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McKesson Corp. (MCK)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to McKesson's Fourth Quarter Fiscal 2022 Earnings Conference Call. Please be advised that today's conference is being recorded. At this time, I would like to turn the call over to Rachel Rodriguez, VP of Investor Relations. Please go ahead.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

Thank you, operator. Good afternoon, and welcome, everyone, to McKesson's fourth quarter fiscal 2022 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 differ from those in our forward-looking statements.

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

With that, let me turn it over to Brian.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Thank you, Rachel, and good afternoon, everybody. Today, we announced our fourth quarter results, marking a solid finish to our strong fiscal 2022. Thanks to the dedication and excellent execution from Team McKesson, we made outstanding progress against our company priorities and in our transformation to a diversified healthcare services company.

We achieved 31% growth in adjusted earnings per diluted share when excluding the impacts attributable to COVID-19 related items, and net gains associated with McKesson Ventures' equity investments. We have good momentum across the enterprise. We saw strength in our core distribution business and our strategic growth pillars of oncology and biopharma services. We remain focused on the company priorities, which are foundational to our sustainable long-term growth and shareholder value creation. My remarks today will be centered around these themes.

Before I jump into company priorities, I do want to talk briefly about the recent developments in opioid litigation. In February, we announced the approval of the proposed opioid settlement agreement. 46 of the 49 eligible states and the District of Columbia and all eligible territories joined the settlement, representing more than 98% of the eligible political subdivisions that have brought opioid related suits against us as calculated by population under the agreement.

The resolution delivers much needed relief for the impacted communities. It will collectively provide thousands of communities across the United States approximately $19.5 billion over 18 years. The agreement became effective on April 2. The approval of the settlement agreement also removed a significant portion of operational and financial uncertainty in the business, allowing us to redirect resources for more focused execution on our company strategies.

In addition to the 46 states participating in the previously announced agreement, on April 4, an agreement was reached in the Alabama matter, in which McKesson will pay $141 million and an additional $33 million in attorneys' fees and costs to resolve the opioid related claims of the State of Alabama and its subdivisions. On May 3, an agreement was also reached in the Washington matter, in which McKesson will pay $197 million, consistent with the State of Washington's allocation under the previously announced comprehensive settlement framework, as well as certain additional attorney fees and costs. This resolution will result in the settlement of the State of Washington and its litigating subdivisions. That will bring the total number of states settling opioid-related claims with McKesson to 48 of 49 eligible states and the District of Columbia.

As a company, we remain deeply concerned about the impact the opioid epidemic is having on individuals, on families and communities across the nation, and we continue to be committed to be part of the solution. This includes our controlled substance monitoring program, advanced customer purchasing analytics and many, many other initiatives.

Let me now take you through our company priorities and the progress we made in fiscal 2022. We are excited about these initiatives, as we continue to deliver strong results and improve our strength as an organization. After our fiscal 2022 discussion, I'll walk you through each of the operating segments and lay out how they are positioned for growth, as we head into fiscal 2023.

For the last several years, the enterprise has centered its strategic, its operational and financial decisions around our set of company priorities and the results have been outstanding. We fundamentally changed the trajectory of the company from declining financial performance to sustainable growth across the business. Through the focused execution of the priorities, we improved efficiency, we defined our differentiated and strong market position, and we established the right to play and win in oncology and the biopharma services markets.

Now, let me briefly walk you through the progress on each of them. I'll start with our first priority, which is our focus on people and culture, our ICARE values, our enterprise-first mindset and our commitment to Team McKesson, our commitment to each other, were critical to successfully navigating the last few years. We are committed to being the best place to work in healthcare, and our best talent strategy is accelerating our business momentum.

In fiscal 2022, we made investments in our workforce including the frontline workers through additional labor investments in the US Pharmaceutical and Medical-Surgical segments in the back half of our fiscal year. Our company culture, our purpose, our mission and the investments we've made in our teams underpin our performance as a business.

Our people and culture strategy is integrated with our continued focus on ESG initiatives, ensuring we not only do good business, but we do business the right way. As an impact-driven organization, we embrace our responsibility to enable lasting changes in the communities we serve. Over the past year, we made great progress in many areas, particularly around advancing access to care, health equity and climate action for health.

To promote diversity, equity and inclusion, we have set specific and measurable goals to increase representation of both women and people of color amongst our leadership ranks. We released our employment information report, including our EEO-1 data, to improve transparency and accountability and equal employment opportunities. We also launched company-wide inclusion training, fostering positive behaviors and teaching ways to address bias in the workplace.

Our commitment to diversity starts with our board as evidenced by the recent successful completion of our board refreshment. In April, we announced the election of Roy Dunbar as the new Director of the Board. Mr. Dunbar brings decades of experience in technology, operations and healthcare and will be instrumental in guiding the company's strategic priorities.

In addition to the appointment of Mr. Dunbar, in fiscal 2022, we elected a new independent Chair of the Board and introduced three other new board members with diverse backgrounds and experience. Women and people of color now represent 50% of our Board of Directors, and we look forward to benefiting from their leadership and their stewardship.

Moving to our second priority, which is driving sustainable core growth. At the core of our offering is the Pharmaceutical and Medical-Surgical distribution solutions. Building upon the momentum in fiscal 2022, we continue to innovate and invest in our distribution assets and capabilities. Some of the latest advancements over the past year include automated picking and packing solutions and robotics, which help us improve productivity, so we can pick more accurately, pack medications faster and ultimately serve our customers better.

We're also expanding the reach of our core business by entering adjacent markets while maintaining operational excellence. A great example of this is our patient home delivery service. Leveraging our scale distribution network, we help our partners deliver medical-surgical products directly to patients' homes nationwide. With an increasing demand in virtual and home care, we've seen significant growth in this channel in the past few years.

Our best-in-class customer service and deep expertise in distributing medical-surgical products enables us to capture the market opportunity, ensuring the right product to the right patient at the right time.

We also continued to partner closely with the US government in its COVID-19 response effort. It's been more than a year now since we started shipping the COVID-19 vaccine and ancillary supplies. Through March 31, we have successfully distributed over 380 million Moderna and Johnson & Johnson COVID-19 vaccines to administration sites across the United States and in support of the US government's international donation mission.

Although the contract with the US government to serve as a centralized distributor is expected to end in July, this experience has been a strong testimony to our vast and scaled supply chain capabilities. And I am incredibly proud of the way our employees rose to the challenges brought on by the pandemic through our focus on meeting the needs of the healthcare community.

In early fiscal 2022, we announced our intent to exit the European market, which aligns with our company priority to streamline and simplify the business. Over the past 12 months, we've made significant progress as we have successfully entered into agreements to sell the operations in 10 of the 12 countries. We've completed the divestiture of the Austria and UK businesses, and our German joint venture with Walgreens Boots Alliance, bringing all the in-process transactions to closure and exploring strategic alternatives for the remaining countries is a top priority in fiscal 2023. The actions we're taking in Europe build upon our deliberate efforts over the past years to maximize the organization's operational efficiency and focus our resources on the highest growth opportunities.

The last company priority that we're excited about is the expansion of our oncology and biopharma services ecosystems. At our Investor Day in December 2021, we shared details about our differentiated assets and capabilities in these two areas. We believe that these ecosystems can help solve complicated problems, and importantly, improve patients' lives. The goal to help ease the frictions and eliminate inefficiencies in the healthcare system and to improve patients' lives is what motivates us continuously to innovate and to execute.

Our biopharma ecosystem represents a scaled network of assets and capabilities that are highly differentiated. Within the ecosystem, we're expanding the reach of our products and services that aim to improve access, affordability and adherence. In the past year, we helped patients save more than $6 billion on branded and specialty medications. We helped prevent more than 9 million prescriptions from being abandoned due to affordability challenges, and we helped patients access their medicine more than 67 million times. We created an ecosystem that's more efficient and more valuable to the customers and patients than each of the pieces would be standing alone. The cohesive business strategy and coordinated go-to-market solutions are both critical enabling continued growth in this segment.

In our oncology ecosystem, we're strategically positioned to improve cancer care with a range of services and solutions. Our distribution and GPO capabilities continue to provide patients access to life-saving drugs, including biosimilars. Combined with our reach through the US oncology network, we help promote awareness and bring more affordable treatment options to both providers and patients.

A great example is our US oncology research, which continues to play a central role in accelerating research and science. As one of the largest community based oncology research programs, it has contributed to more than 100 FDA approved cancer therapies. Last year, nearly 900 physicians actively accrued patients to clinical trial. And through Ontada, we're leveraging the reach and resources across the ecosystem to generate real-world data and evidence. We've published more than 200 real-world studies in leading industry publications for over 70 oncology indications. We are now serving the top 15 global life sciences companies, providing them valuable services to accelerate research and commercialization.

As I reflect on our progress against the company priorities, I am very excited to see the meaningful impact it's brought to our business, our customers and to patients. The strategy is working and will continue McKesson's growth journey into fiscal 2023. I'm confident in our ability to continuously execute, innovate and deliver sustainable profit growth for the long-term.

Now, let me turn to the performance over the past 12 months and how we're positioned for success heading into fiscal 2023. First, I want to share an exciting update on our ESG initiatives. At the beginning of fiscal 2022, we committed to set science-based greenhouse gas reduction targets. We have already submitted our targets to the Science Based Targets initiative for official validation. Through initiatives across operations and supply chain management, we're setting measurable and specific goals to reduce both Scope 1 and Scope 2 emissions, building a more sustainable business, and ultimately, serving the health of patients and communities.

Next, let me provide some observations on volume and utilization trends. We're encouraged by the prescription volume and medical visit levels across the business. We've seen continued improvement in pharmaceutical prescription volume, oncology visits and primary care patient visits. While recovery in certain markets like extended care may be lagging, we are seeing other markets recover close to pre-COVID levels. We anticipate the positive trends to continue in fiscal 2023.

In US Pharmaceutical, we saw stability in the distribution fundamentals reflected in solid growth in adjusted operating profit in fiscal 2022. Our ability to drive sustainable growth in this business derives from a few factors. As I mentioned earlier, we continue to invest in the core distribution assets expanding and strengthening our capabilities and unlocking new efficiencies in the business.

On the generics and branded front, the fundamentals of the pricing environment remains stable and generally track in line with our expectations. Our balanced approach of managing a broad portfolio of pharmaceutical products allows us to strengthen our competitive position and enables us to be resilient and flexible to market movements.

We remain focused on the investment and expansion of our oncology ecosystem. We're pleased with the growth momentum across our oncology assets from provider solutions in the US oncology network to our data and our insights business, Ontada. They are critical pieces to the long-term growth of this segment, and we're excited to capture the market opportunity and further our progress in fiscal 2023.

In Prescription Technology Solutions, we saw another year of adjusted operating profit growth, driven by expansion of our product offerings, as we bring more brands onto the platform and increase transaction volume as the market recovered. A good example of growth in this segment is our Access for More Patients, or AMP solution, which was developed and launched about three years ago. The solution is focused on automating benefit verification and hub enrollments for patients. And in fiscal 2022, we saw accelerated growth with 25% increase in the number of brands on the program. It has contributed to the overall growth across the enterprise and more importantly, help patients get on therapies up to eight days faster and stay on therapies longer, driving better health outcomes.

We anticipate innovations like this will continue to fuel growth and strengthen our differentiated product offerings. Our future innovations and investments will be centered around expanding the reach of our current products into adjacent markets, such as specialty brands and medical benefits. We continue to invest into the future growth of this segment.

Moving on to Medical-Surgical, which has performed exceedingly well this past year. Excluding the benefit from COVID-19 items, the underlying Medical-Surgical Distribution business grew at a double-digit rate for adjusted operating profit. The lab business that we highlighted before is just one of the drivers for this outstanding growth trajectory. Recovery in the primary care market and our expansion of selling prescription drugs into the non-acute channel also contributed to the segment. Looking ahead, as a leader in the alternate site market, we believe that this segment is well positioned, as more site of care moves into the communities. Our experience and our relationships in every channel and setting of the alternate site markets enable us to capture this growth opportunity in the years ahead.

In the International segment, our strategy and commitment to the Canadian operations remains unchanged. McKesson Canada is a leader in pharmaceutical distribution in the country and has a portfolio of valuable assets, including the retail banner groups, Rexall, specialty pharmacies and digital offerings such as Well.ca. We will continue to build and grow this business.

In summary, we're extremely pleased with the progress we've made in fiscal 2022 to further our transformation into a diversified healthcare services company. Looking ahead, to our fiscal 2023, our guidance of $22.90 to $23.60 of adjusted earnings per diluted share includes organic growth of the underlying businesses, improved operating leverage and a balanced approach to capital deployment. Excluding the contribution from COVID-19-related items in both fiscal 2023 and fiscal 2022, and net gains from McKesson Ventures in fiscal 2022, we expect adjusted earnings per diluted share to grow 9% to 14% year-over-year.

We expect the adjusted operating profit growth in our US Pharmaceutical, Prescription Technology and Medical-Surgical segments to be in line or above the long-term financial framework we laid out at our Investor Day last December. We anticipate the market to remain dynamic, particularly as it relates to supply chain and inflation. We're confident in the resiliency of our business model and our ability to minimize any potential impacts.

Our fiscal 2023 guidance does not assume a material headwind from supply chain disruption or sustained price inflation. Britt will walk you through the additional details that we've included in the outlook.

As we look ahead to fiscal 2023, we're excited and energized to build on the momentum and to capitalize on our strong market position. We're advancing our transformation to a diversified healthcare services company, extending our long tradition of innovation and evolving our business while reaffirming our strong commitment to addressing the changing needs of our customers, their patients and the broader healthcare industry. Our success in building differentiated assets and capabilities positions us well to support better health outcomes and to accelerate profitability and healthy growth for the company.

I want to conclude my remarks by acknowledging our employees, who are dedicated to bringing insight products and services to our customers and partners. Thanks to their execution and their commitment to McKesson and to each other, we're improving care in every setting, one product, one partner and one patient at a time. We are truly enabling better health for all.

Thank you for your time this afternoon. And now I'm going to hand it over to Britt.

Britt Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Thank you, Brian. Good afternoon. Today, I'll discuss our fourth quarter and full year fiscal 2022 results, then I'll outline our fiscal 2023 guidance. At our Investor Day in December, we discussed the transformation underway at McKesson. Distribution remains a core part of our company. However, we continue to advance and grow as a diversified healthcare services company, built on differentiated assets and strategies we're executing, delivering sustainable earnings growth across our businesses.

As we articulated then, our confidence is based on three interconnected factors: the successful focus to advance McKesson's oncology and biopharma services ecosystems; leveraging our best-in-class assets and capabilities; effective allocation of capital, including streamlining our portfolio; and the momentum we've been generating through operating and working capital execution. We remain confident that we'll achieve the long-term targets that we've provided for fiscal 2023 and beyond.

Let me start by discussing our focus to streamline the portfolio with an update on Europe. In early fiscal 2022, we announced our strategic intent to exit the European region. The transaction to complete a full exit of our European operations allow McKesson to streamline the portfolio, aligning future investments through our growth strategies in North America.

We've made good progress. We remain committed to this set of actions. In July of 2021, we announced the transaction with the PHOENIX Group to sell operations in six countries and other certain assets. The transaction is proceeding well. We anticipate it will close in the second half of fiscal 2023.

We have successfully closed the following transactions. In the fourth quarter of fiscal 2022, we completed the sale of our Austrian business to Quadrifolia Management, and the sale of McKesson's remaining share of our German joint venture to Walgreens Boots Alliance. Recently, we completed the sale of McKesson's UK retail and distribution businesses to AURELIUS, which closed on April 6. During the fourth quarter of fiscal 2022, we recorded a GAAP-only charge of $343 million related to our agreement to sell the UK retail and distribution business.

Finally, we continue to explore strategic alternatives to exit our remaining operations in Norway and Denmark. In fiscal 2022, our European operations, including held-for-sale accounting treatment impacts, contributed $409 million of adjusted operating profit or $1.97 per diluted share. For fiscal 2023, we anticipate our remaining European operations will contribute approximately $0.85 to $1.15, which includes accretion resulting from the held-for-sale accounting for the transaction for the PHOENIX Group. As I mentioned on our third quarter earnings call, we intend to deploy capital through share repurchases to offset the dilution resulting from the European divestitures.

Let me now move to a review of our fiscal 2022 results. My comments today will refer to our adjusted results on a year-over-year basis, unless I state otherwise. Fiscal 2022 was another year of strong execution for McKesson. We're exiting the year with solid operating performance, delivering fiscal 2022 fourth quarter earnings per share of $5.83, and for the full year, earnings per share of $23.69. Our full year results included revenue and profit growth across every business segment.

In addition to growth in our core businesses, fiscal 2022 earnings per diluted share also included the following three items. The first is $1.79 related to the US government's centralized COVID-19 vaccine and kitting distribution program, which included $0.89 related to COVID-19 vaccine distribution and $0.90 related to the kitting, distribution and storage of ancillary supplies; $0.88 was related to COVID-19 tests; and finally, $0.47 related to net gains associated with McKesson Ventures equity investments. Excluding these items and the impact of fiscal 2021 inventory impairment charges related to personal protective equipment and other related products, fiscal 2022 earnings per diluted share increased 31% year-over-year.

For the fourth quarter, consolidated revenues of $66.1 billion increased 12%, driven by growth in the US Pharmaceutical segment due to increased volumes in specialty products, including higher volumes from retail national account customers and market growth, partially offset by branded to generic conversions. Gross profit was $3.4 billion for the quarter, an increase of 6%, primarily driven by our Medical-Surgical Solutions segment, resulting from prior year inventory charges on PPE and related products, and increases in patient care visits in our primary care business.

Gross profit was also positively impacted by increased volume with new and existing customers in our Prescription Technology Solutions segment. Operating expenses in the quarter increased 4% due to increased volumes in our Medical-Surgical Solutions segment, which were partially offset by the impact of held-for-sale accounting on announced divestitures in the International segment.

Operating profit of $1.2 billion for the quarter was an increase of 3%, led by solid operating performance across the segments, partially offset by the distribution of COVID-19 vaccines and ancillary supplies for the US government and lower contribution related to COVID-19 tests. When excluding the impact related to the distribution of COVID-19 related products, net gains associated with McKesson Ventures' equity investments and the prior year PPE impairments in the Medical-Surgical segment, operating profit increased 8%.

Moving below the line, interest expense was $43 million in the quarter, a decrease of 17% due to the net retirement of approximately $1.1 billion of long-term debt in fiscal 2022, including a previously announced tender offer in the second quarter of fiscal 2022. Our tax rate was 21.9% for the quarter. And ramping up our consolidated results, fourth quarter diluted weighted average shares outstanding were 149.2 million, a decrease of 7% year-over-year resulting from share repurchases throughout fiscal 2022.

Moving now to fiscal fourth quarter and full year segment results, which can be found on slides 7 through 12. And starting with US Pharmaceutical. Revenues were $53.7 billion, an increase of 14%, driven by increased volume of specialty products, including higher volumes from retail national account customers and market growth, partially offset by branded to generic conversions. Operating profit decreased 4% to $780 million, due to lower demand of COVID-19 vaccine distribution, partially offset by growth in distribution of specialty products to providers and health systems.

The contribution from our contract with the US government for the distribution of COVID-19 vaccines declined sequentially, as demand continued to lessen along with continued easing of COVID-19 restrictions. COVID-19 vaccine distribution provided a benefit of approximately $0.06 per share in the fourth quarter, compared to $0.26 in the third quarter of fiscal 2022.

As a reminder, fiscal fourth quarter operating profit growth included previously announced investments made in response to the competitive labor market. On our earnings call in February, we reiterated our expectation for additional labor-related expenses to ensure continued service continuity through the second half of our fiscal year. When excluding the impact of COVID-19 vaccine distribution and the previously outlined labor investments, the US Pharmaceutical segment delivered operating profit growth of 4%. For the full year, operating profit increased 8% to $2.9 billion, driven by growth in distribution of specialty products to providers and health systems and the contribution from COVID-19 vaccine distribution.

In the Prescription Technology Solutions segment, revenues were $1 billion, an increase of 29%, as a result of volume growth related to biopharma services, including third-party logistics services and increased technology service revenue, partially resulting from the growth of prescription volumes. Operating profit increased 11% to $162 million, driven by growth from access and adherence solutions. For the full year, operating profit was $590 million, an increase of 26%.

Next, Medical-Surgical Solutions. Revenues were $2.9 billion, an increase of 6% due to growth in the primary care business. Operating profit increased 55% to $298 million. In the fourth quarter, operating profit in the Medical-Surgical Solutions segment included $0.22 of earnings per diluted share contribution related to COVID-19 tests and $0.20 of earnings per diluted share contribution related to the kitting, distribution and storage of ancillary supplies for COVID-19 vaccines for the US government.

Excluding the impacts of these COVID-19 related items, and the prior year inventory charges on PPE-related products, operating profit increased 26% due to growth in the primary care business. For the full year, operating profit increased 50% to $1.2 billion. When excluding the impacts of COVID-19-related items and prior year inventory charges on PPE and related products, operating profit increased 22%.

During the fourth quarter, COVID-19 and the direction of the disease continued to demonstrate variability. The demand for COVID-19-related products and services has fluctuated over the course of the pandemic. However, the direction generally followed the volume of COVID-19 case levels. Forecasting COVID-19 vaccine distribution and testing demand more than a few months at a time remains difficult. We continue to track new guidance and variants.

In the fourth quarter of fiscal 2022, we experienced increased demand in January related to a spike in cases due to the Omicron variant. We experienced a 60% volume increase related to COVID-19 tests in January, compared to the average in the third quarter. In February and March, COVID cases declined month-over-month with a corresponding decline in COVID test volumes.

In March, we experienced approximately a 90% decrease related to COVID-19 test volumes, compared to the third quarter average. The declines in February and March led to lower earnings contribution from COVID-19 tests in our fiscal fourth quarter. We anticipate that the pace of COVID test volume and vaccine demand will follow a similar fluctuating pattern in fiscal 2023, and we anticipate that fiscal 2023 COVID volume and earnings per share contribution will be materially lower than fiscal 2022.

Let me address our international results. Revenues were $8.5 billion on a reported basis. On an FX adjusted basis, revenues were $8.8 billion, an increase of 3%, driven by sales to new customers in the Canadian business and year-over-year volume recovery in our distribution businesses, partially offset by the divestiture of our Austrian business, which closed during the fourth quarter of fiscal 2022.

Operating profit increased 7% to $147 million. On an FX adjusted basis, operating profit increased 10% to $152 million due to the reduction of depreciation and amortization on European assets under agreements to sell and increased volumes in the pharmaceutical distribution business. For the full year, operating profit on an FX-adjusted basis increased 40%.

And in our Corporate segment, expenses were $183 million in the quarter, an increase of 46%. During the quarter, mark-to-market valuations related to our equity investments within our McKesson Ventures portfolio resulted in net losses of approximately $6 million, compared to net gains of $44 million in fourth quarter of fiscal

2021. Corporate expenses were $579 million for the full year, which were approximately flat compared to the prior year.

In fiscal 2022, McKesson had net gains related to our equity investments within our McKesson Ventures portfolio of approximately $98 million or $0.47 per share. This compares to net gains of approximately $132 million or $0.60 for the full year of fiscal 2021. As a reminder, McKesson Ventures portfolio holds equity investments in several growth-stage digital health and services companies, and we are pleased with the insights and the portfolio results that we've obtained.

The impacts for a 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. It's difficult to predict when gains and losses on our venture portfolio companies may occur. And, therefore, our practice has been and will continue to not include ventures portfolio estimates in our guidance. And finally, in the fourth quarter, we incurred opioid related litigation expenses of $26 million and incurred $130 million for the full year of fiscal 2022.

Turning now to our cash position and capital deployment on slide 13. For the fiscal year, we generated $3.9 billion in free cash flow, which included $535 million of capital expenditures. We continue to focus capital deployment to drive value for our shareholders. Since fiscal 2018, we returned $11 billion of cash to shareholders through share repurchases and dividends. Of this amount, over $9 billion has been returned through share repurchases, reducing our total average shares outstanding by nearly 31%.

In fiscal 2022, we returned $3.5 billion through share repurchases, including $1.5 billion in the fiscal fourth quarter. Additionally, we paid dividends of $277 million for the full year. When combining share repurchases with dividends paid, we returned approximately 97% of free cash flow to shareholders in fiscal 2022.

Our strong balance sheet and cash flow generation, along with disciplined capital allocation, continues to provide us with the financial flexibility to invest in our strategies, pursue strategic opportunities and return capital to shareholders, all while maintaining a strong capital structure.

Let me spend a few minutes now discussing our outlook for fiscal 2023. We entered fiscal 2023 with solid momentum, building upon the strong fiscal 2022 results. Rather than outlining each assumption, I'll instead walk you through the key items, beginning with additional details of fiscal 2023 consolidated guidance. A full list of our assumptions can be found on slides 14 through 19 in our supplemental slide presentation.

We remain confident in the fundamentals of our North American healthcare services and distribution businesses. We'll continue to invest in innovative product offerings that further enhance our leading roles in the oncology and biopharma services ecosystems. Our fiscal 2023 guidance assumes flat to 4% reported revenue growth and 4% to 10% operating profit decline compared to fiscal 2022.

Excluding the impacts related to the US government's centralized COVID-19 vaccine and kitting distribution programs, COVID-19 tests and net gains associated with McKesson Ventures' equity investments which were recorded in fiscal year 2022, we anticipate operating profit to increase 3% to 9%. We anticipate a full year tax rate of approximately 18% to 20%, and corporate expenses in the range of $520 million to $590 million.

In the fourth quarter of fiscal 2022, we finalized the broad settlement of opioid-related claims of states and municipalities. While we've reached a broad settlement, there are cases that remain open. As it relates to opioid litigation expenses, we previously communicated that we anticipate a substantial reduction in fiscal year 2023 resulting from the settlement. For fiscal 2023, our current approximation is $40 million, and it can vary based on a number of factors, including remaining non-governmental suits, trials and pace of legal proceedings, and we'll continue to update you accordingly.

Wrapping up our consolidated guidance, our fiscal 2023 earnings per diluted share outlook is $22.90 to $23.60, which includes $0.20 to $0.60 of contribution attributable to the following COVID-19-related items: $0.05 to $0.20 related to the US government's vaccine distribution; less than $0.05 related to the kitting, storage and distribution of ancillary supplies; and $0.15 to $0.35 related to COVID-19 tests.

Excluding the impacts of these COVID-19 related items from both fiscal 2023 guidance and fiscal 2022 results and the $0.47 related to net gains associated with the McKesson Ventures' equity investments in FY 2022, our fiscal 2023 guidance indicates approximately 9% to 14% growth over the prior year. This estimated year-over-year growth is consistent with the long-term financial targets that we provided at our December Investor Day event and represents solid organic growth in our underlying businesses, disciplined capital deployment and continued expansion of our oncology and biopharma services ecosystems.

Moving now to our segments. In the US Pharmaceutical segment, our outlook reflects the efficiency and durability of our core distribution platform and continued expansion of our oncology ecosystem. We anticipate reported revenue to increase 7% to 10% and operating profit to approximately be flat to 4% decline year-over-year. Our outlook includes approximately $0.05 to $0.20 related to COVID-19 vaccine distribution for the US government in the first quarter of fiscal 2023, which is aligned to the current contract timing and volume distribution schedule provided by the CDC and the US government. This compares to $0.89 in full year fiscal 2022. When excluding the impact of COVID-19 vaccine distribution for the US government, we anticipate 3% to 5% operating profit growth, which is consistent with the long-term growth target we provided for the US Pharmaceutical segment at our recent Investor Day event.

In the Prescription Technology Solutions segment, we anticipate revenue growth of 17% to 23% and operating profit growth of 14% to 20%. This outlook reflects momentum of organic growth across our solutions and services as we expand partnerships with biopharma manufacturers, generate higher transaction volume and increase the number of brands under access and adherence platforms.

In the Medical-Surgical Solutions segment, we anticipate reported revenues to decrease 7% to 11% and operating profit to decrease 15% to 21%. Our outlook includes approximately less than $0.05 related to kitting, storage and distribution of ancillary supplies for the US government. And this compares to $0.90 in fiscal 2022. As a reminder, our contracts with the US government are scheduled to end in July of 2022. We also anticipate approximately $0.15 to $0.35 related to COVID-19 tests in fiscal 2023. Excluding the impact of these COVID-19-related items, we anticipate operating profit to increase 8% to 14%, primarily as a result of growth in the primary care business. The Medical-Surgical business remains well-positioned to leverage the breadth and depth of its services throughout the alternate site market, including growth from laboratory solutions and the government sector.

Finally, in the International segment, we anticipate reported revenues to decline by 34% to 38% and operating profit to decline by 22% to 28%. 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 2023. In Canada, we have a strong position as the leader in healthcare distribution. We anticipate continued organic growth in our pharmaceutical distribution business, including strategic sourcing efforts.

Let me conclude our fiscal 2023 outlook with a few comments on cash flow and capital deployment. As I communicated at Investor Day, our capital allocation strategy prioritizes strategic growth, complemented by a return of capital to our shareholders through share repurchases and a modest yet growing dividend. Our investment-grade credit rating remains a priority and underpins our financial flexibility. This flexibility positions us for the continuation of sustainable long-term value creation for our shareholders.

In fiscal 2023, we anticipate free cash flow of approximately $3.2 billion to $3.6 billion, which is net of property acquisitions and capitalized software expenses. As a reminder, our working capital metrics and resulting cash flows vary from quarter-to-quarter, impacted by timing, which could include the timing of planned European divestiture activity. As discussed at Investor Day, we intend to offset the dilution related to our European divestitures with capital deployment.

As indicated on slide 18, our fiscal 2023 outlook incorporates plans to repurchase approximately $3.5 billion of shares. A significant portion of the share buyback assumption is associated with offsetting the year-over-year impact of European divestitures. As a result of the share repurchase activity, we estimate weighted average diluted shares outstanding for fiscal 2023 to be in the range of approximately 142 million to 144 million.

The progress we're making across our strategic priorities, including our commitment to streamline the business, supports our strong cash flow. This cash flow provides us with the flexibility to deploy capital through organic and inorganic investments in our business and returning capital to shareholders through share repurchases and dividends.

In closing, fiscal 2022 was another strong year for McKesson. We continue to make great progress on our transformative journey, from a distribution-focused company to a leading diversified health care services company, accelerating and expanding our oncology and biopharma services ecosystems.

Our strategies are working, and we're delivering for our customers, partners, patients and our shareholders. We are well positioned to capture the vast opportunities in the growing markets of oncology and biopharma services. We have 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, in our products and services and in our strategy.

Thank you. And with that, I'll turn it over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Michael Cherny with Bank of America.

Michael Cherny
Analyst, BofA Securities, Inc.
Q

Good afternoon, and thanks for, obviously, a ton of details. So I want to think about just the cadence of the year, if I can, a little bridge, just to make sure. Should we assume, based on the timing of the CDC contract, that pharma growth should be heavier in the first quarter of the year? And how should we think about any other components of cadence and how it should filter through the year relative to some of the more identifiable items like the COVID benefits and other components?

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

Yeah. Thanks for that question, Mike. As we didn't really outline it, we don't talk about quarterly guidance, but I can indicate for you that on a consolidated basis, what we would expect is that our earnings growth will be heavier in the second half of the year as opposed to the first half of the year.

As I laid out in my comments, we have less contribution from COVID related items in fiscal 2023 than we did in fiscal 2022. And in fact, in all cases, across both pharma and our medical segment, we have declining COVID related contribution. So what we do expect is that we would indicate to you expect a heavier proportion of earnings in the second half of the year, a modestly heavier proportion in the second half of the year than the first half.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp
A

Next question, please.

Operator: Thank you. We'll take our next question from Eric Percher with Nephron Research. Please go ahead.

Eric Percher
Analyst, Nephron Research LLC
Q

Thank you. Brian and Britt, kind of, a standard question on initial guidance. As you've looked at your budget for the year, I'd be interested to hear what the risks and opportunities look like, recognizing you have a $0.70 range on $23 and potentially $0.40 of that attributable to COVID. So you're feeling that there's relatively little variance and what are the factors that would drive you high or low?

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

Thanks for the question, Eric. I'll start, and then, certainly, Brian can add on. I think one thing for sure as we think about this is, we talked about the variability that we've seen in COVID and, sort of, the pace of COVID is certainly one that we'll watch for and that certainly can go up or down, particularly in the case of COVID tests. So that could be a risk. It could be a positive or a negative.

Clearly, as we've talked about with the macro environment, we are pleased with the fact that we're seeing prescription volumes continue to increase. And as the economy continues to – or I should say, patients continue to be more mobile as COVID restrictions continue to ease, that certainly is an opportunity for us to see prescription volumes continue to improve, not only in our Pharma business, but really across, as I talked about, in our Prescription Technology business as well. We certainly have the opportunity to deploy capital. We've laid out for you our assumptions around capital deployment, but we have a lot of flexibility and a good financial framework.

And the other what I would point out to you is really the timing around our European divestitures. We've laid out for you that we would expect the transaction with the PHOENIX Group to be in the second half of the year, but clearly, that timing could move as we continue to move through that transaction.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: Thank you. Our next question comes from Charles Rhyee with Cowen.

Charles Rhyee
Analyst, Cowen & Co. LLC

Q

Yeah. Thanks for taking the question. Britt, you talked about how your COVID-related businesses really tracks with the incidence of COVID in the country. We are seeing cases rise, at least today, that's what the data seems to be showing. But at the same time, right, it seems like there's overall less testing, sort of a less emphasis. Maybe you can talk about maybe trends that you're seeing currently. And what does an endemic phase of COVID look like? Or how are you guys thinking about that if we move into an endemic phase for COVID? Thanks.

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

A

Thanks, Charles. Obviously, it's been a little bit hard to predict over the last two years. We saw our last, sort of, spike in testing really hit us in January of this year. And then we've seen COVID test kit volumes fall off pretty significantly since then. There is a new variant circulating. Initial indications are, it has probably the same medical profile as the previous variant. But the wildcard will be patient behavior. Do people get into routine testing? Do they feel the need to routinely test? Do employers test, as they bring people back? And that's a little bit difficult to forecast. So what we've given you is a guide in FY 2023, based on our best and current view of the market.

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

A

And, Charles, maybe just getting back to the question that Eric asked, as we think about the year, things that could get us to the high or the low end of the range, clearly, COVID test has a lot of variability in that. We've given you our best estimate based on the trends that we've seen, which is really, as Brian talked about, that declining level of cases in testing. But, certainly, if a variant does come back and cases begin to rise again, that would be something that we would watch for. And we would anticipate that COVID testing would follow the trajectory of cases.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp A

Next question, please?

Operator: Thank you. Our next question comes from Lisa Gill with JPMorgan. Ms. Gill, please check your mute button on your...

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

Hi, Lisa. Are you there?

Lisa C. Gill
Analyst, JPMorgan Securities LLC Q

Sorry, I'm here. Thank you very much for all the detail. I just really wanted to understand a couple of things, as we think about the guidance. One, I know you made a comment earlier on when we think about supply chain and inflation that you have some things built into your guidance. You talked about the inflation on the side of wage inflation, one, did you carry that through into 2023 on a permanent basis? And then, secondly, if I think about your medical supply business, you have historically had a private label product that was coming, if I remember correctly, from Asia. So has there been any impact due to supply constraints on that side of the business?

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

Thanks for the question. I'll kick it off, and Britt can add whatever additional comments he'd like. I mean, starting on the labor cost front, it's obviously been a pretty dynamic labor market, and we don't actually think of it as a single market. We think of it as micro markets around where we have locations and facilities.

We did make investments largely into our frontline teams in our Medical and our Pharmaceutical business. And the back half of our last fiscal year, we've talked about that, and we have contemplated some labor investments in our FY 2023 outlook, based on the status of the market today and the behaviors and the indicators that we see today. That's something we'll continue to track. I mean, I think, McKesson is a great place to work. We have a really strong employee value proposition that includes competitive wages, but benefits and development and career progression and mean – and work that has really meaning and purpose behind it. So I think we feel good about where we stand as we enter the year, but it's certainly the last several months have been, labor markets like most of us have not seen, so we'll continue to monitor and track that closely.

On the supply chain front, I think our supply chains have been remarkably resilient in Medical and Pharmaceutical over the many, many twists and turns of the last two years, and I would say that they continue to be resilient. We would anticipate very modest levels of disruption and cost inflation in FY 2023. Our private brand program, as you might recall, we don't own physical plant and equipment and manufacture, we source. And so our teams have been very aggressively thinking about expanding and broadening and rotating our sources of supply. And thus far, we've been able to maintain very good inventory positions.

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

And maybe just, Lisa, I'd just add on, we have a very comprehensive sourcing strategy and we source our products really in a very diverse way across many different countries. And one of the things that we're really proud about and focused on is our approach to responsible and sustainable sourcing. And we've really taken a lot of actions along those lines to also diversify our partners across the products that we serve. So we feel like we have really good strong sourcing program in place, and we feel well-positioned.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: And our next question comes from Steven Valiquette with Barclays.

Steve J. Valiquette
Analyst, Barclays Capital, Inc.

Q

Thanks. Good afternoon, everybody. So relative to our own EPS bridge we had built previously from FY 2022 to 2023, biggest source of upside from our view is the $0.85 to $1.15 EPS you still expect from the European assets. I guess in that piece, I was curious, too, is there any color on whether or not that will be heavily front-end loaded in the first quarter or two or maybe more evenly spread throughout the year? And then at the risk of maybe looking too far ahead, should we assume that all of that $0.85 to $1.15 would essentially disappear in your fiscal 2024? Thanks.

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

A

Yeah, I'd say that the cadence would be very similar to what I gave you on a consolidated basis. Now, we do expect that the transaction that we talked about with PHOENIX is going to close in the second half of fiscal 2023. So I guess it would be more first three quarters loaded than just half-and-half.

As it relates to 2024, I think it's little early to start talking about that. We've talked to you about the fact that Norway and Denmark are still two countries that we're evaluating opportunities for to fully exit this. It's too early to really talk about any transactions along those lines. And we still operate those businesses, and we'll just continue to evaluate opportunities to exit that. But those continue to be countries that we operate in.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: Thank you. We'll take our next question from Ricky Goldwasser with Morgan Stanley.

Ricky R. Goldwasser
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, hi. Good afternoon. So two clarification questions. So one, as we think about the European contribution, I think that's page 16 in your slide deck, that $1.97. Is the take here is really that, that European contribution ultimately will be replaced by buybacks even for that, I think you have $0.85 to $1.15 in assets that you still own. But if you divest them, should think about this as replaceable with capital allocation through buybacks?

And then similar to that, if we think about the cost inflation that's, sort of, embedded in result, I think in the slides you talk about, if you adjust for COVID costs, then distribution segment would have grown 2%. I think on the call, you said if you adjust for that, aim for higher rate than inflation, then you would have grown 4%. So should we think about that 2% difference is the cost and inflation? Is this something that we can think about as we try to quantify what it is embedded in your 2023 guidance?

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

A

Thanks for the questions, Ricky. Let me try to take those in order. Let me first talk about Europe. We've tried to lay out here for you as transparently as we could what the European contribution was in FY 2022. And then we talked about what we thought the operations would contribute in 2023. We fully intend to exit Europe. And what we've also said is that when we do that, the loss contribution from those earnings, we would replace with capital deployment, principally share buybacks. And we've tried to lay that out for you. And so, yes, the way we've laid it out for you is that you should think about Europe eventually going away and being replaced by capital deployment.

As it relates to the comment on the US Pharmaceutical segment, let me break it up this way. When you think about excluding the COVID-related items, which, again, we've talked about those pretty transparently since the beginning, we had 2% growth year-over-year. We did talk about beginning on our second quarter earnings call that we were making additional investments into our US-based businesses to have continuity of service through labor expenses. That accounted for about 2% of the year-over-year impact in the US Pharmaceutical business in the fourth quarter.

And so, I wanted just to make that comment. It's nothing different than we've talked about before. We talked about the contribution that we'll be making and the investment we'd be making about $0.20 for the year. That, for the US Pharmaceutical segment, was about 2% in the quarter. So that's why we called that out, just as a sort of a confirmation of what we've talked about previously.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: Thank you. We'll take our next question from Kevin Caliendo with UBS.

Kevin Caliendo
Analyst, UBS Securities LLC

Q

Thanks for taking my question. Just a lot of the margin change – the guidance and the change in margins across the segments can be explained by COVID. But when I look at, say, PTS and Medical-Surgical, is there anything else we should think about in terms of the mix or benefits? You've talked a little bit about what you expect on the Pharma side. Is there anything in those two segments outside of COVID that we should be thinking about that might impact margins for 2023?

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

A

As we think about 2023, wouldn't think that there would be much change in terms of the mix within those two businesses. We're continuing to see good strength in our primary care business in the Medical business. We expect that will continue into FY 2023. And in our RxTS business, I mean, we had strong growth in the revenue line. We had 26% growth in operating profit. So we had strong performance at the margin line as well. And we expect that our adherence and access programs will continue to have growth as we move into 2023. So I wouldn't guide you to any different mix in 2023 than we've seen in 2022.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: Thank you. Our next question comes from Eric Coldwell with R.W. Baird.

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

Q

Hi. Thank you. Good afternoon. Fairly simple one, I hope. Your competitor who reported today had $115 million of opioid expense last year, said that their expense next year would be down only modestly. You had $130 million expense, and you're saying it will be $40 million. That's a really big delta between the two companies for the same situation. Any sense on what the delta is between you two? Have you excluded the injunctive relief costs, the data, the tracking, the integrity costs that come with the program in this $40 million? Or what might explain this substantial delta in opioid litigation expense? Thanks very much.

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

A

I don't know that we can speak to the delta. We can speak to the guidance that we provided. As we look at the litigation, the litigation calendar, open issues that are ahead of us, this is our best view based on what we know today of what we would anticipate to spend in defending ourselves against these suits. And that number we provided was $40 million.

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

A

And as I pointed out, there are some factors that could drive that number in either direction. That could be the pace of any trials or trials themselves and any of the work that goes into any trials that do happen. So we've given you our best estimate based on our analysis of what remains. And again, as Brian said, it's really can't comment on how is somebody else is thinking about this.

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

A

That is the legal expense [indiscernible] (01:03:58). That is $40 million for legal defense.

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

A

Right. Consistent as it's been since we began reporting this to you three years ago.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: Thank you. We'll take our next question from Elizabeth Anderson with Evercore ISI.

Elizabeth Anderson
Analyst, Evercore ISI

Q

Hi, guys. Thanks so much for the question. I was wondering if you could talk about the relative contribution of pricing increases to the revenue growth in your three remaining segments and the outlook that you provided for 2023.

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

A

Yeah, thanks for the question. We didn't touch on that. We historically have talked about the environment around the branded inflation and generic inflation. We don't see any change in our FY 2023 outlook to what we've seen in FY 2022. So we see relative stability in both branded price inflation. And from a generics perspective, we continue to see a stable but competitive environment that is supported by the strong sourcing operations that we have and our focus is on providing our customers, stability of supply, good pricing and our ability to do that through good sourcing and disciplined approach to the sell side. So from our perspective, as we look at the pricing environments around branded and generics, we see relative stability in 2023 compared to 2022.

Rachel Rodriguez
Investor Relations Contact, McKesson Corp

A

Next question, please.

Operator: Thank you. We'll take our next question comes from George Hill with Deutsche Bank.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good evening, guys, and I appreciate you taking my question. I guess, Britt, I would ask if you could talk a little bit about inside of the Pharmaceutical segment, kind of, the difference between what's happening in the core wholesaling business versus the more manufacturer facing services businesses. And I guess, are they both performing in line and positively? Or is there a meaningful divergence on how the – what I would call the pharmacy facing business is performing versus the manufacturer facing business is performing?

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

A

Yeah. Let me start, and then certainly, Brian can add on to this. Our biopharma services, I think, as you've captured on manufacturer services, those businesses are captured in our Rx Solutions segment. And as we've talked about, that business continues to generate really good revenue, top line and profit growth. We're seeing more brands being added to our platforms. We're seeing good acceptance in the marketplace of our access and adherence solutions.

In both of our businesses, as I talked about, we're seeing improved transaction volume from prescriptions. And that certainly is benefiting our Prescription Technology Solutions segment very well, both new and existing brand. So I'd say both of those businesses are benefiting from the macro factors of seeing improved transaction volumes. Clearly, the growth of our technology solutions in RxTS and our access and adherence solutions are seeing really good growth.

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

A

Yeah. And I'd just say, we've created RxTS segment to give you visibility into how that business is performing, and we're quite pleased that both the core pharma and RxTS business. Our forward guide for FY 2023 is in line.

And in the case of RxTS exceeding what we said in December, we thought was a long-run growth target. So we're very pleased with both those businesses and feel we're very well positioned.

Brian S. Tyler

Chief Executive Officer & Director, McKesson Corp.

Okay. Well, thank you. Thanks for your patience. I know we ran a few minutes longer than we normally do. It's typical at a year-end or year kick-off call. I want to thank everyone for your time and for joining this call. We really appreciate your thoughtful questions, and certainly, your interest in McKesson. Thank you, Cody, for facilitating the call for us.

Just to conclude, McKesson delivered a strong fiscal 2022 with double-digit adjusted operating profit growth and I am excited about the continued progress of our company priorities into fiscal 2023. I'm confident about our ability to deliver strong growth, solid financial results and shareholder value creation.

Of course, it's all due to the people that make up Team McKesson across all areas of our business. I want to thank them for their hard work and their dedication to executing on our strategies, for living our culture and our values and bringing positive changes to our partners, our customers and the patients that we impact. Thanks, everyone – again, everybody. I hope you all have a terrific evening.

Operator: Thank you for joining today's conference call. You may now disconnect.