methods agree within 4% (Gordon \$244.19, exit \$236.18), so Base embeds a de-rating in both, not a gap between methods.
- **Tail.** A harsher policy case (revenue flat for two years then +1%, margin 1.30% by FY2031, NWC –2.2%, 10.0x exit, 9.3% WACC, 1.0% terminal growth) gives \$76.46 (–69.7%).

**Balance sheet:** net leverage 1.08x model-basis FY2026 EBITDA (gross 2.37x; 2.2x including the opioid accrual net of cash). Coverage 9.1x. Liquidity: \$4.86bn cash plus a new \$4.0bn revolver to August 2031, undrawn. Nearest material maturity: \$1.88bn current debt in FY2027, including the 3.41% notes. Ratings: n/a (unverified). Opioid payments: \$403mm in FY2027 and \$4.22bn undiscounted through ~2038.

**Model note:** tier `full`, status `built`, verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs and no assumptions without a basis. Scenario consistency is `OK` on all 14 rows.

- **Sourcing.** EDGAR XBRL revenue, operating income and D&A; Q4 FY2026 and Q4 FY2025 8-K releases for impairments, the balance sheet and guidance; the FY2026 10-K for the opioid accrual, revolver and shares.
- **EBITDA basis.** Model EBITDA is after restructuring, acquisition-related compensation and litigation, ~\$0.5bn below aggregator adjusted EBITDA. The opioid accrual is counted as a pre-tax claim, which is conservative (~\$4/sh at a 20% tax shield).
- **EPS vs guidance.** Base Y1 EPS \$10.07 is 19% below the \$12.50 guide midpoint. The guide is non-GAAP: it excludes ~\$470mm of amortization and acquisition costs (~\$1.60/sh after tax) and ~\$0.3bn of restructuring and acquisition compensation (~\$1.0/sh), both of which the model keeps.
- **WACC.** 7.8% = CAPM 7.15% (10Y 5.09% + beta 0.50 × 5% ERP at 87% equity; 4.24% after-tax debt at 13%) plus a stated +0.65pp premium for customer concentration and policy risk that a 0.50 beta misses.
- **Debt.** Long-term debt is one aggregated \$7.0bn block at an estimated 4.8% blend with a placeholder 2034 maturity, so the ladder is not tranche-accurate.



As of 2026-10-19. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting all reported cash, opioid accruals not in EV. Not the model's own EV basis (see the report's valuation table). Quotes are the 2026-10-19 4:00pm ET closes. Dashed line = peer median. Source: [stockanalysis.com /stocks/<ticker>/statistics/](https://stockanalysis.com/stocks/<ticker>/statistics/), fetched 2026-10-19.

**Notes.** PEG as given by the source, resting on its consensus growth estimates. CAH's TTM P/E is on GAAP EPS (\$7.23 FY2026), which carries ~\$1.0bn of amortization, acquisition-related compensation, restructuring and impairment charges; forward P/E is on consensus non-GAAP EPS. Omitted: CAH and MCK have negative shareholders' equity (n/a at the source). CAH's 14.83x uses the source's adjusted EBITDA (\$4.24bn TTM) and excludes the ~\$4.3bn opioid accrual; on the model's basis it is 18.1x FY2026. CAH's TTM FCF (\$4.53bn) includes a working-capital inflow that the FY2027 adjusted FCF guide (\$3.5-4.0bn) expects to partly reverse.

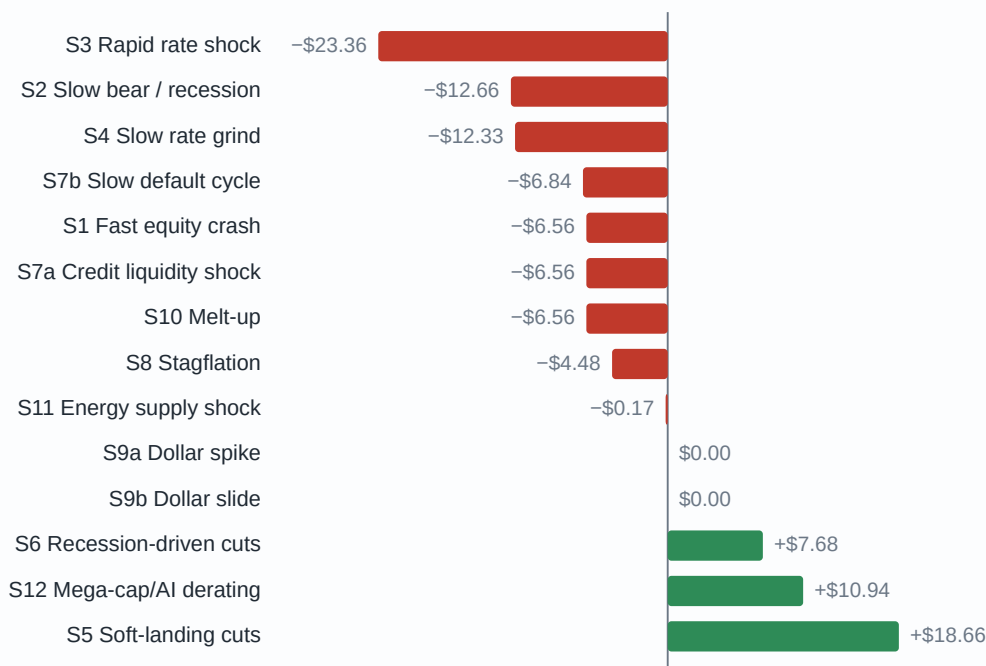
## Scenario stress test

*Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).*

| Scenario                   | Effect | Mechanism                                                                                                                                                                                    | Magnitude | Model Δ value vs Base (\$/sh) |
|----------------------------|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------------------------|
| S1 Fast equity crash       | –      | Liquidity de-rating of a 0.5-beta defensive; prescription volume unaffected                                                                                                                  | Low       | –\$6.56                       |
| S2 Slow bear / recession   | –      | Prescriptions hold, but elective procedures, med-surg and nuclear volume soften. Much milder than Base – Bear (\$120): a cycle in a non-discretionary business, not a permanent policy reset | Med       | –\$12.66                      |
| S3 Rapid rate shock        | –      | Higher discount rate on a long-duration, 18x-EBITDA equity; fixed-rate debt keeps earnings intact                                                                                            | High      | –\$23.36                      |
| S4 Slow rate grind         | –      | Grinding discount-rate drag on a premium multiple                                                                                                                                            | Med       | –\$12.33                      |
| S5 Soft-landing cuts       | +      | Lower rates support the multiple; volumes intact                                                                                                                                             | High      | +\$18.66                      |
| S6 Recession-driven cuts   | +      | Rate relief outweighs a mild volume dip                                                                                                                                                      | Low       | +\$7.68                       |
| S7a Credit liquidity shock | –      | Spreads gap; a low-levered issuer is sold only modestly                                                                                                                                      | Low       | –\$6.56                       |
| S7b Slow default cycle     | –      | Bad debt at independent pharmacies, practices and hospitals; pricier refinancing                                                                                                             | Low       | –\$6.84                       |
| S8 Stagflation             | –      | Brand inflation lifts list-price-linked revenue, but labor, freight and input costs plus higher rates outweigh it                                                                            | Low       | –\$4.48                       |
| S9a Dollar spike           | 0      | Revenue overwhelmingly US; no material effect, not modeled                                                                                                                                   | —         | \$0.00                        |
| S9b Dollar slide           | 0      | Revenue overwhelmingly US; no material effect, not modeled                                                                                                                                   | —         | \$0.00                        |
| S10 Melt-up                | –      | Momentum leadership leaves low-beta defensives behind                                                                                                                                        | Low       | –\$6.56                       |
| S11 Energy supply shock    | –      | Fuel and freight costs in distribution and GMPD; resin-based product costs                                                                                                                   | Low       | –\$0.17                       |
| S12 Mega-cap/AI derating   | +      | Rotation into domestic, non-AI defensives with steady earnings                                                                                                                               | Med       | +\$10.94                      |

**Currently active/on watch per the playbook:** S3 partially active (price-level leg only); S8, S10, S11 on watch.

## MODEL VALUE CHANGE VS BASE, BY SCENARIO



## What would change the call

**Upgrades if:** the price falls toward ~17x forward EPS with the FY2027 guide intact, or FY2027 prints show Pharma segment profit above +11% and adjusted FCF at or above \$4.0bn. **Downgrades if:** Pharma revenue growth drops below 3% on list-price or MFN effects, the definitive CVS agreement comes in at lower economics, or FY2027 FCF guidance is cut below \$3.5bn.

## Watch items

- **W1:** FY2027 guide — EPS \$12.40–12.60 held or raised — Q1 FY2027 release — 2026-11-05 — *Model: ebitda\_margin*
- **W2:** Pharma revenue growth vs the 3–5% guide — any quarter below 3% — Q1/Q2 FY2027 releases — *Model: rev\_growth*
- **W3:** Working capital — adjusted FCF tracking at or above \$3.5bn for the year — Q2 FY2027 10-Q — *Model: nwc\_pct\_rev*
- **W4:** CVS definitive agreement signed on the LOI terms — 8-K or Q1 call — *Model: none*

## Sources

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- 10Y Treasury 5.09% (2026-10-16) — logs/macro-2026-10.md

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*Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.*