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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to McKesson's Fourth Quarter Fiscal 2023 Earnings Conference Call. Please be advised that today's conference is being recorded.

At this time, I would like to turn the call over to Nicole Kramer, Manager of Investor Relations. Please go ahead.

Nicole Kramer

Manager-Investor Relations, McKesson Corp.

Thank you, operator. Good afternoon and welcome, everyone, to McKesson's Fourth Quarter Fiscal 2023 Earnings Call. Today I'm joined by Brian Tyler, our Chief Executive Officer; and Britt Vitalone, our Chief Financial Officer. Brian will lead off, followed by Britt, and then we will move to a question-and-answer session.

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

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

With that, let me turn it over to Brian.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Thank you, Nicole, and good afternoon, everyone. Appreciate you joining us for our call today. Earlier today, we announced fourth quarter results closing out a very successful fiscal 2023. We delivered full year revenues of $277 billion and adjusted earnings per diluted share of $25.94. When excluding certain items, adjusted earnings per diluted share grew 15% from the prior year, driven by momentum across all business segments.

In fiscal 2023, Team McKesson made significant progress executing our company priorities and advancing our position as a diversified healthcare services company. We grew our biopharma and oncology platforms through a balance of strategic partnerships, acquisitions, and internal investments. We delivered growth in the core distribution businesses, and we divested the majority of the operations in Europe, furthering our goal to streamline and optimize the portfolio.

As we close out fiscal 2023 and look ahead, we're confident in our ability to carry the business momentum forward, and we're excited to update and increase our long-term adjusted segment operating profit growth targets. This is a testament to our strategic focus, consistent execution, and confidence in the outlook of the business. Building off our differentiated assets and capabilities, we are well-positioned to deliver strong, sustainable growth in the years ahead.

Britt will later walk you through more of the financial details, including fiscal 2024 outlook and the updated long-term growth segment targets. I wanted to start my remarks today though with the foundation of all of our strategies, which is our focus on people and culture. Our talent is critical to everything that we do at McKesson. We strive to be the best place to work in healthcare, and we're building a culture that not only unites the team but empowers them to innovate and succeed.

One of the important commitments we have to our employees is to create a workspace, where everyone can be comfortable to work at their very best. In the past quarter, at McKesson, we celebrated Black History Month in February and Women's History Month in March, with many great, great employee-led events. I had the opportunity to participate in many of these, and I'm energized by the dedication and passion our employees have demonstrated towards promoting awareness and listening and supporting each other as Team McKesson.

We have a strong employee value proposition, and our progress in creating the best place to work is being recognized externally. Recently, we were pleased to be named by Forbes as one of America's Best Large Employers, earning the third highest ranking in healthcare. We were also named by Newsweek as one of America's Greatest Places for Work (sic) [Workplaces] for Women, among many, many more recognitions. I'm very proud of the accomplishments, togetherness, and the alignment of our team.

Our second company priority is to drive sustainable core growth. In U.S. Pharmaceutical, the core pharmaceutical distribution business continues to support the growth momentum of the segment. In fiscal 2023, the segment revenue increased 13%, and adjusted operating profit, excluding COVID-19-related contributions, increased 8%, representing the highest profit growth rate since we formed this segment.

We renewed our longstanding relationship with CVS and delivered strong value propositions to support customers across all channels, partnering with them to help solve their most immediate business needs. Our ability to consistently deliver high-quality services is supported by our deep expertise in pharmaceutical distribution and scaled network of assets. We continue to invest in the infrastructure to improve efficiency and modernize the network in support of our growth and in pursuit of efficiencies.

In October 2022, we opened a new state-of-the-art pharmaceutical distribution center in Ohio. This is one of our most technologically advanced facilities. It leverages automation to increase efficiency, increase productivity and enhance the employee experience. Leveraging our scaled distribution network and logistics expertise, we have supported the US government in its initiatives of distributing COVID-19 vaccines and the kitting and storage of ancillary kits. Both government contracts are scheduled to expire in July of 2023.

Looking back at the past two years, Team McKesson has demonstrated incredible agility, dedication and commitment in standing up the operation and in distributing millions of lifesaving vaccines across the country. We've gained invaluable experience, deepened our relationship with government partners and proven our value, capabilities and expertise.

The next priority I want to talk about is our priority to expand the oncology and biopharma platforms. Through years of focused investment and execution, we have built differentiated assets and capabilities in oncology and in biopharma services, and we've strengthened our market positions in these high-growth and high-margin areas.

I'll start with the oncology platform. One of the pillars of our oncology platform is the distribution capability. We are the leading distributor in the community oncology market, with a scaled reach to providers in the community setting. Biologics, our specialty pharmacy, supports more than 3,500 specialty practices with cancer and other rare disease medications.

Through our GPO services, Onmark and Unity, we serve thousands of oncology physicians and deliver significant savings on oncology drug purchases for practices both within The US Oncology Network and other community-based practices.

Fiscal 2023 has been a year of significant growth for our practice management business. The US Oncology Network welcomed three new practices: Epic Care, Nexus Health and, most recently, the Regional Cancer Care Associates as effective as of April 1, 2023. With these additions, the number of providers grew by more than 450 to a total exceeding over 2,300. This represents the fastest growth period since we acquired The US Oncology Network in 2010. These new practices expand the reach of the network into new geographies and enhance its commitment to providing high-quality care close to home.

In addition to the expansion in footprint, we continue to empower the growth of individual oncology practices to ensure that they are the forefront of cancer care. Physicians in the network stand out as thought leaders in the industry, with participation in leading publications and leadership roles within the industry. The network also plays a leading role in the transformation to value-based care, including its participation in the Oncology Care Model.

In October 2022, US Oncology Research formed a joint venture with HCA Sarah Cannon Research Institute, creating a fully integrated oncology research organization. We expect this transaction to accelerate our oncology strategy, expand clinical research and increase access to clinical trials for community oncology providers and, more importantly, for patients.

We're pleased with the performance across the oncology platform, and we believe our differentiated set of assets allows us to be a key partner of choice across both providers and biopharma companies.

In addition to the momentum in the oncology platform, we're also making significant progress in growing our assets and capabilities in the biopharma platform. We continue to enhance the ways patients get their medications by improving access, affordability and adherence to prescription medications.

In this past year, we managed programs that helped patients save more than $8 billion on branded and specialty medications, and prevented approximately 9.9 million prescriptions from being abandoned due to affordability challenges. This helped patients get access to medicine more than 78 million times.

In November of 2022, we completed the acquisition of Rx Savings Solutions, a prescription price transparency and benefit insight company. The acquisition expands our affordability and adherence capabilities and sets the foundation for the expansion of outcomes management and evidence-based biopharma and payer services.

For the Prescription Technology Solutions segment, our fiscal fourth quarter is usually the busiest quarter of the year, driven by customer annual verification activities. Our employees had a particularly busy season this past quarter, assisting the highest volume of patients in the history of the segment. We continue to see strong market demand for the products and services we provide, which supports the growth outlook of this segment.

While we're committed to grow the biopharma platform, we're also continually looking for opportunities to optimize the portfolio of products and services we offer. We have a disciplined review process to ensure that our resources are aligned with the areas of most strategic priority. In this past quarter, we made the decision to re-prioritize investments of products within the Prescription Technology Solutions segment that we believe have reached the end of their lifecycle and are no longer essential to the growth strategy.

These actions will allow us to improve operational efficiency and, more importantly, to better focus investments in other strategic areas and to maximize our resources for growth opportunities.

These types of decisions are always difficult, and it had a direct impact on some of our employees. I am deeply grateful for the contributions of all our Prescription Technology Solution (sic) [Solutions] employees have made that have led to the significant growth in this segment for the past several years.

As part of this initiative, we're also streamlining the real estate assets supporting more flexibility for our employees. We remain confident about our differentiated capabilities, the market opportunity and our ability to achieve the long-term growth target of this segment.

Another important portfolio action we are executing is the divestiture of our European businesses. We've now successfully divested businesses in 11 of the 12 countries, with Norway being the only country for which we are still exploring alternatives.

As we make significant progress in expanding the strategic growth areas, we are doing so in a way that allows us to deliver for all our stakeholders. We're committed to drive sustainability and to execute on initiatives that are aligned to our business strategy, support our growth, and contribute to measurable and enduring positive impacts and health outcomes for our stakeholders and communities. We look forward to publishing our Impact Report in June to share our progress on these important initiatives.

Earlier this year, our near-term science-based greenhouse gas emissions reduction targets were approved by the Science Based Targets initiative. Focused on energy, transportation and real estate, our teams are taking meaningful actions to achieve these targets and improve the business. Recently, we were included in Sustainalytics 2023 Industry Top-Rated ESG Company list, recognizing our comprehensive commitment and achievements in environmental, social and governance-related issues.

So let me pull everything together. McKesson reported a strong fourth quarter and full year results. Looking back to fiscal 2023, we made significant progress in advancing our company priorities. We executed on our strategy with focus and dedication. We invested in our businesses and our people for future growth. And as a diversified healthcare service company, we enacted positive changes to our customers, partners and their patients.

I'm incredibly proud of what we have achieved as a team, and I'm confident in our ability to continue the momentum and deliver sustainable growth, as reflected in our updated long-term segment growth targets.

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

Britt J. Vitalone

Executive Vice President & Chief Financial Officer, McKesson Corp.

Well, thank you, Brian. Today, I'll discuss our fourth quarter and full year fiscal 2023 results. Then, I'll provide an overview of our fiscal 2024 outlook, including our updated long-term adjusted segment operating profit growth targets.

My comments today will refer to our fiscal 2023 adjusted results, unless I state otherwise. We delivered strong fourth quarter results. Earnings per diluted share was $7.19, an increase of 23% compared to the prior year. These results were right in line with the guidance we provided on our third quarter earnings call.

Our results demonstrate the breadth of McKesson's strength as a leading diversified healthcare services company, with strong performance and growth in each of our core operating businesses. For the full year, earnings per diluted share increased 9% year-over-year to $25.94, driven by a lower share count and growth in the U.S. Pharmaceutical segment, partially offset by lower contributions in the International segment as a result of the completed divestitures of McKesson's European businesses.

Full year earnings per diluted share also included $2.36 related to the following certain items, which can also be found on slide 23 in the appendix to our earnings presentation: $0.78 related to the US government's centralized COVID-19 vaccine distribution program; $1.12 related to COVID-19 tests and the kitting, storage, and distribution of ancillary supplies for the US government; $0.65 related to the early termination of the tax receivable agreement, or TRA, with Change Healthcare; and $0.19 related to net losses associated with McKesson Ventures' equity investments.

Excluding these certain items, earnings per diluted share increased 15% year-over-year, above our previously communicated long-term growth rate target. Our strong full year results are broad-based and reflect our ongoing commitment to deliver sustainable growth and long-term shareholder value.

Before I turn to our consolidated results, I want to highlight one item that impacted our fourth quarter GAAP-only results. We remain focused on strategically managing the company to deliver differentiated customer value, as well as long-term financial growth and profitability. In support of delivering sustainable value, innovation, and growth, during the fourth quarter fiscal 2023, we announced a broad set of initiatives: simplify our infrastructure, drive operational efficiencies, and increased cost optimization. These initiatives include head count reductions and the exit or downsizing of certain facilities.

During the fourth quarter, we recorded charges of $60 million related to these initiatives, which include severance and other employee-related costs within our Prescription Technology Solutions segment, asset impairments and accelerated depreciation, including certain asset impairments primarily within our U.S. Pharmaceutical segment, and real estate charges within Corporate. We anticipate total charges of approximately $125 million within our Prescription Technology Solutions and U.S. Pharmaceutical segments, as well as Corporate, to be substantially completed by the end of fiscal 2024.

Moving now to our consolidated results, our consolidated revenues increased 4% to $68.9 billion in the fourth quarter, and for the full year increased 5% to $276.7 billion. Fourth quarter and full year results were driven by growth in the U.S. Pharmaceutical segment, including increased specialty product volumes from retail national account customers, partially offset by lower revenues in the International segment as a result of the completed divestitures of McKesson's European businesses. Excluding the impact of the European business operations, including these completed divestitures, revenues increased 13% in the fourth quarter and 12% in the full year when compared to fiscal 2022.

Gross profit was $3.1 billion for the quarter, a decrease of 8%. For the full year, gross profit was $12.2 billion, a decrease of 7%. Excluding the impact of our European business operations and completed divestitures, gross profit increased 9% in the fourth quarter and 8% in the full year, primarily as a result of growth in the U.S. Pharmaceutical and Prescription Technology Solutions segments.

Operating expenses decreased 14% in the quarter and 13% for the full year, largely driven by completed European divestitures in our International segment and lower opioid litigation costs. Excluding the impact of our European business operations and the completed divestitures, operating expenses increased 8% in both the fourth quarter and the full year.

Fourth quarter operating profit increased 4% to $1.3 billion, driven by growth in U.S. Pharmaceutical segment, including solid contributions from our generics program and Prescription Technology Solutions growth more than offsetting the impact from completed divestitures in the International segment.

Full year operating profit increased 3% to $5 billion, primarily led by growth in our North American businesses, partially offset by these completed divestitures in our International segment and lower contributions from COVID-19-related items year-over-year.

When excluding the impact related to the distribution of COVID-19-related products, a pre-tax benefit of $126 million related to the early termination of the TRA with Change Healthcare in the third quarter, and net gains or losses associated with McKesson Ventures' equity investments, operating profit increased 9% in the fourth quarter and 8% for the full year when compared to fiscal 2022.

Moving below the line, interest expense was $70 million in the quarter and $239 million for the full year. The increase was primarily due to impacts from higher interest rates. Effective tax rate was 12.9% for the quarter and 18.8% for the full year, in line with our original guidance. As a reminder, our effective tax rate can vary quarter-to-quarter, driven by our mix of income and the timing of discrete tax items. Wrapping up our consolidated results, fourth quarter diluted weighted average shares outstanding was 138 million, decrease of 8% year-over-year.

Turning to our fourth quarter and full year segment results, which can be found on slides 7 through 12 and starting with U.S. Pharmaceutical. Our U.S. Pharmaceutical business is a scaled efficient business and comprises the breadth and depth of services and capabilities, including our growing oncology platform, and we're pleased with the momentum in this segment.

Fourth quarter revenues were $61.7 billion, an increase of 15% year-over-year, driven by growth across all customer segments, including increased volume of specialty products, higher volumes from retail national account customers, and market growth, which is partially offset by branded to generic conversions.

Fourth quarter operating profit increased 10% to $861 million and for the full year increased 6% to $3.1 billion, driven by growth in the distribution of specialty products to providers and health systems and increased contributions from our generics programs. We remain pleased with the performance of our generics program lead by stable market fundamentals and the strength of our sourcing operations. We continue to provide solid value to our customers and partners, delivering low-cost and stable supply.

Our contract with the US government for COVID-19 vaccine distribution provided an operating profit benefit of approximately $21 million or $0.11 per share in the fourth quarter compared to $12 million or $0.06 per share in the fourth quarter the prior year. For the full year, this contract provided a benefit of $149 million or $0.78 per share compared to $186 million or $0.89 per share in fiscal 2022.

When excluding the impact of COVID-19 vaccine distribution, the U.S. Pharmaceutical segment delivered operating profit growth of 9% in the fourth quarter and 8% for the full year, compared to fiscal 2022 results, which were ahead of the segment's long-term growth target.

For the Prescription Technology Solutions segment, fourth quarter revenues were $1.2 billion, an increase of 16% year-over-year, driven by growth in prescription volumes in our third-party logistics business, and access and adherence solutions transaction volumes. Fourth quarter operating profit increased 35% to $218 million and full year operating profit increased 15% to $679 million driven by growth in access and affordability solutions.

Fourth quarter results were also positively impacted by annual customer verification support activities, as well as increased volume growth, partially due to the commercial success of the brands we serve. Through our comprehensive suite of solutions and services, McKesson helped patients access their medicine over 24 million times in the fourth quarter, the highest number of patients assisted in the segment's history. This segment produced strong fourth quarter results, and full year performance was in line with our original guidance.

Moving now to Medical-Surgical Solutions. In the fourth quarter, revenues were $2.7 billion, a decrease of 6% year-over-year, and operating profit was $248 million a decrease of 17%. For the full year, operating profit declined 4% to $1.2 billion. Fourth quarter and full year results were impacted by lower sales of COVID-19 tests and lower contribution from kitting, storage, and distribution of ancillary supplies to the US government's COVID-19 program, partially offset by growth in the primary care business, including favorable sourcing activities and illness season testing compared to the prior year.

Contributions for COVID-19 tests in our contract with the US government for the kitting, storage, and distribution of ancillary supplies provided a total benefit of $31 million or $0.16 per share in the fourth quarter compared to $85 million or $0.42 per share in the fourth quarter of fiscal 2022.

For the full year, COVID-19-related items provided a benefit of $216 million, or $1.12 per-share compared to $371 million or $1.78 per share in fiscal 2022. When excluding the impact of COVID-19-related items, this segment delivered operating profit growth of 2% in the fourth quarter and 13% for the full year compared to fiscal 2022 results, which was at the upper end of the original guidance range that we provided.

Next, we'll address our International results. Revenues in the fourth quarter were $3.4 billion, a decrease of 61% year-over-year and operating profit was $80 million, a decrease of 46%. On an FX-adjusted basis, fourth quarter revenues were $3.6 billion, a decrease of 58%; and operating profit was $88 million, a decrease of 40%. For the full year, operating profit on an FX-adjusted basis decreased by 22%. Fourth quarter and full year results reflect the year-over-year effects and the completed divestitures within our European businesses.

And wrapping up our segment review, corporate expenses were $149 million in the quarter, a decrease of 19% year-over-year. For the full year, corporate expenses were $457 million, a decrease of 21%, which included a pre-tax benefit of $126 million related to the early termination of the tax receivable agreement or TRA, with Change Healthcare in the third quarter.

Corporate expenses in the fourth quarter and full year were positively impacted by lower opioid-related expenses compared to the prior year. During the quarter, we had net losses of $12 million, or $0.06 per share, related to equity investments within the McKesson Ventures portfolio compared to net losses of approximately $6 billion, or $0.03 per share, in the fourth quarter of fiscal 2022.

For the full year, McKesson had net losses related to equity investments with our McKesson Ventures portfolio of approximately $36 million, or $0.19 per share. This compares to net gains of approximately $98 million, or $0.47 per share, for the full year fiscal 2022.

As a reminder, McKesson Ventures portfolio holds equity investments in several growth stage digital health and services companies, and we're pleased with the insights and the results that we've obtained through this portfolio. The impacts on consolidated financials can be influenced by the performance of each individual investment quarter-to-quarter; and as a result, McKesson's investments may result in gains or losses, the timing and magnitude of which can vary for each investment. Excluding the benefit from the early termination of the TRA and net gains and losses within the McKesson Ventures portfolio, corporate expenses decreased 23% and 19% in the fourth quarter and full year, respectively.

Turning now to our cash position and capital deployment, which can be found on slide 13. For the fiscal year, we generated record cash flow, reflecting the broad-based strength of our businesses, the focus on working capital efficiency and disciplined capital investment. For the full year, we generated $4.6 billion in free cash flow, including $558 million of capital expenditures, which included investments to support our strategic pillars of oncology and biopharma services, as well as investments in our distribution centers.

We used our strong balance sheet to return $3.6 billion to shareholders through share repurchases, including $138 million in the fourth quarter. During quarter, we entered a new share repurchase program, which allows up to $1 billion of new repurchases. I'll speak about our share repurchase guidance for fiscal 2024 in a few minutes.

Additionally, we paid dividends of $292 million for the full year, and we remain committed to growing the dividend in line with earnings growth. When combining share repurchases with dividends paid, we returned approximately 85% of free cash flow to shareholders in fiscal 2023. We continue to utilize capital deployment as a method to drive value for our shareholders.

Since the beginning of fiscal 2019, we returned $12.9 billion of cash to shareholders through share repurchases and dividends. Of this amount, approximately $11.5 billion has been returned through share repurchases, reducing our total shares outstanding by approximately 33%. Our strong operating performance, combined with our return of capital to shareholders, reinforces our commitment to driving shareholder value.

Now, let me spend a few minutes discussing our outlook for fiscal 2024. As a reminder, we do not provide forward-looking guidance on a GAAP basis, so the following metrics are provided on an adjusted non-GAAP basis. Rather than outlining each assumption, I'll instead walk you through the key items beginning with additional details of fiscal 2024 consolidated guidance. A full list of our assumptions can be found in slides 14 through 19 in our supplemental slide presentation.

Fiscal 2023 was a strong year where we exceeded our full year operating profit, earnings per share and cash flow guidance that we laid out at the beginning of May last year. These results have increased our confidence and our outlook. Strategies that we've discussed today are delivering, and we expect that they will continue to deliver strong levels of operating profit, earnings per share growth and robust cash flow generation.

We anticipate earnings per diluted share of $26.10 to $26.90 for fiscal 2024, which contemplates operating profit growth across each of our core operating businesses, when excluding COVID-19-related items, supplemented by disciplined capital deployment.

We anticipate earnings per diluted share to increase 11% to 14% in fiscal 2024 when excluding $1.90 related to COVID-19-related items, $0.19 of net losses associated with McKesson Ventures equity investments, and $0.65 benefit related to the early termination of the TRA with Change Healthcare in fiscal 2023.

Let me start by discussing our approach to COVID-19-related items in our fiscal 2024 outlook. Since the onset of the pandemic, McKesson has played a central role in providing support for the US government's distribution of COVID-19 vaccines and the kitting, storage and distribution of ancillary supplies, as well as providing the distribution of COVID-19 tests to our customers.

Looking ahead to fiscal 2024 and the scheduled completion of our COVID-19 contracts with the US government in July of 2023, we anticipate that the impact from COVID-19-related items, including COVID-19 tests, will be immaterial to fiscal 2024 results. As such, we will no longer provide earnings per diluted share guidance metrics specific to these items going forward.

Let me discuss the outlook for our segments. We continue to be pleased with the growth we're seeing in the U.S. Pharmaceutical segment. The value proposition of our core distribution platform resonates across retail, health systems and provider settings, and we anticipate growth across several customer channels.

We also anticipate further growth in oncology platform. US Oncology Network (sic) [The US Oncology Network], the largest oncology practice management organization in the US, has continued to expand its footprint into local communities to increase the availability of advanced care and better patient outcomes. We continue to grow the provider footprint with over 2,300 providers in the network.

We formed a joint venture with the Sarah Cannon Research Institute in fiscal 2023. This partnership enhances our proposition to biopharma companies and further advances our differentiated offerings across the entire pharmaceutical lifecycle.

Additionally, in fiscal 2024, we anticipate branded pharmaceutical price increases to be in line with the increases experienced in fiscal 2022, and do not anticipate the higher price increases that we saw in fiscal 2023 to repeat in fiscal 2024. Within our generics business, the fundamentals remain competitive yet stable, with our strong sourcing program continuing to provide value for our customers.

Wrapping up the U.S. Pharmaceutical segment, for fiscal 2024, we anticipate revenue to increase 9% to 11% and operating profit to be approximately flat to 3% growth year-over-year. When excluding the impact of COVID-19 vaccine distribution from fiscal 2023, we anticipate operating profit to increase 5% to 8%.

In the Prescription Technology Solutions segment, we anticipate revenue growth of 7% to 13% and operating profit growth of 11% to 15%, reflecting continued organic growth and higher transaction volumes across our access and affordability solutions and services.

Within the Prescription Technology Solutions segment, our 3PL services typically represent slightly more than half of full year revenues, [indiscernible] (00:34:09) services represented less than 10% of full year operating profit on average over the previous three fiscal years. As I've stated previously, the mix of revenue in this segment can vary quarter-to-quarter. However, over the balance of a full year, we anticipate full year product mix in fiscal 2024 to be consistent with prior years.

In fiscal 2023, we also acquired Rx Savings Solutions, which helps employers and health plans reduce prescription drug costs, by utilizing its advanced analytics capabilities. We're pleased with this acquisition's progress, and will continue its integration during fiscal 2024 as we begin to realize the value from the synergies.

This segment continues to perform well with higher revenue and margin opportunities that leverage our scale and technology capabilities. The strong growth profile, over the last few years, reflects our ongoing strategic investments to grow and expand our suite of products and solutions to provide next generation patient access, affordability and adherence solutions that are automated and integrated in the provider workflows.

In the Medical-Surgical Solutions segment, we anticipate reported revenues to be approximately a 1% decline to 3% growth, and operating profit to decrease 5% to 11%. The Medical-Surgical business remains well-positioned to leverage the breadth and depth of its services throughout the alternate site market, including growth in the primary care business and lab solutions. Our contract with the US government for the kitting, storage, and distribution of ancillary supplies ends in July of 2023, and we expect the remaining impact of this contract to be immaterial to fiscal 2024 results.

And while we anticipate a modest contribution from COVID-19 tests, we anticipate volumes to continue to decline and be at a lower level compared to fiscal 2023 and immaterial to fiscal 2024 results. Excluding the impact of these COVID-19-related items from fiscal 2023 results, we anticipate operating profit to increase 11% to 15% year-over-year.

Finally, in the International segment, we anticipate revenues to decline by 30% to 34%, and operating profit to decline by 23% to 29%. This year-over-year decrease includes a loss of operating profit contribution from businesses and transactions we've closed to-date and that we expect to close during fiscal 2024. We continue to explore strategic alternatives to exit our remaining operations in Norway. And as I mentioned on our third quarter earnings call, we intend to deploy capital through share repurchases to offset any dilution resulting from the European divestitures.

Now, turning to cash flow and capital deployment. Our North American businesses continue to generate strong free cash flow and our capital allocation priorities remain unchanged. We continue to be focused on profitable growth and efficient deployment of capital. Our 24% return on invested capital illustrates our focus on shareholder value creation.

Our strong balance sheet provides us the flexibility to pursue multiple capital allocation priorities concurrently. We will continue to prioritize growth through organic opportunities. However, increasingly, through acquisitions and on strategy and appropriate multiples. For fiscal 2024, we anticipate free cash flow of approximately $3.7 billion to $4.1 billion net of property, acquisitions and capitalized software expenses.

We also remain committed to returning capital to our shareholders. Our outlook incorporates plans to repurchase approximately $3.5 billion of shares in fiscal 2024. As a result of the share repurchase activity, we estimate weighted average diluted shares outstanding for fiscal 2024 to be in the range of approximately 133 million to 134 million.

Combining all these elements, we've suggested earnings per share of $26.10 to $26.90. Excluding the impact of COVID-19-related items and the contribution from our remaining European operations in Norway, we anticipate earnings per diluted share growth of approximately 14% to 18%% in fiscal 2024 which is above the long-term target rate we previously provided. The strong outlook further demonstrates our shareholder value creation framework. We continue to be focused on profitable growth and efficient deployment of capital.

Turning now to our long-term adjusted segment operating profit growth targets which can be found on slide 19. As COVID-19-related contracts with US government are scheduled to end in July of 2023, and the contribution from Europe continues to run-off as guided, we remain committed to executing against our strategic initiatives and building on our differentiated assets and capabilities. As a result, we're pleased to be raising our long-term growth targets. It's a demonstration of the execution of our strategies, our leading market positions, and strong financial position.

For U.S. Pharmaceutical, we anticipate 5% to 7% long-term growth, which is up from 4%. For Prescription Technology Solutions, 11% to 12% long-term growth, up from 11%. And in Medical-Surgical Solutions, 10% to 12% long-term growth, up from 10%. With our strong underlying momentum and our aligned focus on the many growth opportunities moving forward, we remain confident we'll continue to deliver long-term sustainable growth to provide superior value for our customers, team members and shareholders alike.

In conclusion, we are well-positioned in the market with unique strength and scale that only McKesson can provide. We will continue to invest in our strategies as we expand the reach of our oncology ecosystem and biopharma services platform. As fiscal 2023 demonstrated, our strategies are working, producing value for all stakeholders. We have tremendous momentum across the business, a strong financial outlook; and our financial framework and execution position us to deliver sustainable profit growth, cash flows and shareholder value creation. We have great confidence in our teams, and our products and services, and in our strategy.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from Eric Percher with Nephron Research.

Eric Percher
Analyst, Nephron Research LLC

Q

Thanks for all of the detail. Thank you. I'd like to dig into the increase in long-term profit growth targets and specifically, pharma, and it's a massive absolute number at the high-end of the new range; and for 2024, that range comes with needing to lap brand benefits. So I'd love to hear what gets you to the high-end of the range, factors within the year, and what drives the long-term guidance, macro trend versus strategy versus investment?

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

A

Thanks for the question, Eric. I think what – as we look at the business, we've already previously indicated that we thought we could grow the business faster than the originally indicated long-term guidance. I think there are a number of factors that are a part of that.

First of all, we've seen strong utilization. I think that, as a baseline, we've seen that actually increase throughout the year, and we expect that utilization will remain solid going forward. We've built a lot of momentum across our health systems business, our retail pharmacy network, and the value that we're providing there, and we've been growing our oncology platform. You heard Brian and I both reference the number of providers that we've added. Certainly, if you think about the value that we provide not only as a distributor but GPO services, and now the added capabilities with Ontada and Sarah Cannon Research, and the opportunities going forward as it relates to biosimilars, all of these things really point to the opportunities for us to grow faster in the future than the original long-term target rate; and the business continues to generate good cash and efficiency through scaled operations. So, I think all of those things and the momentum that we've showed now over a number of years lead us to have some confidence in a higher growth target.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And our next will be Michael Cherny with Bank of America.

Michael Cherny
Analyst, BofA Securities, Inc.

Q

Good afternoon, and thanks for taking the question. Congratulations on a really strong guide. Maybe to take Eric's question, but pivot it a bit on to the Med-Surg side. It seems like the multitude of factors, even backing out COVID, has continued to help you, strong market positioning, site of care, volumes, you name it. As you think about the build, because you did take up that guidance as well, what do you think the steady state looks like in terms of where we have been pre-COVID versus going forward among all those different metrics, among share gain, among site of care, among private label, that allows you to build to that higher and consistent double-digit growth rate within what already is a pretty sizable segment from an EBIT perspective?

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

A

Yeah. Thanks, Michael. I'll take that one, and give Britt a minute of relief. So, our Medical business is incredibly diverse. Across, it's really shows up in all of the alternate sites, or everywhere that's not a hospital setting, to be truthful. And even amongst hospitals, we tend to serve all of their community, not all, but we do serve their community-based locations, and it's also diverse from a sense of multiple product lines. It's not just commodity medical products. It's equipment, it's lab, it's pharmaceutical, it's specialty pharmaceutical. Yeah. When we look at utilization broadly across the industry, we've been pleased to see it come back. We've seen prescriptions come back. Oncology visits come back. Medical is probably recovered a bit over the course of the last year, but we were encouraged by recent commentary and stats on the recovery and ambulatory surgery centers for example. So, I think there's a big utilization that we think continues to under lie this business. There's the diversity of the products and the new segments that we can penetrate. There's opportunities for us. We continue to believe in our private brand portfolio. So, I'd say it's the confluence of all those things that give us the confidence.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Lisa Gill with JPMorgan.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Good afternoon. Just, Britt, I first wanted to follow up on the $0.40 range as we think of the guidance and just understand some of the puts and takes and the upper end and the lower end. And more importantly, as we think about, for example, the changes in insulin pricing and how drug distributors make money; so, one, can you maybe just walk us through how we should think about insulin? And then, secondly, in the answer to an earlier question, you talked about lapping the brand benefit, but I'm also curious as to how you and Brian are thinking about new products that are coming to the market. I think things like GLP-1 and other really expensive drugs that will have a big top line.

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

A

Thanks for the question, Lisa. So, a lot there. Let me just see if I can kind of tick through it. If I miss something, please remind me. As we think about the products that we serve across our biopharma partners, our first job there is to think about what is it that our customers need, and then work with a biopharma partners to determine the services that they need us to provide on behalf of those products. And when we do that, we work to establish a fair value for those services that we provide, regardless of what the product is. That's what we do on a constant basis, working with our manufacturers. So, I think we've talked about this now for a number of years, that we've continued to evolve our manufacturer relationships and our pricing to be reflective of the fair value of the services that we provide; and as we go forward, that's going to continue to be our focus so that we maintain the economics that we have for the services that we provide.

In terms of GLP-1, again it's part of the broad set of products that we distribute on behalf of manufacturers to our customers. One of the other things I would remind you of is over the last several years, we've been on a journey to ensure that all products, regardless of the category, individually, are reflective of the economics that we receive in terms of how we price those back with our customers, so we're on that. We continue to be on that focus, and I think we're well-positioned to do that as we go forward.

Brian, if you would – there's anything you would add to that?

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

I think that's well-done. Obviously, it's hard to go anywhere these days without talking about GLP-1s, and I'd just characterize it generally. I think their growth will be positive for us and have a big impact on, hopefully, patients and health of the country.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.
A

Next question, please.

Operator: And next will be Brian Tanquilut with Jefferies.

Brian Tanquilut
Analyst, Jefferies LLC
Q

Hi. Good afternoon, guys, and congrats again also on the guide. I guess, Britt, as I think about the guidance, obviously raising your operating income target, you don't have an EPS growth target here in like the last time when you did the Investor Day. So, just curious if the bridge to EPS has changed from the operating income target that you've laid out or maybe how should we be thinking about EPS growth? Thanks.

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

Yeah. Brian, thanks for that question. I think what we've done here is we've updated the segments. There really is no change to the range that we provided for adjusted EPS. In one of the comments that I made, as we think about capital deployment, we're going to continue to focus on growing the business, whether that be organically in the investments that we make in it or more as we go-forward, more on M&A. You saw us do a couple of really key M&A transactions last year that were right on strategy and, as you know, it generally takes a few years to get the full synergies from that M&A. We expect that we'll continue to do M&A on strategy at the right multiples and that even with the increase in the operating segment guidance, that the overall EPS guidance would still be within the range.

There's opportunities, obviously, for us if we're able to generate some more capital deployment and we're able to get some acquisitions here that we can realize the synergies in an earlier manner for us to be at the upper end of the range that we provided you, but really no change to the overall range in this update.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.
A

Next question, please.

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

Charles Rhyee
Analyst, TD Cowen
Q

Yeah. Thanks for taking the questions, and congrats as well. I wanted to focus a little bit on within the – going back to an earlier question about the increase in the long-term guide for the U.S. Pharma segment. Can you talk a little bit more about Ontada and sort of the progress you've made there? The increase in guide – long-term guide, would you expect to come from Ontada? And maybe talk a little bit more about what's been going on there. And I guess the JV with HCA, the Sarah Cannon Cancer Institute, is that part of the Ontada sort of partnership or is that separate? Just trying to understand a little bit more where we've gotten to at this point because I know a couple of years ago when you announced it at the Investor Day, you kind of suggested it was kind of immaterial in the near-term, but just trying to see how far we've gone so far.

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

Yeah. Let me jump in on this one, Britt. So we call it an oncology ecosystem because we really think there is this value of all of the pieces together, and I'm really pleased with the progress that we're making overall. You've seen the growth that both Britt and I talked about in The US Oncology Network now scaled over 2,300 providers. We've made tremendous progress. Had a record year of adding providers to the network last year, and that's a piece. And as that grows, that obviously feeds more data, give us more provider insight.

That allows Ontada to continue to work with our partners to create products and services that help them develop, commercialize and get their products to market, and understand how to most effectively go to market to have the utilization and patient impact that they want.

We think that Ontada is in year three or four of its development, building off some assets that we have long had, but we continue to invest in new product development and we continue to see that business improve year-over-year. We think the partnership with the joint venture we did for the Sarah Cannon Research Institute brings additional insights, moves us up stage in the clinical trials in a very prominent way in the community setting.

So again, we think that trial, early insight business, that helps feed Ontada, that helps our providers navigate the clinical care that they have to provide every day. The insights we get from that clinical care can feed back through some of our data assets to provide information back to the biopharma.

So each of the pieces is sort of additive to the overall solution. And I'd just say that while we're probably, I would characterize it, it's still an investment phase in Ontada because we still believe there's opportunity and a big long-term market out there and lots of space for us to be innovating in with the unique assets we have. Overall, I think it was a – we're very pleased with where our oncology business has developed.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.
A

Next question, please.

Operator: And next will be Daniel Grosslight with Citi.

Daniel Grosslight
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking the question. If I back out the impact of divestitures from the International business, looks like you're growing Canada around 8% to 10% or so depending on what the Norway contribution is assumed this year. Curious what's driving the strength of the Canadian business in 2024 and if your International guidance contemplates a full year contribution from Norway?

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

A

Well, we don't really break out Norway and Canada and talk about them separately. But what I will say about our Canadian business is we have, again, a very diversified set of assets in Canada. We have a leading distribution position. We have a leading retail banner position. We've got a leading chain pharmacy position there. We've got biopharma and specialty assets. Now, those work very differently than the ones that work in the US, but really, in many ways, getting at kind of the same overall need just in a very different healthcare system.

And so, on the basis of our scale and our breadth, we are a really important player in the health of Canada. And I think we've been able to leverage that scale. We've been able to find efficiencies across the business to continue to support growth that we're very pleased with.

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

A

Maybe I'll just answer the one mechanical question as it relates to Norway. We do have Norway included in our full year FY 2024. Just to repeat, though, we continue to strategically look for an opportunity to exit the European operations completely, which would be Norway, but you should anticipate that there is full year of Norway in our numbers.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.

A

Next question, please.

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

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good afternoon, guys, and thanks for taking the question. Brian, I kind of want to come back to one more on oncology. You guys announced a couple of smaller transactions in the prepared commentary, and your friends in Philadelphia recently announced a deal. I guess, I would ask, as you guys look out from kind of the practice management and partnership perspective, how much greenfield opportunity do you guys see left?

And I know that you have the Ontada business that's budding, but would just kind of love how you think about the runway to continue to either work more tightly with practices or help them grow their business, which serves as an opportunity to grow McKesson's business as well. Just trying to figure out what inning we're in there. Thank you.

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

A

Yeah. Thanks, George. Thanks for the question. So we've been at this for a long time. I think we acquired US Oncology in 2010, so it's been a long time. We've got a lot of experience. And if you think about the breadth of our solutions in the community oncology space, I mean, you can start your relationship with McKesson with just basic distribution. Then, you can add on distribution and our GPO services. And then, we have à la carte services to support you in the running of your practice.

And that gives us great relationships, great insight into the practices that are out there in the community and helps us really identify who we consider to be the leaders, businesses that are run with similar clinical and operational philosophies to The US Oncology Network. So it's not uncommon to see us start with just a very transactional relationship, but then over time grow that into inclusion in The US Oncology Network.

We have a very disciplined model for the types of practices that we think fit the USON model. And I think over the last couple of years, you've seen us pretty successfully attract them into The US Oncology Network.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Kevin Caliendo with UBS.

Kevin Caliendo
Analyst, UBS Securities LLC

Q

Hi. Thanks for taking my question. It's about the long-range plan. If I'm looking at the Pharma segment, it looks like margins should be flat or maybe up. You have operating income kind of growing in line, but yet for fiscal 2024, if we back out the COVID benefit, it's below, and meaning this margin shrinkage is expected. So I'm just wondering if that's insulin or something else. And then with the long-range plan, is the raising of the long-range plan like from fiscal 2024 forward, or is it inclusive of what just happened in 2023 as well?

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

A

So thanks for the question. Let me maybe answer these in reverse order. What we've done here is provide you our FY 2024 outlook, and at the same time, looking back at our performance over the previous five years, updating our guidance going forward from fiscal 2024 forward as a long-term rate.

As we look at the margins year-over-year, I think there's a few things that will impact this, clearly, the mix of both products and services that we provide with a heavier and faster-growing specialty product portfolio, as well as the mix of customers. We continue to see growth – faster growth in our largest customers.

And then the last thing I would say is, we are very proud of the oncology business that we're putting together, including our Ontada business and Sarah Cannon Research, and we're continuing to invest in those capabilities and services to support a lot of what Brian just talked about in terms of how we really think about the growth opportunities that we have going forward. So I think those would be the couple things that I would point out that could lead to margin variation from one year to another.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And next will be Steven Valiquette with Barclays.

Steven J. Valiquette
Analyst, Barclays Capital, Inc.

Q

Thanks. Good afternoon, everybody. Just on the 340B topic, I think some questions on that as far as exposure for McKesson kind of heading into these results. I guess I'm just curious, for fiscal 2024 guidance, what's baked into the outlook for any sort of 340B impact and how that compares to fiscal 2023, if that's even material, one way or the other, just wanted to get some color on that. Thanks.

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

A

Yeah, mechanically, clearly, we feel like we're well-positioned to manage through any impacts that come from 340B. Any impacts that will come from that are assumed within our guidance, so there's nothing additional to call out.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.

A

Next question, please.

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

Erin Wilson Wright
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for taking the question. Can you comment a little bit on the dynamics of what's driving the strength across the generics program? And is there anything to call out there or changes in fundamentals across the generics business? And have you seen some of the disruption amongst some of the certain larger generic manufactures flow through to your business? Thanks.

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

A

Thanks for the questions. As I talked about a little bit in my remarks, maybe I'll expand on that, we have a very scaled generics operation. We start with a very scaled and efficient sourcing program that we've been running now for a number of years, and we have some great partners. And we have great partnerships with generic manufactures, very diverse and very broad set of partners.

That helps us manage through any supply shocks that may happen, and those happen every year. We're able to manage through that. For as long as I've been in this business, you will see from time-to-time, you will see a generic shortage or a generic impact to supply. We've been able to manage through that very well given the strength and the breadth of partnerships that we have.

I also talked about the fact that the marketplace has very stable fundamentals. And so when you think about the focus that we have on a scaled and efficient sourcing program, stable set of market fundamentals, which, again, a very competitive environment but a stable environment, and then our disciplined focus that we have on the sell side with our customers, we've been able to manage very effectively through this.

Our focus is to provide low cost, high availability of supply to our customers. That is really the bedrock of the success that we have with our generics program. And I think we've been able to do that quite well for a number of years.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.
A

Next question, please.

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

Elizabeth Anderson
Analyst, Evercore ISI
Q

Hi, guys. Thanks so much for the question. One – two parts for me. One is on the – obviously you had some changes in cost-cutting on the OpEx lines in the fourth quarter. How do you see sort of any potential pacing of that impacting the fourth quarter? And secondly, can you talk a little bit maybe more specifically about sort of what you have embedded in the 2024 guidance for biosimilars versus the longer-term plan? Thank you very much.

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

Yeah. Sure. Thanks for the question. So, as I talked about, when we enacted a set of initiatives, we recorded a charge for restructuring that was primarily in our U.S. Pharmaceutical and Prescription Technology business. We expect that those initiatives and activities will be complete by the end of fiscal 2024. So I think that would answer your question on that.

And from a biosimilars perspective, we continue to believe that there is great opportunity here, as we continue to add providers to the network, that provides more opportunity for us. And we think we're very well-positioned, and we've certainly embedded the opportunities within the guidance that we provided you today.

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

Yeah. What we know is in – obviously 40 approvals, 27 launched. The big event this year will be Humira, which is going to be a Part D product, not Part B. We have many more services to offer and assets to leverage and use in the Part D arena, so we will track kind of payer response and pricing strategies and patient adoption over the course of this year. But what we know is baked into the guidance we've provided.

Nicole Kramer
Manager-Investor Relations, McKesson Corp.
A

Operator, we have time for one more final question.

Operator: Certainly. That question will come from A.J. Rice with Credit Suisse.

A.J. Rice
Analyst, Credit Suisse

Q

Hi, everybody. Thanks for the question. In the prepared remarks, and maybe this is what you were just touching on a little bit, but you mentioned reprioritizing some investments in the Prescription Technology Solutions business. I wonder if there was any way to flesh out a little bit more about what specifically you're doing there. And when I look at your 2024 guidance, it actually looks like you're assuming that Prescription Technology Solutions grows faster, 11% to 15%, versus your updated 11% to 12% long-term target, and I wonder what was driving that.

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

A

Yeah. Well, I mean, if you think about this business, I mean, first off, we've had really strong growth the last several years. We actually combined and formed this business a couple of years ago, just a couple of years ago, by bringing various businesses and assets across the company together.

And as those things continue to come together, we continue to look at our resources, our product offerings. We have conversations with manufacturers about their lifecycle and service needs across that lifecycle. And we just felt like as we evaluated investments we had been making and where we thought investment opportunities were for the future, it just made sense for efficiency and focus purposes to make sure we align those to where our best possibilities are.

And when you make those realignments, the skill set is not always the same, what you're moving from to what you're moving to. And so unfortunately, that did impact some of our teammate, but this is our job. This is one of our strategies to simplify the portfolio and be focused on efficiency and positioning the business for long-term growth. So, we feel very good about the performance this past fiscal year and feel good about the targets we have set for fiscal 2024.

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

A

I guess I would just remind you again, these are long-term target rates that we expect that we'll be able to achieve. And as this business is broad and diverse and we have it as a strategic focus point, we're going to continue to invest in this business from year-to-year that may vary. But over the long term, we feel comfortable with the updated guidance that we've given you, but it's a business that we're going to continue to make investments in to grow it and to support our customers.

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

Great. Well, thank you, everyone, for joining us this afternoon or evening, depending on where you are. We appreciate all of the thoughtful questions, your support and interest in McKesson. Thank you, Rachel, for facilitating this call.

I want to conclude by just stating, McKesson had a strong fourth quarter and full year result. I am really pleased with the continued momentum in the business. Britt and I remain confident in our ability to deliver sustainable long-term growth.

I want to end though with a note of acknowledgment to the McKesson employees. It's really thanks to their dedication and their commitment to our customers, our partners, and to each other that enable us to truly improve care in every setting – one product, one partner, and one patient at a time. Thank you, Team McKesson. Everyone else, thanks again for joining. Have a terrific evening.

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