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FQ4 2026 Earnings Call Transcripts

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Presentation

Operator

Welcome to McKesson's Fourth 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 conference over to Jeni Dominguez, VP of Investor Relations. Please go ahead.

Jeni Dominguez *Head of Investor Relations*

Thank you, operator. Good afternoon, and welcome, everyone, to McKesson's Fourth 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 section of our most recent annual and periodic SEC filings. For more additional information concerning risk factors that could cause our actual results to materially differ from those in our forward-looking statements.

Information about GAAP, 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. 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 & Director*

Thank you, Jeni. Good afternoon, and thanks, everyone, for joining McKesson's fiscal fourth quarter earnings call. Earlier today, we reported a good fourth quarter that caps a year of strong performance. In our fiscal 2026, we grew adjusted earnings per diluted share by 18%, driven by momentum across our strategic growth platforms. Our operating cash flow of \$6.2 billion was strong and exceeded our plans.

We returned over -- we returned \$5.1 billion to shareholders. Fiscal '26 was another great year of execution and disciplined portfolio actions that sharpened our focus and drove continued operating momentum. At the beginning of the year, we added Core Ventures and PRISM Vision to our oncology and our multispecialty platforms. Both businesses have been onboarded seamlessly, delivering strong growth momentum while expanding high-quality care in the community setting.

One year ago, we announced the plan to separate our Medical-Surgical Solutions segment into an independent company. Since then, we've made significant progress towards that objective. We put transition service agreements in place, executed on financing transactions and signed an agreement to welcome Apollo as a minority interest investor while advancing the separation readiness of the business itself.

As we continue to execute towards our planned separation, we're confident that it will unlock shareholder value and create strategic clarity for both organizations. In January, we completed our exit from Norway, continuing our disciplined approach to portfolio optimization and fulfilling our commitment to fully exit the European business. Operationally, we made moves to better align our organizational structure to our strategy. We introduced new reporting segments, allowing increased transparency to our growth areas and better aligning reporting with how we operate the business and how we allocate capital.

Our execution on these strategic initiatives drove the strong results we delivered in fiscal '26 and position us well for fiscal '27. Looking ahead, we anticipate adjusted earnings per diluted share to be in the range of \$43.80 to \$44.60 in fiscal '27. With a strategically focused portfolio, a strong balance sheet and a clear operating model, we are well positioned to deliver long-term value for shareholders while performing the critical role we play across the health care value chain. Now let me share with you how our company priorities are shaping the future of McKesson.

I'll start with our focus on people and culture, which remains the key enabler of everything we do. We're operating in a complex and rapidly evolving environment and defining our future requires us to continue evolving how we lead while being grounded in our

values and our mission. We embed this into our culture with our I2CARE principles, which represent our values, integrity, inclusion, customer-first, respect and excellence.

And through LEADRx, our leadership principles. Together, this is our leadership prescription framework. It reinforces accountability, trust and focus on serving our customers. LEADRx provides a common standard to guide bold decision-making, deliver results that matter with speed and to build the teams of tomorrow. I am always inspired by Team McKesson and how they demonstrate these leadership behaviors.

Today, I want to recognize two individuals who have been exceptional partners to me and to our leadership team. During the quarter, we announced the planned retirement of Britt. Over the course of his tenure, he's played a critical role in strengthening McKesson's financial foundation, advancing our capital deployment framework and positioning the company for long-term sustainable growth. His leadership has been marked by discipline, clarity and an unwavering focus on value creation for shareholders.

Britt has helped build a strong deep finance organization that will continue to serve the company well into the future. I would be remiss if I didn't note that during Britt's tenure as CFO, we've delivered over 500% increase in shareholder returns. That's over 20% annual growth rate. Thank you, Britt. Additionally, we are announcing changes to our Board. Don Knauss will complete his service on our Board prior to the 2026 Annual Stockholder Meeting in July, consistent with our outside director age guidelines. I want to thank Don for his steady leadership and significant contributions as the Independent Chair of our Board.

Effective May 1, I was elected Chairman of our Board to serve alongside Dominic Caruso, who has 7 years of experience on McKesson's Board. He will serve as the Lead Independent Director, ensuring continued ongoing strong independent oversight. I'd like to now discuss our strategic pillars. Let me start with oncology and multispecialty platforms. We continue to see strong growth in specialty medications, and we're leveraging our differentiated portfolio of solutions to improve access, support providers in the community and empower biopharma customers with valuable data and insights.

We are pleased to see continued expansion of these platforms. For the U.S. Oncology Network, it's been a remarkable year of growth. We added more than 570 providers in fiscal '26, the largest net increase since 2010. In April, we further expanded our footprint with the addition of Cancer Care Northwest with clinic locations across Washington and Idaho. We continue to leverage our capabilities and onboard Core Ventures onto our platform.

Ontada, our data and insights business, for example, is now incorporating in-office dispensing data from Florida Cancer Specialists and Research Institute. This expands the data we provide to biopharma customers to better assess adoption and performance trends across the broader community oncology landscape. As we scale the platform, we're embedding automation and AI to improve workflow and enhance the patient experience.

Within the U.S. Oncology Network, Ambient Scribe technology is now used by more than 1,900 providers. This allows them to spend more time with patients and less time on documentation, allowing them to do the jobs they trained for.

These capabilities illustrate how we're using data technology and scale to meaningfully improve our physicians' productivity and dedicate more time to care delivery. Within our retina and ophthalmology platform, PRISM Vision increased providers by approximately 20% over the past year and welcomed two new practices, Spokane Eye Clinic and more recently in May, the Retina Macula Institute, extending its footprint beyond the Mid-Atlantic region.

Let's move on to our biopharma services platform. Our fiscal fourth quarter is typically the busiest time of the year as we support patients with their annual verifications. This year, we delivered the most successful season to date, supporting a record number of 3.4 million patients in their journey to access the medicines they need. We achieved this through strong execution, disciplined planning and continued productivity investments, including the application of technology and automation.

As a result, each full-time employee supported 120 more patients this season compared to last year. We're pleased with the continued business momentum, supported by a differentiated and scaled network. We're digitally connected to over 50,000 pharmacies and more than 1 million providers, and we support over 650 biopharma brands, representing most therapeutic areas. Over the past year, we helped patients save approximately \$10 billion on brand and specialty medications, the majority of which were for non-GLP-1 drugs. We helped to prevent an estimated 12 million prescriptions from being abandoned due to affordability challenges, and we enabled patients to access their medicines more than 135 million times.

Building on this scale and continued momentum, we consistently reinvest into the business to advance our strategic focus on technology-enabled services. These investments focus on enhancing product functionality, improving the customer experience and introducing greater automation. Recently, we launched an industry-first integrated specialty access and affordability solution designed to address the fragmentation that often delays starting a treatment.

By connecting benefits verification, prior authorization and affordability support into a single coordinated workflow, this solution helps manufacturers accelerate time to therapy for high-cost, high-touch medications. This is a powerful example of how we're leveraging our scale and technology to support biopharma customers where access matters most.

Turning to North American distribution. We remain focused on operational excellence and long-term sustainability as we continually build a more resilient, scalable distribution platform. Recently, we achieved a key milestone with the successful launch of our new Montreal distribution center. As part of our supply chain of the future initiative, this state-of-the-art facility expands critical capacity and features industry-leading automation, including an advanced storage and retrieval system powered by AI and robots, which raised the standard for precision and performance.

Once fully ramped, this facility will enhance resiliency, improve service reliability across Eastern Canada and reinforce our ability to serve customers and patients with greater speed, consistency and efficiency. Across our supply chains, AI-driven inventory planning capabilities are helping us move from reactive to more technology-enabled real-time decision-making. We implemented an advanced planning system that uses AI to connect and orchestrate end-to-end planning across demand, supply, inventory and operations inside an integrated environment.

This transformation enables us to deliver working capital savings and meaningfully contributed to the strong operating cash flow in fiscal 2026. As we operate a scaled network that distributes approximately 1/3 of pharmaceuticals in North America, we take great pride in protecting the resiliency of our supply chain. In January, a significant winter weather across more than 20 states strained transportation networks. Through early risk monitoring, proactive planning and strong execution, we maintain safe operations and minimize disruptions to our customers and their patients.

This is yet another example that underscores the strength and reliability of our operating model and our focus on excellent service. In the past quarter, we successfully navigated the first wave of branded pharmaceutical price changes related to the Inflation Reduction Act. As expected, there was an impact to revenue growth, but the fundamentals of our business and the strength of our value proposition to manufacturers remain very strong, evidenced by the double-digit adjusted segment operating profit growth in fiscal '26.

We continue to manage the business with discipline, ensuring appropriate compensation for the critical services we provide, which position us well for sustained long-term growth. We're operating in a dynamic policy environment. McKesson has a unique role to play, collaborating with policymakers and advocating for changes that advance health care for all.

We're confident that our differentiated capabilities will continue to position us to evolve with the market and to enable better outcomes. Now let me provide a brief update on our portfolio actions. In April, we reached an important milestone in preparing Medical-Surgical Solutions for separation. We completed two financing transactions, a \$1 billion senior secured Term Loan A and a \$1 billion revolving credit facility.

This aids in establishing a stand-alone capital structure for the business, supporting separation readiness and positioning NewCo with financial flexibility as an independent company. We also announced a definitive agreement with Apollo Funds for a \$1.25 billion strategic minority investment in Medical-Surgical Solutions, representing approximately 13% minority interest and valuing NewCo at approximately \$13 billion of total enterprise value. The transaction is subject to regulatory approvals and customary closing conditions.

We will retain operating control and majority ownership while benefiting from Apollo's experience in supporting complex carve-outs and public market transactions. This is another meaningful step forward as we execute the next phase of the separation and prepare for the planned IPO with a clear focus on maximizing value for shareholders.

Let me close with this. McKesson delivered another year of strong operational performance, reflecting the strength of our growth strategy, the value of our differentiated portfolio and our disciplined portfolio management. We enter fiscal '27 from a position of strength with clear momentum across the business. We're well positioned to continue building on that momentum and to deliver sustainable long-term value to our customers, partners and shareholders.

Before I turn the call over to Britt, I want to thank McKesson's employees for their commitment and contributions, which are fundamental to our success. This is also Britt's last earnings call. I want to thank him for 20 years of outstanding leadership and service. As planned, Britt will continue to support the team through the CFO transition, ensuring continuity and stability for the team and operations.

He'll also serve as a strategic adviser, providing valuable perspective as we execute our priorities, including the planned separation of the medical business.

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

Britt J. Vitalone
Executive VP & CFO

Thank you, Brian, and good afternoon. Fiscal 2026 represents another year of exceptional financial performance. We delivered robust growth across our Core strategies while expanding operating leverage through disciplined execution and portfolio actions that create long-term shareholder value. For the full year, consolidated revenues reached \$403 billion, a 12% increase. Adjusted operating profit grew 15% to \$6.5 billion and adjusted earnings per diluted share increased 18% to \$39.11.

Excluding the gains from McKesson Ventures investments in fiscal 2025, adjusted earnings per diluted share increased 20%, driven by strong execution across the business and continued strength in our operating fundamentals. Notably, these results exceeded the long-term growth targets that we are reaffirming today. Today, I'll review our fourth quarter and full year results, followed by our fiscal 2027 outlook.

Unless otherwise noted, my comments will refer to our adjusted results. Before turning to our consolidated results, I want to briefly address three items that impacted fourth quarter GAAP-only results. First, we recorded net gains of \$480 million related to the divestiture of our retail and distribution businesses in Norway reflected within other. This transaction successfully marks the completion of our European divestiture. Second, fourth quarter results included approximately \$122 million of noncash adjustments to redeemable noncontrolling interest from the Core Ventures acquisition in our oncology and multispecialty segment.

And finally, we recorded \$182 million LIFO credit related to inventory accounting within the North American Pharmaceutical segment. Turning now to fourth quarter consolidated results. Our fourth quarter results were an extension of sustained operating excellence and disciplined growth. Earnings per diluted share were \$11.69, a 16% increase over the prior year.

This growth was driven by broad-based demand across the portfolio, including continued specialty pharmaceutical distribution growth across North American Pharmaceutical, strong growth in oncology and multispecialty and ongoing momentum in biopharma solutions programs within Prescription Technology Solutions. Consolidated revenues increased 6% to \$96.3 billion, while gross profit grew 14% to \$3.9 billion.

Growth was led by provider expansion and specialty distribution within oncology and multispecialty, including contributions from acquisitions and higher prescription volumes in North American Pharmaceutical, partially offset by lower contributions from branded pharmaceuticals. Operating expenses increased 14% to \$2.1 billion, reflecting higher expenses within oncology and multispecialty, including current year acquisitions. Our continued focus on operating execution delivered efficiency across our operations.

Operating profit grew 13% to \$1.8 billion, driven by specialty distribution growth across oncology and multispecialty and North American Pharmaceutical as well as increased demand for access solutions in our Prescription Technology Solutions segment. Operating profit also included pretax losses of \$15 million or \$0.09 per share from equity investments within McKesson Ventures portfolio, which is included in corporate expenses. Interest expense was \$59 million, reflecting higher average loan portfolio balances during the quarter.

The effective tax rate for the quarter was 12.1%, which included net discrete tax benefits of \$158 million related to the liquidation of our investment in a wholly owned affiliate. Fourth quarter diluted weighted average shares outstanding declined 3% to 122.7 million, reflecting ongoing share repurchase activity. During the quarter, we entered into a \$2.25 billion accelerated share repurchase program, which had no meaningful impact on diluted weighted average shares in the quarter.

Turning now to fourth quarter segment results, which can be found on Slides 8 through 12, beginning with North American Pharmaceutical, where revenues were \$79.1 billion, an increase of 3% year-over-year, driven by higher prescription volumes, including continued strength in specialty products. This growth was partially offset by lower branded pharmaceutical revenue, reflecting declines in manufacturer prices on certain products, which reduced year-over-year revenue growth by approximately 3% in the quarter.

GLP-1 distribution revenues reached \$14 billion in the quarter, an increase of \$2 billion or 22% compared to the prior year. However, revenues declined 4% sequentially. Importantly, the impact of branded pricing declines and the sequential decline in GLP-1 volumes had no impact on operating profit in the quarter. Segment operating profit increased 11% to \$980 million, with operating margins expanding 9 basis points year-over-year.

Performance was primarily driven by specialty product distribution growth, including the health systems and ongoing operating efficiency. Turning to the oncology and multispecialty segment. Revenues increased 35% to \$12.7 billion, fueled by strong provider growth and expanded specialty distribution and contributions from acquisitions.

The acquisitions of PRISM and Core Ventures contributed approximately 13% to this growth. Operating profit for the segment increased 53% to \$385 million. Excluding the impact of acquisitions, organic operating profit grew a healthy 13%, reflecting strong underlying performance. In the Prescription Technology Solutions segment, revenues increased 12% to \$1.5 billion, driven by higher prescription volumes in the third-party logistics and technology services businesses.

Operating profit increased 13% to \$322 million, driven by higher demand for access solutions. Turning to Medical-Surgical Solutions. Revenues were \$2.9 billion, up 1% compared to the prior year, driven by higher specialty pharmaceutical volumes, partially offset by lower contributions in the ambulatory care channel. Operating profit decreased 5% to \$271 million. During the quarter, illness season product demand, including vaccines and testing, trended below the prior year.

And finally, corporate expenses were \$209 million, reflecting previously discussed losses from McKesson Ventures portfolio as well as increased technology infrastructure investments. Let me turn to cash and capital deployment, which can be found on Slide 13. We continue to execute a disciplined value-creating capital deployment strategy in the fourth quarter. We ended the quarter with \$4 billion in cash and cash equivalents and total liquidity of \$9 billion.

During the quarter, we generated free cash flow of \$3.2 billion, including \$185 million in capital expenditures. This performance was driven by strong operating results and working capital timing. As a reminder, our free cash flow and working capital metrics can vary quarter-to-quarter, including the day of the week the quarter closes. We returned \$2.8 billion to shareholders during the quarter, including \$2.7 billion through share repurchases and \$101 million in dividends.

This included \$2.25 billion of share repurchases under an accelerated share repurchase program that was launched in March. In April, our Board of Directors approved an additional \$5 billion of share repurchase authorization, bringing our total share repurchase authorization to approximately \$7.7 billion as of April 2026. This action further demonstrates our confidence in the durability and growth outlook of our business.

Stepping back, fiscal 2026 was a year of exceptional performance that exceeded both our initial guidance and long-range growth targets. Full year revenues increased 12% to \$403 billion and operating profit grew 15% to \$6.5 billion, with 3 of our 4 segments delivering double-digit growth. When adjusting for \$101 million in net gains related to McKesson Ventures in fiscal 2025 and \$51 million in net gains within the U.S. Oncology Network in the second quarter of fiscal 2026, operating profit increased 16% compared to the prior year.

Our disciplined capital deployment led to expansion of our oncology and multispecialty growth pillar with the acquisitions of PRISM and Core Ventures, which contributed approximately 34% of segment operating profit growth. We are encouraged by both the integration progress and the performance to date. We also continued to deliver strong operational execution and enhanced efficiency, driving a 293 basis point improvement in consolidated operating expenses as a percentage of gross profit compared to the prior year.

We achieved this operating efficiency while simultaneously making targeted investments to modernize our operations through automation and AI-driven capabilities, which we anticipate will accelerate growth, creating enterprise-wide efficiencies. Strong earnings growth translated into free cash flow of \$5.4 billion. This included \$745 million in capital expenditures centered on distribution technology and infrastructure to support future growth.

Free cash flow exceeded our guidance range, driven by exceptional operating performance, working capital efficiencies and timing. We also continue to demonstrate a clear commitment to returning capital to our shareholders. In fiscal 2026, we returned \$5.1 billion through share repurchases and dividends. Since the start of fiscal 2020, we've returned approximately \$23 billion to shareholders while delivering a 17% adjusted earnings CAGR, which reflects the combination of consistent outstanding operating performance and disciplined capital deployment.

This outstanding performance is reflected in a return on invested capital of 34%, highlighting the strength of our operating model and the effectiveness of our capital allocation strategy. Now let me turn to our outlook. Over the past several years, the breadth of our capabilities and leading portfolio of assets across oncology and biopharma services have led to consistent value creation for our customers, partners and shareholders.

Supported by this operating momentum, a differentiated portfolio of assets and a strong balance sheet, we are reaffirming our long-term growth targets. We continue to expect long-term adjusted earnings per diluted share growth of 13% to 16%, supported by sustained operating leverage and disciplined execution. We're also reaffirming our long-term adjusted segment operating profit

growth targets of 5% to 8% for North American Pharmaceutical, 13% to 16% for oncology and multispecialty and 10% to 13% for Prescription Technology Solutions.

We enter fiscal 2027 with significant momentum. For fiscal 2027, we're establishing an adjusted earnings per diluted share guidance range of \$43.80 to \$44.60, representing 12% to 14% year-over-year growth. To assist with year-over-year comparisons, I want to highlight two items from fiscal 2026 that I referenced earlier. First, revenues of \$1 billion and operating profit of \$74 million from the Norway business included in other, which we divested in January of 2026. And second, \$51 million in gains recognized in our second quarter related to the sale of an equity investment in Market Decisions within the U.S. Oncology Network.

Excluding these two items, our fiscal 2027 earnings per diluted share outlook implies 14% to 16% growth, which is at the upper end of the long-term growth target range. Let me start with the segment outlook for fiscal 2027. In the North American Pharmaceutical segment, we anticipate revenue to increase 4% to 8% and operating profit to increase 5.5% to 9.5%. This growth outlook is supported by our scaled distribution capabilities, operating discipline and excellence and stable prescription volume growth.

We anticipate continued growth in the GLP-1 category of medications. While fiscal 2026 GLP-1 revenues increased 27% to \$53 billion, we anticipate continued category growth in fiscal 2027 with quarter-to-quarter variability driven by market dynamics. In the oncology and multispecialty segment, we anticipate revenue growth of 14.5% to 18.5% and operating profit growth of 13.5% to 17.5%. This outlook reflects continued expansion across oncology and multispecialty platforms, driven by higher multispecialty distribution volumes across community settings.

The outlook also reflects the continued successful integration and growth of PRISM Vision and Core Ventures. Both acquisitions are performing well and expanding our capabilities to advance care in Oncology and Retina settings. As previously mentioned, fiscal 2026 results included a \$51 million gain from the sale of an equity investment in Market Decisions within the U.S. Oncology Network. In the Prescription Technology Solutions segment, we anticipate revenue growth of 2.5% to 6.5% and operating profit growth of 11% to 15%.

Demand for our differentiated access and affordability solutions remain strong, particularly for complex and specialty therapies, including GLP-1s. We're seeing sustained volume growth in the brands we support with continued pharmaceutical innovation and increasingly complex care setting, attractive long-term growth opportunities.

As I've previously discussed, revenue and operating profit trajectory in this segment is not linear. It can vary from quarter-to-quarter, driven by several factors, which include utilization trends, the timing and trajectory of new 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 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.

Overall, the strength of our platform, disciplined execution and continued demand for our solutions support our confidence in the long-term trajectory of this business. Let me provide an update on Medical-Surgical Solutions and our progress toward establishing it as an independent entity. Since announcing the separation, we've achieved several key milestones. Business is now operationally and legally separate. We've completed audited carve-out financial statements, and we finalized all required separation and transition service agreements. In early April, we took initial steps to establish an independent capital structure, which included a \$1 billion revolving credit facility and the issuance of \$1 billion in Term Loan A facilities.

We also entered into an agreement with Apollo Funds under which they will acquire approximately 13% minority interest in Medical-Surgical Solutions, implying a total enterprise value of approximately \$13 billion. Additionally, Apollo brings deep experience supporting complex carve-outs and public market transactions. McKesson will retain operating control and majority ownership of Medical-Surgical and consolidate the segment's results for financial reporting.

The Apollo ownership will be reflected as noncontrolling interest when the transaction closes. We anticipate the transaction will close following regulatory approvals and customary closing conditions. We also expect to issue up to \$2.25 billion in additional term loans in the second half of the first quarter of fiscal 2027.

The proceeds from all these transactions will be used to satisfy existing intercompany agreements with McKesson Corporation. We intend to deploy these funds in line with our disciplined capital allocation strategy, principally towards share repurchases. Together, these transactions will complete the establishment of an independent capital structure for the Medical-Surgical business.

For fiscal 2027, we anticipate revenue growth of 1% to 6% and operating profit to be flat to 4%. In Corporate, we anticipate expenses to be in the range of \$580 million to \$640 million as we continue to invest in technology innovation and efficiency. Turning now to items below the line. We anticipate interest expense to be in the range of \$380 million to \$420 million. This reflects the new \$1 billion

Term Loan A placed in April and the anticipated issuance of \$2.25 billion in additional term loans to support the separation of the Medical-Surgical Solutions segment.

We anticipate income attributable to noncontrolling interest to be in the range of \$295 million to \$325 million. This year-over-year increase is primarily driven by the anticipated minority investment in Medical-Surgical by Apollo Funds. Finally, we anticipate the full year effective tax rate will be in the range of 17% to 19%. Moving to cash flow and capital deployment. For fiscal 2027, we anticipate free cash flow of approximately \$4.5 billion to \$4.9 billion, reflecting continued operational efficiency and disciplined working capital management.

Consistent with our capital allocation framework, we plan to repurchase approximately \$5 billion of shares in fiscal 2027. This accelerated activity is supported by the deployment of proceeds from the Medical-Surgical financing and the Apollo minority investment. As a result, we anticipate weighted average diluted shares outstanding to range between 116 million to 118 million for the full year.

Wrapping up fiscal 2027 guidance. We anticipate revenue growth of 5% to 9% and adjusted operating profit growth of 8% to 12%. For fiscal 2027, we anticipate earnings per diluted share of \$43.80 to \$44.60. We expect the earnings per share cadence to be broadly similar to fiscal 2026 from a first-half, second-half perspective with quarter-to-quarter variability in part driven by the timing of discrete tax items recognized in fiscal 2026.

In summary, we delivered a strong year, driven by disciplined execution across our core businesses and a steadfast focus on long-term value creation. Our balance sheet and cash flow generation provide us the flexibility to invest in our strategic priorities while consistently returning capital to shareholders. We remain confident in our outlook and are well positioned to execute against our strategy and deliver sustainable growth.

On a personal note, this will be my last earnings call as McKesson's CFO. It's been a privilege to serve in this role and to partner with an exceptional leadership team and finance organization. I'm proud of what we've accomplished together, and I'm confident in what lies ahead. Our fundamentals are strong.

Our strategy is clear, and we're well positioned to deliver sustainable long-term value creation. Following my retirement, I'll continue to support McKesson in an advisory capacity to ensure a smooth transition and maintain our current momentum. I want to thank all of you for your continued support of McKesson. And with that, we move to the Q&A session.

Question and Answer

Operator

[Operator Instructions]

And our first question will come from Allen Lutz with Bank of America.

Allen Charles Lutz
BofA Securities, Research Division

First, Britt, congrats on your retirement. We'll all miss you. On the RxTS segment, looking at the fiscal '27 revenue growth here, 2.5% to 6.5%. I think maybe that's a little bit slower than where growth has been over the past few years, but there's a lot of different pieces of that segment.

Is the slower growth coming from the 3PL business? Or is it coming from another part of the business? And as we think about the GLP-1 component in the prior authorization business, you mentioned that GLP-1 revenue declined 4% quarter-over-quarter in the distribution business. What are your expectations for GLP-1 growth within that prior authorization business over the course of fiscal '27?

Britt J. Vitalone
Executive VP & CFO

Thanks for your question, Allen. Let me talk a little bit about the revenue in Prescription Technology. We've talked about this over the last several quarters. If you think about the composition of revenue in that segment, as we've talked about over the last several years, the 3PL component of that business represents roughly 55% of total revenue. And as we've talked about, that business can vary quite significantly from quarter-to-quarter or year-to-year, driven by a number of factors.

It could be the timing of product launches or products that we may support under those 3PL programs. It could be the timing of program launches for products that are launching. All of those things can drive some significant variability for the revenue portion of that 3PL business. And as I mentioned, it's really the predominant component of revenue for that segment.

When you look at the operating profit momentum, which our guide for next year is really at the upper end of the long-term target range. That's really reflective of the really good recognition and support and demand that we're getting for the programs of our technology services, primarily our access programs, which include GLP-1s.

So I think that's a good signal that our programs within our technology services aspect continue to have strong demand and are driving a lot of value. And so I think the operating profit that we've cited here is a good reflection of that.

Operator

And next will be Lisa Gill with JPMorgan.

Lisa Christine Gill
JPMorgan Chase & Co, Research Division

Britt, wishing you the best in your retirement. Just really want to dig into oncology and multispecialty on the guidance side. Can you talk about what's in revenue and adjusted operating profit as far as organic versus inorganic, where we are as far as some of the acquisitions that you made and how they'll contribute to 2027?

And then further, when we think about what happened in this quarter, were there any impacts here from weather? We know that you had talked about weather, but any impact there? And anything else that you would call out as we think about fiscal '27 specific to oncology and multispecialty?

Britt J. Vitalone
Executive VP & CFO

Lisa, thanks for your question. Let me start with the weather question because this is one that we've got really over the last several months. And I can tell you that, as Brian mentioned in his comments, we did see some weather impacts in January. But for our full quarter, weather did not have an impact on our operations.

Whatever impacts that we saw on demand during that couple of week period in January recovered within the quarter. So that's not a factor that we've talked about, and it's not one we're talking about today. As we think about the oncology and multispecialty segment, we are going to be lapping both acquisitions of PRISM and Core Ventures that we completed in the first quarter of last year. And underlying -- I mentioned this a couple of times in my script, the organic growth of that segment has really been coming in right around 13%.

Now when you look at the guide, remember, as I called out a couple of times here, last year, we did have \$51 million in gains in the second quarter related to sale of an equity investment and other market actions. So the organic performance of the segment is actually a little bit stronger than the guide reads.

And we believe that the guide is strong, and it's actually at the upper end of the long-term target range. So we feel good that the acquisitions are performing well. The integrations are going well. And as we lap that, the organic growth rate is going to be really in the middle of that long-term target range.

Brian S. Tyler
CEO & Director

Yes. And I would just add, we continue to look to grow the provider network, either through the attraction of oncologists to our existing practices or we have a funnel of what we think are attractive targets. Obviously, projecting the timing of those is not that easy, but we continue to be in active negotiation. We think that will continue to be a part of the growth algorithm for this business.

Operator

And next will be Erin Wright with Morgan Stanley.

Erin Elizabeth Wilson Wright
Morgan Stanley, Research Division

I was wondering if you could unpack a little bit about what you're seeing in just the core North America Pharmaceutical segment. What's embedded in guidance in terms of just underlying utilization trends? I think you mentioned stable in your prepared remarks. And then just for the quarter as well, I think you called out just specialty products more broadly last quarter. And then this quarter, you're specifically calling out specialty products to health systems. I guess, can you talk a little bit about what you're seeing on that front and what continues into 2027?

Britt J. Vitalone
Executive VP & CFO

Yes. Thanks for the question. On the utilization front, we have seen stable utilization. And what I mean by that is year-over-year growth in utilization has been fairly constant now for several quarters. It's growing, albeit at a very stable rate really for the last, I'd say, 2, 3 years. And so we factored that into our guidance is really one of the foundational aspects. Specialty continues to be where you're seeing the most innovation.

You're seeing the most growth of all categories. We're well positioned there. We talked at our Investor Day about the size and scale of our specialty business, both on the distribution side and to multispecialty. That continues to be strong for us. I mentioned health systems. We've been strong, positioned in health systems for many years. We continue to have a strong value proposition there.

And certainly, specialty products in the health systems has been valuable for us, and we are bringing a lot of value to our customers. So we're seeing good growth. We saw very strong growth in fiscal '26. We expect that growth will continue into '27. And our guide, where we placed our guide, again, is at the upper end of the range, the long-term target range that we provided. So we feel good that the momentum continues to be strong.

Operator

And next will be Brian Tanquilut with Jefferies.

Brian Gil Tanquilut
Jefferies LLC, Research Division

Britt, thanks for all the partnership over the years. Maybe just as I think back to the GLP commentary, I appreciate your answers to the questions earlier. But when we think about the LRP, how are you thinking of what -- or how should we think about what's assumed there in terms of the sustainability of demand in the access solutions portion of the business as it relates specifically to GLPs?

Britt J. Vitalone
Executive VP & CFO

Yes, great question. I would say really on both the distribution side as well as on our Technology Solutions side, the growth has been strong for the last 3 years from a distribution perspective, again, we're seeing distribution revenue growth in the mid-20% range for the last several years. Sequentially, it was down in the fourth quarter, as I talked about.

But again, it still grew 22% in the quarter. And the solutions that we provide, both on the prior authorization as well as on the affordability are still high demand and driving a lot of value. There's a lot of other services beyond just the basic prior authorization that our teams have added adjacent products to.

And we're still seeing very strong growth there. And I think that's evidenced by the operating profit growth in the segment and the guide that we put in place for next year. So the category continues to grow. The need for the services that we provide, both prior authorization and some of the affordability products continues to be strong.

Operator

And next will be Michael Cherny with Leerink Partners.

Michael Aaron Cherny
Leerink Partners LLC, Research Division

Britt, good luck on the golf game as you go forward. Maybe to talk a little bit about the MSO side, especially as you're onboarding Core Ventures in the Florida Cancer business. As you think about the ongoing wrap services that you have relative to the oncology as a whole, how is the pipeline changing in terms of additional services you can build out as you get bigger and scaled?

And where are the opportunities to continue to expand, whether it's within oncology or other areas, the totality of services to potentially drive incremental revenue and profit streams?

Brian S. Tyler
CEO & Director

Michael, I'll start on this one. So I just mentioned a moment ago, we still think we have room to go just expanding the base of providers. And part of that expansion rest on the strong value proposition we have for providers, including the investments we're making in the practices themselves in things like Ambient Scribe, making the physician work experience, just focus more on patient care, less on administrative burden that we think that helps address burnout, that attracts people to our network, that either individuals or other practices.

So that's still, I think, a key part of the growth algorithm. And then we think we can use technology to continue to operate -- both operate the business more efficiently, but to extract better and deeper insights that can help support and scale our Ontada business and to, frankly, continue to grow out the SCRI, ability to engage more physicians more deeply in the recruitment of clinical trials.

So I think as these technologies emerge and we continue to take better and better advantage of them, we'll continue to find ways to deepen both our value proposition for the physicians and for the manufacturers, and that creates sort of this virtuous cycle.

Operator

And next will be Elizabeth Anderson with Evercore ISI.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

Congrats, Britt, on your retirement and look forward to hearing about that. In terms of your -- one of the things that's come up, I think, for people on the earnings calls this quarter is what's happening with the biosimilar shifts. And obviously, you've been helpful in educating us about the difference between Part D biosimilars and the Part B biosimilar waves to come.

How are you kind of working with your customers to sort of anticipate some of these STELARA shifts and others in the Part D space? And how do we think about that being incorporated in your guidance for 2027?

Britt J. Vitalone
Executive VP & CFO

Well, I'll go ahead and start, and certainly, Brian can add. I think as we've talked about now for the last several years, we think that biosimilars have a lot of opportunity going forward. And really, they're a win-win-win. They're a win for our providers who can make a clinical choice and determine what products they want to use for their clinical protocols.

They are generally lower cost for patients and they're more efficient for a distributor, not in terms of distributor economics, it does matter which is -- whether it's Part B or Part D drug and the type of services and the number of services that McKesson can provide.

And so really nothing has changed on that front. We provide services for our providers. They make the clinical choices on the products that they want to use. And if there's additional services like GPO services or other type of handling services that we can provide, that just adds to the overall experience.

It lowers the cost for both providers and for patients. So we think that there's -- it's growing. We're up to 89 now that are approved and 72 launched. So that continues to grow, and it continues to add choice and lower cost. And we think we're well positioned to provide those services.

Brian S. Tyler
CEO & Director

We do distribute biosimilars to all our segments: hospitals, retail, mail-order pharmacy, obviously, community Part B channel is the most attractive for us.

Operator

And next will be Glen Santangelo with Barclays.

Glen Joseph Santangelo
Barclays Bank PLC, Research Division

Can I just -- Brian, can I just follow up on Elizabeth's question there for a second. I think you just said that the Part B channel is the most interesting for you. And I apologize if that's not what you said. But I think what people are really concerned about is if you look over the next several years, you have more than 1/3 of the oncology market that's clearly going to be impacted by either the IRA or a biosimilar transition.

And so when you think about the price of those oncology drugs coming down, Britt, if I heard you correctly, you just said it's a win-win-win for the provider. But if he's getting reimbursed based off of ASP and the price of that drug is sort of coming down, is the practice better off? And then Brian, I don't know how to think through sort of the buy margin impact that it may have on your distribution business given the lower price.

So I think we're really just trying to understand that biosimilar transition through your specialty business and if you really believe it's going to be -- augment your longer-term operating profit. Sorry for all that word salad.

Brian S. Tyler
CEO & Director

You get the prize for the longest question, but well framed. So on the distribution side of the business, I think Britt said that biosimilars will be for us somewhere between generics and the brands, and we continue to think that, that's true. The dynamic is a little more complicated in the community setting, the Part B setting.

We've got this dynamic of ASP. And usually when -- in our early experience with these products, when they launch, the initial launch, this is a good thing for the practice, as Britt referenced. And then you've got to make sure you sustain that ASP. And we've seen biosimilars come into the market and come out of the market.

But the one advantage that we have is because of the network effects, particularly in U.S. oncology and we think ultimately in retinology, is we can drive adoption to these biosimilars or to the innovator drug in a more uniform and rapid way. And that creates value for the manufacturer that they're willing to compensate the GPO and the distribution business for.

Operator

And next will be Daniel Grosslight with Citi.

Daniel R. Grosslight
Citigroup Inc., Research Division

I'll add my congrats to Britt on your retirement. It's been great working with you over the past few years. I wanted to focus a bit on free cash flow and capital deployment priorities for fiscal '27. Guidance does imply a bit of a step down in free cash flow, about 13% reduction year-over-year despite the 10% increase in AOP.

So I was just curious what's driving that reduction in conversion in fiscal '27. Obviously, fiscal '26 was fairly strong. And as we think about capital deployment priorities, doesn't seem like you're taking your foot off the pedal on investing in the business, shareholder -- share repurchases are strong. So I'm curious how you're thinking about M&A in fiscal '27 and if there's any shift in your M&A priorities or just the available targets?

Britt J. Vitalone
Executive VP & CFO

Yes. Thanks for both of those questions. Let me start with the first one. I think when we look at our '27 guide for cash flow, we feel really good about that. If you look over the last several years, the guide that we give today is still a very strong guide. It's a lot of free cash flow that's being generated. And we're investing -- as you mentioned, we're still investing in the business in a very accelerated way to drive operating efficiency for future growth. I mentioned in my remarks for '26 that part of our cash flow generation in the fourth quarter was driven by timing.

And we've always talked about timing, whether it's the day of the week that the quarter ends on or the day of the week that we either have a large payment to a manufacturer. It could be a Tuesday, Wednesday thing at the end of the quarter. Working capital timing does impact quarter-to-quarter. But if you look over a long period of time, the moving average on cash flow is up, and it's in line with really the performance that we've had on an operational basis.

As we think about our capital deployment strategy, it has not changed. Brian and I have always talked about there's really three pillars to that, and it really starts with growth. Our priority is to continue to grow the business and grow the business on strategy. We're able to find opportunities to advance our growth pillars with good financial returns. That would be the priority for us to do that.

Secondly, we're always going to be returning capital to our shareholders. We've got a growing dividend that is growing in relation to earnings growth. And of course, we want to continue to return capital to our shareholders through share repurchases. We think that, that's been very value-creative over the last several years. And then finally, underpinning all of that is the maintenance of our very strong investment-grade credit rating, which we've -- I think we've done a really nice job given the strength of our balance sheet.

And so that's always a priority for us. So again, I think if we step back and think about it, we want to not only grow the business, both organically and inorganically, but at the same time, continue to return capital to our shareholders. And obviously, we have a unique situation here as we separate the medical business. We've got some funds that we're raising, which we can utilize in a value-creating way for modeling purposes for our outlook, we've put that into share repurchases.

But as we've always talked about, if there's opportunities for growth that are on strategy with good financial returns, we have the opportunity to move capital from the repurchase side over to the growth side or vice versa. We always try to be very efficient with our balance sheet.

And I think if you look at the percentage of our cash flow that we've deployed back either through M&A or to our shareholders, it's quite high. So we do have a very efficient balance sheet. So our strategies are strong. They've delivered a lot of value and really nothing has changed as we think about '27.

Operator

And next will be Charles Rhyee with TD Cowen.

Charles Rhyee
TD Cowen, Research Division

Congrats Britt. Good luck to you to the future here. If I can go back basically to the North America Pharma guide. Obviously, you kind of touched on the rev guide here, and I would understand that's probably sort of the continued impact of price changes in the market.

First, is that the right way to think about it? But the second part is, when you look at the AOI growth here, it's actually a little bit above the LRP targets of 5% to 8%. Maybe you could help us a little understand what's maybe driving the better-than-expected performance there? And similar to biosimilars, but there's a lot of small molecule generics coming, maybe characterize how that might be a benefit either this fiscal year or in coming fiscal years.

Britt J. Vitalone
Executive VP & CFO

Yes. Thanks for the questions. Let me start with the North American revenue. As we think about going from '26 to '27, there's a couple of things that we're lapping here. First of all, we had 1 quarter of revenue related to a large customer that we onboarded in the previous year. So we're lapping that. We also had 3 quarters of revenue related to Rite Aid.

It's not an income impact or was a very minor income impact. But from a revenue perspective, we do have 3 quarters of that Rite Aid revenue that we're lapping. And as we mentioned in my remarks, at least in the fourth quarter, we saw some impact from branded pricing manufacturer declines in those prices that we'll have those for a full year now.

And so when you look at those factors and you look at the underlying organic growth -- revenue growth of the business, it's actually quite strong when you look at it historically. In terms of the adjusted operating profit growth, we feel really well positioned. As I mentioned, specialty pharmaceuticals continue to grow very well.

We're very well positioned and have a scaled position in that marketplace. We're getting great operating efficiency. I talked about the consolidated operating efficiency in terms of operating expenses as a percentage of gross profit was down 293 basis points in FY '26. A lot of that efficiency is coming from the investments that we've made across our network, investments that we made in infrastructure.

And certainly, a lot of that is having a positive impact on the North American segment. So again, I think the segment remains strong. There's good momentum in that segment, and we feel good about our '27 guide.

Brian S. Tyler
CEO & Director

Okay. Well, thank you, everyone. I appreciate everyone joining us today for our call and as always, taking your thoughtful questions. I appreciate our operator facilitating this. As we close out a really great fiscal '26, I want to thank the 43,000 McKesson employees for their commitment to the work they do every day to advance our mission.

We're pleased with the momentum across the enterprise. Leveraging our differentiated portfolio of health care service solutions, we're excited to continue execution on our strategy and value creation for our shareholders, our customers and their patients. And just a final note of thanks, Britt, to you for your dedication and your friendship. It's been a tremendous pleasure the last 20 years.

Britt J. Vitalone
Executive VP & CFO

Thank you.

Brian S. Tyler
CEO & Director

Thanks, everybody. Have a great evening.

Operator

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

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