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Presentation

Operator

Welcome to McKesson's Second Quarter Fiscal 2027 Earnings Conference Call. Please be advised that today's conference is being recorded. At this time, I would like to turn the call over to Paula Adkison, SVP of Corporate Finance and Investor Relations. Please go ahead.

Paula Adkison
Senior Vice President of Corporate Finance, Investor Relations & Strategic Finance

Thank you, operator. Good afternoon, and welcome, everyone, to McKesson's Second Quarter Fiscal 2027 Earnings Call. Today, I'm joined by Brian Tyler, our Chair and Chief Executive Officer; and Kenny Cheung, our Chief Financial Officer. Brian will lead off, followed by Kenny, and then we will move to a question-and-answer session.

Today's discussion will include forward-looking statements such as forecasts about McKesson's operations and future results. Please refer to the cautionary statements in today's earnings release and presentation slides available on our website at investor.mckesson.com and to the Risk Factors section of our most recent annual and periodic SEC filings for additional information concerning risk factors that could cause our actual results to materially differ from those in our forward-looking statements.

Information about non-GAAP financial measures that we will discuss during this webcast, including a reconciliation of those measures to GAAP results, can be found in today's earnings release and presentation slides. The presentation slides also include a summary of our results for the quarter and guidance assumptions.

With that, let me turn it over to Brian.

Brian S. Tyler
CEO & Chairman

Good afternoon, everyone. Thank you for joining our call. Today, we reported another strong quarter, reflecting continued momentum across our business and disciplined execution against our strategic priorities. Second quarter revenues increased 8% with growth across all segments, while adjusted earnings per diluted share increased 18% year-over-year. These results demonstrate the strength and resilience of McKesson's operating model, the momentum across our diversified health care platform and our continued focus on delivering sustainable long-term value for our customers and partners, and importantly, for our shareholders.

As a result of our strong performance and our confidence in the outlook for our business, we are raising our fiscal 2027 adjusted earnings per diluted share guidance to $45.60 to $46.40 from the previous range of $44.20 to $45. Our results continue to demonstrate the benefits of our strategic focus, differentiated capabilities and disciplined capital deployment. Across the enterprise, we remain focused on advancing our mission of improving health outcomes for all while executing against the strategic priorities that we believe will drive long-term sustainable growth.

Now let's discuss how we're translating these priorities into actions across the enterprise. I'll start with our people and culture, which remain foundational to everything we do. We continue to invest in experiences and programs that strengthen our culture and support engagement, development and well-being.

Recently, we launched Family Forward, a new employee resource group that fosters connection and supports employees with caregiving responsibilities at every stage of life. We now have 12 employee-led resource groups across the company, and I am proud of how these groups enrich our culture and advance inclusion for all members of Team McKesson.

Our annual impact report published in July highlights additional examples of the progress we're making to advance health outcomes by supporting our communities, developing our people and enabling our partners to improve care for patients. Building on a strong commitment to our mission and purpose, we continue to accelerate our enterprise strategy with a focus on strengthening our North American distribution business and advancing our growth platforms in oncology, multi-specialty and biopharma services. During the quarter, we were pleased to announce a strategic transaction that directly supports these priorities, our acquisition of Precision Medicine Group, which we closed this week. We're pleased to welcome PMG to McKesson as we advance our shared commitment to accelerating innovation and improving patient access to care.

Expanding access to clinical trials is an important element of our oncology strategy, connecting innovation in drug development with community-based practices where patients receive care. In 2022, we established our joint venture with Sarah Cannon Research

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Institute, bringing together the US Oncology Network's provider reach and practice management expertise with SCRI's research infrastructure and clinical trial expertise to support these practices. Precision Medicine Group builds on this foundation, adding complementary clinical research expertise in oncology, rare and orphan diseases, and cell and gene therapies. Its global footprint and experience conducting late-stage clinical trials broaden our ability to support clinical development and expand patient access to innovative therapies.

The acquisition also advances our biopharma services strategy. Precision Medicine Group's market access and commercialization services complement our existing access and affordability solutions, broadening the support we can provide to biopharma partners as they bring their therapies to market.

In addition, last month, we signed a definitive agreement to make a strategic investment in Option Care Health, the nation's largest independent provider of home and alternate site infusion services. As specialty therapies grow in importance and complexity, this transaction reflects our conviction that care will increasingly be delivered in lower-cost community settings at or closer to home. McKesson knows this shift well. For over 25 years, we have supported the US Oncology Network and over 3,400 providers in delivering connected high-quality care in the community.

Option Care Health's clinical model and national infusion footprint across home and ambulatory sites are well aligned with these priorities. As a strategic investor, we look forward to bringing our specialty expertise to help broaden access to complex therapies and to support its continued growth. And we're pleased to partner with CD&R, which brings a strong track record of supporting companies and creating long-term value. CD&R will own a majority interest in Option Care Health at closing. The transaction is subject to customary closing conditions, including approval by Option Care Health stockholders and the receipt of required regulatory approvals.

In our Oncology & Multispecialty platform, we are encouraged by strong market trends, supported by drug innovation and stable utilization. As new therapies come to market, our deep expertise in specialty distribution and specialty pharmacy, together with our strong connections across community-based care, position us well to enable access to these medications.

Within the oncology platform, we continue to reinforce our value to community-based providers by bringing together complementary capabilities, which include community-based practice management experience, clinical research expertise and data-enabled capabilities. As we welcome Precision Medicine Group, we're excited to build on this foundation and accelerate our strategy.

Within our retina and ophthalmology platform, we welcome Spectrum Vision Partners and its over 150 providers to the PRISM Vision Group, further expanding its footprint. This is another meaningful addition to our platform. We're encouraged by its continued strong performance, which demonstrates its compelling value proposition to providers and their patients. Across oncology and other specialty areas, our distribution capabilities, data-enabled insights, clinical expertise and experienced supporting providers allow us to create value for customers and improve patient access to care.

Within our biopharma services platform, we continue to see strong demand for solutions that improve medication access and affordability. As therapeutic innovation accelerates and the treatment landscape becomes more complex, our differentiated solutions are helping translate that innovation into meaningful access for patients. Our platform connects providers, pharmacies, payers and manufacturers through technology that's embedded in prescribing and dispensing workflows.

We continue to expand our payer network, which now includes payers that represent 96% of U.S. prescription volume. This connectivity enables us to simplify administrative processes and address financial barriers at scale, helping patients start and stay on therapy while supporting biopharma partners across their product life cycles.

The momentum across our biopharma services platforms continues to be broad-based. During the quarter, we added 67 new programs across 58 unique brands, representing a diversified portfolio of therapeutic areas in both access and affordability. We expanded connectivity with providers, with more of them exploring our automated solutions, including our recently introduced medical prior authorization capabilities. We also saw growth in services that provide dedicated reimbursement specialists to help providers navigate insurance coverage and reimbursement challenges, reinforcing the value of hands-on expertise alongside our automated solutions.

Looking ahead, we remain focused on leveraging technology and automation to enhance the functionality of our solutions and streamline workflows. By simplifying routine processes and complementing them with specialized expertise where greater support is needed, we can address a broad range of access and affordability barriers and strengthen the value we deliver to biopharma partners, providers and patients.

Let's turn to North American distribution. Our pharmaceutical distribution business continues to perform well, supported by stable market fundamentals, operational excellence and our differentiated customer value proposition. Recently, we announced an extension of our pharmaceutical distribution relationship with CVS Health. This agreement reflects the strength of our long-standing partnership

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of more than 25 years, the value of our distribution capabilities and our ability to support customers at scale with reliability, efficiency and service excellence. We value our relationship with customers across the health care ecosystem and remain focused on supporting their growth through consistent execution and the highest levels of service.

Across this segment, we continue to see strong momentum, reflecting our unwavering commitment to customers, the consistent delivery of high-quality service and a disciplined focus on operational excellence. This performance enables us to reinvest in the business, including our distribution network, supply chain capabilities and technology infrastructure, which further strengthen the reliability, efficiency and scale of our platform and position us to deliver sustainable long-term growth.

The strength of our business and our diversified capabilities position us well to drive continued growth amid evolving industry trends and a dynamic policy environment. We are committed to working closely with policymakers to advance thoughtful reforms that support patients and providers, expand access to care and improve health outcomes.

In closing, our strong second quarter results build on a strong record of execution and growth. We're pleased with the momentum of the underlying business, reinforcing our commitment to our strategic priorities. The Precision Medicine Group acquisition and our proposed investment in Option Care Health represent significant progress in expanding our capabilities and investing in areas of compelling long-term opportunity. Looking ahead, we're confident in our ability to deliver sustainable growth and long-term shareholder value.

With that, let me turn it over to Kenny.

Kenny K. Cheung
Executive VP & CFO

Thank you, Brian, and good afternoon, everyone. We delivered a strong second quarter, supported by broad-based growth across the enterprise. This quarter's performance builds on the momentum from last quarter, resulting in a strong first half of fiscal 2027 and reinforcing our confidence in the opportunities ahead.

Before I turn to our adjusted results, I want to highlight the 2 important transactions we announced recently. As Brian mentioned in his opening remarks, we are pleased to have completed the acquisition of Precision Medicine Group for approximately $2.25 billion. The business will report within our Oncology & Multispecialty segment, further expanding the breadth of solutions we provide across our oncology, multispecialty and biopharma services. We expect the transaction to be accretive and reinforce our long-term growth profile.

We estimate the acquisition will contribute approximately $0.10 to $0.20 of adjusted earnings per diluted share in fiscal '27, with contributions more heavily weighted towards the fourth quarter. By the end of year 3, we estimate accretion of approximately $1.60 to $1.80. We funded the transaction with cash, reflecting the strength and flexibility of our balance sheet.

Additionally, we announced that we have entered into a definitive agreement to invest approximately $1.4 billion for a 49% minority interest in Option Care Health. The transaction aligns with our strategy to expand access to innovative therapies and our commitment to advance care in lower-cost community settings. The transaction is expected to close during the first half of calendar year '27, subject to customary closing conditions, including approval by Option Care Health's shareholders and the receipt of required regulatory approvals. Our current outlook does not contemplate contributions from Option Care Health.

Together, these investments reinforce our disciplined approach for capital deployment. First, we prioritize growth opportunities that align with our strategy, complement our portfolio and meet our financial criteria for attractive returns and long-term value creation. Second, we remain committed to returning capital to shareholders through a combination of share repurchases and a growing dividend. Lastly, we maintain a strong balance sheet supported by robust free cash flow generation and liquidity. This enables us to continue investing in and growing the business.

Unless otherwise noted, my comments today will refer to our adjusted results. Let me turn to our second quarter consolidated performance. Revenues increased 8% to $111 billion, with growth across all 4 operating segments. Growth was driven by higher prescription volumes in North American Pharmaceutical and continued strength in Oncology & Multispecialty. This was partially offset by lower contributions from branded pharmaceuticals and continued branded-to-generic conversions.

Gross profit increased 10% to $3.9 billion, driven by growth in North American Pharmaceutical, Oncology & Multispecialty and Prescription Technology Solutions. The increase reflects higher prescription volumes and continued strength in specialty as we leverage our scale and distribution capabilities. Operating expenses increased 8% to $2.1 billion, reflecting higher expenses to support

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growth across the business. We remain focused on driving productivity and strengthening our network while maintaining expense discipline and investing to enhance how we serve our customers and drive future growth.

We demonstrated strong operating leverage during the quarter, with operating expenses as a percentage of gross profit improving by approximately 141 basis points year-over-year. Operating profit increased 13% to $1.9 billion, driven by North American Pharmaceutical, Prescription Technology Solutions and Oncology & Multispecialty. Interest expense was $103 million, reflecting financing activities completed in support of the planned Medical-Surgical Solutions separation.

The effective tax rate in the second quarter was 17.8%, which included net discrete tax benefits of $105 million. As a reminder, our effective tax rate can vary quarter-to-quarter, driven by timing and the amount of discrete tax items. Diluted weighted average shares were 116.7 million, a decrease of 6%, reflecting continued share repurchase activity. Adjusted earnings per diluted share increased 18% to $11.68, driven by strong operating performance across North American Pharmaceutical, Oncology & Multispecialty and Prescription Technology Solutions segment and the benefit of a lower share count. Excluding the prior year contribution from the $25 million Norway divestiture and the net gains of $51 million from the sale of an equity investment and market positions within the US Oncology Network, adjusted earnings per diluted share increased 24%.

Let me now turn to our segment results. Starting with North American Pharmaceutical segment. Revenues were $91.4 billion, an increase of 6%, driven by higher prescription volumes, including growth in specialty products and GLP-1 medications. This was partially offset by lower contributions from branded pharmaceuticals and continued branded-to-generic conversions. Lower branded pharmaceutical pricing as a result of wholesale acquisition cost decreases in January 2026 reduced year-over-year revenue growth by approximately 4%.

Consistent with prior periods, these pricing changes did not have a meaningful impact on the segment operating profit. Revenues from GLP-1 medication distribution were $16 billion in the quarter, an increase of approximately $3 billion or 26% versus the prior year. Sequentially, GLP-1 revenues increased 8%. Demand and volumes across the category remain strong, with quarter-to-quarter variability based on payer dynamics and patient utilization.

Operating profit increased 22% to $1 billion. Growth was driven by specialty distribution, including health system and strategic accounts. Our distribution platforms support a broad evolving portfolio of products, including increasingly complex therapies. Our reach and expertise allows us to effectively support these products as demand continues to grow.

Turning to Oncology & Multispecialty. Revenues were $15 billion, an increase of 24%, driven by growth from specialty product distribution and higher volumes across our provider platforms. We saw strong utilization within provider solutions, including distribution of Oncology & Multispecialty products. Operating profit increased 8% to $427 million. As a reminder, the prior year period included net gains of $51 million within the US Oncology Network. Excluding the net gains, operating profit increased by 23%.

Growth was driven by provider solutions businesses, including GPO services and higher specialty distribution volumes. We expanded our provider platforms through growth within existing practices and new provider additions. Utilization trends remain solid, with the same-store patient visits reaching their highest level in recent quarters across our networks.

In Prescription Technology Solutions, revenues were $1.5 billion, an increase of 10%, driven by higher prescription volume in third-party logistics and access solutions. This was partially offset by lower contributions from hub dispensing services. Operating profit increased 18% to $307 million, driven by higher demand across our access solutions, including prior authorization services.

We continue to see volume growth across services for both GLP-1 and non-GLP-1 medications, including contributions from the CMS Medicare GLP-1 Bridge program, which started on July 1. We also saw solid performance across other therapeutic categories as we added new brands and expanded existing programs across the platform.

Our solutions support biopharma partners across the life cycle of a product. As therapies move from launch to broader adoption and maturity, our platform is well positioned to support the evolving need for access, affordability and adherence solutions.

Turning to Medical-Surgical Solutions. Revenues were $3.1 billion, an increase of 5%, driven by growth across extended and ambulatory care channels. This represents continued sequential improvement in revenue growth trends, supported by higher volumes across multiple product categories, including specialty pharmaceuticals. Operating profit decreased 10% to $225 million, driven by lower contributions from the ambulatory care channel due to product mix, partially offset by growth in the extended care channel. We are pleased with the growth in the extended care channel, supported by higher demand across several product categories.

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Wrapping up our review with Corporate. Corporate expenses were $147 million, a decrease of 3%, reflecting disciplined expense management, partially offset by continued investment in technology capabilities to support the business.

Let me turn to cash and capital allocation. We ended the quarter with $6.5 billion in cash and cash equivalents and total liquidity of approximately $11.5 billion, which is above the minimum threshold. Our balance sheet remains robust and provides ample capacity to support our strategic priorities.

During the second quarter, we delivered free cash flow of $2.9 billion, including $123 million in capital expenditures. Our strong cash generation provides capacity to reinvest in the business, including technology, infrastructure and operational capabilities. We also maintain flexibility to continue to execute our capital allocation priorities, including share repurchases. During the quarter, we returned $990 million to shareholders through a combination of share repurchases and dividend payments. We remain disciplined in deploying capital towards opportunities that offer attractive returns and long-term shareholder value.

Turning now to our fiscal '27 outlook. We delivered strong results through the first half of the year, including second quarter performance that exceeded our expectations. Based on these results, our outlook for the remainder of the year, we are raising our fiscal '27 adjusted earnings per diluted share outlook to $45.60 to $46.40.

We entered the second half with confidence in the fundamentals of our business and our ability to execute against our priorities. Our updated outlook implies adjusted EPS growth of 17% to 19%. Excluding the impact of the Norway divestiture and the net gains within the US Oncology Network in fiscal '26, our outlook implies adjusted EPS growth of 19% to 21%, which is well above our long-term growth target of 13% to 16%. For fiscal '27, we anticipate revenue growth of 6% to 10% and operating profit growth of 12% to 16%.

Let me provide additional context on our segment outlook. In North American Pharmaceutical, we anticipate revenue growth of 5% to 9% and operating profit growth of 14% to 18%. The outlook reflects broad-based strength across the business, including strong performance in the second quarter. We anticipate the momentum will be supported by stable market trends, including growth in prescription volume, increasing demand for specialty and branded medications, including GLP-1s, and benefits of improved productivity, driving operational leverage, underpinned by disciplined execution across sourcing and distribution. The outlook also contemplates continued impact on segment revenue from lower branded pharmaceutical pricing following wholesale acquisition cost decreases.

Looking ahead to the second half of the fiscal year, we anticipate accelerated investments focused on enhancing our capabilities and supporting business growth. Additionally, the outlook reflects our continued strong relationship with customers, including customer wins and renewals of existing relationships.

Turning to Oncology & Multispecialty. We anticipate revenue growth of 20% to 24% and operating profit growth of 18% to 22%. Excluding the net gains of $51 million in fiscal '26, our outlook implies operating profit growth of 22% to 26%. The outlook is supported by provider solutions, including specialty distribution and GPO services, and our broader portfolio of Oncology & Multispecialty offerings.

We continue to see expansion across our provider platforms through both new additions and growth within existing practices. Within our retina and ophthalmology platform, the PRISM Vision Group recently welcomed Spectrum Vision Partners, further strengthening its presence in the Mid-Atlantic region. We anticipate some variability from quarter-to-quarter, including investments weighted towards the earlier part of the second half.

In Prescription Technology Solutions, we anticipate revenue growth of 2.5% to 6.5% and operating profit growth of 11% to 15%. We expect continued growth in access and affordability solutions, supported by demand across GLP-1 medications and other therapeutic categories. As products move through their life cycle, the type and level of support required could change. This creates opportunities for onboarding of new programs and expanding the services provided through existing relationships. These dynamics can also create quarterly variability based on utilization, product launch timing, shifts in payer landscape and changes in program requirements.

For example, we are in the early phases of supporting the CMS Medicare GLP-1 Bridge program. Following initial strong demand, prior authorization volumes have begun to normalize, and we will continue to monitor trends as the program progresses. Looking to the second half, the fourth quarter historically benefits from contribution from annual reverification programs, and we anticipate a similar cadence this year.

Moving now to MedSurg. We anticipate revenue growth of 1% to 6% and operating profit to range from a 4% decline to flat. Our outlook reflects the breadth of the business across alternate sites of care, including inventory and extended care, consumer health and at-home care. To support future growth, we implemented initiatives across the business focused on driving growth opportunities,

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building the commercial pipeline and driving operating efficiency. We expect the initiatives implemented during the first half to support growth and performance through the remainder of the year.

Our second half results can also be impacted by the annual illness season. As a reminder, each illness season is unique. The timing, severity and duration can vary from year to year. In Corporate, we anticipate expenses at the high end of the $580 million to $640 million range. As a reminder, we completed our exit from Norway in January. In fiscal '26, the Norway business contributed $74 million of operating profit, including $28 million in the fiscal third quarter.

Turning now to items below the line. We expect interest expense to be in the high end of $380 million to $420 million, reflecting higher borrowing rates associated with financing activities. We expect income attributable to noncontrolling interest of $290 million to $320 million, which includes the minority ownership interest by Apollo in our MedSurg business.

We anticipate a full year effective tax rate of 18% to 19%. We expect quarterly tax rate phasing to be broadly similar to fiscal '26, with a higher tax rate in the third quarter than the fourth quarter due to the timing of discrete tax items.

Wrapping up our outlook with cash flow and capital deployment. We anticipate free cash flow of approximately $4.5 billion to $4.9 billion. As a reminder, cash flow can vary from quarter-to-quarter based on timing, including day of the week a quarter ends.

We remain disciplined on capital allocation. We expect to repurchase approximately $5 billion of shares during fiscal '27. Through the first half, we purchased approximately $3.4 billion of shares at an average price of approximately $818 per share, completing a significant portion of our planned full year share repurchases. We estimate diluted weighted average shares outstanding to be in the range of 115.5 million to 117.5 million.

In closing, I am pleased with the performance through the first half of the year and the progress we are making across the business. We entered the second half with strong momentum, clear priorities and confidence in our outlook. We remain focused on execution and delivering long-term value for our shareholders.
With that, let's move to Q&A.

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Question and Answer

Operator

[Operator Instructions] And our first question will come from Glen Santangelo with Barclays.

Glen Joseph Santangelo
Barclays Bank PLC, Research Division

Just 2 quick ones for me. Brian and Kenny, I'm trying to understand these 2 acquisitions you did, Precision Medicine Group and Option Care Health. I'm just trying to -- I want to make sure I'm clear on how these businesses will weave through the reporting segments of the company and the potential impact that, that may have on your margins.

And as I think to model calendar '27, not that you want to give any forward guidance, I'm just trying to think through these ancillary services that you're acquiring. And then secondly, as we have a whole slate of biosimilars set to be launched here in the next 12 months, I'm just trying to think about the puts and takes on your margins across your 2 segments, Onco & Multispecialty and Prescription Technologies.

Brian S. Tyler
CEO & Chairman

Why don't I start by maybe reviewing the strategic rationale for these and then, Kenny, you can comment on the question about where it reports and the margin profiles. So Precision for Medicine Group (sic) [Precision Medicine Group], which we closed earlier this week, very excited about. It's really composed of 2 different business segments: Precision for Medicine, which provides global clinical research, translational science and laboratory capabilities with deep oncology experience and trials active in more than 30 countries. We really see that as being highly complementary to our oncology strategy, complementing USON, the joint venture we have with SCRI. And some of the site management and CRO lite-ish skills that SCRI had is now really accelerated with the acquisition of Precision for Medicine. And so as we think about the oncology strategy holistically, we think this is a really, really complementary piece to the assets that we currently have.

And then the other side of Precision is Precision AQ, which is a leading market access, health economics and commercialization services platform, which we think is highly complementary to our access and affordability capabilities and just gives us a broader portfolio or suites of solutions to support our biopharma partners as they commercialize over the life cycle of their products.

So that was kind of the strategic rationale. It's really anchored in our 2 core growth strategies of oncology and serving biopharma. Both of these businesses will report through the O&M segment. And would you like to comment?

Kenny K. Cheung
Executive VP & CFO

Yes. So for PMG, just a couple of things on this one. So as Brian mentioned, very pleased to acquire PMG. We anticipate the transaction to be accretive in the current fiscal year and beyond. A purchase price of roughly $2.25 billion, from a financing source standpoint, this is all funded with cash given the strength of our balance sheet. Reporting standpoint, PMG will be reported within the O&M segment. From a financial profile standpoint, we estimate the acquisition will contribute approximately $0.10 to $0.20 of adjusted EPS in fiscal '27. And by the end of year 3, we estimate accretion of approximately $1.60 to $1.80.

And like other prior M&A, the way to think about this is that we will anticipate a ramp-up in synergies as we continue to integrate the business within our platform. Obviously, there will be cost synergies assumed. But what Brian and I and the whole team are really excited about is the ability for us to enhance our clinical trial capabilities, serve even greater baskets of biopharma companies across more stages of clinical trial, being able to be part of a global platform and just overall strengthen the value proposition for a biopharma company.

Brian S. Tyler
CEO & Chairman

And then to the margin profile question, if you remember at our Investor Day a couple of years ago, we laid out kind of on the left side of the slide, you have distribution and GPO with lower margin. As you progress into data services and SCRI, those tend to be higher margin, more complementary, more higher-margin businesses, and we would put PMG more on the right side of the chart.

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The second one you asked about was Option Care. I'll go quickly just in being conscious of time. Let's just remind everybody, this is a minority investment. We really are excited about this investment for a couple of reasons. As we think about the innovation pipeline, how specialty is evolving, we want to be an important player represented in all growth segments. And so given our expertise and scale in specialty, this made sense from that avenue.

We also have a very deep conviction about community-based care and providing care close to the home and in this case, even potentially in the home. And so as we thought our experience managing assets that are community practice-based and our experience in specialty and then the CD&R capabilities that come with it, we think this is just a good setup for us to complement the assets that we have. But this will be recorded under the equity method, so not really in any of the segment margin profiles.

Kenny K. Cheung
Executive VP & CFO

Yes, just to double click on the equity method. So from a geography standpoint, this will show up as other income within AOP. And from a BU standpoint, as Brian mentioned, not within the BU, but it will be reported within the Corporate segment.

Operator

And next will be Brian Tanquilut with Jefferies.

Brian Gil Tanquilut
Jefferies LLC, Research Division

Congrats on the quarter. Maybe just a follow-up on the Option Care comments. I know you have a call option on it to acquire the remainder of the business at some point. Maybe, Brian, as we think about the strategy there, I hear your comments on specialty. But is there an overlay there for the oncology business that you're contemplating? Or maybe a different way of asking it strategically, other than just bringing in incremental revenue and access points, I mean, how are you thinking about overlaying that potentially eventually?

Brian S. Tyler
CEO & Chairman

Well, we have capabilities at McKesson, not just in oncology but in really all specialties, in rare and orphan therapies, and cell and gene therapies. And as we think about the future of how those markets evolve, we think having -- ultimately having access to our capabilities to provide those in ambulatory infusion, more community-based settings and in the home is going to be a growing and increasingly important channel. And so we just view this as very complementary to the channels and assets and reach that we have today.

Operator

And next will be Elizabeth Anderson with Evercore.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

Given the outperformance in North American Pharma, obviously growing well in excess of the long-term guide there. How do we think about the sustainability of that over the long term? It's obviously been several -- a while of this. So we think about sort of where the longer-term drivers of upside to that number might be. Or is this something that you think, okay, that's great, but there are potentially some other things to think about for fiscal '28 and beyond?

Kenny K. Cheung
Executive VP & CFO

Yes, I can start. So maybe first, let me get into the drivers of Q2, help you understand what drove the 22% AOP growth. And I'll talk more about how we're thinking about the rest of the year leaking into '28 as well. So as you think about Q2, we're pleased with the strong performance of NAPD. Revenue grew 6%, really driven by a few things. One is just broad-based growth, which included higher prescription volume, growth in specialty products and GLP-1s. And just to triple click on GLP-1, was roughly $16 billion of revenue for us, increased $3 billion or 26% year-on-year and 8% sequentially versus last quarter. We did have some WAC declines experienced in the quarter. However, as we mentioned before, it impacts more on the revenue line and less on the operating profit line.

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Speaking of operating profit, it increased 22%, driven by growth in the distribution of specialty products, the health systems and strategic accounts. So overall, it was broad-based growth. So that's the beauty of our business. When you parlay a strong, healthy, broad-based growth with continued operational excellence and productivity within our supply chain ecosystem, we saw really nice operating leverage close to 150 bps, which was led our North America Pharmaceutical business.

So overall, we're really pleased with the growth, the momentum and the durable profile of this business. As I think through the second half of the fiscal year, the outlook reflects continued broad-based strength across the business. We anticipate momentum to be supported by stable market trends, including prescription volume, increasing demand for specialty and branded medication, including GLP-1s and overall continued health of our supply chain.

It also incorporates a couple of other things, investments in the second half of the year. We are continuing to focus on automation, technology and business growth. And also, our outlook reflects continued strong relationship with our customers. So our outlook includes wins, renewals with existing relationships. As we mentioned earlier, we did renew our CVS contract, and that term starts in October 1. It runs through June of 2032, and that is also baked into our outlook guidance as well. So overall, we're pleased with the performance of our business.

Operator

And next will be Lisa Gill with JPMorgan.

Lisa Christine Gill
JPMorgan Chase & Co, Research Division

I just want to follow up on a few things here. When I think about the North American Pharmaceutical performance and you highlighted the specialty tech health system, one, how are you thinking about potential changes around 340B? I know we had an election that happened yesterday, and perhaps some things are off the table. But how could that potentially impact the amount of volume that you see there?

And kind of dovetailing to that, Brian, you talked about a dynamic policy environment. Can you maybe just update us on any of your thoughts now that we have an idea of what Congress is going to look like going into '27? Any changes that you're anticipating that could impact either side of your business?

Brian S. Tyler
CEO & Chairman

Yes. All right. Let me start with your first question on 340B. We obviously provide distribution services to contract pharmacies. We support covered entities. We support the biopharma manufacturers themselves. We also, as you know, Lisa, have a range of 340B-related services, including consulting and software to help manage the supply chain optimization.

As we think about the potential for January 2027 implementation of a rebate model, and you've also got OPPS, I think the difficult thing to -- for us to kind of contemplate in this moment is how are these going to be effectuated or implemented, how are customers going to think about new choices. In the case of the rebate model, it's probably a cash, more of a cash issue. So we'll have to work with our customers as we always do. We'll work with them to administratively support what we need to administratively support. We'll work with them to make sure that they continue to have the success they need to have to be viable.

But we really don't know what their response will be in terms of behaviorally trying to grow 340B, trying to migrate away. Do some 340B scripts go to the community? Or do they stay where they currently are? The thing for us is we are represented in all channels. And what we know is the script will still be there, and we'll be ready to receive it and support it in whatever channel we can.

We're actively tracking this. We're very engaged. Depending on where the policy ultimately lands, we will use the capabilities of our company to help navigate both on behalf of the customers and on behalf of ourselves.

To your bigger question of now that I've had 12 hours to absorb the election results, I don't think my view of any of the policy discussion is different than it would have been last quarter. It is a dynamic environment. We know that cost and quality and access and transparencies are going to still be issues of high interest in Capitol Hill from our regulators and our legislators. And we will be part of those conversations, now building new relationships, educating new members, advocating on behalf of what we think is important to helping health care address the challenges that we have, advocating for community-based providers because they're affordable and more accessible.

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And we'll continue to build those relationships. And just like we have always done, we've always worked with both sides of the house. We've always worked to try to figure out how we do the right thing for the health care system, and that's what we'll continue to do.

Kenny K. Cheung
Executive VP & CFO

Yes. Just a couple of things on 340B from my end. Regardless of how 340B plays out, the value of our distribution services remains intact. We'll continue to focus on providing our customers with the highest quality of service and support them with our products and diverse portfolio.

And this is an important piece. We will get fairly compensated for the fair value of service we provide. At this time, we do not anticipate any material financial impact to our business, and as Brian said, we'll watch this very, very carefully.

Operator

And next will be Kevin Caliendo with UBS.

Kevin Caliendo
UBS Investment Bank, Research Division

I'm going to take Elizabeth's question and ask it a little bit differently, which is, your LRP versus what you've done over the last year, 2 years or so, seems comically low. So maybe instead of asking what drove you to getting to, in this quarter, north of 20% EBIT growth, maybe, what needs to happen for you to actually grow North American Pharma inside the LRP? Like what's embedded there for that versus the market growth or whatever? Because it just seems that your ability to beat that is tremendously easy.

Kenny K. Cheung
Executive VP & CFO

Yes. So I can start. So when we refer to the LRP, obviously, we're referring to the long-term targets. So I've reviewed our long-term business plan. I feel confident about the business fundamentals and our ability to execute against these long-term targets. For EPS, it was roughly 13% to 16%, just to remind everybody.

Looking at the long term, we anticipate the growth will be driven by the strength of our leading platforms in oncology, multi-specialty and biopharma solutions and supported by operating leverage and efficient capital deployment. We are well positioned to capture long-term growth through disciplined execution of strategic priorities and sustainable operational momentum. I just want to remind you that our long-term targets are long term in nature and not an indicator of short-term variations that incur -- that can occur within the business year-to-year.

Brian S. Tyler
CEO & Chairman

Yes. I just want to reflect on -- I think the performance we're enjoying now is an accumulation of years of focus on our strategic priorities, years of investment in technologies, whether that's physical distribution or robotic process automation or now large language models in AI that are translating from gross profit leverage ratios that Kenny reviewed. And I think it's just reflective of the great alignment and understanding of the team of how we need to show up every day for our customers, how we win new customers, win customers that are winning, support those customers in a way that enables them to be successful, which reinforces our own success.

Operator

And next will be Allen Lutz with Bank of America.

Allen Charles Lutz
BofA Securities, Research Division

I really appreciate the color so far. One for Brian on the capital deployment strategy. As we think about Precision and we think about Option Care, these are new businesses for you relative to what the capital allocation strategy has been around M&A, adding MSO assets and even added Spectrum to PRISM a few days ago. Can you talk about the relative complexity of integration of PMG and Option Care relative to what we've seen over the past couple of years, growing that U.S. oncology business, growing the retina business? Is there a delta there? Would love any perspective.

Brian S. Tyler

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CEO & Chairman

Yes. It's a really great question. First, I would say, parts of the Precision Medicine Group business are new to us, like the CRO component. They are highly adjacent to businesses that we're already in, and they are highly relevant because of their focus on oncology to our oncology strategy.

The biopharma services side of that business are natural adjacencies to the businesses that we're already in. And so there's not, per se there, a bunch of integration as much as it is. We now have more solutions that we can put in our bag to offer biopharma manufacturers.

We think we have a great opportunity, I'm not going to say to integrate, but to complement the SCRI capabilities and the PMG capabilities to improve, reimagine, make more efficient and usable and easy the process of getting community-based providers into clinical trials and allowing their patients then to benefit from those therapies.

So we'll be very thoughtful about how we "integrate the business." But these are highly complementary businesses with very little overlap but complementarity to the assets that we have. So we're very excited. We think -- I would just remind you on the Option Care side, we are the minority nonoperating partner. So there will be years where this is really under the stewardship of CD&R. We'll bring our knowledge, expertise in specialty and just understanding of supply chain, obviously help that business, but we'll be relying on them to run it day to day.

Kenny K. Cheung
Executive VP & CFO

Yes. On Option Care, CD&R is a strong operating partner. We think Option Care is a platform, and it helps having a partner solely focused on strategic investments and growth. And that will be beneficial for us. We will clearly have a voice at the table as well. There'll be proper and appropriate governance. But it really gives an opportunity to grow the business with a strong operating partner that has a lot of experience, while we, as McKesson can also focus on our own strategic pillars as well as Oncology & Multispecialty and biopharma services as well. So it's really a win-win proposition.

Operator

And that question will come from Michael Cherny with Leerink Partners.

Dylan Christopher Finley
Leerink Partners LLC, Research Division

This is Dylan Finley on for Mike. Would love to hear you expand a bit on the Option Care deal rationale. Should we think of this as an operating partnership with CD&R, where you could come in and do something on procurement and contracting and drive value? Or is this primarily an equity method investment? And are there currently any supplier arrangements between McKesson and Option Care? And would that be an opportunity for you in future years?

Brian S. Tyler
CEO & Chairman

So first, the Option Care transaction has not closed, so we are still awaiting approval from their shareholders as well as the regulatory agencies. So there are no interfaces ongoing today. We do envision this as a CD&R-run business with the benefits of all the resources and knowledge that McKesson has and can bring to bear around specialty pharmaceuticals, providing care in community-based settings, et cetera.

And so we really like the future trajectory of community and home-based care. We like the future trajectory of specialty. I think as Kenny said, this allows us to germinate a business outside of the day-to-day operating requirements that have been delivering the results that you've seen us delivering. And so I very much think of this as incubating future growth platforms highly adjacent to our core strategy and supporting our long-term growth algorithm well into the future.

Perfect. Great questions. Appreciate everybody taking time to join us. There's a lot going on in the world today that we're all aware of. Look, I'm very pleased with the results that McKesson delivered in our fiscal second quarter. They were very strong. Our strategy is working. Our execution is strong. I'm confident in our ability to continue to deliver long-term sustainable growth for our shareholders.

This does not happen without Team McKesson. So I want to thank them for their continued dedication to advancing our mission. They're unwavering in their commitment to our customers and to our customers' patients and to each other. And they are the foundation for all of the success we will continue to have. So thanks, everybody. I hope you have a great night.

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Operator
Thank you for joining today's conference call. You may now disconnect, and have a great day.

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