

08-Dec-2021

McKesson Corp. (MCK)

Investor Day

CORPORATE PARTICIPANTS

Holly Weiss

Senior Vice President-Investor Relations & Corporate FP&A, McKesson Corp.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Kirk Kaminsky

President-U.S. Pharmaceutical and Specialty Solutions, McKesson Corp.

Susan Shiff

President-Ontada, McKesson Corp.

Nathan Mott

President-Prescription Technology Solutions, McKesson Corp.

OTHER PARTICIPANTS

Brian Tanquilut

Analyst, Jefferies LLC

Ricky R. Goldwasser

Analyst, Morgan Stanley & Co. LLC

George Hill

Analyst, Deutsche Bank Securities, Inc.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Michael Cherny

Analyst, BofA Securities, Inc.

Eric Percher

Analyst, Nephron Research LLC

Steve J. Valiquette

Analyst, Barclays Capital, Inc.

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Elizabeth Anderson

Analyst, Evercore Group LLC

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Welcome to McKesson's Investor Day. Please welcome Holly Weiss, Senior Vice President, Investor Relations and Corporate FP&A, to the stage.

Holly Weiss

Senior Vice President-Investor Relations & Corporate FP&A, McKesson Corp.

Hello and thank you for joining us. It's been 3.5 years since McKesson held its last Investor Day. And while that may not feel so long ago, the amount of change we have lived through since 2018 has simply been unimaginable. For each and every one of us, it has been a journey filled with challenges, deep reflections and moments of gratitude that we will never forget.

Having spent these past several years as a member of Team McKesson, I can personally tell you it has not always been easy. But when you are part of a 76,000 member team, all rowing the boat at the same time and in the same direction, it's a powerful and energizing feeling. That's why we, Team McKesson, are so very proud of where we are today. We know our hard work is paying off and, most importantly, making a significant difference in people's lives.

For so many reasons, being here in front of you this afternoon is incredibly meaningful, and I could not be more excited for our executive team to take you inside McKesson's journey. During McKesson's Investor Day, you will hear from members of McKesson's executive team, followed by a live question-and-answer session with our CEO, Brian Tyler; and CFO, Britt Vitalone. And whether you are joining us here in person or virtually, you will have the opportunity to participate in the Q&A session.

As always, there are a few formalities we need to cover. Before we start, I would like to remind everyone to please see our Form 10-K for a description of risk factors that may cause our actual results to differ materially from our forward-looking statements in today's presentations.

Thank you for joining us and with that, let's begin.

[Video Presentation] (00:02:08-00:03:46)

Unverified Participant

Please welcome Brian Tyler, Chief Executive Officer, to the stage.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Well, good afternoon, everybody. And, Holly, thank you for sharing those opening reflections with us. I thought that was so powerful. We're super excited to have you all with us today for McKesson's Investor Day. It's certainly

great to be with you in the New York Stock Exchange and to join others virtually. I really want to send our sincere appreciation and thanks for choosing to spend your afternoon with us today.

We began the meeting with that video – quite a powerful video called McKesson Moments. And I expect that the McKesson you saw in that video is one that's pretty familiar to most of you. We are really well-known for our distribution assets and our capabilities, and we have been privileged to leverage our experience, our teams, our supply chain scale and expertise to mobilize resources several times through our nation's history.

We're obviously humbled and honored to have had the chance to step up and play a central role in the fight against COVID-19. We collaborated with many partners, and McKesson has clearly played a leadership role in the response effort in almost half a dozen countries. Every day, while doing that special vaccine and kitting distribution, we've also continued to deliver critical medical supplies, critical pharmaceutical supplies to our frontline caregivers, to our first responders, and we've played a role in actually facilitating the vaccine in our Health Mart pharmacies and many of our other banner pharmacies in other countries. We're very proud of those efforts.

Our distribution businesses are clearly a critical part and a foundation of our long history. I think another foundational element of our long history though has always been our ability to reinvent ourselves, to evolve our businesses, to drive innovation, and to address the always changing needs of our customers, their patients and really the broader healthcare industry in general.

Over time, we have been very successful in building off our distribution successes to extend our reach, our breadth, our depth as a diverse healthcare services company. With a focus in new areas where we can do two important things: really impact patients' lives and support the profitable and healthy growth of our company.

Today, we're going to focus a little bit on this next chapter of McKesson's journey. Our trajectory for sustained, long-term growth and leveraging our differentiated assets, our innovation capabilities across oncology and biopharma services. We're going to share how we're positioned to improve patients' lives in every setting in the years ahead in support of our profitable growth. We're excited today and we're going to spend a lot of time showcasing two of our strategic priorities: oncology and biopharma services. We will also provide a financial view of the company, including long-term growth targets, and we'll of course take an opportunity to close out the session with Q&A to address the other things that may or may not be on your mind.

Now, I don't have to tell you, and certainly all of us who've lived through the past couple of years know, healthcare is very dynamic and rapidly evolving. In the midst of that change though, there is also some kind of constant ongoing challenges that our markets face, and those challenges prevent our communities sometimes from realizing the full potential of what we think are really exciting medical and pharmaceutical advancements.

If we wind the clock back a little bit in our story, you'll recall, at the beginning of our fiscal 2019, we announced a multiyear strategic initiative and that we were going to focus – the focus of that initiative was really to drive shareholder value by creating incremental profit growth. Core to this initiative was some things you would expect, cost and efficiency plans, but also in there was a commitment to invest in innovation to improve patient care, particularly where we believe we had a set of differentiated assets, a right and the ability to win.

Now you also know at that time, we were in an unusual period for us of declining financial performance. We had actually declining operating profit for a couple of years. And this was reflected in our stock price. I think we were trading about \$135 a share and we were not pleased with that. So we set out to increase efficiency, accelerate

our execution, and improve the long-term performance by strengthening our balance sheet and our capital structure.

We also had some work to do in some key areas of uncertainty in our business. For the last couple of years, we've done a lot of complicated negotiation and discussion with states attorney generals and other parties around a settlement framework, and we've made significant progress towards broad resolution of our government opioid-related claims. We believe the proposed settlement framework will allow us to do two important things: one, further focus on the strategy and the strategic priorities focused on the business, but also, it will deliver very meaningful relief to the affected communities that so badly need it.

So in addition to those costs and efficiency and eliminating some of the uncertainties, we also in parallel developed a clear enterprise strategy and that was centered around a set of four company priorities. The first, to focus on our people and our culture, to get the talent and the alignment of our teams to execute the other parts of the strategy. The second was to get sustainable growth in our core distribution businesses. The third was to streamline our portfolio. That included things like the spinoff of Change Healthcare and our announcement of our strategic intent to exit the European region. And the fourth was to invest and make a commitment in what we call our growth areas, expanding oncology and executing on biopharma services ecosystems.

I think our progress on all four of these has been outstanding, and I think our strategy is clear and it's working. Now four priorities sounds simple, but I assure you it's not easy. Creating and building and innovating is hard work, and it won't happen and it doesn't happen overnight. But you'll see today that our progress and our confidence in the future is thanks to the discipline we have and the strong execution we've brought across the enterprise.

We've been very intentional about what investments we should and what investments we should not make to deliver our long-term growth. Central to those decisions and what we would do is our commitment to our growth pillars in oncology and biopharma services. We have differentiated capabilities and we'll highlight for those for you today, and we believe those are what will enable us to win in these marketplaces and capture those opportunities. This is the next chapter on our journey as we uphold that foundation, that tradition of innovating our business in response to changing customer and patient needs. And we believe it will unlock significant shareholder value.

Now, I thought to help set the stage for the rest of today's presentations, I would go just briefly into each of these priorities a little bit more, and I want to start with our first priority, which is to focus on our people, our teams and our culture. We've built an outstanding team and everything we do starts with the talent, some of which are in this room, many of others not in this room, certainly the leadership of Team McKesson. We're a very different team today than we were just three years ago.

And as we think about building for the future, we've driven similar changes through the rest of our organization. We've built strong teams, aligned teams with capabilities not just for today, but the capabilities we think that will allow us to execute into the future. We're very focused on attracting, developing and retaining the talent that appreciates the value of innovation, of focus, of speed and has the skills to execute on the growth platforms you're going to hear about.

Now, I know most organizations undoubtedly talk about people and culture, but I think it's telling that we put it as our first priority as an organization, as a way to signal our commitment to take action. We are really intentional about becoming the best place to work in healthcare, because we believe that having the best talent is essential to delivering ongoing and continual financial performance.

As we look to the future and the investments we'll make to drive long-term growth, it's essential that we have the culture that supports that team. Our ICARE values – Integrity/Inclusion, Customer-Centeredness, Accountability, Respect, Excellence – have been with us for over 20 years. They are literally part of the DNA. They continue to stand the test of time of what we do.

Our vision statement: to improve healthcare in every setting – one product, one partner, one patient at a time. And this year, we established a new enterprise purpose statement: Advancing health outcomes for all – to help us center our day in and day out activities, to establish ourselves as a purpose-driven organization. I think these cultural elements continue to be a catalyst for positive change for McKesson. They are helping us transform into a stronger business. They're helping us move confidently with better alignment, more speed and more focus.

Now, as a company, we continue to be deeply committed to Diversity, Equity and Inclusion. Creating a more diverse and inclusive workplace, we think, makes McKesson more aware, more creative, more productive, and a stronger organization. This is one of the cornerstones of what we call our best talent strategy. I think encouraging our employees to come to work as their authentic selves, their best selves only elevates performance. In my view, it unlocks capacity and productivity that's already resident in our organization. It just allows us to be faster, more efficient and more innovative in meeting our customers' needs. There's a strong business case for this. We have great conviction in our best talent strategy.

Now, to help us track and share our progress in fiscal 2021, we launched the DE&I framework with new tools for measuring the diversity of our workforce and our partnerships and to hold ourselves accountable. We wanted to be transparent. So we've published our EEO-1 Consolidated Data on our website. Our data shows that we are making meaningful progress in diverse representation and we are super excited about this.

Our US female representation in leadership was [ph] at 8% (00:15:34) over the prior year. We had 10% gains in our US persons of color leadership representation and our board has long reflected our commitment to this. Our board, 44% of our board today is either female or persons of color. And these efforts have not gone on – they have not been failed to be recognized externally.

For the eighth year in a row, we were recognized as one of the Best Places to Work for LGBTQ Equality by the Human Rights Campaign Foundation. For the sixth year in a row, we were recognized as a Military Friendly Employer by GI Jobs. And for the sixth year in a row, Best Place to Work for Disability and Inclusion (sic) [Disability Inclusion] (00:16:16). We're very proud of these accomplishments and they're reflective of the progress we're making on our journey.

Focusing on our people and our culture also means using our unique talents and skills to be responsible global citizens. We want to advance the health of the communities where we live and we work, and we're committed to responding to the critical needs of our society and our planet. This past fiscal year, we welcomed Dr. Kelvin Baggett, he's with us here, to serve as our first Chief Impact Officer and a member of our executive operating team.

Under Kelvin's leadership, we have formalized a new global impact organization. We call it the GIO, which brings together our DE&I, our community investments, our McKesson Foundation, and our sustainable and ESG efforts to be coordinated, integrated and integrated into our overall business strategy. In fiscal 2021, the GIO began to roll this strategy out, focused in three areas: improving access to healthcare, advancing health equity, protecting our environment in service to our employees, our customers, their patients, our communities and the planet.

Guided by this strategy in fiscal 2022, we set out our first public ESG-related commitments and we made external statements to address our role in mitigating climate change across our value chain. Those efforts include setting, adopting science-based targets that will improve the energy efficiency, renewable sources of energy, engaging with various customers and suppliers upstream and downstream to reduce the total scope of our emissions.

I want to go to our next strategy, if you will, or our next priority. And that's an important one, and it's to drive sustainable growth in our core businesses. In terms of performance over the past few years, our entire organization has made great progress, deepening our core value delivery and improving our financial performance.

Our operational excellence and our ability to leverage our scale with global suppliers is one of the many reasons we continue to be the partner of choice for health systems, community providers, pharmacies of all sizes. We have strong well-positioned businesses in pharma and medical distribution. And we are particularly focused on capturing the efficiencies and optimizing margins so we can have the best-in-class supply chains, the best offerings, and also deliver the best adjusted operating profit and cash flow growth.

Now, these actions we've been taking to focus on the performance in the core also enable our investment in the future of the business. They allow us to make prudent acquisitions, they allow us to strengthen our balance sheet, they allow us to return capital to our shareholders, and they allow us to invest in growth.

In addition to fueling our investments, the scale, the reach and the connectivity that we've established in these core businesses have given us long-standing relationships and reputation and credibility with other key industry constituents, and they strongly position us to build for the future, to innovate new services and solutions that are going to provide new growth areas for us.

Our third company priority was streamlining the portfolio, and that's really in its essence about unlocking more innovation, more speed, and improving the full focus of the organization. It's about working smarter, doubling down on our areas of strength and focusing our resources and our investments on the highest growth opportunities we have. We have opportunities across our portfolio of businesses. We're concentrating where we think we have the best growth opportunities.

Over the past few years, we've made some very deliberate efforts to streamline our business internally, making sure the organization is operationally efficient, one that can deliver quickly new solutions that are directly focused on solving our customers' biggest challenges. We didn't stop there. We spent a lot of time rewiring some of the company, right? We've centralized a lot of our functional services, including areas like IT, HR and finance.

We launched our Spend Smart and Buy Smart programs, which are really company-wide efforts to generate savings by working and spending more efficiently and the combination of these actions allowed us to achieve our three-year target of \$400 million to \$500 million of gross savings by the end of our fiscal 2021. That allowed us to do two things: take some of that and reinvest into the things you're going to hear about this afternoon, but also to move some financial performance to the bottom line.

You'll also recall, to provide more transparency for you, our investors, that we established four operating segments that were aligned with the strategy we're going to talk about today. And we organized our teams and our assets and our capabilities around those segments and those strategies for speed and execution.

Now, when it gets to streamlining our portfolio externally, our actions over the last several years really reflect our commitment to make sure we're allocating capital to the areas of highest return in the company. We have talked

at many of these meetings about our ongoing process to evaluate our portfolio, to ensure alignment with our strategy and to support our focused allocation strategy. As part of this ongoing process, we sometimes identify businesses that we don't think we're the natural owner for anymore or we don't think have the future return profile that's as attractive as some others.

In cases like that, we sometimes decide to divest or exit the asset is the best move. In our fiscal 2020, we completed the split-off of Change Healthcare in a very tax-efficient way for our shareholders. We think it created a lot of value. Earlier this year, we declared our strategic intent to exit the European region. And we've begun to execute on that. We entered into an agreement to sell certain European businesses to the Phoenix Group.

Last month, we agreed to sell our retail business to a company called Aurelius. And we just announced for our joint venture in Germany that we reached an agreement to sell our stake to Walgreens Boots Alliance. So some proof points we're down the path of executing on what we said that we would execute on.

Now, I think the progress that we've made to transform our company enables us to invest and accelerate how we execute across our two strategic growth areas of oncology and biopharma services. That's going to be the main focus of today's meeting. Bringing these platforms to life is the next exciting chapter in our history of evolving to address some of the most acute needs we see in healthcare.

Think about oncology, 18 million patients are living with cancer today. And in biopharma, where the progress of clinical advancements is a really – I mean sometimes just incredible and inspiring. We know there are still challenges that are limiting access, adherence and affordability. We know more than 13 million patients, 13 million Americans skip filling their prescriptions due to financial considerations.

Our scale, reach and established operational excellence and the fundamentals of our business and our expertise as a leading distributor are just some of the reasons why we think we have a right to win in this space. You're going to hear a lot more about the assets we have that build off of that foundation and how we're differentiating ourselves and positioning us to win.

We think that our oncology and biopharma services ecosystems are going to enable us to solve long-standing, complicated problems in ways that bring more speed or impact and more efficiency to our stakeholders across these ecosystems. And importantly, at the end of all this work, it is going to impact healthcare, it's going to impact patients, it's going to improve lives.

Now I'm proud of the progress that we've made in both of these platforms, and I'm confident in our continued ability to leverage our highly differentiated capabilities and expand our footprint in both of these areas. This success, along with strong execution in our core businesses, positions McKesson well for a long-term growth.

I want to conclude my opening remarks this morning by just saying we're really excited to spend the rest of the afternoon with you talking about these growth initiatives. I hope that you will walk away at the end of the day with a few key takeaways. First, as an organization, as an enterprise at McKesson's core, we are committed to positively impacting health through innovating patient care, leveraging our diversified healthcare services, assets and companies.

We're entering a new chapter in our journey, a new chapter in our strategy to deliver sustainable profit growth and positive cash flows, and we believe it is working. We have great businesses and McKesson is well positioned to win in the growing complicated markets of oncology and biopharma services, and the composition of our assets is

what lets us compete so effectively in that complexity. We are at our core focused on shareholder value creation. And we believe that the investment thesis in McKesson is compelling.

I want to thank you all for your continued support of McKesson, whether you've been with us a long time or a short time. We appreciate the support through the many evolutions and chapters of our history. I hope when you leave today, you will share my excitement for the growth and the innovation and impact that is ahead of this organization.

And before I exit the stage, I would be very remiss if I didn't take a minute to thank our dedicated team, our frontline workers, our sales forces, our call center people, our managers, our leaders, our pharmacists, every one of the 76,000 employees in McKesson, regardless of their day-to-day responsibilities, is doing extraordinary work, and I am immensely grateful for their commitment, for their resilience to work together, to be together in service of our customers and our patients. They really make me proud to be part of this organization.

So thank you all. I look forward to a great afternoon and I'll rejoin you later in the day for the Q&A.

Unverified Participant

Please welcome Britt Vitalone, Executive Vice President and Chief Financial Officer, to the stage.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Thank you, Brian. Good afternoon. And I also want to thank you for spending part of your day with us, and I want to thank you for your support of McKesson. Before we discuss a few of the key strategic priorities of the company, I wanted to provide some context and I wanted to reset for you the fiscal guidance that we talked about this morning in our announcement. I also wanted to talk to you about our baseline for long-term targets, forecasting, and modeling.

We continue to be proud of the role that we're playing as the centralized distributor of COVID-19 vaccines and ancillary supplies supporting the US government. As a result of our updated information that we were provided by the US government, we are increasing the adjusted operating profit and adjusted earnings per share impact, which is driven by the inclusion of boosters related to our role as a centralized distributor of COVID-19 vaccines.

We're raising adjusted earnings per diluted share guidance by \$0.40 to a new full-year range of \$22.35 to \$22.95. This \$0.40 increase is attributable to COVID-19 vaccine distribution in our U.S. Pharmaceutical segment. As we previously communicated, our guidance for this program will continue to be based on the most current schedules provided by the US government. And we'll continue to update this as new information presents itself. There are no other updates to our full-year fiscal 2022 guidance today. And for your reference, we've included a list of all of our guidance assumptions in the appendix to this presentation.

We're excited to share our strategy and our growth initiatives with you today. And we're excited to provide you with our long-term growth targets, which I'll come back and walk you through later on this afternoon. But before I do that, I think it's important to level set for you the basis from which these long-term targets are derived. We refer to it here as our fiscal 2022 baseline, which serves as the starting point for our long-term growth targets. We hope that you find this informative as you update your financial models.

We're excluding the following select impacts from our fiscal 2022 adjusted EPS guidance range of \$22.35 to \$22.95. These impacts include the US government's COVID-19 vaccine and ancillary supply, distribution, and storage programs, COVID-19 tests and impairments for personal protective equipment and related products, and gains or losses associated with our McKesson Ventures' equity investments.

In setting our baseline for long-term target modeling, we are also excluding our entire European business, consistent with our communicated intent to fully exit the European market. We're making great progress against this intent with several announced transactions since July of this year. The total fiscal 2022 adjusted earnings per diluted share impact of these items is approximately \$4.39 to \$5.44, which, again, we exclude from our fiscal 2022 baseline for purposes of long-term target modeling.

Overall, we're pleased with our fiscal 2022 performance and our outlook, including the baseline from which we expect to deliver long-term growth. I look forward to sharing more with you later this afternoon.

With that, I'll turn it over to a deep dive on our strategies.

[Video Presentation] (00:32:36-00:34:55)

Unverified Participant

Please welcome Kirk Kaminsky, President, U.S. Pharmaceutical, to the stage.

Kirk Kaminsky

President-U.S. Pharmaceutical and Specialty Solutions, McKesson Corp.

Good afternoon. Thank you for the time today. Thanks for the opportunity to share a bit about our oncology ecosystem. As Brian said, we are super excited about our oncology strategy, so much so that we refer to it as one of the strategic growth pillars for the company. We're also proud of the fact that oncology is tied to our purpose of advancing healthcare for all.

So, this is my first time in front of this group. I thought I would spend just a minute introducing myself. I've been with the company now 18 years. It's been quite the journey. I spent the first eight years in a variety of different roles in U.S. Pharma operating roles and in our Corporate Strategy group. But the last 10, I have been intimately involved in our oncology and our specialty businesses. I did run our US Oncology distribution business. I was president of US Oncology for several years. Then I ran our broader Specialty businesses until two-and-a-half years ago when I stepped into this role leading our U.S. Pharma segment.

Today, all of our oncology businesses sit under our U.S. Pharma segment. So, myself and Susan Shiff, who is our President of Ontada, we're going to do three things. We're going to provide a McKesson perspective on the broader oncology market, including the needs of our stakeholders. We're going to take a deep dive into our McKesson assets and capabilities. And then we're going to illustrate how we think our assets connect to provide unique value to our stakeholders and believe give us the opportunity to continue to win both in the short and long term.

So, let's start with the macro environment. This probably won't surprise anybody in this room. The oncology market is large and growing. If you start with the market [ph] forces (00:36:56), and particularly the patient, better screening, more awareness, aging population, all of this is driving towards 1.9 million people in the US being told you have cancer. Obviously, a tough thing and a terrible thing. On the bright side, if there is a silver lining to

cancer, innovation is improving care, therapeutics are getting more effective as they get targeted, care is just getting better as we learn how to navigate patients through their home and other ways. So, net of this is better outcomes, people are living with cancer longer. In fact, there are 18 million people living with cancer in the US today.

As you think about our cancer care, therapeutics continue to be the primary treatment mechanism. So, not surprisingly, this is a super active market. In fact, over the last five years, 250 new products have come to market. And if you look at the pipeline, 40% of all drug approvals are in oncology. It's also worth noting that many of those approvals require a biomarker [ph] or otherwise (00:38:02) personalized test. All this suggests a very healthy market that we believe is going to grow at 14% over the next five years. It's also worth noting that an offshoot of this growth is going to be a lot of focus in increased investment, innovation, and rapid change, which is ultimately going to create complexity for each of our key stakeholders, our patients, our providers, biopharma, and our payers.

At McKesson this complexity is something we talk about a lot. Our strategy is really built on helping our stakeholders solve for this complexity. We always start with the patient. They're intentionally at the center of our mission. If you think about what patients are going through, they're certainly benefiting from the increase in treatment options, more [ph] step therapies (00:38:51) that talk about better care and better outcomes. However, financial toxicity, the emotional burden of cancer, the complexity of navigating your own care, these are real challenges that we're actively trying to solve.

If you think about providers, when we speak of providers in this business, this is community cancer providers that are typically independent. These are providers who have chosen not to join the hospital. They run their own small businesses. They take a lot of pride on the name on that door, Rocky Mountain Cancer Center (sic) [Centers] (00:39:27). These providers have three big challenges they're looking for us to solve. The first is enabling them to provide the highest quality care. I talked about the pipeline. I talked about all the challenges with diagnostics. This is a complex space for these providers. And ultimately, it is table stakes for them at the point of care to be able to prescribe the right regimen or, even better, have access to a leading-edge clinical trial. This is table stakes. The second thing is they need to solve for the complexity of business of cancer care. Again, they need to be able to run viable and growing cancer practices, so they're looking for help with things like strategy. How do we make sure patients are coming through our door? How do we make sure that we have good payer contracts and that we can navigate value-based care? These are real challenges. And then the last thing they're worried about is just running efficient practices. If you think about our cancer clinic, their customer is the patient. How do they make sure that they're spending as much time talking to the patient and as little time staring at their computer screen or, even worse, learning about the business of cancer care?

For biopharma, as I mentioned, this is a space that is growing, it's attractive, but it is evolving rapidly. It's really gone, over a short period of time, from a world where they were targeting big, broad indication with large addressable markets where once you got to market, you are the standard of care. The provider had no other choice, to a world now where many more customers are chasing narrow targets with smaller patient sizes. And ultimately, all of this is leading them to drive up the cost to develop. And when they get to market, it's typically a much smaller addressable market that they're going after.

All this suggests that biopharma is relying on manufacturer services to accelerate drug discovery, to get drugs to market quickly. Then once it gets to market they're looking for ways to differentiate through outcomes and comparative effectiveness studies.

Then lastly, payers. They're on the other side of this equation, right? They are focused on – they are challenged by the [ph] explosion (00:41:33) and the total cost of care. More than that, they're looking for ways to curb costs without sacrificing outcomes. They're trying to balance this cost and quality equation. How do they move towards paying for outcomes versus paying for services rendered?

Each of our stakeholders have some really unique and challenging needs that they need solved. Again, our strategy is built around solving these unmet needs. And what you'll hear from us is we believe we're uniquely positioned to do it.

So, we've been on a journey. We have been on a journey for almost 15 years in the oncology space. We've had an intentional strategy that has been built on using M&A to acquire foundational assets and then connect those assets to build unique solutions. We've actually started in 2007 and 2008. We acquired OTN and Onmark. At the time this was really a drug distribution plan what we believed would be an attractive oncology market.

In 2011, we doubled down. We were going to expand our drug distribution presence through the acquisition of US Oncology – excuse me, 2010. At the time, that was the game. We want to get bigger in drug distribution. But we got two other things that have been fundamental to where we are today. The first is deep oncology expertise. McKesson was a world that was focused on operational excellence, drug distribution. But when we acquired US Oncology we learned a whole new side of the healthcare ecosystem. We learned about clinical care and working with providers differentially. And so, that's helped us in the distribution business, but it's also helped us with our strategy in the broader business.

In addition to that acquisition, we also required two foundational assets. We acquired iKnowMed, which is the core of our technology platform. It's an EMR. And we acquired US Oncology Research, which is our trial services platform. We did a few more acquisitions along the way. And then, 12 months ago we launched Ontada. Ontada was a combination of our larger or, excuse me, combination of our provider technology business and our insights business. We brought these two businesses together, so we could invest in them and grow, because, one, their areas were very much focused on, but also, together, they form the connective tissue of our broader ecosystem. Dr. Shiff will share more about that later in the presentation.

So, if you take a step back and you look at our journey, what I would tell you is we've evolved. What started as a distribution play in oncology has turned into a multifaceted oncology business that we're extremely excited about.

One of the reasons we're so excited is because we believe this diversification has expanded our market opportunity dramatically. We are certainly proud of our number one share in a \$30 billion community oncology market. It is part of our core. However, we are extremely excited about the right to play and we believe win in a broader \$25 billion oncology services market that we believe is both higher margin and higher growth.

At the center of our focus is US Oncology. As a stand-alone, it has been a successful practice management business. We are now up to the point where we treat 15% of all new cancer patients in the US in one of our 500 sites of service. But US Oncology is also a significant enabler of our success in the trial services space and then the provider technology in real-world evidence space through US Oncology Research and through Ontada.

Our strategy here is really twofold. Our goal is to continue to strengthen the core, so continuing to win and drive value to our distribution business and our provider footprint. But longer term, we're very focused on investing and in growing and putting time, energy, and resources into this broader oncology services market, the \$25 billion higher margin market. And so, that's what you're going to hear us talk about.

At the core of our value proposition in oncology is the depth and breadth of our provider footprint. Our relationship [ph] straddles (00:45:57) a continuum. Some of our customers buy drugs. Some buy drugs, GPO services, consulting services, technology. Those are the blue dots you see on the map. The customers that want to go deepest with us are the orange dots. That's our US Oncology partners. Our goal is very much to migrate our customers from being blue dots to orange dots, but acknowledge it's not for everybody. Some practices aren't in the right geography. Some practices don't want to be managed. But we do believe that we can develop the deepest partnership and drive the most value when they choose to join the network.

Given that the network is such an important piece of our value proposition, I wanted to spend just a few minutes talking about how it works and how we think about our market. The easiest way to describe the US Oncology Network is that the network does anything and everything for a cancer practice except treat patients. We're their technology provider. We hire their employees. We do the revenue cycle. We negotiate their payer contracts with their capital partner. We build out their strategies. Again we are there to make their practices not only survive but thrive.

One of our key selling points is that our providers remain independent. They can keep their name, their names on the door. They're not employed by the hospital, and they're certainly not punching a clock. The way that model works is we find their practice in a geography that we believe is attractive. We go into that practice and we buy their assets, and then we enter into a 10- to 15-year management services agreement. Our goal is to aggregate locally. So, we typically will buy – will typically take a practice, we will build [ph] a large (00:47:55) to help them diversify. So, we'll bring in subspecialties, we'll bring in ancillary services. We've trained all kinds of local capabilities, so that we can leverage those capabilities to go to payers and develop partnerships with health systems and other local subspecialties. We then try and leverage the scale of a national networks or GPO or procurement best practices. These are all things we do, we bring to bear to ensure the success of these practices.

We believe our growth is a tremendous illustration of our success. We've built a broader and deeper network. As you can see, we're now over 2,000 providers. We have over 500 sites of care, and we're in 25 states. We also believe that we're extremely well-positioned to continue to grow this network. First of all, we believe community oncology is where patients are best treated. It's high-quality care, low-cost setting of care, and you can get your care close to home. And this is critically important for patients who will see their oncologist daily, weekly, or monthly. You don't want to be traveling across state to an academic medical center. So, we do believe that the community oncologists is the long-term winners. And we also believe that we have the capabilities to make them successful over the long-term.

So, we're proud of the businesses we built. Each one of these businesses that I've talked about is a stand-alone. It's growing earnings for our company. However, we believe what really differentiates us, what really makes us unique in this space is the interconnectivities between these assets. If you take a scan of the markets, there are other interesting oncology networks, but US Oncology is significantly larger. There's also highly funded technology companies, trial services companies, and state companies. But no other company in the industry has all three legs to the stool.

If you think about what we can do, we have a large swathe of the oncology market all in the same technology platform, capturing data, and using that data to create insights that solve problems for our providers, that solve problems for payers, and for biopharma. I just talked about all the business things we do for a provider to help them, again, survive and thrive. But our connectivity within our network also helps them at the point of care when they're in front of that patient. Remember, they need to be spending time with the patient. We help them with care

navigation. We help them with treatment decisions. We help them navigate complex payment models all at the point of care.

If you're biopharma, at the end of the day we help them accelerate drug discovery through things like identifying patients with rare forms of cancer for trials and we help them develop new indications or we can help them commercialize drugs across a large network. Things that we do with them, decentralized and pragmatic trials. We can do outcomes and comparative effectiveness. There are many things we can do to help pharmas solve some very challenging problems. And then if you're a payer, you can partner with a large network at scale to move to value-based care, to drive quality programs and/or outcomes studies.

So, the net of this connectivity is this, we believe we've created a flywheel effect that nobody else in the industry can replicate. We have a large and growing diversified oncology network that through scale connectivity can create unique value for biopharma and for payers to solve their problems. As we create this value, our providers ultimately benefit from these unique relationships. This gives us a chance to reinforce our US Oncology value prop, invest and diversify in more programs and grow that network. And then, we ultimately bring that value back to the payers, really creating a virtuous cycle.

At the center of this connectivity is Ontada, which connects the dots across our ecosystem. Dr. Susan Shiff is going to come on stage and join me. Susan joined us from Merck where she was a Senior Vice President and Head of the Center for Observational and Real-World Evidence. One of the things that we're so excited about is Susan brings such a different lens. Historically, we've been very provider-centric. That's where we started in this business. And Susan has really brought the lens from biopharma, and she's just been a tremendous addition to the team.

So, with that, I'm going to invite Susan on the stage.

Susan Shiff

President-Ontada, McKesson Corp.

Thank you, Kirk. I'm really happy to join you today to discuss our Ontada business. As Kirk mentioned, it's broad. It's part of the broader oncology ecosystem for McKesson.

So, Ontada generates insights at the intersection of technology and data and supports community-based oncologists with technologies designed to enhance care delivery while at the same time providing biopharmaceutical partners with evidence and solutions that can be used for both internal and external decision-making.

As Kirk noted, Ontada was launched in December of 2020 by combining several McKesson existing assets under a new brand. This includes our oncology provider technology solutions, targeted channels for biopharmaceuticals, and provider engagement, and a research arm that focus on clinical data and evidence solutions. As reflected in our mission, our goal is to help both the community-based clinicians provide the highest quality of care in an increasingly complex oncology care landscape. And further, the real-world data that we generate helps play a critical role for our biopharmaceutical partner's mission to identify promising new therapies and accelerate those candidates, bring novel drugs to market faster, and to maximize post-launch opportunities. We also can demonstrate product value to both providers and patients in addition to regulators and payers.

While the Ontada business is generally new, the assets have a long history in creating value. The roots of our iKnowMed technology and the Electronic Health Record trace back to the 1990s. And they were developed in close collaboration with oncologists. Our dedicated oncology-focused software suite is relied upon by more than

4,300 different community oncology practices to deliver both efficient, effective, and evidence-based medicine. iKnowMed provides comprehensive insights at the point of care and easily integrates into existing workflows such as ordering the latest biomarker tests to inform those treatment decisions. With our biomarker ordering guide, we've seen a 10% month-over-month increase in the average monthly precision medicine test order volumes in the last year. Additionally, we just launched a mobile EHR system, and this allows our providers to be connected where and when they need it. iKnowMed is also foundational to a platform that includes many complementary technologies, most notably Clear Value Plus that's a decision support tool that matches a patient to evidence-based medicine, practice insights, and analytics dashboard that supports the oncologists in their clinical, their financial, and their operational needs. And My Care Plus, a patient portal solution, that includes how do you empower healthcare journey and enable practices to participate in value-based care programs.

Our proprietary EHR system has documented, as Kirk noted, over 10 million patient visits in the last 12 months alone. This gives us access to an inordinate amount of real-world data from 2,700 providers across 40 states. As a result, we have access to robust oncology data representing the US community oncology setting, covering up to 80 tumor types. Additionally, we augment those data with proprietary and third-party data sources, including claims, genomics, and social determinants of health. Clearly, this creates a vast repository of real-world data and it helps us to develop a structured view of that oncology patient journey. And clearly, this helps biopharmaceutical companies and payers make informed decisions.

In addition, Ontada and the network share a passion for research and how can we improve the lives of cancer patients. Providers in the network historically and continually serve as principal investigators in all of our noninterventional and real-world data studies. Our connection with these clinician key opinion leaders provide us access to deep oncology expertise and our ability in a compliant way to collect additional data on that patient journey.

Through our recently launched Health Outcomes Powered by Evidence or HOPE studies, Ontada will partner with the network to conduct, publish new studies to advance cancer care with a focus initially on health disparities and social determinants of health and cancer. Ontada's close connection to the network and its key opinion leaders powers the clinical and patient insights and ensures our technology platform is informed by real-world practice of medicine, as well as powering our ability to design and conduct scientifically sound and relevant studies.

We connect data with insight to generate evidence that advances medical research. Unlike other real-world data and evidence organizations who aggregate data from disparate sources, our data is anchored in our single-source EHR system which leads to higher data quality, more structured data and less manual curation.

Over the past year, we have partnered with over 100 life sciences companies that have a emphasis on oncology, and they're from all sizes, from large biopharmaceutical companies to single therapy biotech companies, all with a goal of advancing the clinical and commercial strategies for these companies.

The solutions we include are market data, market insights, provider engagement, education, advisory services and research studies. We've leveraged the deep and rich data we have to help answer some quite complex scientific questions in this evolving cancer landscape. They include safety assessments of approved targeted drugs, comparative effectiveness studies, the effects of social determinants of health on care and outcomes, and the creation of historical and synthetic control arms.

Patients in the US diagnosed with lung cancer have less than a 22% chance of living longer than five years. Moreover, according to the American Cancer Society, it is the leading cause of cancer deaths in the United States. Despite advancements of care, patients continue to face obstacles in gaining equal access to testing and

therapies, and I think that's why we have a great opportunity to make a difference with the MYLUNG consortia. So MYLUNG consortia is a set of real-world research studies that focus on patients with non-small cell lung cancer.

So MYLUNG is a collaborative effort between on Ontada, The US Oncology Network, US Oncology Research, a number of biopharmaceutical partners and some patient advocacy groups, and the design is to understand and improve how molecular diagnostics and treatment assignments is conducted in the real-world setting. So the MYLUNG consortia will consist of three protocols and will observe approximately 12,000 patients with non-small cell lung cancer over the next five years.

We recently completed Protocol 1 and that will serve as our baseline to understand what's happening to patients in the community practice setting. We had an oral presentation at ASCO and we showed that only 55% of patients complete a full set of comprehensive testing. Now these data are incredibly important and can help inform how testing should be administered in the community setting that is an absolute critical first step to ensuring that patients receive targeted evidence-based care.

For me, the MYLUNG consortia is a powerful example of how we're working with providers and biopharmaceutical companies to make a difference in a patient's fight against cancer. I think it underscores incredibly well the power of McKesson's unmatched oncology ecosystem and our ability to harness our diverse and collective strengths.

So, our solutions are based [ph] in mutually reinforcing (01:01:59) and value creating. By supporting both the community and providers and oncology biopharmaceutical companies, we advance clinical care to improve patient outcomes. Foundational to our success is understanding the value that we provide, and we found that biopharmaceutical companies appreciate the breadth and depth of our oncology data and the evidence and insights derived from our scientific research.

Our technologies and researchers coupled with that close relationship with the network allows us to answer a myriad of complex questions that inform discovery, development and commercialization of new products. We continually reinvest in our solutions, improving the provider technologies, the data sources, and enabling platforms to improve the provider workflow and generate even richer and broader real-world data.

At Ontada, we're focused on using our unique set of skills and expertise to improve the lives of cancer patients and we look forward to our continued relationship with providers, biopharmaceutical companies and payers to advance health outcomes for all. And with that, I'll turn it back to Kirk.

Kirk Kaminsky

President-U.S. Pharmaceutical and Specialty Solutions, McKesson Corp.

Thanks, Susan. I thought Dr. Shiff just did a terrific job illustrating how Ontada, in the [ph] interworking (01:03:31) of that organization, creates value across our ecosystem. I'm going to share two more sort of real-time market event and how we turn those market events into the flywheel we're always talking about where we create value for our payers, biopharma and, ultimately, back to our providers in our network.

And this one is in the crowded spaces. So, I've talked upfront a little bit about the fact that as innovation occurs, more and more often when a product comes to market, there is no longer just a standard of care. Providers typically have some choices. And we believe that having choices and new entrants is positive for markets. It creates opportunity for value creation, it gives patient an – patients options so they can take steps to their therapy as one drug becomes less effective, and it brings down total cost of care.

A good example of this is in the biosimilar space. Recently, Genentech had three drugs, Avastin, Herceptin and Rituxan, all go – come upon patent expiration. These were terrific drugs. They save tons of patients' lives and something that – just great innovation. However, they did have patent expiration and, ultimately, biosimilar competition did come to market.

In advance of the launch, US Oncology saw this market event and worked with our GPO and our providers to create awareness to understand that these drugs were going to be coming to market as biosimilar. We worked with our providers to understand, to get comfortable with clinical equivalency. This was the first biosimilar therapeutic drug. The previous ones have been supportive care drugs.

And then we made sure they understood the impact of switching from the innovator to the biosim, to the payers and to their patients. Our GPO went on, negotiated a contract, leveraging our size and scale. And then at the time of launch, we were able to leverage Ontada with our providers to make sure they understood where their opportunities for switching were, and then when they wanted to switch from the innovator to the biosim, switching became seamless.

The results were astounding. We drove share away from the innovator to the biosim at way better than market rates, as we judge, by some of our Onmark customers who aren't part of the network by looking at a health system's data. The best part about this was it truly was a win for all parties. Patients have lower out-of-pocket costs, lower co-pays. Providers have an advanced value proposition. They can live in a value-based care world and it's good for their patients.

Biopharma, a few biopharma companies made a bet and decided to invest in the discovery of a biosimilar. They got the benefit as they had share move in their direction. Then the payers, private and government payers, obviously, paid less as their costs came down. For us at US Oncology and McKesson, this just exhibits that as therapeutic areas become more crowded and providers have choices when there are clinical equivalencies, that we are able to move share from one product to the other.

The second example is in the value-based care space, particularly the Oncology Care Model. For those of you who aren't aware, the Oncology Care Model was CMS's five-year experimental payment model for Medicare patients with the aim of bringing down the total cost of cancer. The way the model worked is it – our practices and our providers were measured against the baseline.

About 80% of our providers participated in this program. In fact, we represented about a fourth or 25% of the total program. In advance of the program, we worked to invest in capabilities so we could lead in value-based care. We actively leveraged our technology, decision support, outcomes data from Ontada, patient navigation. We leveraged our best practices across 800 different providers.

With all the work we did, we were able to save a terrific amount. We saved \$400 million of savings against the baseline over a five-year period, [ph] and (01:07:44) another example of the flywheel effect where everybody won. Our patients won. They had enhanced, better outcomes. We also – they also benefited from the investments we made in patient navigation and treatment planning.

Our providers won. They were paid a care management and shared savings fee. Biopharma won as we were able to demonstrate potential outcomes across therapeutic drugs. And certainly the payers, in this point – in this instance, the government won as they were able to save \$400 million against the baseline.

The most important thing about this is we believe value-based care is important, it's part of our shared principles of our network. And we believe, if and when the world shifts to more of a predominant value-based care environment, we're going to be well-positioned to lead in this space.

So, I'll close by reinforcing just a few key points. First, as we continue to be excited about oncology as a strategic growth pillar for the company, we're extremely proud of the track record of success we've had in this space. We've been able to evolve. We've evolved from a drug distribution company that was focused on oncology to, we believe, a diversified oncology platform that we believe is well-positioned to provide value for our stakeholders and, ultimately, drive earnings for the company over both the short term and long term.

The last point I'll make is we do take a ton of pride, all of our associates that are in their clinics that work across our oncology ecosystem take so much pride in the fact that we are accelerating the enhancement of cancer care for patients and the communities we serve. And that is an important and big deal for us. So, thanks again for the time. I really appreciate the opportunity.

Unverified Participant

We will now take a 15-minute break.

Nathan Mott

President-Prescription Technology Solutions, McKesson Corp.

Well, good afternoon and welcome, everybody. I'm really excited to give you an update on our biopharma strategy. This is something I'm extremely passionate about. But before I dive into that, I should probably just step back and introduce myself. My name is Nathan Mott. I've been with McKesson actually 28 years, which is hard for me to believe, but it's been a fantastic journey and I've had great opportunities to work for a lot of our business units with a real focus on our technology businesses. I've been the President of the Prescription Technology Solutions business now for about five years.

So, I realize that many of you probably aren't familiar with our biopharma strategy or the businesses that support it, that's why it was kind of nice to start with a video. The video highlighted some of our exciting capabilities that are in the market today, as well as highlighting some of the innovation that we're working on that should ultimately accelerate our growth.

As you know, our business basically helps biopharma, our customers with the commercial process. And our customers have been asking for something new and better. If you think about it, it makes a lot of sense because the traditional solutions in the market, they were typically big call centers that would basically call providers, they would call patients, send them a bunch of paperwork to fill out, and then fax that information throughout the entire continuum of care in an effort to get patients on therapy and keep them on therapy.

Unfortunately, it just hasn't been that effective and there have been studies out there that show that about one out of every five eligible patients were actually getting the services that were – they were eligible for. And so fortunately, companies like ours are delivering new solutions that are definitely getting more patients on therapy and we're doing it much faster than the solutions that are out there.

We think that our core business establishes a foundation from which we can expand our services into adjacent markets and continue our growth trajectory. Our leadership position in that space really should help patients through their entire journey. And what I'm hoping that you get out of this presentation today is a better sense for

what we do today, what our business does, our strategy and where that's taking us, as well as a sense for how unique our solutions out there, because I think we provide differentiated value that our competitors can't do and it would be very, very hard for them to replicate.

So, let's dive deeper into the market that we're focused on and what our business does. So, we are essentially a medication access business, and what we do is we help people get the medicine they need to live healthier lives. And that's not just what we do, it is our purpose. This is what really gets our employees excited to come to work and give that discretionary effort.

We basically are reinventing the way patients get their medicine, and we're also starting to kind of pave a path towards really advancing outcomes, which is very exciting. We do this through our remarkable people. We've got very great talent, specifically, technology, software development talent, and we've got clinical talent. And when you combine that, it creates a formidable team.

We've got inventive technology, and then what we've created with that technology is what we call an ecosystem. It's almost a network of networks that connects the continuum of care. And that's really exciting and something that nobody else has. Today, we're very focused on helping patients get on their therapy, and when you look at all of our assets, we're the leader in this space.

We also do some work in helping patients stay on their therapy, and we think there's a lot of opportunity to expand those services and it would be a natural extension from what we do today. And then long term, we want to enable our biopharma customers to really manage the outcomes, and we're able to do that again because of the connectivity across the continuum of care that we have. And this would be complete white space for us.

As you know, biopharma spends a lot of money in commercializing their services and we focus on a very large subset of that. So we focus on a market that's \$15 billion. It's growing at double digits and we're able to produce significant operating margins because we leverage our technology to do so many of the tasks and because of this network effect that we've created in our ecosystem.

So, let's take a look at the assets that are in this business. Over the years, we've built and acquired assets like Relay Pharmacy or RelayHealth, CoverMyMeds, RxCrossroads, and our automation businesses. And each of these businesses was largely operating kind of independently within McKesson and they had point solutions that helped patients along their journey.

If you – starting with RelayHealth, for example, we've built a business there that is the leader in processing claims between the pharmacies and the payers. And then we added services onto those claims like helping the patients to buy down their outcomes so that affordability wasn't a problem in getting their therapies.

We also acquired CoverMyMeds, and CoverMyMeds and Relay had a commercial relationship and we decided this really fits into our strategy, because what we were able to do together is help patients navigate their insurance with their providers. So, if you got prescribed a therapy and that was initially denied by your insurance company, we found a way to electronically get authorization with the payer and do it much faster in much – in a much better way.

RxCrossroads is our specialty medication management platform. So this is dealing with very expensive, complex to administer drugs that often come with side effects. And this business was a hub that work with the payers and the providers to help them get on that therapy and stay on that therapy. And this business is very important to our future because if you look at the pipeline for biopharma, a lot of those therapies are specialty therapies.

And then lastly, we have our automation technologies that really help to streamline the pharmacy prescription management process. So we took steps out by automating them, making it more efficient, and it also allows patients to get their therapies when they want, where they want.

Recently, we brought all these businesses together under one business unit, one umbrella called McKesson Prescription Technology Solutions because the sum is worth more than the parts on their own, and we're able to actually go to biopharma with a comprehensive value proposition that is integrated to really help patients throughout their entire medication management journey.

So, let's take a look at, when you bring these together, what it actually creates. So, you see what it creates here is an ecosystem. So it's kind of a technology network of networks that allows pharmacies, providers, payers and biopharma to communicate. We have access to that data, we can interrogate that data, look for opportunities, and then deliver solutions.

So when you think about our business, think about a technology network with wraparound services. And I'll walk you through each of the channels of this ecosystem, starting with pharmacy. Our pharmacy is connected to over 50,000 pharmacies in the United States. And when I say connected, I mean electronically connected directly into the workflow so that every prescription that they touch, we touch. Again, it creates a tremendous opportunity.

In terms of the provider network, we are connected with over 750,000 providers in the United States, again, electronically connected into their workflow, and they use this workflow on almost a daily basis. It's either connected into their electronic health record or a portal that we've offered them.

And then we're connected to 80% of the payers in the United States, and that includes all the national ones and most of the regional ones. So, we have competitors just like anybody else, but nobody has that technology network that we do. And then when you wrap around the clinical services, we have something that nobody else has. And just to demonstrate that, look, we support over 650 brands today covering 94% of the therapeutic areas.

The primary sponsor for our business is biopharma. However, we look for value proposition for each of the stakeholders in the continuum of care. We look for that imperfect compromise and really, the patient is what creates that compromise. We're all focused on helping patients get on the therapy and stay on therapy so that they live healthier.

Let me give you a couple examples of how we're doing that today, starting with how patients get access to therapy. So, I'm sure everybody in this room has, at one point or time, had trouble getting access to the therapy. So the doctor prescribes a specific therapy and you find out it's not covered by your insurance company or you have to go through some steps to get that therapy approved, maybe a lab result or some step therapy. This can be very time-consuming, frustrating, laborious and, unfortunately, it often leads to abandoned prescriptions.

We automate as much of this process as possible because of that ecosystem that I just walked you through so that we can facilitate communication between the provider, the pharmacy and the payer. And then what we find is that when customers use our solutions, we get about 20% more patients on therapy than if they didn't have our solutions because we prevent that abandonment.

We also find that we get patients on therapy faster. And specifically for our specialty therapies, I mean, these are the sickest patients, right, on average, we found that they get on therapy about two weeks faster than if they didn't have our solutions. And this is a big deal. If you think about it, again, these are some really sick patients.

If you're a cancer patient and you get on therapy two weeks faster, it makes a big difference. And again, like I said, we look for value proposition for each of the stakeholders in the ecosystem so that they're interested in participating. Less prescription abandonment means more revenue for biopharma and more revenue for pharmacies.

From a provider's perspective, they want the patient to get on the therapy to get – ultimately, get the outcome that they want. The provider knows the patient, they diagnose the patient, they prescribe the therapy, they want to prescribe with confidence. Using our solution allows them to prescribe with confidence. It also helps payers, because payers know that getting the patients on the right therapy over the long run means it's less costly for that member, and it'll also prevent hospital readmissions which is a big issue.

In addition to that, we help them operationally, because if they're using our technologies with these exceptions instead of staffing it with big call centers, it's better for them as well. So, hopefully that gives you a sense for why it's better from an access perspective. Let me shift gears a little bit and show you an affordability example.

So, affordability is one of the biggest challenges to getting patients on therapy, and it's becoming more of an issue as more of the health plans are pushing costs to the patient either through high deductible health plans or through coinsurance. This has become a significant barrier, if not the most significant barrier to getting patients on therapy.

Because we literally have billions of transactions running through our technology ecosystem each year, we are in a unique position to look at that data, identify where there are barriers and try to knock those barriers down. And when it comes to affordability, we offer co-pay buy downs. So, if a patient is at the pharmacy and gets the sticker shock, we can automatically buy that down [ph] right (01:22:06) in workflow with our biopharma customers to make sure that that's not a barrier to getting on therapy.

And just recently, we announced that we also offer cash alternatives. And this has become more and more important and I think there's more awareness over the last few years that sometimes, specifically with generics and for some of the lighter brands, it's actually cheaper to pay with cash and so we offer those solutions as well. We do this by providing cost transparency and choice right in the workflow of the provider and the pharmacy.

So whether it's the point of prescribing, point of dispensing or point of sale, it'll flag the caregiver to say, maybe there's an opportunity to help save this patient money and get them on the therapy. And the results, they speak for themselves. Last year alone, we saved patients over \$5 billion in out-of-pocket cost. So, hopefully, those two examples give you some sense for how our – why our solutions are unique.

Let me just talk momentarily about where we're going in the future. So, we talked about how we help patients in terms of access and affordability, keep – by keeping patients connected to providers, looking for barriers in the workflow, and offering solutions to get them on care. In addition to that, because we're having those conversations, because we are managing those transactions, it's a good opportunity to expand our services into adjacent markets and do more, like with adherence, for example.

So, we can identify if a patient never came to get their refill, we could send a message to the provider or to the pharmacy or directly to the patient. If the patient's having trouble with side effects, we can identify and connect that patient to the right caregiver to help them navigate through those side effects.

And then long term, I think we are very well-positioned to help biopharma. As more and more therapies get put on value-based reimbursement schemes, we're in a position where we can start to clear a path and allow biopharma and the other stakeholders to manage outcomes-based reimbursement in the future. And so that's something we're very excited about long term.

So, in summary, just hopefully what you walk away with is that the commercial services market that we're focused on is a very large, growing market, and we have the right to play there and we have the right to win there. Our biopharma customers are looking for better solutions than what they've used historically and we're in a great position to enable them. With our technology ecosystem and wraparound clinical services, we have better solutions that get more patients on therapy and get them on therapy faster.

We are in such a good position to really help patients through their entire patient journey and become that partner of choice for biopharma. We're excited for what we've produced historically and excited about the growth opportunities ahead of us.

So, I'm hoping you walk away from this presentation with a better understanding of our strategy, a better understanding of our solutions and why and how they're unique, and also aware of the expansion opportunities for future growth. Thank you.

Unverified Participant

Please welcome back to the stage Britt Vitalone, Executive Vice President and Chief Financial Officer.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Thank you for your time and attention today. We've covered a lot of ground already this afternoon. What I'd like to do now is I'd like to pull it all together. For the next several minutes, I plan to cover the following three areas: First, I'd like to cover McKesson's compelling growth story and our financial framework, our capital allocation approach and priorities, and our long-term growth targets.

You heard from all the speakers today about what an exciting time it is to be at McKesson. As we continue to successfully execute against our strategies, one of the key priorities for how we run the business is our framework for creating shareholder value. Our financial framework combines three key elements to generate sustainable, adjusted EPS growth; so organic growth plus operating leverage, plus capital allocation. And let me briefly touch on each of these.

We start with the focus on delivering revenue growth at or above market in each of our operating segments. Since fiscal 2019, consolidated revenues have grown at a compound annual growth rate of 7%. We convert this revenue into solid gross margin growth. Through disciplined margin tactics, portfolio management and strategic investments in higher growth, higher margin opportunities which lever our differentiated assets and capabilities. This margin efficiency is combined with our ongoing cost management, resulting in increasing levels of operating expense leverage. And our ability to generate consistent, stable cash flow, combined with the strength of our balance sheet provides us with the financial flexibility to deploy capital in a disciplined manner. This framework results in sustainable adjusted earnings per share growth and increasing shareholder returns.

Before I move into a discussion on our long-term targets, I thought it would be instructive to level set on our performance since the start of fiscal 2019. What's depicted on this slide is our baseline fiscal 2019 through

expected full year baseline fiscal 2022 results. As Brian discussed earlier, prior to the start of fiscal 2019, we'd experienced a period of declining financial performance, most notably the adjusted operating profit line.

As you can see on this slide, our focused in disciplined execution has translated into accelerating adjusted operating profit growth. In fact, from fiscal 2019 through fiscal 2022, we expect to deliver an adjusted operating profit compound annual growth rate of 5% when comparing baseline results. Those baseline results remove the effects of the items that I disclosed earlier and are intended to be used for long-term modeling purposes.

This improved the operating performance, combined with effective capital deployment, including accretive portfolio actions and decisions, such as the tax-free exit of Change Healthcare have translated into even higher adjusted earnings per share growth. From fiscal 2019 through fiscal 2022, we expect adjusted earnings per diluted share to grow at a compound annual growth rate between 11% and 14%.

These results reflect the fundamentals of our business and the strong execution of our strategy. We also continue to be good stewards of our capital. We expect the strength of our operations, our working capital efficiency will deliver approximately \$15 billion of free cash flow over this period, and we expect that by the end of fiscal 2022, we will have returned approximately 50% of free cash flow to shareholders through a combination of dividends and share repurchases.

Our focused execution has translated into strong baseline operating performance across each of our business segments. As you can see on this slide, the combination of our durable core North American distribution platforms with our transformative higher growth, higher margin oncology and biopharma services ecosystems have delivered strong compound annual growth from fiscal 2019 through fiscal 2022.

Within the U.S. Pharmaceutical business, our scaled and efficient core distribution platform has continued to show solid operating profit growth and compounded annual growth rate from fiscal 2019 through fiscal 2022 of 4%. And as a reminder, as Kirk talked about, our oncology ecosystem is included within the U.S. Pharmaceutical segment. This includes the development of biosimilars which we believe represent further growth potential in the coming years.

Our Prescription Technology Solutions segment forms the basis of our biopharma strategy, as Nathan just talked about. We delivered solid growth in this segment and the 11% compound annual growth rate includes material new product development, including products like AMP or Access for More Patients.

And our Medical-Surgical segment continues to lever the breadth and depth of its services and channels against the entire alternate site market. We have intentionally positioned this business to capture growing opportunities such as lab solutions [ph] in (01:31:32) private brand.

Let's discuss why McKesson is such a compelling growth story. Our future growth is predicated on the following four growth vectors. First, there are sizable untapped, fast growing opportunities at the heart of our refreshed strategy in oncology and biopharma services. Second, we see significant opportunity to grow revenue by targeting new transaction flows, services and use cases in our durable core and our transformative businesses. Third, we have differentiated assets and capabilities across oncology and biopharma services. Kirk, Susan and Nathan provided you some insight into these areas earlier today.

We continue to develop and grow our presence in these segments, and these areas again represent higher growth and margin opportunities, and they serve as a focal area for further investment and development. Growth in these strategies further shifts our business from a reliance on drug distribution profit pools and is a key

component of a continued transformation into a diversified healthcare services company. And finally, we are evaluating and developing a set of new businesses, which expand the digital networks that we have built and lever the strengths in the digital channels that we see emerging across the healthcare landscape.

Access for More Patients or AMP is one good example of this, which is the foundation to automate benefit verification and hub enrollment for patients. But there are several others that we are evaluating and developing. We believe that each of these areas represents a tremendous opportunity, and they complement each other, resulting in a strong long-term growth algorithm.

Now, let's discuss a few of these growth areas in more detail. The large growing oncology market that McKesson participates in represents a total addressable market opportunity of approximately \$55 billion. This market opportunity includes therapies, practice management and biopharma services. There's a high growth potential in these markets, which includes oncology drug compounded annual growth rate of 14%, which Kirk talked about earlier. And as Kirk pointed out, nearly half of this total market opportunity is non-drug distribution, and it encompasses our oncology service offerings. We deliver real world evidence and insights through Ontada and accelerates biopharma research, and it further strengthens our relationships with our biopharma partners.

Our capabilities lower the cost of care for patients through important measures such as biosimilar adoptions. This further enables practices in the US Oncology Network to offer patients to the latest cancer clinical trial options in their local communities. Our overarching goal is to improve patient outcomes, and only McKesson has the connected set of assets that will enable us to grow our ecosystem within the oncology market.

The biopharma services opportunity is focused on a \$15 billion market, which includes opportunities of approximately \$8 billion in the adherence segment and \$7 billion in access and affordability. As Nathan mentioned in his presentation, our main focus with these areas is to help patients get on therapy, stay on therapy and achieve better outcomes through our digital connections. We have unparalleled scale across our diverse networks and these include, as Nathan mentioned, approximately 19 billion transactions over the RelayHealth network annually, approximately 750,000 providers and over 50,000 pharmacies. All of this allows us to enhance connectivity through our digital channels and drive desired patient outcomes. Through our patient affordability platforms and increased adherence tools, we have helped improve patient outcomes, which includes \$5 billion of patient out-of-pocket cost savings.

As you may recall, as Brian talked about earlier, at the close of fiscal 2021, we completed our three year program that transformed our operating model by reducing costs across the enterprise. During that timeframe, we achieved our original reduction target of \$400 million to \$500 million in cost savings through leverage tactics, which include the following, enterprise cost programs such as Spend Smart and Buy Smart, which Brian talked about earlier, the creation of centers of excellence, and strategic sourcing initiatives, just to name a few of these tactics.

As you can see here on this slide, we've improved our operating expense leverage by decreasing operating expenses as a percentage of gross profit by 400 basis points from the beginning of fiscal 2019 to our current fiscal 2022 period. And we achieved this at the same time that we were investing in the business, developing foundational and growth capabilities.

Looking forward, we'll continue to focus on cost management initiatives to drive further expense leverage. Our investments in digital capabilities will improve efficiency and effectiveness across the enterprise. And we're being strategic with our investments by prioritizing growth investments and mechanisms for the company. We remain focused on cost management initiatives. And we continue to develop new tactics to improve operating leverage.

Okay, there we go. We have and we will continue to take a disciplined approach to capital allocation. We strategically think about capital allocation in three broad categories. The first piece of our framework is our growth investments. We prioritize growth by investing internally and through M&A. You heard us talk earlier about accelerating our growth and our strategic priority of oncology and biopharma services as we believe we have differentiated assets, scale and network capabilities. From an M&A standpoint, we consider both tactical acquisitions that will accelerate growth and strategy imperatives and bolt-on acquisitions that can add scale, speed and capability to further expand our value propositions and our leadership positions.

The second piece of our framework is returning capital to shareholders through a combination of our growing dividend and share repurchases. This morning, we announced that our board of directors approved a new \$4 billion share repurchase authorization increase.

The third piece of our framework is to maintain a strong balance sheet. We have strong free cash flow generation and this will provide us with financial flexibility as we move forward. The strength of our balance sheet is further underpinned by the maintenance of an investment grade credit rating.

To repeat what I said earlier, it is important to us that we be good stewards of capital. The result of the capital allocation framework that I just reviewed is reflected on this slide. As you can see here, we have a healthy mix of capital allocation across growth investments and return of capital to our shareholders. Since fiscal 2019, we've returned approximately \$7 billion to our shareholders, which is approximately 50% of free cash flow over this period through dividends and share repurchases. I'll talk about dividends and share repurchases more in a minute, as these continue to be an important component of returning capital to our shareholders.

One of the historical strengths of McKesson is our proven ability to consistently generate strong free cash flow. From fiscal 2019 through fiscal 2022, we will generate approximately \$15 billion of free cash flow. Our solid operating performance, combined with working capital efficiency, provides ample liquidity and flexibility. And we have strengthened our financial position, reducing leverage and optimizing the debt portfolio, including the retirement of older, higher cost debt and replacing a portion of the debt stack with newer lower cost debt.

An important aspect of our transformation is refocusing the portfolio, to improve the enterprise return on invested capital and expanding profit pool opportunities into scaled higher margin areas such as oncology and biopharma services.

On this slide, we've provided just a few of the more significant portfolio actions since fiscal 2019. As I mentioned earlier, we expect that acquisitions, joint ventures and/or partnerships will be an important part of our capital allocation in the future. And although we've only completed one acquisition since fiscal 2019, it's a good example of a tuck-in acquisition. The acquisition of Medical Specialties in our Medical-Surgical segment added capability and scale and extended an existing leadership position.

We're also pleased with the outcome of the tax-free exit of Change Healthcare. It allows us – it allowed us to simplify and focus and create meaningful value for our shareholders. And as you can see on this slide, we have taken actions to further simplify the business with our commitment to divest our European assets. These actions will further streamline capital deployment, improve returns on invested capital and provide focus on our oncology and biopharma services strategies and our core North American distribution businesses.

We've made good progress with our European exit activities including the announcement of several transactions since July of 2021 and those are listed here. And as we've announced these signs, we've provided you some

sizing for these businesses so that you can use this for modeling purposes. And today, we're providing that all in one place for you consistent with our communicated intent to exit the European businesses.

Let me spend a couple of minutes discussing how McKesson returns capital to our shareholders. And I'll start by talking about an important component of our capital allocation framework which is our commitment to a growing dividend. In July of this year, we raised our dividend for the fifth consecutive year with an increase of 12% to the quarterly amount. Since fiscal 2019, our annual dividend has grown 22%. We will continue to use the dividend as one important method of returning capital to our shareholders.

Share repurchases are an important component of our shareholder return program. And let me spend a minute and discuss our approach to share repurchases. We combined share repurchases with our growing dividend to provide attractive return for our shareholders. Our philosophy and our principles regarding share repurchases remain consistent. Let me quickly remind you how we manage the program. Subject to market conditions and other factors, our intent is to repurchase shares each quarter.

This approach is guided by a few key principles. We limit share repurchases to excess cash that can't be profitably invested in the business or used to make prudent acquisitions. We apply financial rigor to this process by measuring various repurchase share levels against intrinsic value with a goal to exceed our cost of capital on average. At a minimum, we expect to offset dilution from stock-based compensation. As a demonstration of the commitment to this program through our fiscal 2022 second quarter, we repurchased \$1.3 billion and we've reaffirmed our full year fiscal 2022 guidance to repurchase \$2 billion. And again, as mentioned earlier, today, we announced that our board approved a new \$4 billion share authorization.

Our share repurchase program success is exemplified by our guiding principles. Since the beginning of fiscal 2019 through our second quarter of fiscal 2022, we have strategically repurchased \$6 billion and reduced total shares outstanding by 24%. We've achieved this at weighted average purchase prices, that's approximately 66% below yesterday's close in trading price. These actions represent a compound annual return for our shareholders of approximately 11% since fiscal 2019. We have a clear framework for shareholder value creation. This has been demonstrated by strong operating performance and financial results since fiscal 2019.

Before I walk through our long-term targets, I want to be clear, I'm not providing fiscal 2023 guidance today, but what I am providing today is a baseline for long-term targets for modeling purposes. We are executing against our financial framework which includes the following fundamental components; solid revenue growth, which is combined with efficient margin conversion and continued cost management which delivers operating leverage. We expect organic growth to contribute approximately 6% to 8% towards our long-term baseline adjusted earnings per share growth target.

This growth is built on the baseline that I've shared with you previously. Since fiscal 2019, we've seen solid profit growth in our U.S. Pharma and our Prescription Technology Solutions businesses, and our Medical-Surgical segments. We expect that our U.S. Pharmaceutical and Medical-Surgical segments will continue to grow at a similar rate over the coming years, and we expect that our Prescription Technology Services (sic) [Prescription Technology Solutions] (01:47:31) segment will demonstrate a higher growth rate as we capture market opportunities, which Nathan outlined earlier this afternoon.

We expect to achieve these growth levels while continuing to invest in our key growth strategies, as well as investments in our durable core to extend and accelerate scaled positions and capabilities. We continue to believe that it is important to invest for the long-term while also delivering positive operating leverage.

The strength of our balance sheet and cash flow generation provides us the flexibility to execute on our capital allocation framework. We expect a combination of our growth investments and return of capital to our shareholders to deliver approximately 6% towards our long-term baseline adjusted earnings per share growth target. Finally, we expected that the combination of organic growth which includes operating expense leverage plus capital allocation, will deliver a long-term baseline adjusted earnings per share growth rate of 12% to 14%.

In closing, we are excited about our future growth prospects. McKesson is in a new phase of growth. We are meeting the opportunity as a diversified healthcare services company. We're successfully executing against the strategies that we laid out for you at the beginning and the onset of fiscal 2019. We are well positioned to win in the growing markets of oncology and biopharma services. We have a strong financial outlook and our financial framework and our execution position us to deliver sustainable profit growth, sustainable cash flows, and shareholder value creation. We continue to focus on the things that matter the most to our customers, patients, shareholders, and our employees.

We are rewiring the company for accelerated durable core growth and service of our commitment to positively impact healthcare and positively impact healthcare outcomes through innovative and impactful solutions.

When reflected on where McKesson was when I assume the CFO role nearly four years ago to where we are today, the results are remarkable. We have developed a clarified vision and purpose. We have implemented transformational strategy. We've delivered operational execution. We've strengthened the balance sheet and our financial position, all leading to increasing levels of earnings growth, higher return on invested capital, and momentum to deliver strong long-term earnings execution.

We are optimistic about the future at McKesson. We believe that the investment thesis for McKesson is compelling and attractive, and I hope that after today, you share our enthusiasm and our optimism for the growth and the innovation that's ahead of us.

With that, we will now transition into a Q&A session that Brian and I will host.

QUESTION AND ANSWER SECTION

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Okay.

A

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Yeah. Let's go.

A

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Let's go, questions.

A

Brian Tanquilut

Analyst, Jefferies LLC

Hi, Brian Tanquilut from Jefferies. Good afternoon, and thanks for hosting us today. Britt, I guess my first question just going back to the baseline. Thanks for all your comments on the buybacks and how you're thinking about that, but when you announced the sale of the Europe assets, I think one of the comments that we've heard from you guys was that it would be – it's not dilutive, right? So how should we be thinking about capital deployment to offset the reduction in the baseline from Europe lopping off?

Q

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Yeah, it's great question, Brian, and thank you for that. Again, what we are trying to do today is not provide you guidance. Rather, what we're trying to do is to be consistent with our intent to exit the European region and provide you complete clarity on the size of that business. As we've announced each of these signings over the last six months, we've tried to provide you with some sizing for each of those businesses. You'll recall our first sale of several countries in Europe where we size the size of the revenue and the adjusted operating profit from FY 2021. We did the same thing when we announced the sale of our UK assets. And so, we're continuing down the path of our intent to exit Europe and for baseline purposes for long-term modeling, we wanted to give you the whole package of what Europe is in terms of adjusted operating profit growth.

A

Now, clearly, as we finish signing – finish the closing of these assets, we will evaluate where we're going to deploy that capital. And it could be certainly through investing in other growth areas in oncology or biopharma services and depending on what is available to us with the returns on those – on that [ph] capital is (01:53:23) could also be share repurchases. We've not made those decisions yet. These sales have not closed, but we wanted to at least size for you rather than each time we go through one of these transactions and tell you at that point in time what the value was. [ph] One size at (01:53:39) all for you right now, so that as you kind of look out for the long-term, you have all of this in one plate for modeling purposes.

Ricky R. Goldwasser

Analyst, Morgan Stanley & Co. LLC

Q

Ricky Goldwasser, Morgan Stanley. Thank you for all the details. So, I have two questions. First, when we think about specialty and biosimilars as an important growth driver for you in the future, I think, Britt, you talked about the fact that that is all included in the base business. In the base business, it is – since 2019, is growing at 4%, and you're telling us to model at 4% long-term growth. So, as we think of the addition of biosimilar and specialty, shouldn't that accelerate growth? And if we're still kind of like maintaining that 4% outlook, is there something else that's growing at a slower pace? So, that's question number one.

And then question number two, as we think about the biosimilar pipeline, HUMIRA clearly is a very big part of the pipeline, about 30% of the pipeline from 2023 to 2025. How should we think about the differences between a drug that's a Part D drug and is dispensed via the pharmacy versus a drug that's Part B and into that provider medical setting? Thank you.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Thanks, Ricky. Let me try to unpack that. I'll start maybe with the first question. Again, what we're trying to do here, rather than just give you one 12% to 14% range and break that down into components, is to give you some indication of where we expect these businesses to grow longer term. Now, we've certainly seen some benefits from biosimilar adoption. Kirk talked about that. And there is opportunity for us as we go further into the future. While I didn't guide 4%, I said you should expect to see it grow at similar rates in the future. And certainly, if biosimilar adoption pans out more at accelerated pace than we thought, clearly, we have the assets, the capabilities, the networks to be able to capture that. It could be higher than that depending on what the capture rate and what the timing of that is. Again, what we're – as you look at the business today, we believe that that business can continue to grow at least in similar rates that we've seen over the past three years.

I would also point out one of the things that I talked about at the end is we will continue to invest in these businesses for the long term. These are key strategies for us. We've invested in Ontada. We believe that that's going to be a very important business for us longer term. There are other capabilities in areas within the oncology ecosystem that we'll certainly want to continue to build and develop as well. That may take investment. So, again, what I'm trying to do is just give you some sense for what the range of the growth rate might be over the next few years. We believe that we have a solid business and, again, depending on how these investments, the speed, the acceleration of these investments and the biosimilar adoption, it could be at or above that.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

We have – I think our next question is actually from our virtual audience, so not sure how we're going to get that, but....

Holly Weiss

Senior Vice President-Investor Relations & Corporate FP&A, McKesson Corp.

A

Brian, this feels like a very different strategy for McKesson from what we historically know the company to be. Why do you think McKesson can win in these markets?

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Well, I mean, I think we've used some language today about the journey and the next chapter. You think back to the presentations. You saw some of these anchor assets we're talking about or acquired 2006, 2007. We've supplemented those over time. And so, what I would say is this is really just a heightened focus as we step back

and reflect it on the capabilities of the business where we have assets that are really different, that are positioned in markets that have really good growth, mid-double-digit kind of growth opportunities in front of them. It's been holistically as a company saying we're going to focus our efforts in some cases by simplifying our portfolio. In other cases, by doubling down investment in cases by bringing assets together in a single organization so that we cannot operate as verticals, but have these ecosystems that allow us to get at it faster. So, I don't think of it as a massive divergence.

We're working off of a platform that we're well established in, we have credibility in, we have good assets in. We are now aspiring to use those assets in a more cohesive way with more investment behind it. That's just not financial investment; that's investment of really the whole enterprise into markets that we think have the best growth prospects for McKesson. We have lots of great businesses, and we can invest in lots of great things. We're concentrating our focus on the best things and the biggest things that will accelerate our growth over the long term.

Go way in the back.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks, guys. George Hill from DB. Thanks for taking the questions. The operating profit growth ex-COVID of the business for the last several years seems to have been closer to the 5% range. Now you guys are targeting a number that looks closer to 6% to 8% on an organic operating growth basis. I guess can you talk about maybe the drivers to the above-composite growth over the last several years? That's Part A, and I'll pause for a second. I have a Part B I'll come back with, so we don't have to keep bringing the mic to me.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. Thanks for the question, George. So, what you've seen since fiscal 2019 is, again, we started with the point that coming into fiscal 2019, we were seeing poor financial performance and, as Brian mentioned, declining operating profit growth. What you're seeing is that this focus, this execution on these areas where we have higher growth and higher margin opportunities, where we have the right to win and we are winning, you're seeing accelerating momentum in the business. And if you look over the last three years, you've seen the acceleration of our operating profit growth in each of those years. We think that the momentum is going to continue. We think that the assets that we have in place today, the investments that we've made will continue to allow us to capture more profit growth going forward.

And clearly, these opportunities that we discussed today at oncology and biopharma services, we look at those as higher growth, higher margin opportunities. These are scaled businesses; gave you a sense of what the size of the markets are that we participate in. So, we believe that we're very well positioned to continue to win. We believe that we're very well positioned to continue this momentum. We have a very strong balance sheet, too, that allows us to continue to deploy capital, whether that's back to our shareholders or that's for growth investments, which we certainly want to continue to do. So, we have lots of flexibility, we have ample liquidity, we're well positioned with great assets, and then we feel really confident in our position going forward to continue this momentum.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then maybe just a quick follow-up, Britt. I know you don't want to give fiscal 2023 guidance, but just from where you're sitting right now, kind of any big puts or takes or callouts that you would talk about that we should think about as we start to put together our 2023 numbers?

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah, great question. So, I think the things that we excluded in our baseline are the hardest things for us to really forecast longer term. First of all, they are more temporary in nature, or they could be longer term. But the model in terms of how COVID distribution gets served in the future could be a more typical drug distribution model where all wholesalers participate. So, again, that program or sets of programs could continue into FY 2023. What we're trying to do is provide you the information that we have when we get it.

The second one is we've announced now three deals in Europe to continue to divest that portfolio. The timing of those and the timing of the closing of those certainly could vary. It could go into parts of FY 2023; could be longer than that. Again, we're just trying to model for you what that looks like. And rather than guessing what each of these transactions as we divest Europe looks like, we're giving you the whole size of it. So, I think when you think about 2023, it's really the timing of these events that are more – we view as more temporary in nature.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

I think we have a virtual question that will come up. We'll move up in the room for – is that Lisa? The lights are bright, sorry.

Holly Weiss

Senior Vice President-Investor Relations & Corporate FP&A, McKesson Corp.

A

You listed competitive advantage for McKesson and oncology as providers, technology, networks, evidence, and insights into one place. How do prescription procurement and distribution logistics fit into that equation?

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Well, I mean, that's really the underpinning that was kind of the start and the foundation of the business, and it continues to be important for the practices and important for our biopharma partners and what we think is an addition to providing that base value, the distribution, those GPO service – I don't know. I'm talking to the person who read the question, sorry. In addition to that, we can leverage then off of that. And what we're really excited about is that connectivity, this concentration on a platform, the data that we can get around those products, those physical product flows that matched up with the insight that happens when care is actually delivered, translate that back into meaningful actions and insights for manufacturers so that they in turn can more rapidly develop and adopt and successfully launch new products that just start that flywheel over again. So, the way we've organized the business and the reason the business is [ph] all right (02:03:19) is because we think that's the most effective way to execute that strategy, and all of those pieces work together to reinforce each other.

Okay, let's come to the front of the room.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

I'm over here.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Okay. Hi.

A

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Lisa Gill at JPMorgan. Brian, how do I think about Med Surg as far as when we think about your strategy? Hi, Stan. I see you over there in the front row. You didn't really talk much about Med Surg today, but when I think about oncology, biopharma services, a lot of the providers probably have some need when we start to think about medical supplies. So, can you talk about that from a strategy perspective?

Q

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Yeah. Yes.

A

Lisa C. Gill

Analyst, JPMorgan Securities LLC

And then secondly, when we think about the Biden administration, and we think about lab, and we think about testing going forward and the real push by this administration, I know it's been a benefit for McKesson. How do you think about that longer term?

Q

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Okay. So, first, the medical business is really a fantastic business, and we've done a really great job in that business over many, many years of continuing to evolve and kind of follow patients into the community setting. So, it's not just physician offices, it's not just long-term care, it's surgery centers, it's other clinics, it's all specialties. And it's not just medical products, it's lab, it's technology, it's pharmaceutical, it's specialty pharmaceutical. And we are leveraging our combined specialty pharmaceutical capabilities in Stanton's business as well.

A

I think the business, probably of all of our businesses, the last 18 months has had the most kind of impact from COVID up and down. And I think that they have time and time again proven what a valuable partner they are to those providers, how robust our capability is, and how nimble we can be in capturing new opportunities. I mean, we got into the lab business four or five years ago. We were always in it a little bit, but we decided to scale it up. But we quickly leveraged those relationships when that opportunity came, and I think we capitalized on it well.

Now, as how lab testing is going to change in the future, probably going to be pretty dynamic. There's some push, right, for home testing, and we have home delivery capability. Certainly, as people present in their physician offices and need testing, we'll be a valuable provider for that. We service-test through our retail pharmacies today. So, I think because of our community reach and our establishment, testing, should it persist, we're really well positioned to capture that opportunity.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

And I think, Lisa, the other thing I would say is that, really, the breadth and depth of the assets and capabilities in the fact that it services the entirety of the alternate site market gives us the confidence that, longer term, as I

A

mentioned here, we expect that this business will continue to grow at or above these rates going forward. And, again, it's the breadth of the solutions that allows us to continue to win in this marketplace.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Sorry, mic's over here. We'll get back to this side of the room.

Michael Cherny

Analyst, BofA Securities, Inc.

Sorry, [indiscernible] (02:06:19). Mike Cherny from Bank of America. Jumping into the biopharma services business a little deeper, clearly, over the three-year journey, that business has meaningfully reformed piece in, piece out. As you think about that \$15 billion TAM, do you feel like you have the assets in place to achieve that TAM now? And I guess what would drive that TAM higher when you think also about the capital deployment opportunities...

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Yes.

Michael Cherny

Analyst, BofA Securities, Inc.

...and the fact that you rightfully said you haven't done many deals in the last few years. It seems like that would be a platform that's ripe for incremental acquisitions.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Yeah. So, great question. I think Nathan said in his presentation that the whole manufacturing service space is about \$100 billion. We really focused on the areas that we have the assets and the capabilities today and are attacking today. I think it's very natural that we will continue to expand those capabilities to build off this platform, to continue to grow towards we call them adjacencies, but what those next adjacencies are. What we want to do is we want to grow off of a solid base, solid performance, solid results, so we have the natural right to continue to expand.

This is one of the areas that we would look to add to organic growth inorganically as long as it complements that ecosystems, brings value. It could be another value-add we can plug into our network that can drive more transactions. It could be a new capability that would supplement it. It could be an adjacent area that leverages off that network that we think we can do some innovation like we did for AMP, like we did in some of these hub service where we can refine the model to bring more value, help get patients on therapies faster. More patients; one out of five or – is it one out of five or four out of five we're getting on therapy? One out of five we're getting on therapy. That's a 25% expansion in the market. If we can go get those patients, that's real value.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Mike, I think just the last thing I would say is both Kirk and Nathan showed the development of this ecosystem over a long period of time. And so, I think the opportunity for us is to continue to expand that ecosystem over a long period of time. And we're being very intentional about the capabilities and assets that we're adding so that

we have that connectivity across the solutions that we have. But what you've seen in this business is the growth rate has been quite strong. And as I mentioned, that if we think about that business, we expect that as we capture more and more of the market that Nathan laid out, that we would grow at a faster rate in the coming year. So, clearly, there is opportunities in front of us. Clearly, we feel that we're well positioned to capture additional pieces of this really growing market.

Eric Percher

Analyst, Nephron Research LLC

Q

Thank you. Eric Percher from Nephron Research. A question we've been getting a lot is how to value distributors after an opioid settlement, and I think you've spoken a lot today to the growth side of that, that there's a growth and a risk element to it. And I'm curious of your views on, as you've streamlined, you streamline toward growth opportunities. Have you streamlined away from risk, or is risk part of what's – part and parcel of going after more aggressive growth and new opportunities? How do you think about risk today?

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Well, look, we've invested a lot in compliance and risk management programs, and I think we feel really good about the way we think about balanced risk. We think about risk more as – I think our big risk now is just in executing against these opportunities and in reorganizing and rewiring the company internally to be focused on getting after them, to not spread ourselves too thin after too many things that we really focused on, the strong growth markets that we're in today that are higher margin, faster growing. And I hope we've convinced you today, we have the assets that we think give us a right to win in those markets. I don't know if that addressed your question, Eric.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Look, guys, we have really strong governance and compliance functions across the company for every business that we're in, and we'll continue to do that. I think it helps us, as Brian mentioned, to evaluate not only the inherent risks from an operating perspective, but the risks in terms of the organization and what our focus is and our execution capabilities are. We've had strong compliance and governance functions. We continue to invest in those so that we do this in a way that we can win in the right way, and we can continue to grow in a very logical manner.

Steve J. Valiquette

Analyst, Barclays Capital, Inc.

Q

Hi. Steve Valiquette from Barclays. By the way, is it possible to pull up a slide for a question, or is that asking too much? If it is at all.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

I'm not the techy one. So...

Steve J. Valiquette

Analyst, Barclays Capital, Inc.

Q

Okay. We can skip that. The two questions. First, there was a slide at the beginning that showed that spectrum of low margin versus high margin opportunities within overall oncology. And from that slide – if you have memory of

it or not, it was from Kirk's session – but the – which piece within that is the biggest contributor to McKesson's oncology profits right now? Now, that was question one.

The question two is also just an oncology TAM question. With that \$55 billion, you broke it down where community oncology therapies is \$30 billion; practice management biopharma, \$25 billion. But if I missed this, what is your current penetration rates of those TAMs right now and just approximate? Thanks.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Let me – thanks for the question, Steve. Let me start with your first question. I do recall the slide that you're talking about. If you think about the way that Kirk explained how we've developed this ecosystem over time, we started with a big focus on drug distribution. And as we added US Oncology, and we added the practices to that, a lot of our original focus was still around capturing drug distribution. As you would expect, the largest part of that oncology business is drug distribution. However, as we add pieces like Ontada, we add pieces like US Oncology Research, we're continuing to move across that spectrum.

So, I would just reorient you back to the slide of how we develop this ecosystem from the beginning and how we thought about it. It was focused on drug distribution. We've captured really good scale across that business. Now we've captured scales, we've added practices into the network. But what we're doing now, as Kirk talked about, is continuing to move across that spectrum. As we add capabilities, as we add practices and research and clinical capabilities, we'll continue to move across the spectrum from lower to higher margin capabilities.

Q

[indiscernible] (02:12:50-02:12:55)

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Yeah. We really don't get into that level of granularity. What I would say, though, is you won't be surprised to know that some – a business like Ontada is a new business. I mean, we've been building and investing in that just for a relatively short period of time, but we expect we'll be continuing to invest in that business as we build it out to capture the opportunity that we see there. Now, what I will say is we're really, really encouraged. I mean, out of the gate, we got big strategic alliances with Merck, with Amgen. We talked about the MYLUNG consortium. We talked about the HOPE study. That gives us a lot of confidence. We've got really early evidence that we've got the capabilities, we've got the brand, we've got the credibility that we can continue to build this business and scale it up.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

One of the things that Kirk did mention, though, was he referenced the percentage of cancer patients that we actually – go through our network. So, I think that'll give you one indication of how that scale can play out through the rest of the ecosystem.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

We have a question from the audience, from the virtual audience.

Holly Weiss

Senior Vice President-Investor Relations & Corporate FP&A, McKesson Corp.

After your exit from the European businesses, what will your international revenue look like? Will you consider exiting Canada?

A

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

You want to start with that?

A

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Look, we – I describe the process we go through to evaluate our businesses and to very rigorously look at growth prospects, our positioning, our capabilities, how the market's evolving, and we like our Canadian business. It's performed very well. You remember the numbers up there over the last FY 2019 to 2022. It's been growing at 10%. So, we've got a great business in Canada. We've been in Canada for a long time. We obviously share a border together, and we've had some great success there, too. I mean, we continue to grow. We just signed a really large new customer this past year, so we're really excited about the work that's going on in Canada.

A

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Yeah.

A

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

And is there another part to the question?

A

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

I think your question was on revenue. We don't disclose that today, but clearly, what we've been doing is we've been announcing European deals. It's giving you a sense for the revenue from the prior year for those. So, we've started – as we continue to sign and announce and close these deals, we'll certainly have more visibility into the revenue on that, but today it's not something that we disclose.

A

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Thank you. Jailendra Singh, Credit Suisse. I had two questions. First, a quick clarification around your long-term EPS outlook. How are you thinking about the opioid litigation fees within your long-term EPS CAGR outlook, given that we are potentially nearing a settlement? Does your EPS outlook assume that those fees scale down because your fiscal 2022 baseline number does include those fees?

Q

And the second question is around your partnership with GoodRx on CoverMyMeds. Maybe spend some time there how that partnership actually fits into your long-term value proposition, your Prescription Technology Solutions business.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Let me handle the first one, and I appreciate that question. And I'm going to give you an answer that's very consistent with what we've said previously. Today, we don't have a signed and completed opioid deal. And so, what we have continued to reinforce to you is until such time as we have that, we would expect that we would still have the same level of opioid litigation defense cost in our business, which is roughly \$150 million per year. So, from a baseline perspective, that's the number that exists in our baseline. If we get to a point where we have a signed agreement, and we get through that, and obviously there's activities that are upcoming around that, we'll provide you more information once we have clarity on what's included in that. But from a baseline perspective, consistent with what we've told you previously, we continue to expect \$150 million of cost until such time as we arrive at a completed settlement.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

And relative to – I think the second question was just about a partnership that we have with GoodRx. Look, we – just think about this. We talk about investments, we talk about businesses we're building, but we also recognize that there's great opportunities to partner with people where we have complementary capabilities. And in this case, we have technology and reach and programs and services already established that we can deliver more effectively to the market through this partnership. And in turn, they give an enhanced value proposition to their customers. So, we see great complementary. I don't want to overfocus on it because it's just one. We really do think that we have great opportunity to think about how we get our products to market through other partners that are investing in other parts of healthcare that we don't need to invest in, but through partnering, we can take advantage of.

Elizabeth Anderson

Analyst, Evercore Group LLC

Q

Hi. Elizabeth Anderson from Evercore. I was curious. You talked about the oncology opportunity being fairly nascent, but if we think about what exactly, how the growth strategy works out over the next few years, do you see that kind of scaling partly through M&A? Or is there sort of a certain catalyst that you get to a certain focus on more...

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Yeah.

Elizabeth Anderson

Analyst, Evercore Group LLC

Q

Focus on value [ph] of care (02:18:12) that's really sort of pushing the customers to you guys organically there?

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Well, look, we're – we've made organic investments because we thought that was the easiest, quickest way to leverage the assets that we already had, the capability we already had. Oncology is clearly one of our strategic growth pillars and one of our priorities and one of the places we would be excited to deploy capital for inorganic growth. As long as it's a capability that accelerates our timeline or that opens up a new market that leverages the platform that we're investing in and building, I mean, this is an area we would be hopeful to continue to do. But

we're going to find the right opportunity that's lined up with the right strategy, that integrates and ties with the capability we already have, so we can leverage the investments that we've already made.

We have another question from the virtual audience.

Holly Weiss

Senior Vice President-Investor Relations & Corporate FP&A, McKesson Corp.

A

How are you thinking about the split of capital allocation priorities between the three buckets? Any sizing?

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. Well, we're not guiding to any specific sizing because it really is going to depend on what's available for us and what the returns on that are. If you look over the last several years, we've been tilted a little bit more to returning capital to our shareholders, and I think that's returned a really good return for our shareholders. Certainly, we want to grow the business, and that's one of our key priorities, is to grow the business on strategy, connecting our strategy to the investments that we're making. We'll also make bolt-on acquisitions that I mentioned where it extends leadership. So, we want to grow the company. We want to grow the cash flows of the company. However, we're going to continue to be very disciplined against that, where it's on strategy or extends a leadership position. Otherwise, we're going to continue to return capital to our shareholders. We think that that's the prudent thing to do in certain cases.

And, again, I would go back to the framework that I provided in terms of how we think about share repurchases. We want to be consistent with our approach to that. We'd like to be balanced, we'd like to continue to have a priority on growth, but it is going to be dependent on the opportunities in front of us. It's going to be dependent on the returns on those opportunities.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Okay. Well, we've got time for one more question, if there's one more question in the room or virtually. Seeing none. Everyone wants to beat traffic and get home, if that's possible in New York, I'm not sure.

Okay. Well, thank you then, everyone, for your questions. On behalf of Britt and really the whole executive operating team of McKesson here, we really appreciate you taking the time to be with us this afternoon. I hope you found it to be informative and that our presentations brought a little bit more depth in terms of our plans and our vision for what we think is a pretty exciting future. We are really focused on delivering on our strategic growth priorities, and we are focused on delivering value for you, our shareholders.

We look forward to speaking with you again soon. I know we'll have some upcoming opportunities. We want to continue to share our progress on this journey and as we continue to evolve our legacy as a diversified healthcare company. Lastly, I would just wish you all very happy holidays and safe travels home. Thank you.

Unverified Participant

Thank you for attending the McKesson's Investor Day. Please enjoy the rest of your day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.