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McKesson Corp. (MCK)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to McKesson's First Quarter Fiscal 2024 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 Rachel Rodriguez, VP of Investor Relations. Please go ahead.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

Thank you, operator. Good afternoon and welcome, everyone, to McKesson's first quarter fiscal 2024 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 to the Risk Factors section of our most current 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 updated guidance.

With that, let me turn it over to Brian.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Thank you, Rachel, and good afternoon, everybody. We appreciate you joining us on our call today. McKesson reported a strong fiscal first quarter driven by really broad-based momentum across the businesses. We delivered $74.5 billion in total revenues and $7.27 in adjusted earnings per diluted share, both exceeding our expectations.

The performance in the quarter included a favorable timing impact from a discrete tax item but the thing we're most importantly focused on and pleased with is the strong operational performance of the underlying business, which gives us the confidence to raise our guidance range for fiscal 2024 adjusted earnings per diluted share from $26.10 to $26.90 to an updated range of $26.55 to $27.35.

Before I review our business performance in the quarter, I want to provide an update on the utilization trends that we've been observing. In the first quarter, we saw solid growth in prescription volumes and patient visits. In US oncology, same-store patient visits grew at a good pace while we continued to expand the reach of the network. The solid growth in prescription volume trends, particularly in weight loss or GLP-1 drugs contributed to the strong revenue growth in the first quarter. As we closely monitor the trends going forward, we're well positioned to deliver products and services to support the evolving needs of our customers and patients.

Now, let me move on to our business review and I want to focus my remarks today on the progress we've made in executing on our company priorities and our differentiated market positions in the key growth areas of oncology and biopharma services. I'll also discuss some of the key growth drivers for the quarter and as always, Britt will provide additional details about our financial results.

So, let's start with our priority of driving sustainable core growth. In the first quarter, we saw strong performance in the pharmaceutical distribution business as reflected in the growth of the U.S. Pharmaceutical segment where revenue increased 18% and adjusted operating profit grew 14% when excluding the contribution from COVID-19-related items in the prior year. We're pleased with the broad-based momentum across all customer channels really, including higher volumes from retail national accounts and good growth in our Health Systems segment.

We also have a long history of supporting and investing in the growth of community pharmacies. In May, we launched Pinpoint Community Solutions, a new inventory management system powered by our proprietary Supplylogix software that's designed to help independent pharmacies improve cash flow, increase inventory efficiency and to maximize their operational performance.

In June, we were proud to host the annual ideaShare conference, a nationwide community pharmacy event that brought together more than 2,800 attendees. Through this forum of discussion and education, we help pharmacists foster deeper community connections, strengthen their collective voice, and discover ways to innovate and thrive using McKesson products and services.

To support the sustainable growth of the core distribution businesses within U.S. Pharmaceutical, we're also investing in our infrastructure to enhance automation and improve efficiency. In the past quarter, we opened a new distribution center dedicated to specialty pharmaceuticals. This new facility incorporates the latest innovations in supply chain automation and technology and will allow us to better serve our customers with increased productivity.

In the Medical-Surgical segment we're dedicated to serving customers across alternate sites of care and we continue to look for opportunities for new partnerships. In the past two years we've partnered closely with the US government on important public health initiatives, and we're really quite proud of the relationships we've built at both the state and the federal level through these close collaborations.

Since then, we've grown our state government business through participation in cooperative purchasing programs. We've also built a dedicated government solutions team stacked with experienced sales, customer service, sales administration and legal teams, with a shared goal of supporting successful government procurement and providing best-in-class fulfillment and service at every level of the government.

As we expand our customer relationships, we're also strategically managing relationships with manufacturers to ensure supply chain diversity. We serve a broad portfolio of national brand and private-label Medical-Surgical products and we're enhancing our procurement tools and processes to better track domestic and international sourcing. Last year, our sourcing team traveled to more than 10 countries representing our continued effort to expand our manufacturing relationships and diversify our geographic presence.

Let me move on to the next company priority and that is expanding our oncology and biopharma platforms. In July, we were excited to welcome the Cancer Center of Kansas to the US Oncology Network, growing the total number of providers in the network to over 2,400. The continued growth is a strong testament to the value proposition of the network and an example of how we continue to evolve and grow our portfolio of differentiated assets.

With over 20 years of oncology practice management experience, the network brings significant value beyond just drug purchase savings. The practices in the network have access to substantial expertise and ample resources including clinical and business services, innovative technologies that support high-quality patient care, efficient drug management and revenue cycle optimization.

As one of the largest organizations of its kind, the US Oncology Network is dedicated to advancing cancer care and enabling better patient outcomes. Since its initial participation in the oncology care model, more than 120,000 patients have been enrolled in the program across the network, participating practices delivered high-quality care to patients while generating significant savings for Medicare.

Recently, we announced the network's participation in the enhancing oncology model, which includes representation from over 70% of the physicians in the network. The US Oncology Network continues to lead at the forefront of value-based care.

In biopharma services, the success of our innovative products and solutions is reflected in the growth we delivered in the first quarter. Prescription Technology Solutions segment saw a 17% revenue increase and 35% increase in adjusted operating profit. We continue to receive positive feedback on our products enabling us to further penetrate the market and expand our channel reach.

The solid prescription trends particularly the commercial success of the weight loss GLP-1 drug as I mentioned earlier also led to higher demand for our prior authorization solutions and contributed to the strong performance in the quarter. We remain committed and focused on expanding the biopharma services platform as one of our strategic growth pillars. We continue to strengthen the relationships with biopharma companies who are the primary sponsor of this business. We're also creating comprehensive value propositions for each of the stakeholders in the continuum of care.

For providers our industry-leading technology platforms helped them understand the patient's progression along their treatment journey and helped the patients access their therapies faster. Through our electronic payer connections, we support payers who represent 94% of prescription volumes in the US and offer real-time decisions and simplified support between providers and health plans.

We're also connected to more than 50,000 pharmacies and we offer solutions like automatic coupon programs and central fill distribution helping them improve operational efficiency and ultimately, helping their patients lead healthier lives.

Recently, we were honored to receive the 2023 Retail Excellence Awards from Drug Store News, recognizing the value of our retail solutions and what they bring to pharmacies. As we continue to make significant progress in our company's priorities, I want to highlight our unwavering focus on our people and culture. We at McKesson believe that having the best talent is essential and it's foundational to our culture and strategies.

As a company, we further defined our employee value proposition, we call it The Future of Health Starts with You to demonstrate our commitment to our employees and what makes McKesson a top employer. Focusing on care, meaning and belonging, we strive to build a culture that supports the well-being and growth of each individual who works at McKesson. We also offer employees the opportunity to form authentic connections and advocate for advancing the company's culture through employee resource groups. We're pleased to see the ERG membership grew by more than 70% in the past two-years, supported by increased employee participation, these resource groups are becoming an important channel to promote and strengthen our culture of inclusion, belonging and collaboration.

Our focus on people and culture is an important pillar of our company's priorities and it's also part of our broader initiatives focused on enacting positive and lasting impact. We strive to deliver value to our customers and our communities not only as a diversified health care services company but also as an impact-driven organization. In June, we published our FY 2022 and FY 2023 Impact Report that detailed our progress in advancing our strategy in driving meaningful outcomes to build a healthier tomorrow for all future generations. We shared many great initiatives focused on making an impact through our four impact pillars, our people, our partners, our community and our planet.

I'm very, very proud of what the team has achieved and will continue to track, measure and communicate our progress around these impact pillars. Now, before I hand it over to Britt, let me pull everything together.

McKesson delivered a strong first quarter and we're making consistent and meaningful progress with our company priorities. We're pleased with the growth and momentum across the business segments and the market fundamentals remain solid and support of the positive outlook we've outlined for fiscal 2024. I want to sincerely thank all of the McKesson employees. We refer to them as Team McKesson. What we have achieved would not be possible without their dedication and the commitment of each and every one of them. I'm tremendously proud to be your leader and grateful for your contributions to advancing our vision.

With that, Britt, I'll hand it over to you for additional insights.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Thank you, Brian, and I'm pleased to be here this afternoon to discuss our fiscal first quarter results, which as you mentioned are tracking above the full year guidance that we provided in May, and it reflects solid progress against our long-term growth targets.

Given the strong start to the year, and momentum across the business, we're raising both our top and bottom line guidance today. I'll first start with a review of our first quarter results and provide an overview of our fiscal 2024 outlook including our updated adjusted earnings per diluted share range. My comments today will refer to our fiscal 2024 adjusted results unless I state otherwise.

Let me start with a review of our consolidated results. Consolidated revenues increased 11% to $74.5 billion which was led by growth in the U.S. Pharmaceutical segment, resulting from increased prescription volumes including higher volumes from retail national account customers, specialty products and weight loss or GLP-1 drugs and they are partially offset by lower revenues in the International segment, resulting from completed divestitures within our European business during fiscal 2023.

When excluding the impact of our European Business Operations, including completed divestitures, revenues increased 16%. Gross profit was $2.9 billion for the quarter a decrease of 2% and when excluding the impact of our European business operations and completed divestitures, gross profit increased 7% in the first quarter, primarily a result of growth in the U.S. Pharmaceutical and Prescription Technology Solutions segments.

Operating expenses decreased 4% in the quarter. When excluding the impact of our European Business Operations including completed divestitures, operating expenses increased 8% year-over-year. Operating expenses during the quarter included integration costs related to our acquisition of Rx Savings Solutions, and a joint venture with Sarah Cannon Research Institute, both of which were completed in the second half of fiscal 2023.

First quarter operating profit increased 3% to $1.2 billion, primarily driven by growth in our North American businesses, partially offset by the completed divestitures of our European Business Operations, which are within our International segment. When excluding the impact of COVID-19-related items in fiscal 2023, and losses associated with McKesson Ventures equity investments, in fiscal 2023 and 2024, operating profit increased 9% in the quarter.

We're pleased with these strong operating results, which are above the long-range growth targets. We're delivering durable operating performance and sustained momentum and we're executing against our strategies.

Moving below the line, interest expense was $42 million a year-over-year decrease driven by transactions within our long-term debt portfolio, which I'll discuss later in my remarks. The effective tax rate was 8.4% driven by the recognition of a net discrete tax benefit of $147 million in the first quarter of fiscal 2024 related to the repatriation of certain intellectual property between wholly-owned legal entities that were based in different tax jurisdictions.

As a reminder, the timing of discrete tax items is difficult to predict and therefore, we do not provide quarterly effective tax rate guidance. Our effective tax rate guidance for the full year remains unchanged.

First quarter diluted weighted-average shares outstanding was $136.6 million – 136.6 million, a decrease of 6% year-over-year. Adding it all up, first quarter earnings per diluted share of $7.27 represents an increase of 25% over the prior year. When excluding COVID-19-related items in the first quarter of fiscal 2023, and losses within our McKesson Ventures portfolio in fiscal 2023 and 2024, first quarter earnings per diluted share was up 33% over the prior-year.

Turning to our first quarter segment results, which could be found on slides 7 through 11 and I'll start with U.S. Pharmaceutical. Revenue and operating profit results in the quarter exceeded our expectations. First quarter revenues were $67.2 billion, an increase of 18% year-over-year. Revenue growth reflected increased prescription transaction volumes including higher volumes from retail national account customers, specialty products and GLP-1 drugs. These increases were partially offset by branded to generic conversions.

The growth of the weight loss or the GLP-1 drug category provided a revenue tailwind in the quarter. We generally recognized lower-margin rates for the distribution of GLP-1 drugs. The growth of these products, similar to other new brand launches, led to increased demand for our access and affordability support programs such as our prior authorization services, which are offered within our RxTS segment.

The first quarter also marked further progress against our oncology growth strategy. We're pleased with the growth across all of our oncology assets. We saw growth in the US Oncology Network, supported by the strength of our GPL capabilities, and as Brian mentioned, recently we added Cancer Center of Kansas to the US Oncology Network expanding the total number of providers in our network to over 2,400.

During the quarter, we delivered solid performance and contribution from the US Oncology Network. First quarter fiscal 2024 total patient visits were 19% above the prior-year and on the same practice basis, US oncology patient visits grew approximately 7% above the prior year. The joint venture with Sarah Cannon Research Institute is progressing well, as we support the expansion and the advancement of clinical trials, and clinical trial research and we continued to invest in and progress our data and insights business Ontada.

These oncology assets and capabilities are important pieces to the long-term development of this segment, and we're excited about the growth and the continued progress that we're seeing.

First quarter U.S. Pharmaceutical operating profit increased 8% to $771 million driven by growth in the distribution of specialty products to providers in Health Systems and increased contributions from our generics programs, which included new product launches within the quarter. When excluding the impact of COVID-19 vaccine distribution in the first quarter of fiscal 2023, the U.S. Pharmaceutical segment delivered operating profit growth of 14% year-over-year ahead of the segment's long-term growth target.

U.S. Pharmaceutical operating profit growth reflects increased prescription volumes and the breadth of capabilities that we provide, including solid generic volumes and sourcing contributions, operating discipline and the continued momentum from our oncology platform.

Let me move now to Prescription Technology Solutions. First quarter revenues were $1.2 billion, an increase of 17% year-over-year driven by growth in our third-party logistics and technology services businesses due to increased prescription volumes. Operating profit increased 35% to $223 million driven by increasing demand for our access, adherence and affordability solutions. As I mentioned earlier in my remarks, prescription transaction volumes showed solid improvement in the quarter. The increased transaction volume drove higher demand for our access programs including our prior authorization products.

During the quarter, we noted strong new brand prescription volumes, which included the GLP-1 drug category. The strength of our program supporting access and affordability solutions positions us to capture the demand driven by the strong prescription utilization trends. Our products continue to receive positive feedback and recognition for the value that they delivered to our partners.

One example of this is CoverMyMeds electronic prior authorization solutions. Historically, the prior authorization process was a tedious and time-consuming task for providers. Through the Technology Solutions that McKesson has we automate this process providing a faster and easier way to review, complete and track prior authorization requests.

CoverMyMeds is delivering value and returns for our partners, by increasing connectivity between pharmacies, providers, payers and biopharma manufactures through next generation access, affordability and adherence solutions that are automated and integrated into provider workflows. First quarter results exemplified the success of our broad range of technology programs and support services.

In Medical-Surgical Solutions, our first quarter performance was in-line with our expectations. Our core business demonstrated revenue and operating profit growth. Revenues were $2.6 billion in the quarter, an increase of 1% year-over-year and operating profit was $235 million, a decrease of 12%. First quarter results were impacted by anticipated lower contributions in the kitting, storage and distribution of ancillary supplies for the US Government's COVID-19 vaccine program and lower illness season testing, including flu and COVID-19 tests, when compared to the prior-year.

As a reminder, the first quarter of fiscal 2023 saw an extension of the 2022 illness season driving higher-levels of illness testing and related products. When excluding the impact of COVID-19-related items from the first quarter of fiscal 2023, the segment delivered operating profit growth of 7% driven by growth in the extended and primary care businesses, partially offset by a nonrecurring expense of $12 million.

Within the primary care market, we saw growth in lab solutions, equipment and specialty pharmaceuticals. In the extended care market, growth was led by sales to new customers, which included increased volumes of nutritional supplements. We are pleased with the continued solid results, which are in line with our expectations, our leadership position combined with operating execution positions us for continued growth across the ultimate sites of care.

Next, let me address our international results. Revenues in the first quarter were $3.5 billion, a decrease of 47% year-over-year and operating profit was $90 million, a decrease of 35%. On an FX-adjusted basis, first quarter revenues were $3.7 billion, a decrease of 44%, and operating profit was $95 million, a decrease of 31%. First quarter results reflect the year-over-year effects from the combined divestitures within our European businesses.

And let me wrap-up our segment review. Corporate expenses were $149 million in the quarter, an increase of 3% year-over-year. As a reminder, in the first quarter of fiscal 2023, corporate expenses included the receipt of a payment relating to a prior tax receivable agreement and our previous joint venture with change health care. During the quarter, we had losses of $7 million or $0.04 per share related to equity investments within the McKesson Ventures portfolio, compared to losses of approximately $22 million or $0.11 per share in the first quarter of fiscal 2023.

As a reminder the McKesson Ventures portfolio holds equity investments in several growth stage digital health and services companies. We're pleased with the insights and the results that we've obtained through this portfolio.

The impacts on our consolidated financials can be influenced by the performance of each individual investment quarter-to-quarter and as a result, McKesson's investments may result in gains or losses, the timing and magnitude of which can vary for each investment.

Turning now to our cash position, balance sheet and capital deployment on slide 12. We ended the quarter with $2.6 billion in cash and cash equivalents. We made $124 million of capital expenditures, which includes investments in new and existing distribution centers, as well as investments in technology, data and analytics, to support our growth priorities.

For the first quarter, we had negative free cash flow of $1.2 billion and as a reminder, our cash position, our working capital metrics and the resulting cash flows can each be impacted by timing, which includes the day of the week that a quarter-ends on and therefore, can vary from quarter-to-quarter.

We returned $770 million of cash to shareholders, which included $696 million of share repurchases, and $74 million in dividend payments. During the quarter, we successfully completed a public offering for $1 billion of notes with 5- and 10-year tenors. Concurrently, we retired approximately $900 million of notes that were due March of 2024. These transactions reduced our interest expense and they further supported our strong credit profile as evidenced by our recent credit rating upgrades.

Our board of directors approved two actions in July. First, a 15% increase to our quarterly dividend to $0.62 per share and second, the board approved an additional $6 billion of share repurchase authorization bringing the total remaining share repurchase authorization to approximately $9 billion. These actions demonstrate the confidence that the board of directors and management have in the execution of our strategic priorities.

Now, let me discuss our updated outlook. The guidance I'm providing today relates to fiscal 2024. As a reminder, we do not provide forward-looking guidance on a GAAP basis. The following metrics are provided on an adjusted non-GAAP basis.

I'll discuss the key items, beginning with additional details of our consolidated guidance and a full list of our assumptions can be found on slides 13 through 17 in our supplemental slide presentation. As we've talked about already today, we are encouraged by the strong performance in the first quarter of fiscal 2024 and as a result, we're increasing our earnings per diluted share outlook to a new range of $26.55 to $27.35. As a result of this, we now anticipate earnings per diluted share to increase 13% to 16% when excluding certain items.

As a reminder, what the certain items include, net gains and losses associated with McKesson Ventures equity investments in fiscal 2023 and 2024, a $0.65 benefit related to the early termination of a tax receivable agreement with Change Healthcare in fiscal 2023, and $1.90 related to COVID-19-related items in our U.S. Pharmaceutical and Medical-Surgical segments in fiscal 2023, and we anticipate the impact of COVID-19-related items to be immaterial to fiscal 2024.

We anticipate operating profit will be flat to 4% decline compared to the prior year. When excluding certain items, we anticipate operating profit to increase by 6% to 10% year-over-year. Let me discuss the outlook for our segments.

Our core distribution business within the U.S. Pharmaceutical segment continues to demonstrate its strong value proposition to our customers. We anticipate further growth in specialty distribution including our differentiated plasma and biologics business where our customers can access an expansive portfolio of plasma-derived products, biologics, oncology treatments and other specialty drugs, at competitive prices from a single source.

During the first quarter, we experienced revenue tailwind from higher volumes related to weight loss or GLP-1 drugs. Our full year outlook assumes that volumes related to GLP-1 drugs will remain elevated compared to the prior year and may vary quarter-to-quarter.

We anticipate this class of drugs will continue to be a revenue tailwind for U.S. Pharmaceutical as we support our customers through our distribution services. As I discussed earlier, these drugs have a lower distribution margin rate profile. For the full year, we now anticipate U.S. Pharmaceutical revenues to increase 13% to 15% and operating profit to increase 3% to 5% year-over-year.

Excluding the impact of COVID-19 vaccine distribution in fiscal 2023, we anticipate operating profit to increase 8% to 11%. The full year performance includes continued investment in our oncology platform and increased technology spend to support the growth of the segment.

In the Prescription Technology Solutions segment, we anticipate revenue growth of 7% to 13% and operating profit growth of 15% to 19% which reflects increased utilization and new brand prescription transaction volumes, including the GLP-1 drugs, and strong demand for the access, adherence, and affordability products and programs that we offer. We anticipate that we may continue to see quarter-to-quarter variability in this segment driven by transaction volumes, the pace and trajectory of new product drug launches and the annual verification programs that we provide for our customers that occur in our fiscal fourth quarter.

In Medical-Surgical Solutions segment, we anticipate revenues to be approximately a 1% decline to 3% growth and operating profit to decrease 5% to 11%. For the full year, we anticipate volumes of COVID-19 tests to continue to decline compared to fiscal 2023 and the impact from the COVID-19-related items will remain immaterial to fiscal 2024 results. Excluding the impact of COVID-19-related items from fiscal 2023 results, we anticipate operating profit to increase 11% to 15% year-over-year.

And finally in the International segment, we anticipate revenues to decline by 30% to 34% and operating profit to decline by 23% to 29%. This year-over-year decrease includes a loss of operating profit contribution from European businesses and transactions that we closed during fiscal 2023.

As I've previously discussed, we intend to deploy capital through share repurchases to offset the dilution resulting from the European divestitures. In the Corporate segment, we anticipate expenses to be in the range of $580 million to $640 million which includes losses associated with McKesson Ventures equity investments recorded in the first quarter as well as elevated technology spend to support the growth of our businesses.

Now, moving below the line. As a result of the debt transactions that I discussed earlier in my remarks, we anticipate lower interest expense in the range of $205 million to $225 million.

Let me now turn to cash flow and capital deployment. We anticipate free cash flow of approximately $3.7 billion to $4.1 billion net of property, acquisitions, and capitalized software expense. Our outlook incorporates plans to repurchase approximately $3.5 billion of shares. As a result of the share repurchase activity, we estimate weighted-average diluted shares outstanding to be in the range of approximately 133 million to 134 million.

Our portfolio continues to generate strong free cash flow. We remain committed to operating profit growth and efficient capital deployment, and our 24% return-on-invested capital illustrates our focus on shareholder value creation.

In summary, our strong start to fiscal 2024 and our outlook for the remainder of the year results in an increase to adjusted earnings per diluted share to a new range of $26.55 to $27.35. Excluding the impact of certain items and the contribution from our European operations, we anticipate earnings per diluted share growth of 16% to 20% in fiscal 2024.

Our outlook further demonstrates the shareholder value creation framework that we've discussed previously. We continue to be focused on sustainable growth and efficient deployment of capital. We're pleased with the strong start to the fiscal year. Our 50,000 Team McKesson associates continued to deliver exceptional performance. Our first quarter financial performance reflects their dedication, as well as the strength of our portfolio.

Through our expansive oncology and biopharma platforms, we're supporting customers and patients by advancing health outcomes for all, we're delivering faster time to therapy for patients, and we're accelerating the discovery, development and manufacturing of new therapies. Our services and solutions are at the forefront of improving patient outcomes, and ensuring more patients have access to quality care. With our strong underlying momentum from the first quarter of fiscal 2024, and our aligned focus on our growth strategies, we remain confident that we'll continue to deliver long-term sustainable growth and value creation for our shareholders.

With that, let me turn it back over to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question will come from Lisa Gill with JPMorgan. Please go ahead.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Thanks very much and good afternoon. Thank you for all the details. I just want to go back and just better understand a few things around GLP-1. So Britt, you gave us a lot of data but when I think about the increase in the revenue from 9% to 11% to 13% to 15%, can you talk about specifically how much is coming from GLP-1? And then I understand that between cold chain and some other things that the gross profit is less on GLP-1, but how do I think about some of the other areas that potentially can offset this?

We're hearing stabilization and generic pricing right now. You talked about growth in specialty, which I also think is generally lower margin, but some of the other areas, you've talked about procurement opportunities so I just wanted to understand two things.

One, when we think about GLP-1s and think about the contribution to the revenue side, and then secondly, how do we try to bifurcate some of these things on the margin side so we can have an idea of how to think about really modeling the margin going forward.

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Well, thanks, Lisa, for the questions. There's a lot to unpack there. Let me see if I can try to answer some of those questions for you. As we talked about, the revenue growth was very broad-based across the company but in particular, within U.S. Pharma. Certainly, we're benefiting from stronger utilization trends overall and that does include GLP-1s and as I mentioned, they do provide a tailwind. Just generally speaking, though, utilization trends continue to be solid growth and improvement.

We're certainly as I mentioned from a margin rate profile, GLP-1 have a lower distribution margin rate profile but also, as I mentioned, the breadth of the portfolio that we have, we also offer affordability and access solutions within our technology segment and those programs like prior authorization have been very well-received. They're providing a lot of value to our customers. And so there's a secondary component to the services that we provide on behalf of those drugs.

So just generally speaking I think that the utilization environment has been continued to be solid. The pricing environment continues to be competitive but stable. Our generic programs continue to perform quite well, particularly our sourcing programs, and we're benefiting from just broad-based performance across all of the channels that we provide services to.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

Next question, please?

Operator: We will take our next question from Michael Cherny with Bank of America. Please go ahead.

Michael Cherny
Analyst, BofA Securities, Inc.

Q

Good afternoon, and thanks so much for taking the question. Maybe if I can spend a little time on RxTS, last year is almost like a discovery year in terms of the moving pieces that we saw over the course of the year. This year really coming out of the gate strong in terms of profit growth and I know you mentioned some of the prior authorizations. Given the noise and moving pieces we had in prior authorizations broadly, against the backdrop of GLP-1s and other areas, is that the biggest driver of growth that you see in the RxTS business? And how should we think about the lumpiness or lack thereof that we could see over the course of this year relative to the fact that last year was a little bit more volatile than I think we would have all expected?

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.

A

Thanks, Michael. I'll start and talk about the RxTS business a little bit. We've talked in the past about the importance of mix in this business that the different financial profiles of the 3PL business, which had good growth in the quarter versus the more technologically-oriented solutions that we have. And so that mix will always be important and did introduce some fluctuations quarter-to-quarter over our prior fiscal year.

I would say in general though, this business is going to benefit from the utilization trends that Britt talked about. And specifically, as prescription volumes go up, as the need for prior authorization services go up, that's help for our business. We're going to win by winning more of these manufacturer relationships, extending our relationships in the places where we have them today, [indiscernible] (00:39:17) more penetration if you will. We're going to benefit from those kinds of volume-related things over time.

Now, as new drugs launch, as they go through their lifecycles, there can be some variation into the demands and needs of the services we offer and that's just a natural part of the business.

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Mike, maybe just one other thing that I would add as we've continued to develop this segment. One of the things that we're doing is continuing to add capabilities and programs within it, so as time goes on we're offering more services, which is certainly taking advantage of the utilization trends. We added Rx Savings Solutions last year, so another capability with a whole another set of economics available to us, and our customers, so I think what you're seeing is the investments that we're making within this segment and the additional programs and capabilities that we're adding and certainly, the acquisition of Rx Savings Solutions is just adding to the growth that we're seeing on a year-over-year basis.

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.
A

We also continue to make investments into this segment, and the timing of those investments isn't always linear.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.
A

Next question, please?

Operator: The next will be Eric Coldwell with Baird. Please go ahead.

Eric White Coldwell
Analyst, Robert W. Baird & Co., Inc.
Q

Hey. Thanks very much. Congrats on a nice report. So during the quarter, the health of one of your known customers, I'll leave the name out, was very much in debate, and I'm just larger bigger picture here, curious if you could talk about in general, when you see possible challenges at an account, what kind of protections do you put in place whether it be just-in-time inventories, collection practices, things of that sort? And also, if a formal restructuring were to occur, such as a Chapter 11, what protections do you have then in terms of things like critical vendor status or other items? Just a lot of debate from the investor base in terms of what actually happens if a larger account has more pronounced challenges? Thank you very much.

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.
A

Hey, Eric. Thanks for the question and I appreciate where you're coming from on this, for probably obvious reasons we don't get into the health or the economics or the situation of our customers. We do stay very close to our customers. We're always trying to find ways to help them to grow and find additional services and capabilities for them, so I feel good about the customer contacts that we have and our ability to understand their strategies and what they're trying to do from a growth perspective. And I think the broad base set of customers that we have across each of our segments, I feel comfortable with how we manage our relationships.

Beyond that, I really can't get into the specifics of our contracts that we have with each customer. Hopefully, you can understand that.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.
A

Next question, please?

Operator: And next will be Kevin Caliendo with UBS. Please go ahead.

Kevin Caliendo
Analyst, UBS Securities LLC
Q

Hi. Thanks for taking my question. I guess on the GLP-1s, I have to ask just because it's obviously such a big driver, but do you think that your share of the market corresponds to your typical share within a category or a drug? Meaning have you been able to secure more supply or do you have any means? Is your distribution channel such that you have a greater percent share of that market than you might normally, for whatever reason whether it's contractually or just the way your mix is set up?

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.

A

I would think that our mix would be fairly representative of our business mix overall. They probably have our appropriate share in Health Systems, our appropriate share in independence, our appropriate share in large retail national accounts. There have been points in time where supply has been less than demand. We work closely with all of our vendors to make sure we get our representative in fair share and that we can coordinate with them and communicate effectively with our customers, but overall, I'd say we would have the mix you would expect.

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.

A

And I would say that it's a fair question, and as we talked about GLP-1s did provide revenue tailwind for our distribution business, but I would just remind you that the growth in the segment was very broad-based. It was across specialty products, it was across our generics business, it was really across each of the segments outside of GLP-1s and that reflects the utilization trends. It also reflects the services and capabilities that we have that we provide to our broad customer base, so certainly GLP-1s are topical and have provided a tailwind but the business is performing quite well across really all categories and our customer base.

Kevin Caliendo
Analyst, UBS Securities LLC

Q

Thank you.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

Next question, please?

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

Eric Percher
Analyst, Nephron Research LLC

Q

Thank you. I want to ask a RxTS question that is somewhat GLP-1-related, which is as you see products go from tightly managed to more open access, how does RxTS's offering change and have you seen success moving from early restricted access assistance to adherence or other offerings?

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.

A

Well, I mean, the nature of what we offer to support a drug is often different at different points in its lifecycle. What you might want at launch will be a lot different than what you are at maturity and can depend on how other competitors come into the class. We like to try to think about supporting the products over the course of their lifetime.

Obviously, their payer and employer decisions around how they want to treat certain classes of drugs can dictate the services that we might offer and as these drugs are relatively new to market, speaking as an employer, I can tell you employers out there are thinking about how they want to handle them. That's going to be different, but for each of the employers, but generally, it's positive momentum for the business.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

Next question, please? Operator, next question, please?

Operator: And next will be A.J. Rice with Credit Suisse. Please go ahead.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

A.J.?

Operator: Mr. Rice, are you on the line? Please check your mute button.

A.J. Rice
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, sorry. Hi, everybody. I just wanted to delve a little bit into the oncology ecosystem. I think Sarah Cannon and Ontada are still in an investment mode. Is that meaningfully different from quarter-to-quarter as you layout this year's numbers and is it meaningfully different than the investment level from last year? And obviously as you're putting this in place, you're expecting it to have a benefit on its own but I wondered if you could comment on the sort of flywheel benefit to the rest of the businesses from making this push in oncology that you expect to realize.

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Hey, A.J. Thanks for the question. Let me try to answer that for you. I'll start and Brian can add on. We have been investing principally in our Ontada business where we're developing data and insights. And I would say that on a year-to-year basis, the overall investment is probably not vary too much on a year-to-year basis. Now quarter-to-quarter that can certainly vary, but on a year-to-year basis our investment has been pretty constant. And as Sarah Cannon Research is really in the integration phase and I talked about some of the integration costs for both the Sarah Cannon and the acquisition of Rx Savings Solutions but the investment that we principally have been making to develop our Ontada business on an annual basis has been pretty constant year-over-year, quarter-to-quarter it would vary.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

Next question, please?

Operator: The next will be Daniel Grosslight with Citi. Please go ahead.

Daniel Grosslight
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking the question. Want to go back to the generics environment. You mentioned this a few times as a tailwind. If you look at third-party data, it seems to point to a much more benign generic pricing environment.

So I'm just curious what in your view is driving this better pricing environment? How are you managing potential shortages that have gotten some [ph] press (00:48:20) recently? And then for the remainder of the year, how should we think about the generics environment and that impact on your revised guidance?

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah, thanks for the question. Here is what I would say. In terms of our generics program, it is a combination of the sourcing activities that we have which really reflects the relationships that we have across hundreds of manufacturing partners, and then it reflects the discipline that we have on the sell-side, and the combination of that has led to some really good results.

Now we've also had some new brand or I should say some new generic launches and we certainly participate in those new generic launches as well and we had a few in the quarter that we benefited from. So the combination of our sourcing operations, the stability that we're seeing in a competitive marketplace has provided us the ability to create spread at the same time is providing competitive pricing for our customers with a stable supply. And you mentioned shortages, and we have seen shortages for as long as I've been with the company. From time-to-time, they will spike up like we had with some of the cold and flu products or the illness season products last year.

Generally speaking, I would think that – I would say that the – what we're seeing now from a supply perspective is more in line with what we've seen historically, every now and then you'll have a product that will be more challenged. But the broad base of partners that we have in our sourcing program allows us to manage through that quite well. And the performance that we're seeing in the first quarter which is continued momentum from last year, that's included in the guidance that we have for the full year.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

Next question, please?

Operator: The next will be George Hill with Deutsche Bank. Please go ahead.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, good morning, guys. Britt, I want to come back to oncology as well and talk about US oncology. You said visits were up 19% in total, same-store was up 7%, I'll assume drug pricing was positive. So we're talking like 20% growth in US oncology in the quarter. I guess could you give us a little bit more detail on McKesson's kind of exposure to oncology kind of like the practices versus the drugs versus the GPO? And is that type of growth profile kind of in-line with what we're seeing in all segments of McKesson's oncology exposure? Thank you.

Britt J. Vitalone
Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Hi, George. Thanks for the question. Let me be clear on what I provided. I provided some insight into patient visits metrics, and I thought that would be insightful. We had 19% increase year-over-year in total patient visits and 7% on a same practice basis. I thought that would be insightful and it also reflects some of the acquisitions that we've done, or some of the new practices that we've added over the last year. So again, the numbers that I provided you were patient visit metrics only and I didn't indicate anything else beside that. I don't know, Brian, if you want to comment on the other?

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.

A

Just on the other side I would say we have often referred to this as an ecosystem because we think about the very broad and diverse set of solutions that we offer here, and it's not just the practice management. It's the iKnowMed EMR, it's the GPO services, it's the revenue cycle management services, it's the contributions of those systems to managing the clinical practice of oncology effectively. We've complemented that in recent years with Ontada, the data analytics insight business and our joint venture with Sarah Cannon. And I think – then there's the distribution business, so I think when you put those all together that's why we call it an ecosystem because we think in many ways they self-reinforce and you've seen in the last several years pretty good growth in the network.

I think that's in part to that expansive value proposition and attractiveness we represent to these practices as a partner to help them both provide the best patient care possible and to manage their business as well as they can.

Rachel Rodriguez
Vice President of Investor Relations, McKesson Corp.

A

And we have time for one more question. So last question, please?

Operator: Certainly. That question will come from Elizabeth Anderson with Evercore ISI.

Elizabeth Anderson
Analyst, Evercore ISI

Q

Hi, guys. Thanks so much for the question. I know this doesn't impact you from a reimbursement perspective, but I was wondering if you could speak to 340B and the impact on potentially on your PTS business? Is that something that sort of helps? Does it have a volume fluctuation part in it or is it just something that as we kind of get fewer of these 340B prescriptions potentially as the market changes that could have a modest impact but is unlikely to really have a real – be a real driver there? Thank you.

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.

A

So I think you asked 340B relative to our Prescription Technology Business. And I would say, I would characterize 340B as not a particular driver of that business, just flat out. I'd say the impacts of 340B would much more be in our resident pharmaceutical distribution business and obviously, we've talked a lot over the past quarters about evolutions in 340B, whether those be regulatory or commercial actions and reactions, and our best view of all that is reflected in the guidance that Britt and I have provided this afternoon.

Brian Scott Tyler
Chief Executive Officer & Director, McKesson Corp.

Okay. Well, thank you, everybody. Thank you for joining the call. Appreciate the thoughtful questions and your interest in McKesson. Thank you, Cynthia, for facilitating the call.

I'll just wrap up by saying McKesson delivered strong first quarter results. Our financial strength is really a testament to the significant progress we've made in advancing McKesson as a diversified health care services company. We're confident in our differentiated market position and our ability to execute and continue to create long-term shareholder value.

Thanks again for joining us. I hope you all have a terrific evening.

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