

04-Feb-2026

McKesson Corp. (MCK)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to McKesson's Third Quarter Fiscal 2026 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 Jeni Dominguez, VP of Investor Relations. Please go ahead.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

Thank you, operator. Good afternoon and welcome everyone to McKesson's third quarter fiscal 2026 earnings call. Today, I'm joined by Brian Tyler, our Chief Executive Officer; and Britt Vitalone, our Chief Financial Officer. Brian will lead off, followed by Britt. And then we'll 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 the Risk Factors sections 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 Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Thank you, Jeni. Good afternoon, everyone. Appreciate you joining McKesson's fiscal third quarter earnings call. Today's results once again demonstrate the strength and the durability of our business. Revenue and adjusted EPS grew double digits, driven by continued momentum across oncology, biopharma services and North American distribution. The consistency of this performance gives us the confidence to raise full year EPS guidance to a range of \$38.80 to \$39.20, which reflects 17% to 19% year-over-year growth.

I want to thank Team McKesson for their unwavering commitment to excellence and to innovation, driving tangible impacts every day for our stakeholders and keeping patients at the center of everything that we do. Today, my remarks will focus on the continued progress of our company priorities and the momentum we are driving across the organization, and of course, recognizing the dedication and engagement across Team McKesson. Then, as is customary, I'll hand it over to Britt for a more detailed review of the financials.

So, let me start, where I usually do, with our people and our culture. We aspire to be the best place to work in healthcare, and supporting our employees' growth and success remains a top priority. Our employee resource groups play a critical role in strengthening connections and reinforcing our culture of care and belonging. These employee-led networks empower colleagues to come together to advance the business and to build an environment where everyone can thrive. This year, we're pleased to see membership of more than 30%. Participation in these groups results in increased employee engagement, improved retention and to better business outcomes.

Now, let me move on to our two strategic growth pillars: oncology and multispecialty and biopharma services. Within our oncology and multispecialty business, we continue to support a growing network of providers through a portfolio of services, including distribution, practice management, commercial services, and clinical research.

Today, the US Oncology Network has approximately 3,400 providers and PRISM Vision brings together over 200 providers in retina and ophthalmology. During the quarter, we continued to make progress in the integration of Florida Cancer Specialists and PRISM Vision, contributing meaningfully to the strong performance of the segment.

Oncology continues to be a compelling growth opportunity, and we're leveraging our scale, leadership, and connectivity in the community space to stay ahead of the market's evolving needs. Recently, we released our Advancing Community Oncology report, highlighting the central role of community practice in cancer care and the anticipated growth in precision medicine and innovative therapies.

These insights underscore the strength of our platform and the opportunity to leverage our solutions to deepen provider and biopharma partnerships, to expand access to next-generation treatments, and to address barriers to care in the community setting. The report highlights our role in helping community providers navigate a dynamic policy environment.

We have, and we will continue, to be actively engaged with lawmakers, patient coalitions, and provider organizations to advocate for changes that will expand patient access and support the growth of community practices. We firmly believe in the unique value of community-based care and the importance of advancing high-quality local cancer care in particular.

In November, we hosted our inaugural McKesson Accelerate conference, an annual event focused on the future of community oncology. With more than 1,500 industry leaders in attendance, the event brought together the people, the insights, and the innovations that will strengthen care delivery and advance patient outcomes. It reinforced the powerful momentum across our oncology platform and the critical role McKesson plays in shaping the future of cancer care, together with our many partners.

Moving on to our biopharma services platform within our Prescription Technology Solutions segment, our industry-leading platform supports a wide range of brands across all stages of the product lifecycle, from product launch, all the way to the loss of exclusivity. During the quarter, we added over 50 new programs across 43 unique brands to our platform, highlighting the strong demand for our access and affordability solutions.

With the pace of drug innovation accelerating, we're energized by the tremendous opportunity to bring novel therapies to patients and to enable real-world impact. To achieve this goal, we continue to invest thoughtfully across the business, modernizing and expanding the services we provide to our biopharma partners and building next-generation patient access and affordability solutions.

As an example, we're investing in capabilities to simplify the electronic patient enrollment process, reducing time from days or weeks to sometimes just minutes, while reducing administrative errors and improving accuracy. Today, we're digitizing enrollment for more than 1,600 specialty medications, creating an opportunity to apply our experience in improving access to retail medications and helping stakeholders navigate through the complex enrollment process for specialty medications.

Our evolving suite of solutions will accelerate the patient authorization workflow, speed up the process for patients to access medications, introduce transparency with real-time prescription benefit check, and improve affordability with automated searches for financial assistance programs.

We're also focused on opportunities that improve our own workflow efficiency. By applying technology automation and enhancing training to streamline our operations and elevate the customer experience, we are improving our efficiency. As an example of this, in our annual verification season, each full-time employee is successfully supporting 120 more patients than we achieved last year. This is a meaningful increase in our productivity.

Let's move on to our pharmaceutical distribution business in North America, which I would remind you includes our combined footprint in the US and Canada. We continue to see strong broad-based momentum, supported by stable utilization trends, strength in specialty, and focus on operational excellence. Our growth is underpinned by the strength of our long-standing strategic partnerships with manufacturers.

Together, we're navigating an evolving market, shaping the future of healthcare, and advocating for solutions that will improve the access and affordability of care. In January, the Inflation Reduction Act's planned Medicare Part D price changes went into effect. We work closely with our manufacturer partners to ensure a smooth transition. As a trusted distribution partner, we bring unmatched scale, deep supply chain expertise, and broad channel reach to deliver exceptional quality every day.

We're positioning the business for long-term growth by investing in capabilities that meet the evolving needs of our customers and the market. An example of this would be our multi-year plan to expand the refrigerated capacity across our network. We're halfway through this five-year effort. And once completed, we will have increased refrigeration capacity at many of our forward distribution centers by more than 50%. This expansion strengthens our ability to support temperature-sensitive products and further strengthens our commitment to meeting customer requirements with operational excellence.

Within our North American Pharmaceutical business, our teams continue to leverage AI and automation to drive efficiencies. In Canada, we're modernizing our contact center digital operations to create a more advanced and simplified customer care experience. It includes capabilities like agent assist and enhanced live chat. Our early pilots are demonstrating strong results with close to 100% service accuracy and reliability while reducing turnaround time.

In the US, we launched an AI chat tool in November to specifically handle customer inquiries related to the Drug Supply Chain Security Act. By enabling natural language answers to complex DSCSA data questions, we prevented 75% of inquiries from being escalated and materially improved from first contact resolution. These are strong examples of how we're using technology to simplify the supply chain at scale, while improving customer experience.

And last thing I'd like to note in this segment, I'm proud to share with everyone that recently our Health Mart pharmacy franchise was honored as a recipient of the 2026 American Pharmacists Association's H.A.B. Dunning Award. With this award, we're joining a prestigious list of chain pharmacies and other industry supporters who are dedicated to advancing the practice of pharmacy.

Let me give you a brief update on our portfolio actions. We continue to progress in our separation of the medical-surgical business. On January 1, we reached a major milestone in the separation journey with transition service agreements now in place across the enterprise. This is an important step as we prepare the medical-surgical business to be an independent operation.

We continue to focus on the next steps which include establishing an independent organization and capital structure. We continue to track towards the timeline of an IPO by the second half of calendar 2027, subject of course to market conditions and customary regulatory approvals.

In January, we announced the completion of the divestiture of our Norwegian business, marking the final step in our full exit from the European region. Over the past four years, our teams executed this multi-stage initiative with dedication and focus, ensuring a smooth process and a successful outcome. With the invaluable experience we've gained, we're confident in our ability to execute on our current portfolio actions, optimizing our asset portfolios and accelerating growth for the enterprise.

So, let me conclude my remarks. McKesson delivered another strong quarter of results. Our strategy is working and it continues to propel us forward as we advance our mission, as we grow the business and as we drive meaningful value for our shareholders. Looking ahead, I continue to be confident in our ability to extend the momentum and execute against our strategic priorities. Our broad portfolio and our diversified solutions position us to continue to drive sustained long-term growth.

With that, Britt, I'll turn it over to you.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

Thank you, Brian, and good afternoon. Today, we reported another strong quarter of execution, advancing our strategic priorities with clear, measurable performance. We reported record quarterly revenue and adjusted operating profits, and saw year-over-year double-digit adjusted operating profit growth in our oncology and multispecialty and biopharma services platforms, and continued strength across North American Pharmaceutical distribution. These results demonstrate the resilience of our portfolio, disciplined and consistent strategy, deep customer relationships, and the scale and breadth of McKesson's portfolio.

Before turning to our adjusted results, I want to begin with two brief updates, starting with the divestiture of our Norway operations. On January 30, we completed the divestiture of our retail and distribution businesses in Norway, included in our other segment. This transaction marks the final step in our planned exit of Europe.

In the third quarter, held-for-sale accounting for Norway contributed \$0.05 to adjusted earnings per diluted share. For fiscal 2026, we now anticipate the Norwegian businesses to contribute approximately \$1 billion of revenue and approximately \$70 million of adjusted operating profit, which is inclusive of approximately \$0.10 of adjusted earnings per share accretion due to held-for-sale accounting. The completion of this transaction reflects disciplined execution, strategic clarity, and commitment to sustain long-term value creation for our shareholders.

Additionally, during the third quarter, we recorded a GAAP-only pre-tax credit of \$160 million or \$118 million after tax within the North American Pharmaceutical segment related to the bankruptcy of Rite Aid. The remainder of my comments today will refer to our adjusted results. I'll begin with our third quarter fiscal 2026 performance and then address our full-year outlook.

Consolidated revenues increased 11% to \$106.2 billion, reflecting broad-based growth across the business. Higher prescription volumes from Retail National Account customers within our North American Pharmaceutical segment, continued momentum in our oncology and multispecialty segment, including expanded distribution of oncology and multispecialty products, and contributions from recent acquisitions contributed meaningfully.

Gross profit was \$3.7 billion, an increase of 10%, led by provider growth and continued strength in specialty distribution within the oncology and multispecialty segment. Operating expenses increased 7% to \$2.1 billion, reflecting higher expenses in our high-performing growth platforms within the oncology and multispecialty and Prescription Technology Solutions segment, including current year acquisitions.

We delivered strong operational execution and enhanced efficiency, driving a 138 basis point improvement in operating expenses as a percentage of gross profit as compared to the prior year. At the same time, we're making targeted investments to modernize our operations through automation and AI-driven capabilities, which we anticipate will accelerate growth while creating enterprise-wide efficiencies.

Operating profit was \$1.7 billion, an increase of 13% year-over-year. This growth reflects increased demand for access solutions in our Prescription Technology Solutions segment, as well as strong growth in specialty distribution volumes in both the oncology and multispecialty and North American Pharmaceutical segment.

Interest expense was \$59 million, a decrease of 5% year-over-year, driven by effective cash and portfolio management. The effective tax rate for the quarter was 23%, compared to 23.9% in the prior year. Third-quarter diluted weighted average shares outstanding were 123.7 million, a decrease of 2%, reflecting ongoing share repurchase activity. And third quarter earnings per diluted share increased 16% to \$9.34, driven by strong operational performance, including contributions from acquisitions within the oncology and multispecialty segment.

Turning now to third quarter segment results, which can be found on slides 8 through 12, and starting with North American Pharmaceutical. Revenues were \$88.3 billion, an increase of 9%, driven by higher prescription volumes, including higher volumes across Retail National Account customers and continued specialty product distribution strength. GLP-1 distribution revenues were \$14 billion in the quarter, up \$3 billion, or 26%, when compared to the prior year. GLP-1 sequential revenue growth was 7%.

Segment operating profit increased 6% to \$872 million, benefiting from growth in the distribution of specialty products, including to health systems. As a reminder, prior-year results included a \$19 million benefit from held-for-sale accounting related to the sale of our Canada-based Rexall and Well.ca businesses. The prior-year held-for-sale accounting benefit had an approximate 3% impact on year-over-year segment growth.

Turning to the oncology and multispecialty segment, we delivered another strong quarter, demonstrating the strength of our differentiated platform and the value we deliver to our providers. Revenues increased 37% to \$13 billion, driven by strong provider growth, expanded specialty distribution, and contributions from acquisitions completed this fiscal year.

The acquisitions of PRISM and Core Ventures contributed approximately 13% to third quarter segment revenue growth. Operating profit increased 57% to \$366 million, led by growth in provider solutions and specialty distribution, including contributions from acquisitions. Excluding the impact from acquisitions, organic operating profit increased 15%, highlighting the segment's strong underlying performance.

In the Prescription Technology Solutions segment, we delivered another strong quarter of performance, with revenues increasing 9% to \$1.5 billion, supported by higher prescription volumes across our third-party logistics and technology services businesses. Operating profit rose 18% to \$277 million, driven by continued demand for our access solutions, including prior authorization services. Our connectivity and workflow integration remain key differentiators for patients, providers, and biopharma partners.

Turning to Medical-Surgical Solutions, revenues were \$3 billion, an increase of 1% compared to the prior year, driven by higher specialty pharmaceutical volumes. Operating profit decreased 10% to \$265 million, reflecting lower volumes across physician office settings and lower incidence of seasonal illness.

Wrapping up our review with corporate, corporate expenses were \$156 million, which included increased technology infrastructure investments. Corporate expenses also included pre-tax gains of \$11 million, or \$0.07 per share, from equity investments within McKesson Ventures portfolio, as compared to gains of \$6 million, or \$0.04 per share, in the prior year quarter.

Turning to third quarter cash and capital deployment, which can be found on slide 13, we ended the quarter with \$3 billion in cash and cash equivalents. Third quarter free cash flow was \$1.1 billion, which included \$175 million in capital expenditures. For the trailing 12 months, McKesson delivered free cash flow of \$9.6 billion, demonstrating strong operational performance and working capital management.

During the quarter, we also returned \$781 million of cash to shareholders, which included \$680 million in share repurchases and \$101 million in dividend payments. Our balance sheet remains a significant source of strength, underpinned by strong cash generation and disciplined capital allocation. This robust financial position gives us the flexibility to invest in growth initiatives while continuing to return cash to shareholders.

We move now to our fiscal 2026 outlook. We continue to see sustained momentum across our core businesses, as demonstrated by our fiscal third quarter results and improved full year outlook. We're raising and narrowing our fiscal 2026 earnings per diluted share guidance range to \$38.80 to \$39.20, representing 17% to 19% growth over the prior year. We anticipate revenue growth of 12% to 16% and operating profit growth of 13% to 17%, reflecting our strong third quarter performance and the confidence that we have in the trajectory of the business.

The consistency of our strategy, operational execution, and disciplined portfolio management led to outstanding long-term results. Over the past five years, we've delivered a compound annual growth rate in operating profit and adjusted earnings per share of 11% and 18%, respectively.

Turning to the segment outlook for fiscal 2026, in the North American Pharmaceutical segment, we continue to deliver a differentiated and dependable value proposition, providing best-in-class solutions to our customers and their patients. We anticipate revenue to increase 10% to 14% and operating profit to increase 8% to 12%. The increased operating profit outlook reflects strong third quarter performance, stable utilization trends, strong specialty distribution growth, and our continued focus on operational excellence and efficiency.

In the core distribution business, we anticipate continued growth of GLP-1 medication. However, we anticipate this growth may vary from quarter to quarter. And as a reminder, prior year results include a \$0.15 impact from the divestiture of our Canada-based Rexall and Well.ca businesses at the end of the third quarter of fiscal 2025.

In the oncology and multispecialty segment, we anticipate revenue growth of 29% to 33% and operating profit growth of 51% to 55%. The guidance includes the acquisitions of PRISM Vision and Core Ventures completed in the first quarter of fiscal 2026.

We're pleased with the performance of these acquisitions and we anticipate that they'll contribute approximately 30% to 34% to the fiscal 2026 segment's operating profit growth. Our full year outlook reflects the impact of these acquisitions and strong organic specialty distribution volume growth. We remain well-positioned to support innovation and growth across the oncology and multispecialty markets through our diversified portfolio of assets spanning the care continuum.

In the Prescription Technology Solutions segment, we anticipate revenue to increase by 9% to 13% and operating profit to increase 14% to 18%. We remain confident in the outlook for this segment, driven by organic volume growth across our access and affordability solutions.

Our improved full year outlook reflects the strength of our annual verification program and we've observed meaningful year-over-year volume increases through the end of January. Our full year outlook also anticipates technology infrastructure and capability investment. We anticipate fiscal fourth quarter technology investments to be an approximate \$0.05 incremental cost as compared to the prior year.

As I've previously discussed, the revenue and operating profit trends in this segment are not linear. Results can vary from quarter to quarter due to a range of factors, which includes utilization trends, the timing and trajectory of new product drug launches, the evolution of a product's program support requirements as it matures, which could result in the shift to other services or a program termination, product delays and supply chain dynamics, payer utilization and formulary requirements, the annual verification programs that occur in our fiscal fourth quarter, and the size and timing of investments to support and expand our product portfolio.

Moving now to the Medical-Surgical Solutions segment, we anticipate revenue and operating profit at the lower end of 2% to 6% growth. We're closely tracking the development of the current illness season. We've observed a soft illness season demand in our fiscal third quarter. In the second half of December, illness severity levels peaked based on CDC data. Variability remains a key factor. Timing, severity and the duration of each illness season can drive variation and meaningfully affect results on both a quarterly and annual basis.

We continue to execute the separation of the Medical-Surgical segment with discipline and focus. And with the transition service agreements in place, we're making significant progress to establish the Medical-Surgical segment as an independent company.

McKesson has a strong track record of advancing our mission and unlocking shareholder value in complex and strategic transactions. In recent years, we've demonstrated this multiple times, including the exit of Change Healthcare, Europe and our Canada-based retail operations. These portfolio actions have streamlined the company, sharpened strategy and created significant shareholder value, including more than doubling returns on invested capital.

Looking ahead, we remain confident in our ability to execute on the planned separation, accelerate growth across our differentiated platforms in oncology, multispecialty and biopharma services and maximize shareholder value.

We anticipate corporate expenses to be in the range of \$620 million to \$650 million, which includes the year-to-date impact, \$15 million of pre-tax gains from equity investments within the McKesson Ventures portfolio.

Turning now to items below the line. We're narrowing the guidance range for interest expense to \$215 million to \$235 million. We anticipate income attributable to non-controlling interest to be in the range of \$230 million to \$250 million, driven by the continued success of ClarusONE's generic sourcing operations. And we anticipate the full year effective tax rate of approximately 19%.

Wrapping up our outlook with cash flow and capital deployment. For fiscal 2026, we anticipate free cash flow of approximately \$4.4 billion to \$4.8 billion. Our outlook includes plans to repurchase approximately \$2.5 billion of shares, with weighted average diluted shares outstanding of approximately 124 million.

We remain committed to a disciplined capital allocation framework that balances investment and high return growth opportunities, the return of capital to shareholders, and the preservation of a strong balance sheet supported by an investment-grade credit rating.

Our focus on accelerating growth across the portfolio of businesses, aligned with our strategy, continues to deliver superior shareholder value creation. This consistent focus on execution has increased return on invested capital by more than 1,900 basis points since fiscal 2020, and now exceeding 30%. Our financial strength and flexibility remain a competitive advantage, enabling us to invest for future growth, while returning meaningful value to our shareholders.

In summary, McKesson delivered strong third quarter results, driven by performance across our core businesses and accelerated growth in our strategic growth platforms oncology, multispecialty and biopharma services. The updated outlook reflects our confidence to build on this momentum, delivering optimized value creation for our shareholders. Our continued focus on executing against our strategies, combined with disciplined portfolio management and thoughtful capital deployment, provides the foundation for a durable financial profile and positions us for sustained future growth.

With that, let's move to the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question will come from Allen Lutz with Bank of America.

Allen Lutz

Analyst, BofA Securities, Inc.

Q

Good afternoon and thanks for taking the questions. A two-part question, first for Brian. You talked about technology and automation allowing some of your employees to support more patients in the annual verification season. Can you talk about the specific investments you're making there? And then, as a follow-up to Britt, how should we think about the longer-term opportunity to improve margins in that segment? It seems like through this annual verification season, you're seeing really strong margin pull through there. Just curious what those margins can look like longer term. Thanks.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Thanks, Allen. Yeah, we were very pleased to see the investments we've been making in technology, and whether we want to call it AI or large language models or generative AI, or just other general tech tools, to improve basically the workflows we experience internally to allow, for example, emails to be automated and read and queued up to agents in a way they're able to work through them in a much more rapid fashion. And that translated into a big boost in productivity and what, as you all know, is a very person-intensive blizzard season for us.

So, we're very pleased with that, and that's not a sole example. I also gave an example of how, for DSCSA, which was a new process, being stood up around a new regulatory requirement, we sort of built it digitally native from the start so that we're able to autonomously resolve 75% of customer inquiries, which is obviously a great outcome for the customer and it's a great outcome from us for an efficiency and a productivity standpoint.

I could really go through examples like this throughout the entire business. We think of it in three different areas. We think about our employee experience, how do we make it easier to be an employee at McKesson so there's less kind of paperwork that has to be done and all your time can be focused on the job at hand and it's just a great experience to work at McKesson. We want to focus on our patients and our customers. We want to make their experience with us seamless as can be, and then obviously we want to focus on things where we think we can translate it into efficiency, productivity, leveraging the scale of the business.

So it's really, I could – if you want to give me the rest of the 28 minutes, I could go through company by company, business by business. I don't think we want to do that, but we're very excited and we think these are strong proof points that the investments we've been making in technology are yielding results for the company.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Allen, maybe I'll just follow-up on your question. I don't have a lot more to add than what Brian said, but as we look at the portfolio within the segment, I just would remind you that half of the revenue of the segment is related to third-party logistics services, which are more distribution related, but the other half are technology service businesses to support biopharma. And as Brian pointed out, we look to position the portfolio to continue to automate capabilities and automate services and products on behalf of our biopharma partners.

And I think we like the trajectory that we're seeing in the business. If you look at the segment, we've seen operating margins grow over 130 basis points year-over-year. So, again, focusing on positioning our capabilities and our services to automate those products for biopharma partners is going to continue to improve that trajectory going forward.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Brian Tanquilut with Jefferies.

Brian Tanquilut

Analyst, Jefferies LLC

Q

Hey, good afternoon, guys, and congrats to the quarter. Maybe, Britt, just as I think about 2027 – fiscal 2027 guidance, obviously, a little earlier, just with one quarter behind us, just curious any puts and takes you would call out or any nuances that we need to consider. And then, as I think about just oncology and multispecialty margins, I think those are down almost 50 basis points sequentially versus down 10 last year for comparable period. So, any call-outs there that you would share with us, especially since the moving pieces of the segment are new to the Street. Thanks.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Hey, Brian, thanks for the question. Let me try to address that for you. As we think about 2027, as we typically do, we will provide you a full set of our outlook and guidance thoughts in May when we get to our fourth quarter call. But I would just point out a few things that clearly we're seeing in the business. Brian and I both talked about stable utilization trends. We continue to see very strong specialty distribution growth and specialty product growth. And that's playing out very well, not only in our North American Pharmaceutical segment, but also in the oncology

and multispecialty segment where we're investing. We're acquiring providers and building out platforms. And that certainly is having an impact on the positive growth that you're seeing.

I think some of the things that Brian also talked about, we just chatted here briefly about the operating efficiency that we're seeing across the company. And as I mentioned, we saw 138 basis point improvement in operating expenses as a percentage of gross profit. So, continuing to focus on efficiencies in the distribution centers, in the back office, across the products that we're building. Those are all really positive building blocks as we move forward into FY 2027.

As I think about the segment itself, to your question, we're really pleased with the growth that we're seeing in the segment. I talked about the organic growth of the business. We had 24% organic revenue growth. When you strip away the acquisitions, we had about 15% organic adjusted operating profit growth. Quarter-to-quarter, you're going to have some variability from mix. Generally speaking, we're pleased with how the segment is building and progressing on both revenue, operating profit dollars, and the overall margins. And adding acquisitions like PRISM and Core Ventures are going to be accretive to all of those.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Lisa Gill with JPMorgan.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Thanks very much. Britt, I just want to follow up to that comment. So if I go back to last quarter, you talked about \$51 million of a nonrecurring gain in oncology and multispecialty. So, actually, if I back that out, it looks like the margin improved in that division by nearly 100 basis points. So, you also made the comment today that between PRISM and Core Ventures that the contribution is still roughly the same as what you said last quarter, 30% to 34%.

So, I want to ask the question in a different way. It appears to me that the margins are improving quarter-over-quarter. And I'm just curious what's driving that? I know at our conference, you, Brian, and I talked about, for example, ambient scribing, making the physician more effective. We talked about biosimilars. Is there anything you would call out specifically as to what's driving that margin improvement and how we think about that going forward?

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Yeah, it's a good point, Lisa. And again, that gain that you mentioned that was in the second quarter. As we added the providers to the platform for Florida Cancer, as we've continued to build out our Vision platform, those are positive mix attributes to the segment. We're also seeing continued growth in specialty, and specifically in oncology products. So, those are favorably impacting the overall operating margins of the segment. And to the point that Brian made, we are early in our journey of automating and building AI capabilities for our customers, but we are seeing that have an impact. And we would expect that impact will continue to build over time.

Quarter-to-quarter, you'll have some variability. You'll have some mix variability. But overall, as I mentioned in my comments to Brian, we believe that the additions of both PRISM and Florida Cancer are accretive, not only to revenue and operating profit dollars, but also to the margins over time.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

Next question, please.

Operator: And next will be Michael Cherny with Leerink Partners.

Michael Cherny

Analyst, Leerink Partners LLC

Good afternoon, and thank you so much for taking the question. Really nice job on the quarter. Maybe if I can hone in a bit on North American Pharma for 4Q, the implied guidance still indicates a pretty nice acceleration in terms of overall growth quarter-over-quarter, or I guess for the full year. Is there anything we should consider relative to the growth trajectory, anything that's driving that within the North American side?

And then, relative to what's a wider range than normal, any way we should be thinking about differences in the puts and takes on the top and bottom of the range?

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

So, again, I think if you think about our third quarter results, as I mentioned, we had the held-for-sale accounting benefit last year. That created about a 3% year-over-year impact to the segment. So, our results were still quite strong in the quarter. As we continue to move into our fourth quarter, we're pleased with the growth that we're seeing in specialty. I mentioned the growth that we're seeing specifically in health systems and overall the efficiency gains that we're seeing.

Again, I mentioned the operating expenses as a percentage of gross profit, that's been consistently improving for us. That's the efficiency and the operational excellence, some of the investments that we've been making across our distribution center and in other areas to support our business, whether that be inventory management or demand planning. So, I think just generally speaking, the momentum in the business is good. I don't know that there's anything else specifically that I would call out. But overall, the momentum, the mix, the scale of our operations is performing well.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

Next question, please.

Operator: And next will be Eric Percher with Nephron Research.

Eric Percher

Analyst, Nephron Research LLC

Thank you. Maybe a question on the regulatory front. And Brian, I would ask you, it feels like the distributor value prop is held up very strong in the face of IRA MFP. There seem to be a lot of variables in DC right now. I'd be

interested in your view of what areas you're leaning into the most and how you try to influence things that may be outside of your direct negotiation like MFN and changes to gross to net.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Yeah, sure. I'll attempt to tackle that one. As it relates to IRA Part D, the first 10 drugs that went live just went live in January. So, that's obviously not in our Q3 numbers, but it is in the increased guidance range that we have provided to you. And as you know, these kinds of things are – they happen routinely. And so, we sit down with our manufacturing partners continuously and talk about the evolution in their portfolios and their pricing strategies and the value that McKesson brings, and speak in a very constructive way, we feel good about how those conversations have progressed.

As we've talked in the past about MFN, for example, we think that the way it's rolled out today, it's largely a niche population of cash-paying patients that those with commercial insurance will still access their medicines through the same way. We will continue to monitor it. We'll continue to watch it. As you know, we have lots of assets that can support and help scale those if we thought that that's the direction the market was going to go.

And then as it relates to the policy landscape in general, there's a lot out there. But as we have evaluated it, we continue to think that the implications for McKesson are quite navigable. If you take something like Globe, which is Part [ph] B (00:42:41), it exempts anyone that already has an IRA drug out there. It's only applicable to 25% of the ZIP codes. It's only about 35% of oncology Medicare business. And as you start to do the math and chunk it down, we don't think it's going to be that material. And the fact is that the mechanism that they're using to administer the rebate doesn't impact the provider reimbursement in any way. It's direct from the manufacturer to Medicare.

So, the policy landscape is dynamic. We continue to have a great team in DC that is very engaged in the conversation. We take the approach to try to understand the problem that they want to solve and then help find a solution that is supportive of the industry and, importantly, is supportive of care being practiced in the community where it's lower cost, it's higher accessibility, and we think it's the right answer for Americans.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Glen Santangelo with Barclays.

Glen Santangelo

Analyst, Barclays Capital, Inc.

Q

Yes. Hello, and thank you for taking my question. I just also wanted to follow up on Michael's question regarding the North American Pharmaceutical segment operating profit. Britt, I hear you, if you sort of back Rexall out of last year, it looks like the growth in that segment was sort of 9% this quarter, if I'm doing my math right. And then if I look at your full year segment guidance, you're kind of implying growth of 5% to 18%. And again, as Michael suggested, it's a little bit wider than normal. And I think I ask because kind of looking at the stocks today, obviously, the market is paying a little bit more attention about the potential for decelerating growth in that core.

And so, I'm just kind of curious if you're seeing anything that registers on your radar screen positively or negatively heading into fiscal 4Q and fiscal 2027 that we should be paying closer attention to, positive or negative for that matter?

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Glen, thanks for the question. Let me just stop and just make sure that we're on the same page here. We took our adjusted operating profit growth targets for the full year from 5% to 9% to 8% to 12%. So, the width of the range is the same. What we've done is just simply increased it, one, for the performance that we've seen through the first three quarters of the year; and two, really, the confidence that we have in the trajectory through the balance of the year, given really the strong specialty distribution growth that we're seeing, our continued focus and execution on operational excellence, the utilization trends that we're seeing, all of those are supportive of the raise that we provide you today for our full year outlook, again, with the same width of the range at 8% to 12%.

So, we are very pleased with the performance. We are very pleased with the trends that we're seeing. Certainly, the growth that we're seeing in specialty distribution, the strength that we're seeing across the business in retail pharmacy as well as health systems, and as I mentioned, the operational efficiency gains that we're seeing, so all of those are certainly positive and have led to the raise that we gave today for the full year adjusted operating profit.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Elizabeth Anderson with Evercore ISI.

Elizabeth Anderson

Analyst, Evercore ISI

Q

Hey, guys. Thanks so much for the question. Given the IT investments you talked about in response to Allen's questions, and certainly make sense in the long-term vision of the company, if we think about your cap deployment priorities, and you've always talked about this portfolio management, should we expect sort of a shift more towards those internal growth investments versus what we've seen recently in terms of being more acquisitive? Or would we expect a sort of continuation of what we've seen in the historical pattern? Thanks.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Yeah, I don't think we've changed our philosophy at all. And we have continuously, for the last many years, been investing back into our businesses to innovate new products, add new features, extend our differentiation. And we've similarly deployed capital sometimes to acquire capability that we think is better to acquire than take the time to build internally. But our capital allocation framework is still the same. We still are excited about the opportunities we have to continue to scale through inorganic acquisitions that are aligned to our strategy, that fit our business model, and that meet our financial returns.

But our first priority is always to invest back in the growth of the business. And that can take two forms. That could be internally, we can invest in people, technologies, other resources to help expand the differentiation and expand maybe our market opportunities; or we can do it through – inorganically. And I think we've got a successful track record of doing both, and we would look to continue that.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Maybe I'll just add one more comment here, just to talk about our balance sheet and the financial position that we have. We have strong cash flows. And as I mentioned, our balance sheet is a competitive advantage for us. And it gives us the ability to not only continue to invest back into the business, to acquire assets that are on strategy, and then it will accelerate our growth opportunities, but also at the same time to return capital to shareholders and maintain a very strong balance sheet and investment-grade credit rating. We're able to do all of those given the execution that we have, the focus that we have of being disciplined, and that strength of the financial position, I think, is an advantage for us.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Charles Rhyee with TD Cowen.

Charles Rhyee

Analyst, TD Cowen

Q

Yeah. Thanks for taking the question. Britt or Brian, just wanted to ask, obviously, strong results here, and you saw accelerating core growth in both North [ph] American (00:49:10) Pharma and oncology and multispecialty, by our estimates here. Some of your competitors are kind of seeing maybe a little bit more deceleration in performance on a year-over-year basis. Anything specifically that you're doing or seeing specifically in your business that's maybe contributing to that?

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Well, I don't want to talk about my competitor's business, but I love to talk about my business. And I think it boils down to a clear strategy that's been in place for an extended period of time, a focused management team that is investing and deploying capital and resources to advance those strategies, some good deployment of capital. This past year, both PRISM Vision and Florida Cancer were great additions that fit right into our model that we're very, very pleased about. And then just great execution in the day-to-day by the teams across the business, and really embracing the possibilities of improving the business, having that mindset every day, how do we improve and make the business better? So, I think it's a combination of right strategy, good execution, focused discipline, and execution against that. And that's what I think has produced the momentum we've seen over the last several years.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Erin Wright with Morgan Stanley.

Erin Wilson Wright

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. So as it relates to PRISM and FCS, I guess, can you speak a little bit more about how the transactions are progressing? You maintain the guidance expectation in terms of the contribution for those deals. Is that true for both assets? And anything you can break down in terms of underlying MSO business growth and how we should think about that longer term? Anything to call out that you're seeing now on the MSO side, excluding or stripping out that distribution component of that segment? Thanks.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Yeah. Well, I would say that we maintained the full year – the year-one accretion guide that we provided. But as I've mentioned before, not only are we pleased with the business, we're pleased with the integration, we're pleased with the volumes that we're seeing thus far. We did make a small acquisition to add to the PRISM platform earlier in the fiscal year. And I think, generally speaking, both businesses are performing on their acquisition case, in the case of PRISM, maybe slightly ahead.

So, I think everything that we saw going into it and that we guided you has come to fruition. And in addition to that, I think we're really pleased with the integration work that's been done. And certainly, the volumes have been stable and growing. And all of those have led to at least maintaining the guidance that we provided, and as I mentioned, maybe just slightly ahead of our acquisition case.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Daniel Grosslight with Citi.

Daniel Grosslight

Analyst, Citigroup Global Markets, Inc.

Q

Hi, guys. Thanks for taking the question, and congrats on a solid quarter here. I want to focus a little bit more on the RxTS segment, particularly the strong operating profit results. Hoping you can provide a little bit more detail on the drivers there. It sounds like it was mostly access and affordability on the bottom line. But how much of that growth is coming from GLP-1-related programs versus other specialty drugs? And given the significant growth we've seen in the cash-pay GLP-1 channel, particularly with the launch of oral GLPs, [ph] oral (00:53:00) Wegovy, are you seeing any shift in prior authorization behavior?

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

I'll start, and then, Britt, feel free to add on if you want. I spoke briefly in my opening remarks about the quarterly results adding 50 new programs across 43 different unique brands. And that was really not concentrated in any particular area. So, it was loyalty scripts. It was hub services. It was access and affordability programs. So, we continue to find the market very receptive to the solutions that we have that improve access and affordability. And in a technology business, the scale of adding new customers is very constructive for the business.

It was also – we talked about the impacts of running the business more efficiently, and that certainly added to the performance of the business. But I would say we're just pleased with the breadth of the product portfolio and the broad market support we're seeing for the solutions that we offer.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

And I would just make the point that, as I mentioned in my remarks, that what we've seen thus far in terms of our annual verification programs, they've been off to a really good start as well. We're seeing meaningful volume growth. And to Brian's point, where we're adding new programs and new customers, we're seeing good volumes across all of those, not just GLP-1s, but the new brands and programs that we're adding. And so, all of this is certainly accretive to the business on a year-over-year basis. And we're certainly comfortable in raising the outlook for the full year based on that.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Kevin Caliendo with UBS.

Kevin Caliendo

Analyst, UBS Securities LLC

Q

Hi, thanks for taking my question. You had called out earlier you've made positive comments about annual verifications. I'd love a little bit more color on that. And also, do you see GLP-1s possibly introducing new utilizers on the prior authorization side? Is that part of the thing that's giving you more confidence in the business? How is that trending? How should we think about it? I think we're all wondering sort of how RxTS is going to continue to grow at the same pace into fiscal 2027 and beyond and what the other drivers are. So if you can expand on those two, that'd be great.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Yeah. Look, it's very early days for the oral GLP-1 launch, so it's really hard to try to dissect trends from the – given the size of the injectable market versus a few weeks of launch of the oral drug. But we are seeing some prior authorizations come through there. I think we'll have to track this over time. I mean, I don't think anyone could tell you what share of GLP-1 oral growth will come at the expense of the injectable or what share of it will be net new customers. So, that's something that we'll watch. But we're very confident the category will continue to grow.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be George Hill with Deutsche Bank.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good afternoon, guys. Thanks for taking the question. Brian and Britt, I'm not sure which of you guys this question is for. But we know that going into your fiscal fourth quarter, we're going to see a significant number of brand drug manufacturers take price decreases. It doesn't look like it's going to hit your income statement at all, either at the revenue line or at the operating earnings line. But Britt, I would just love if you could opine what

you've seen from pricing actions from branded drug manufacturers, whether we should expect to see any impact. I know that you don't want to speak to fiscal 2027. And I'd love to hear you talk about how McKesson's negotiated around its value proposition and maintain its economics.

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

A

Yeah, George, I'm happy to do that. We've maintained very strong relationships with our manufacturing partners, and we have continual conversations with them about the products that they need us to support and about the fair value for the services that we provide. So, we've continued to have very constructive conversations. We've continued to maintain the value that we're providing in our pricing and our agreements with the manufacturers. And what we've seen thus far in terms of pricing activity and changes in prices has been right in line with our expectations. There's really nothing out of line and really consistent with what we've seen over the past few years.

So, there's been a lot of changes over the last several months, but nothing that has impacted our economics, at least from a bottom line perspective. Pricing declines will have an impact on revenue, but it's not really material to our results. And I think we're really pleased with the strength of the relationships that we have with our manufacturing partners and the ability to retain the value.

Jeni Dominguez

Vice President-Investor Relations, McKesson Corp.

A

Thank you for the question today.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Great. Well, yes, thank you, everyone. Appreciate the great questions and really appreciate you joining the call tonight. I'd like to thank Cynthia for facilitating the call. McKesson is really proud of the strong results that we delivered in our fiscal third quarter. We continue to demonstrate our strong and our compelling value proposition and our ability to deliver superior returns for you, our shareholders.

I would be remiss to end this call without thanking all of our employees for their outstanding contributions and their unwavering commitment to McKesson and the execution of our strategies. Together, we're all excited in the progress we're making to advance health outcomes for all. Thanks again, everybody. I hope you have a terrific evening.

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

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