

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-13252

MCKESSON

McKESSON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

94-3207296

(I.R.S. Employer
Identification No.)

6555 State Hwy 161,

Irving, TX 75039

(Address of principal executive offices, including zip code)

(972) 446-4800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<i>(Title of each class)</i>	<i>(Trading Symbol)</i>	<i>(Name of each exchange on which registered)</i>
Common stock, \$0.01 par value	MCK	New York Stock Exchange
1.500% Notes due 2025	MCK25	New York Stock Exchange
1.625% Notes due 2026	MCK26	New York Stock Exchange
3.125% Notes due 2029	MCK29	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 129,676,762 shares of the issuer's common stock were outstanding as of June 30, 2024.

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McKESSON CORPORATION
PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	2024	2023
Revenues	\$ 79,283	\$ 74,483
Cost of sales	(76,131)	(71,461)
Gross profit	3,152	3,022
Selling, distribution, general, and administrative expenses	(2,001)	(1,870)
Claims and litigation charges, net	(112)	—
Restructuring, impairment, and related charges, net	(10)	(52)
Total operating expenses	(2,123)	(1,922)
Operating income	1,029	1,100
Other income, net	130	38
Interest expense	(75)	(47)
Income before income taxes	1,084	1,091
Income tax expense	(124)	(94)
Net income	960	997
Net income attributable to noncontrolling interests	(45)	(39)
Net income attributable to McKesson Corporation	<u>\$ 915</u>	<u>\$ 958</u>
Earnings per common share attributable to McKesson Corporation		
Diluted	\$ 7.00	\$ 7.02
Basic	\$ 7.04	\$ 7.07
Weighted-average common shares outstanding		
Diluted	130.7	136.6
Basic	129.8	135.5

McKESSON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended June 30,	
	2024	2023
Net income	\$ 960	\$ 997
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	(31)	52
Unrealized gains on cash flow and other hedges	—	7
Changes in retirement-related benefit plans	(1)	(2)
Other comprehensive income (loss), net of tax	<u>(32)</u>	<u>57</u>
Comprehensive income	928	1,054
Comprehensive income attributable to noncontrolling interests	(45)	(39)
Comprehensive income attributable to McKesson Corporation	<u>\$ 883</u>	<u>\$ 1,015</u>

McKESSON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)
(Unaudited)

	June 30, 2024	March 31, 2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,302	\$ 4,583
Receivables, net	23,743	21,622
Inventories, net	25,571	21,139
Prepaid expenses and other	636	626
Total current assets	<u>52,252</u>	<u>47,970</u>
Property, plant, and equipment, net	2,357	2,316
Operating lease right-of-use assets	1,735	1,729
Goodwill	10,118	10,132
Intangible assets, net	2,045	2,110
Other non-current assets	3,163	3,186
Total assets	<u>\$ 71,670</u>	<u>\$ 67,443</u>
LIABILITIES AND DEFICIT		
Current liabilities		
Drafts and accounts payable	\$ 51,704	\$ 47,097
Current portion of long-term debt	51	50
Current portion of operating lease liabilities	296	295
Other accrued liabilities	4,383	4,915
Total current liabilities	<u>56,434</u>	<u>52,357</u>
Long-term debt	5,584	5,579
Long-term deferred tax liabilities	928	917
Long-term operating lease liabilities	1,466	1,466
Long-term litigation liabilities	6,114	6,113
Other non-current liabilities	2,525	2,610
McKesson Corporation stockholders' deficit		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 800 shares authorized, 279 and 278 shares issued at June 30, 2024 and March 31, 2024, respectively	3	3
Additional paid-in capital	8,126	8,048
Retained earnings	15,810	14,978
Accumulated other comprehensive loss	(913)	(881)
Treasury shares, at cost, 149 and 148 shares at June 30, 2024 and March 31, 2024, respectively	(24,781)	(24,119)
Total McKesson Corporation stockholders' deficit	<u>(1,755)</u>	<u>(1,971)</u>
Noncontrolling interests	374	372
Total deficit	<u>(1,381)</u>	<u>(1,599)</u>
Total liabilities and deficit	<u>\$ 71,670</u>	<u>\$ 67,443</u>

McKESSON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(In millions, except per share amounts)
(Unaudited)

Three Months Ended June 30, 2024

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Deficit
	Shares	Amount				Common Shares	Amount		
Balance, March 31, 2024	278	\$ 3	\$ 8,048	\$ 14,978	\$ (881)	(148)	\$ (24,119)	\$ 372	\$ (1,599)
Issuance of shares under employee plans, net of forfeitures	1	—	22	—	—	—	(134)	—	(112)
Share-based compensation	—	—	56	—	—	—	—	—	56
Repurchase of common stock	—	—	—	—	—	(1)	(528)	—	(528)
Net income	—	—	—	915	—	—	—	45	960
Other comprehensive loss	—	—	—	—	(32)	—	—	—	(32)
Cash dividends declared, \$0.62 per common share	—	—	—	(83)	—	—	—	—	(83)
Payments to noncontrolling interests	—	—	—	—	—	—	—	(43)	(43)
Balance, June 30, 2024	<u>279</u>	<u>\$ 3</u>	<u>\$ 8,126</u>	<u>\$ 15,810</u>	<u>\$ (913)</u>	<u>(149)</u>	<u>\$ (24,781)</u>	<u>\$ 374</u>	<u>\$ (1,381)</u>

Three Months Ended June 30, 2023

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Deficit
	Shares	Amount				Common Shares	Amount		
Balance, March 31, 2023	277	\$ 3	\$ 7,747	\$ 12,295	\$ (905)	(141)	\$ (20,997)	\$ 367	\$ (1,490)
Issuance of shares under employee plans, net of forfeitures	1	—	27	—	—	—	(93)	—	(66)
Share-based compensation	—	—	43	—	—	—	—	—	43
Repurchase of common stock	—	—	—	—	—	(2)	(673)	—	(673)
Net income	—	—	—	958	—	—	—	39	997
Other comprehensive income	—	—	—	—	57	—	—	—	57
Cash dividends declared, \$0.54 per common share	—	—	—	(73)	—	—	—	—	(73)
Payments to noncontrolling interests	—	—	—	—	—	—	—	(39)	(39)
Other	—	—	7	2	—	—	—	(5)	4
Balance, June 30, 2023	<u>278</u>	<u>\$ 3</u>	<u>\$ 7,824</u>	<u>\$ 13,182</u>	<u>\$ (848)</u>	<u>(143)</u>	<u>\$ (21,763)</u>	<u>\$ 362</u>	<u>\$ (1,240)</u>

See Financial Notes

McKESSON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended June 30,	
	2024	2023
OPERATING ACTIVITIES		
Net income	\$ 960	\$ 997
Adjustments to reconcile to net cash used in operating activities:		
Depreciation	63	64
Amortization	106	95
Long-lived asset impairment charges	3	28
Deferred taxes	28	(235)
Charges (credits) associated with last-in, first-out inventory method	(2)	32
Non-cash operating lease expense	57	58
Gain from sales of businesses and investments	(86)	(19)
Provision for bad debts	15	6
Other non-cash items	69	35
Changes in assets and liabilities:		
Receivables	(2,101)	(2,380)
Inventories	(4,442)	(826)
Drafts and accounts payable	4,616	1,473
Operating lease liabilities	(96)	(80)
Taxes	(211)	236
Litigation liabilities	114	—
Other	(473)	(536)
Net cash used in operating activities	<u>(1,380)</u>	<u>(1,052)</u>
INVESTING ACTIVITIES		
Payments for property, plant, and equipment	(106)	(78)
Capitalized software expenditures	(61)	(46)
Proceeds from sales of businesses and investments, net	90	39
Other	(10)	(64)
Net cash used in investing activities	<u>(87)</u>	<u>(149)</u>
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	1,361	65
Repayments of short-term borrowings	(1,361)	(65)
Proceeds from issuances of long-term debt	—	991
Repayments of long-term debt	—	(268)
Purchase of U.S. government obligations for the satisfaction and discharge of long-term debt	—	(647)
Common stock transactions:		
Issuances	22	27
Share repurchases	(527)	(696)
Dividends paid	(82)	(74)
Other	(222)	(176)
Net cash used in financing activities	<u>(809)</u>	<u>(843)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(5)	2
Net decrease in cash, cash equivalents, and restricted cash	<u>(2,281)</u>	<u>(2,042)</u>
Cash, cash equivalents, and restricted cash at beginning of period	4,585	4,679
Cash, cash equivalents, and restricted cash at end of period	2,304	2,637
Less: Restricted cash at end of period included in Prepaid expenses and other	(2)	(1)
Cash and cash equivalents at end of period	<u>\$ 2,302</u>	<u>\$ 2,636</u>

See Financial Notes

McKESSON CORPORATION

FINANCIAL NOTES

(UNAUDITED)

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation together with its subsidiaries (collectively, the “Company” or “McKesson,”) is a diversified healthcare services leader dedicated to advancing health outcomes for patients everywhere. McKesson partners with biopharma companies, care providers, pharmacies, manufacturers, governments, and others to deliver insights, products, and services to help make quality care more accessible and affordable. The Company reports its financial results in four reportable segments: U.S. Pharmaceutical, Prescription Technology Solutions (“RxTS”), Medical-Surgical Solutions, and International. Refer to [Financial Note 11, “Segments of Business,”](#) for additional information.

Basis of Presentation: The condensed consolidated financial statements and accompanying notes are prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) for interim financial reporting and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) and therefore do not include all information and disclosures normally included in the annual consolidated financial statements.

The condensed consolidated financial statements of McKesson include the financial statements of all majority-owned or controlled companies. For those consolidated subsidiaries where the Company’s ownership is less than 100%, the portion of the net income or loss allocable to the noncontrolling interests is reported as “Net income attributable to noncontrolling interests” in the Condensed Consolidated Statements of Operations. All significant intercompany balances and transactions have been eliminated in consolidation, including the intercompany portion of transactions with equity method investees.

Net income attributable to noncontrolling interests includes third-party equity interests in the Company’s consolidated entities, including ClarusONE Sourcing Services LLP, Vantage Oncology Holdings, LLC, and SCRI Oncology, LLC.

The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. The Company also assesses control through means other than voting rights and determines which business entity is the primary beneficiary of the variable interest entity (“VIE”). The Company consolidates VIEs when it is determined that it is the primary beneficiary of the VIE. Investments in business entities in which the Company does not have control, but instead has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method.

Fiscal Period: The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year means the Company’s fiscal year.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts could differ from those estimated amounts. In the opinion of management, the unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the results of operations, financial position, and cash flows of McKesson for the interim periods presented.

The results of operations for the three months ended June 30, 2024 and 2023 are not necessarily indicative of the results that may be anticipated for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies, and financial notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2024, previously filed with the SEC on May 8, 2024 (the “2024 Annual Report”).

Recently Adopted Accounting Pronouncements

There were no accounting standards adopted during the first quarter of fiscal 2025 that had a material impact to the Company’s condensed consolidated financial statements or disclosures.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. ASU 2023-09 improves the transparency of income tax disclosures by requiring, on an annual basis, consistent categories, and greater disaggregation of information in the rate reconciliation as well as income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for the Company for fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments in this update should be applied prospectively, however, retrospective application is permitted. The Company is currently evaluating the impact that this guidance will have on its disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. ASU 2023-07 expands reportable segment disclosures by requiring disclosure, on an annual and interim basis, of significant segment expenses that are regularly provided to the chief operating decision maker (“CODM”) and included within each reported measure of segment profit or loss as well as an amount and description of other segment items. ASU 2023-07 also requires interim disclosures of a reportable segment’s profit or loss and assets, disclosure of the title and position of the CODM, and an explanation of how the CODM uses the reported measure of segment profit or loss in assessing performance and allocating resources. ASU 2023-07 is effective for the Company for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments in this update are required to be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact that this guidance will have on its disclosures.

Recent Securities and Exchange Commission Final Rules Not Yet Implemented

In March 2024, the SEC adopted final rules under SEC Release Nos. 33-11275 and 34-99678, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, which would have required the Company to provide certain climate-related information in annual reports and registration statements beginning with its Annual Report on Form 10-K for the year ended March 31, 2026. In April 2024, the SEC stayed these rules pending the completion of judicial review of consolidated petitions challenging the validity of the rules. The Company is currently evaluating the impact of these rules in light of those legal challenges and monitoring the status of the stay and judicial review.

2. Restructuring, Impairment, and Related Charges, Net

The Company recorded restructuring, impairment, and related charges, net of \$10 million and \$52 million for the three months ended June 30, 2024 and 2023, respectively. These charges were included in “Restructuring, impairment, and related charges, net” in the Condensed Consolidated Statements of Operations.

Restructuring Initiatives

During the fourth quarter of fiscal 2023, the Company approved a broad set of initiatives to drive operational efficiencies and increase cost optimization efforts, with the intent of simplifying its infrastructure and realizing long-term sustainable growth. These initiatives included headcount reductions, primarily consisting of employee severance and other employee-related costs within the RxTS segment, and the exit or downsizing of certain facilities. For the three months ended June 30, 2023, the Company recorded charges of \$36 million related to this program, which primarily included real estate and other related asset impairments and facility costs within Corporate. This restructuring program was substantially complete in fiscal 2024.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Restructuring, impairment, and related charges, net for the three months ended June 30, 2024 and 2023 consisted of the following:

Three Months Ended June 30, 2024						
<i>(In millions)</i>	U.S. Pharmaceutical	Prescription Technology Solutions	Medical- Surgical Solutions	International	Corporate	Total
Severance and employee-related costs, net	\$ —	\$ —	\$ —	\$ —	\$ (1)	\$ (1)
Exit and other-related costs ⁽¹⁾	—	3	3	—	2	8
Asset impairments and accelerated depreciation	1	1	—	1	—	3
Total	\$ 1	\$ 4	\$ 3	\$ 1	\$ 1	\$ 10

(1) Exit and other-related costs consist of accruals for costs to be incurred without future economic benefits, project consulting fees, and other exit costs expensed as incurred.

Three Months Ended June 30, 2023						
<i>(In millions)</i>	U.S. Pharmaceutical	Prescription Technology Solutions ⁽¹⁾	Medical- Surgical Solutions	International	Corporate ⁽¹⁾	Total
Severance and employee-related costs, net	\$ 1	\$ —	\$ —	\$ —	\$ 1	\$ 2
Exit and other-related costs ⁽²⁾	1	2	2	5	12	22
Asset impairments and accelerated depreciation	—	—	—	1	27	28
Total	\$ 2	\$ 2	\$ 2	\$ 6	\$ 40	\$ 52

(1) Includes costs related to operational efficiencies and cost optimization efforts described above to support the Company's technology solutions.

(2) Exit and other-related costs consist of accruals for costs to be incurred without future economic benefits, project consulting fees, and other exit costs expensed as incurred.

The following table summarizes the activity related to the liabilities associated with the Company's restructuring initiatives for the three months ended June 30, 2024:

<i>(In millions)</i>	U.S. Pharmaceutical	Prescription Technology Solutions	Medical- Surgical Solutions	International	Corporate	Total
Balance, March 31, 2024 ⁽¹⁾	\$ 18	\$ 5	\$ 1	\$ 10	\$ 21	\$ 55
Restructuring, impairment, and related charges, net	1	4	3	1	1	10
Non-cash charges	(1)	(1)	—	(1)	—	(3)
Cash payments	(3)	(1)	(4)	(1)	(5)	(14)
Other ⁽²⁾	(1)	(2)	—	(1)	(1)	(5)
Balance, June 30, 2024 ⁽³⁾	\$ 14	\$ 5	\$ —	\$ 8	\$ 16	\$ 43

(1) As of March 31, 2024, the total reserve balance was \$55 million, of which \$24 million was recorded in "Other accrued liabilities" and \$31 million was recorded in "Other non-current liabilities" in the Company's Condensed Consolidated Balance Sheet.

(2) Other primarily includes cumulative translation adjustments within International and transfers to certain other liabilities.

(3) As of June 30, 2024, the total reserve balance was \$43 million, of which \$13 million was recorded in "Other accrued liabilities" and \$30 million was recorded in "Other non-current liabilities" in the Company's Condensed Consolidated Balance Sheet.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

During the second quarter of fiscal 2025, the Company approved a broad set of initiatives within its Medical-Surgical Solutions segment to drive operational efficiencies and increase cost optimization efforts, with the intent of simplifying its infrastructure and realizing long-term sustainable growth. These initiatives include headcount reductions, the exit or downsizing of certain facilities, and other costs. The Company anticipates total charges between \$100 million and \$150 million, consisting primarily of employee severance and other employee-related costs, facility and other exit-related costs, including long-lived asset impairments. This program is anticipated to be substantially complete by the end of the first half of fiscal 2026.

3. Income Taxes

Income tax expense was as follows:

<i>(Dollars in millions)</i>	Three Months Ended June 30,	
	2024	2023
Income tax expense	\$ 124	\$ 94
Reported income tax rate	11.4 %	8.6 %

Fluctuations in the Company's reported income tax rates were primarily due to changes in the mix of earnings between various taxing jurisdictions and discrete items recognized in the quarters.

During the three months ended June 30, 2024, the Company recognized a net discrete tax benefit of \$125 million primarily driven by discrete tax benefits of \$58 million related to an election to change the tax status of a foreign affiliate, \$37 million related to the tax impact of share-based compensation, and \$36 million related to the reduction in unrecognized tax benefits due to a change in case law.

During the three months ended June 30, 2023, the Company repatriated certain intellectual property between McKesson wholly-owned legal entities that are based in different tax jurisdictions. The transferor entity of the intellectual property was not subject to income tax on this transaction. The recipient entity of the intellectual property is entitled to amortize the fair value of the assets for tax purposes. As a result of this repatriation, and in accordance with ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, a net discrete tax benefit of \$147 million was recognized in the first quarter of fiscal 2024.

As of June 30, 2024, the Company had \$1.4 billion of unrecognized tax benefits, of which \$1.3 billion would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, the Company does not anticipate any material reduction in its unrecognized tax benefits based on the information currently available. However, this may change as the Company continues to have ongoing discussions with various taxing authorities throughout the year.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions, and various foreign jurisdictions. The Company is generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2016 through the current fiscal year.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

4. Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. The computation of diluted earnings per common share is similar to that of basic earnings per common share, except that the former reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. Potentially dilutive securities include outstanding stock options, restricted stock units, and performance-based restricted stock units. Less than one million of potentially dilutive securities for the three months ended June 30, 2024 and 2023 were excluded from the computation of diluted earnings per common share as they were anti-dilutive.

The computations for basic and diluted earnings per common share were as follows:

<i>(In millions, except per share amounts)</i>	Three Months Ended June 30,	
	2024	2023
Net income	\$ 960	\$ 997
Net income attributable to noncontrolling interests	(45)	(39)
Net income attributable to McKesson Corporation	<u>\$ 915</u>	<u>\$ 958</u>
Weighted-average common shares outstanding:		
Basic	129.8	135.5
Effect of dilutive securities:		
Stock options	0.1	0.2
Restricted stock units ⁽¹⁾	<u>0.8</u>	<u>0.9</u>
Diluted	<u>130.7</u>	<u>136.6</u>
Earnings per common share attributable to McKesson Corporation: ⁽²⁾		
Diluted	\$ 7.00	\$ 7.02
Basic	\$ 7.04	\$ 7.07

(1) Includes dilutive effect from restricted stock units and performance-based restricted stock units.

(2) Certain computations may reflect rounding adjustments.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
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5. Goodwill and Intangible Assets, Net

Goodwill

The Company evaluates goodwill for impairment on an annual basis in the first fiscal quarter, and more frequently if indicators for potential impairment exist. Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit. The annual impairment testing performed in fiscal 2025 and fiscal 2024 did not indicate any impairment of goodwill.

Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	U.S. Pharmaceutical	Prescription Technology Solutions	Medical- Surgical Solutions	International	Total
Balance, March 31, 2024	\$ 4,123	\$ 2,024	\$ 2,536	\$ 1,449	\$ 10,132
Foreign currency translation adjustments, net	—	—	—	(14)	(14)
Balance, June 30, 2024	\$ 4,123	\$ 2,024	\$ 2,536	\$ 1,435	\$ 10,118

Intangible Assets

Information regarding intangible assets was as follows:

<i>(Dollars in millions)</i>	June 30, 2024				March 31, 2024		
	Weighted- Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	11	\$ 1,825	\$ (730)	\$ 1,095	\$ 1,830	\$ (701)	\$ 1,129
Service agreements	10	1,129	(690)	439	1,126	(676)	450
Trademarks and trade names	12	755	(405)	350	759	(395)	364
Technology	10	284	(129)	155	284	(125)	159
Other	7	32	(26)	6	34	(26)	8
Total		\$ 4,025	\$ (1,980)	\$ 2,045	\$ 4,033	\$ (1,923)	\$ 2,110

All intangible assets were subject to amortization as of June 30, 2024 and March 31, 2024. Amortization expense of intangible assets was \$63 million and \$62 million for the three months ended June 30, 2024 and 2023, respectively. Estimated amortization expense of the assets listed in the table above is as follows: \$183 million, \$214 million, \$207 million, \$203 million, and \$200 million for the remainder of fiscal 2025 and each of the succeeding years through fiscal 2029, respectively, and \$1.0 billion thereafter.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

6. Debt and Financing Activities

Long-term debt consisted of the following:

<i>(In millions)</i>	June 30, 2024	March 31, 2024
<i>U.S. Dollar notes</i> ^{(1) (2)}		
0.90% Notes due December 3, 2025	500	500
5.25% Notes due February 15, 2026	499	499
1.30% Notes due August 15, 2026	499	499
7.65% Debentures due March 1, 2027	150	150
3.95% Notes due February 16, 2028	343	343
4.90% Notes due July 15, 2028	399	399
4.75% Notes due May 30, 2029	196	196
5.10% Notes due July 15, 2033	597	596
6.00% Notes due March 1, 2041	218	218
4.88% Notes due March 15, 2044	255	255
<i>Foreign currency notes</i> ^{(1) (3)}		
1.50% Euro Notes due November 17, 2025	642	646
1.63% Euro Notes due October 30, 2026	536	540
3.13% Sterling Notes due February 17, 2029	569	568
Lease and other obligations	232	220
Total debt	5,635	5,629
Less: Current portion	51	50
Total long-term debt	\$ 5,584	\$ 5,579

(1) These notes are unsecured and unsubordinated obligations of the Company.

(2) Interest on these U.S. dollar notes is payable semi-annually.

(3) Interest on these foreign currency notes is payable annually.

Long-Term Debt

The Company's long-term debt includes both U.S. dollar and foreign currency-denominated borrowings. At June 30, 2024 and March 31, 2024, \$5.6 billion of total debt was outstanding, of which \$51 million and \$50 million, respectively, was included under the caption "Current portion of long-term debt" in the Company's Condensed Consolidated Balance Sheets.

Public Offerings

On June 15, 2023, the Company completed a public offering of 4.90% Notes due July 15, 2028 in a principal amount of \$400 million (the "2028 Notes") and a public offering of 5.10% Notes due July 15, 2033 in a principal amount of \$600 million (the "2033 Notes" and, together with the 2028 Notes, the "Notes"). Interest on the Notes is payable semi-annually on January 15th and July 15th of each year, commencing on January 15, 2024. Proceeds received from the issuance of the Notes, net of discounts and offering expenses, were \$397 million for the 2028 Notes and \$592 million for the 2033 Notes. The Company utilized a portion of the net proceeds from the offerings of the Notes to fund the purchase price payable with respect to the portion of the Company's then outstanding 3.80% Notes due March 15, 2024 (the "2024 Notes") that was validly tendered and accepted for purchase pursuant to the Concurrent Tender Offer (as defined below) and to effect the satisfaction and discharge of the remaining portion of the 2024 Notes, all of which is described further below. The remaining net proceeds from the offerings of the Notes was available for general corporate purposes.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
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Each series of the Notes is an unsecured and unsubordinated obligation of the Company and ranks equally with all of the Company's existing, and future unsecured and unsubordinated indebtedness that may be outstanding from time-to-time. The Notes are governed by an indenture and officers' certificate that are materially similar to those of other series of notes issued by the Company. Upon at least 10 days' and not more than 60 days' notice to holders of the applicable series of the Notes, the Company may redeem either series of the Notes for cash in whole, at any time, or in part, from time to time, at redemption prices that include accrued and unpaid interest and a make-whole premium before a specified date, and at par plus accrued and unpaid interest thereafter until maturity, each as specified in the indenture and the officers' certificate. If there were to occur both (a) a change of control of the Company and (b) a downgrade of the applicable series of the Notes below an investment grade rating by each of the Ratings Agencies (as defined in the officers' certificate) within a specified period, then the Company would be required to make an offer to purchase those Notes at a price equal to 101% of the then outstanding principal amount of such Notes, plus accrued and unpaid interest to, but not including, the date of repurchase. The indenture and the related officers' certificate for the Notes, subject to the exceptions and in compliance with the conditions as applicable, specify that the Company may not consolidate, merge or sell all or substantially all of its assets, incur liens, or enter into sale-leaseback transactions exceeding specific terms, without the lenders' consent. The indenture also contains customary events of default provisions.

Concurrent Tender Offer of the 2024 Notes

On June 16, 2023, the Company completed a cash tender offer for any and all of its then outstanding 2024 Notes, which was made concurrently with the offerings of the Notes (the "Concurrent Tender Offer"). The Company paid an aggregate consideration of \$268 million in the Concurrent Tender Offer to repurchase \$271 million principal amount of the 2024 Notes at a repurchase price equal to 98.75% of the principal amount plus accrued and unpaid interest. The repurchase of the 2024 Notes accepted for purchase in the Concurrent Tender Offer was accounted for as a debt extinguishment.

Satisfaction and Discharge of the 2024 Notes

On June 16, 2023, after completing the Concurrent Tender Offer, the Company irrevocably deposited with the trustee under the indenture governing the 2024 Notes (the "2024 Notes Indenture") U.S. government obligations in an amount sufficient to fund the payment of accrued and unpaid interest of the remaining \$647 million principal amount of the 2024 Notes as it became due, and of the principal amount of those 2024 Notes on their March 15, 2024 maturity date. The U.S. government obligations were purchased using a portion of the net proceeds from the offerings of the Notes. After the deposit of such funds with the trustee, the Company's obligations under the 2024 Notes Indenture with respect to the 2024 Notes were satisfied and discharged and the transaction was accounted for as a debt extinguishment.

The total gain recognized on the debt extinguishments described above for the three months ended June 30, 2023 was \$9 million and included within "Interest expense" in the Company's Condensed Consolidated Statement of Operations.

Revolving Credit Facilities

On November 7, 2022, the Company entered into a Credit Agreement (the "2022 Credit Facility"), that provides a syndicated \$4.0 billion senior unsecured credit facility with a \$3.6 billion aggregate sublimit of availability in Canadian dollars, British pound sterling, and Euro. The 2022 Credit Facility is scheduled to mature in November 2028. There were no borrowings under the 2022 Credit Facility during the three months ended June 30, 2024 and 2023 and no amounts outstanding at June 30, 2024 or March 31, 2024. At June 30, 2024, the Company was in compliance with all covenants under the 2022 Credit Facility.

Commercial Paper

The Company maintains a commercial paper program to support its working capital requirements and for other general corporate purposes. Under the program, the Company can issue up to \$4.0 billion in outstanding commercial paper notes. During the three months ended June 30, 2024, the Company borrowed and repaid \$1.4 billion under the program. During the three months ended June 30, 2023, the Company borrowed and repaid \$65 million under the program. At June 30, 2024 and March 31, 2024, there were no commercial paper notes outstanding.

McKESSON CORPORATION
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7. Hedging Activities

In the normal course of business, the Company is exposed to interest rate and foreign currency exchange rate fluctuations. At times, the Company limits these risks through the use of derivatives as described below. In accordance with the Company's policy, derivatives are only used for hedging purposes. The Company does not use derivatives for trading or speculative purposes. The Company uses various counterparties for its derivative contracts to minimize the exposure to credit risk but does not anticipate non-performance by these parties.

Foreign Currency Exchange Risk

The Company conducts its business worldwide in U.S. dollars and the functional currencies of its foreign subsidiaries, including Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on the Company's financial results that are reported in U.S. dollars. The Company is also exposed to foreign currency exchange rate risk related to its foreign subsidiaries, including intercompany loans denominated in non-functional currencies. The Company has certain foreign currency exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. These forward contracts and cross-currency swaps are generally used to offset the potential income statement effects from intercompany loans and other obligations denominated in non-functional currencies. These programs reduce but do not entirely eliminate foreign currency exchange rate risk.

Interest Rate Risk

The Company has exposure to changes in interest rates, and it utilizes risk programs which use interest rate swaps to hedge the changes in debt fair values caused by fluctuations in benchmark interest rates. The Company also enters into forward contracts to hedge the variability of future benchmark interest rates on any planned bond issuances. These programs reduce but do not entirely eliminate interest rate risk.

Derivative Instruments

At June 30, 2024 and March 31, 2024, the notional amounts of the Company's outstanding derivatives were as follows:

<i>(In millions)</i>	Currency	Maturity Date⁽¹⁾	June 30, 2024		March 31, 2024	
			Notional			
Derivatives designated as net investment hedges:⁽²⁾						
Cross-currency swaps ⁽³⁾	CAD	Apr-25 to Jun-26	C\$	2,500	C\$	1,500
Derivatives designated as fair value hedges:⁽²⁾						
Cross-currency swaps ⁽⁴⁾	GBP	Nov-28	£	450	£	450
Cross-currency swaps ⁽⁴⁾	EUR	Aug-25 to Jul-26	€	1,100	€	1,100
Floating interest rate swaps ⁽⁵⁾	USD	Feb-26 to Sep-29	\$	1,250	\$	1,250
Derivatives designated as cash flow hedges:⁽²⁾						
Foreign currency forwards ⁽⁶⁾	GBP	Jul-24 to Jul-25	£	35	£	39

- (1) The maturity date reflected is for outstanding derivatives as of June 30, 2024.
- (2) There was no ineffectiveness in these hedges for the three months ended June 30, 2024 and 2023.
- (3) The Company agreed with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts.
- (4) Represents cross-currency fixed-to-fixed interest rate swaps to mitigate the foreign currency exchange fluctuations on its foreign currency-denominated notes.
- (5) Represents fixed-to-floating interest rate swaps to hedge the changes in fair value caused by fluctuations in the benchmark interest rates.
- (6) The Company entered into agreements with financial institutions to hedge the variability of foreign currency exchange fluctuations in future cash payments due to a third party in the United Kingdom for capital expenditures.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Net Investment Hedges

The Company uses cross-currency swaps to hedge portions of the Company's net investments denominated in Canadian dollars against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. The changes in the fair value of these derivatives attributable to the changes in spot currency exchange rates and differences between spot and forward interest rates are recorded in accumulated other comprehensive loss and offset foreign currency translation gains and losses recorded on the Company's net investments denominated in Canadian dollars. To the extent cross-currency swaps designated as hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings.

In the first quarter of fiscal 2025, the Company entered into cross-currency swaps designated as net investment hedges with a total notional amount of C\$2.5 billion to hedge portions of the Company's net investments denominated in Canadian dollars against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. These cross-currency swaps mature in April 2025 and June 2026. Further, the Company terminated C\$1.5 billion of cross-currency swaps designated as net investment hedges with original maturity dates in November 2024 and extending through March 2025.

Fair Value Hedges

The Company uses cross-currency swaps to hedge the changes in the fair value of its foreign currency notes resulting from changes in benchmark interest rates and foreign currency exchange rates. The Company also uses floating interest rate swaps to hedge the changes in the fair value of its U.S. dollar notes resulting from changes in benchmark interest rates. The changes in the fair value of these derivatives and the offsetting changes in the fair value of the hedged notes are recorded in earnings. Gains and losses from the changes in the Company's fair value hedges recorded in earnings were largely offset by the gains and losses recorded in earnings on the hedged item. For components excluded from the assessment of hedge effectiveness, the initial value of the excluded component is recognized in accumulated other comprehensive loss and then released into earnings over the life of the hedging instrument. The difference between the change in the fair value of the excluded component and the amount amortized into earnings during the period is recorded in other comprehensive income (loss).

Cash Flow Hedges

The Company uses cross-currency swaps to hedge intercompany loans denominated in non-functional currencies to reduce the income statement effects arising from fluctuations in foreign currency exchange rates. The Company also uses forward contracts to hedge the variability of future benchmark interest rates on any planned bond issuances and to offset the potential income statement effects from obligations denominated in non-functional currencies. The effective portion of changes in the fair value of these hedges is recorded in accumulated other comprehensive loss and reclassified into earnings in the same period in which the hedged transaction affects earnings. Changes in fair values representing hedge ineffectiveness are recognized in current earnings. There were no gains or losses reclassified from accumulated other comprehensive loss and recorded in "Selling, distribution, general, and administrative expenses" in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2024 or 2023.

In fiscal 2023, the Company entered into forward-starting fixed interest rate swaps designated as cash flow hedges with a combined notional amount of \$450 million, and in the first quarter of fiscal 2024 with a notional amount of \$50 million, to hedge the variability of future benchmark interest rates on a planned bond issuance. On June 15, 2023, the Company completed a public offering of the 2033 Notes, at which point the \$500 million cash flow hedges were terminated and the proceeds are being amortized to interest expense over the life of the 2033 Notes, or 10 years. Refer to [Financial Note 6, "Debt and Financing Activities,"](#) for additional information on the public offering of the 2033 Notes.

Derivatives Not Designated as Hedges

Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change in fair value included in earnings. Changes in the fair values for contracts not designated as hedges are recorded directly into earnings in "Selling, distribution, general, and administrative expenses" in the Condensed Consolidated Statements of Operations. The Company did not enter into or have any outstanding derivative instruments not designated as hedges during the periods presented.

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Other Information on Derivative Instruments

Gains (losses) from derivatives included in other comprehensive income (loss) in the Condensed Consolidated Statements of Comprehensive Income were as follows:

<i>(In millions)</i>	Three Months Ended June 30,	
	2024	2023
Derivatives designated as net investment hedges:		
Cross-currency swaps	\$ 7	\$ (20)
Derivatives designated as cash flow and other hedges:		
Cross-currency swaps ⁽¹⁾	\$ —	\$ (6)
Foreign currency forwards	—	—
Fixed interest rate swaps	—	16

(1) Includes other comprehensive income (loss) related to the excluded component of certain fair value hedges.

Information regarding the fair value of derivatives on a gross basis were as follows:

<i>(In millions)</i>	Balance Sheet Caption	June 30, 2024			March 31, 2024		
		Fair Value of Derivative		U.S. Dollar Notional	Fair Value of Derivative		U.S. Dollar Notional
		Asset	Liability		Asset	Liability	
Derivatives designated for hedge accounting:							
Cross-currency swaps (current)	Prepaid expenses and other/Other accrued liabilities	\$ —	\$ 3	\$ 1,095	\$ 13	\$ 1	\$ 1,122
Cross-currency swaps (non-current)	Other non-current assets/liabilities	100	3	2,366	108	—	1,638
Interest rate swaps (non-current)	Other non-current liabilities	—	36	1,250	—	35	1,250
Foreign currency forwards (current)	Prepaid expenses and other/Other accrued liabilities	—	—	41	—	—	35
Foreign currency forwards (non-current)	Other non-current assets	—	—	3	—	—	15
Total		\$ 100	\$ 42		\$ 121	\$ 36	

Refer to [Financial Note 8, "Fair Value Measurements,"](#) for more information on these recurring fair value measurements.

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8. Fair Value Measurements

The Company measures certain assets and liabilities at fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities.

Level 2 - significant other observable market-based inputs.

Level 3 - significant unobservable inputs for which little or no market data exists and requires considerable assumptions that are significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Cash and cash equivalents at June 30, 2024 and March 31, 2024 included investments in money market funds of \$627 million and \$705 million, respectively, which are reported at fair value. The fair value of money market funds was determined using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates their fair value due to their relatively short-term nature.

Fair values of the Company's interest rate swaps, cross-currency swaps, and foreign currency forward contracts were determined using observable inputs from available market information, including quoted interest rates, foreign currency exchange rates, and other observable inputs from available market information. These inputs are considered Level 2 under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future. Refer to [Financial Note 7, "Hedging Activities,"](#) for fair values and other information on the Company's derivatives.

The Company holds investments in equity and debt securities of U.S. growth stage companies that address both current and emerging business challenges in the healthcare industry and which had a carrying value of \$189 million and \$240 million at June 30, 2024 and March 31, 2024, respectively. These investments primarily consist of equity securities without readily determinable fair values and are included in "Other non-current assets" in the Condensed Consolidated Balance Sheets. The carrying value of publicly-traded investments, which was not material for the periods presented, was determined using quoted prices for identical investments in active markets and are considered to be Level 1 inputs. The net realized and unrealized gains and losses as well as impairment charges related to these investments were a net gain of \$110 million for the three months ended June 30, 2024 and an immaterial net loss for the three months ended June 30, 2023 which are included within "Other income, net" in the Condensed Consolidated Statements of Operations. The net gain recognized for the three months ended June 30, 2024 primarily relates to a recapitalization event of one of the Company's investments in equity securities which resulted in an increase to the carrying value of this investment. The Company recognized a net gain of \$97 million related to this event and sold a portion of its investment for proceeds of \$89 million.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company's assets and liabilities are also subject to nonrecurring fair value measurements. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or as a result of charges to remeasure assets classified as held for sale to fair value less costs to sell.

The aforementioned investments in equity securities of U.S. growth stage companies include the carrying value of investments without readily determinable fair values, which were determined using a measurement alternative and are recorded at cost less impairment, plus or minus any changes in observable price from orderly transactions of the same or similar security of the same issuer. These inputs related to changes in observable price are considered Level 2 under the fair value measurements and disclosure guidance and may not be representative of actual values that could have been realized or that will be realized in the future. Inputs related to impairments of investments are generally considered Level 3 fair value measurements due to their inherently unobservable nature based on significant assumptions by management and use of company-specific information.

McKESSON CORPORATION
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There were no other material assets or liabilities measured at fair value on a nonrecurring basis at June 30, 2024 and March 31, 2024.

Other Fair Value Disclosures

At June 30, 2024 and March 31, 2024, the carrying amounts of cash, certain cash equivalents, restricted cash, receivables, drafts and accounts payable, and other current assets and liabilities approximated their estimated fair values because of the short-term maturity of these financial instruments.

The Company determines the fair value of commercial paper using quoted prices in active markets for identical instruments, which are considered Level 1 inputs under the fair value measurements and disclosure guidance.

The Company’s long-term debt is recorded at amortized cost. The carrying value and fair value of the Company’s long-term debt was as follows:

<i>(In millions)</i>	June 30, 2024		March 31, 2024	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	\$ 5,635	\$ 5,487	\$ 5,629	\$ 5,488

The estimated fair value of the Company’s long-term debt was determined using quoted market prices in a less active market and other observable inputs from available market information, which are considered to be Level 2 inputs, and may not be representative of actual values that could have been realized or that will be realized in the future.

Goodwill

Fair value assessments of the reporting unit and the reporting unit's net assets, which are performed for goodwill impairment tests, are considered a Level 3 measurement due to the significance of unobservable inputs developed using company-specific information. The Company considered a market approach as well as an income approach using a discounted cash flow (“DCF”) model to determine the fair value of each reporting unit.

Long-lived Assets

The Company utilizes multiple approaches, including the DCF model and market approaches, for estimating the fair value of intangible assets. The future cash flows used in the analysis are based on internal cash flow projections from its long-range plans and include significant assumptions by management. Accordingly, the fair value assessment of long-lived assets is considered a Level 3 fair value measurement.

The Company measures certain long-lived and intangible assets at fair value on a nonrecurring basis when events occur that indicate an asset group may not be recoverable. If the carrying amount of an asset group is not recoverable, an impairment charge is recorded to reduce the carrying amount by the excess over its fair value.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

9. Commitments and Contingent Liabilities

In addition to commitments and obligations incurred in the ordinary course of business, the Company is subject to a variety of claims and legal proceedings, including claims from customers and vendors, pending and potential legal actions for damages, governmental investigations, and other matters. The Company and its affiliates are parties to the legal claims and proceedings described below and in [Financial Note 17 to the Company's 2024 Annual Report](#), which disclosure is incorporated in this footnote by this reference. The Company is vigorously defending itself against those claims and in those proceedings. Significant developments in those matters are described below. If the Company is unsuccessful in defending, or if it determines to settle, any of these matters, it may be required to pay substantial sums, be subject to injunction and/or be forced to change how it operates its business, which could have a material adverse impact on its financial position or results of operations.

Unless otherwise stated, the Company is unable to reasonably estimate the loss or a range of possible loss for the matters described below. Often, the Company is unable to determine that a loss is probable, or to reasonably estimate the amount of loss or a range of loss, for a claim because of the limited information available and the potential effects of future events and decisions by third parties, such as courts and regulators, that will determine the ultimate resolution of the claim. Many of the matters described are at preliminary stages, raise novel theories of liability, or seek an indeterminate amount of damages. It is not uncommon for claims to remain unresolved over many years. The Company reviews loss contingencies at least quarterly to determine whether the likelihood of loss has changed and whether it can make a reasonable estimate of the loss or range of loss. When the Company determines that a loss from a claim is probable and reasonably estimable, it records a liability for an estimated amount. The Company also provides disclosure when it is reasonably possible that a loss may be incurred or when it is reasonably possible that the amount of a loss will exceed its recorded liability. Amounts included within "Claims and litigation charges, net" in the Condensed Consolidated Statements of Operations consist of estimated loss contingencies related to opioid-related litigation matters, as well as any applicable income items or credit adjustments due to subsequent changes in estimates.

I. Litigation and Claims Involving Distribution of Controlled Substances

The Company and its affiliates have been sued as defendants in many cases asserting claims related to distribution of controlled substances. They have been named as defendants along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers, and retail pharmacies. The plaintiffs in these actions have included state attorneys general, county and municipal governments, school districts, tribal nations, hospitals, health and welfare funds, third-party payors, and individuals. These actions have been filed in state and federal courts throughout the U.S., and in Puerto Rico and Canada. They have sought monetary damages and other forms of relief based on a variety of causes of action, including negligence, public nuisance, unjust enrichment, and civil conspiracy, as well as alleging violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), state and federal controlled substances laws, and other statutes. Because of the many uncertainties associated with opioid-related litigation matters, the Company is not able to conclude that a liability is probable or provide a reasonable estimate for the range of ultimate possible loss for opioid-related litigation matters other than those for which an accrual is described below.

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State and Local Government Claims

The Company and two other national pharmaceutical distributors (collectively “Distributors”) entered into a settlement agreement (the “Settlement”) and consent judgment with 48 states and their participating subdivisions, as well as the District of Columbia and all eligible territories (the “Settling Governmental Entities”). Approximately 2,300 cases have been dismissed. The Distributors did not admit liability or wrongdoing and do not waive any defenses pursuant to the Settlement. Under the Settlement, the Company has paid the Settling Governmental Entities approximately \$1.5 billion as of June 30, 2024, and additionally will pay the Settling Governmental Entities up to approximately \$6.3 billion through 2038. A minimum of 85% of the Settlement payments must be used by state and local governmental entities to remediate the opioid epidemic, while the remainder relates to plaintiffs’ attorneys’ fees and costs and will be paid out through 2030. Pursuant to the Settlement, the Distributors are in the process of establishing a clearinghouse to consolidate their controlled-substance distribution data, which will be available to the settling U.S. states to use as part of their anti-diversion efforts. Alabama and West Virginia did not participate in the Settlement. Under a separate settlement agreement with Alabama and its subdivisions, the Company has paid approximately \$61 million as of June 30, 2024, and additionally will pay approximately \$113 million through 2031. The Company previously settled with the state of West Virginia in 2018, so West Virginia and its subdivisions were not eligible to participate in the Settlement. Under a separate settlement agreement, the Company has paid certain West Virginia subdivisions approximately \$53 million as of June 30, 2024, and additionally will pay approximately \$99 million through 2033. That agreement does not include school districts or the claims of Cabell County and the City of Huntington. After a trial, the claims of Cabell County and the City of Huntington, were decided in the Company’s favor on July 4, 2022. Those subdivisions appealed that decision.

Some other state and local governmental subdivisions did not participate in the Settlement, including certain municipal governments, government hospitals, school districts, and government-affiliated third-party payors. The Company contends that those subdivisions’ claims are foreclosed by the Settlement or other dispositive defenses, but the subdivisions contend that their claims are not foreclosed. The City of Baltimore, Maryland, is one such subdivision, and a trial of its claims is scheduled to begin September 16, 2024. The district attorneys of the City of Philadelphia, Pennsylvania, and Allegheny County, Pennsylvania did not participate in the settlement and sought to bring separate claims against the Company, notwithstanding the settlement with the state of Pennsylvania and its attorney general. On January 26, 2024, the Commonwealth Court of Pennsylvania ruled that the Pennsylvania attorney general had settled and fully released the claims brought by those district attorneys under Pennsylvania’s Unfair Trade Practices and Consumer Protection Law. The district attorneys have appealed that decision to the Supreme Court of Pennsylvania. An accrual for the remaining governmental subdivision claims is reflected in the total estimated liability for opioid-related claims in a manner consistent with how Settlement amounts were allocated to Settling Governmental Entities.

Native American Tribe Claims

The Company also entered into settlement agreements for opioid-related claims of federally recognized Native American tribes. Under those agreements, the Company has paid the settling Native American tribes approximately \$84 million as of June 30, 2024, and additionally will pay approximately \$112 million through 2027. A minimum of 85% of the total settlement payments must be used by the settling Native American tribes to remediate the opioid epidemic.

Non-Governmental Plaintiff Claims

The Company is also a defendant in approximately 400 opioid-related cases brought in the U.S. by private plaintiffs, such as hospitals, health and welfare funds, third-party payors, and individuals. These claims, and those of private entities generally, are not included in the settlement agreements described above.

One such case was brought by a group of individual plaintiffs in Glynn County, Georgia Superior Court seeking to recover for damages allegedly arising from their family members’ abuse of prescription opioids. *Poppell v. Cardinal Health, Inc.*, CE19-00472. On March 1, 2023, the jury in that case returned a verdict in favor of the defendants, including the Company. Plaintiffs have appealed.

The Company and two other national distributors have reached agreements in principle with representatives of nationwide groups of acute care hospitals and certain third-party payors.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

With respect to the acute care hospitals, for the year ended March 31, 2024, the Company recorded a charge of \$149 million within “Claims and litigation charges, net” in the Consolidated Statement of Operations to reflect its portion of a proposed settlement with a nationwide class of acute care hospitals, of which \$75 million was recorded within Corporate expenses, net, and \$74 million was recorded within U.S. Pharmaceutical. The corresponding liability was included within “Other accrued liabilities” in the Consolidated Balance Sheet. The proposed settlement is subject to, among other things, court approval and sufficient participation by hospitals. The trial for one of those acute care hospital cases, *Fort Payne Hospital Corporation et al. v. McKesson Corp.*, CV-2021-900016, has been stayed as to the Company.

With respect to the third-party payors, the Company has reached an agreement in principle with representatives of a nationwide group of certain third-party payors. For the three months ended June 30, 2024, we recorded a charge of \$114 million within “Claims and litigation charges, net” in the Condensed Consolidated Statement of Operations to reflect the Company’s portion of the proposed settlement with representatives of a nationwide group of certain third-party payors, of which \$57 million was recorded within Corporate expenses, net, and \$57 million was recorded within U.S. Pharmaceutical. The corresponding liability was included within “Other accrued liabilities” in the Condensed Consolidated Balance Sheet. The proposed settlement is subject to, among other things, court approval and sufficient participation by third-party payors. The claims of remaining U.S. non-governmental plaintiffs are not included in the charges recorded by the Company.

The Company’s estimated accrued liability for the opioid-related claims of U.S. governmental entities, including Native American tribes, and certain non-governmental plaintiffs, including a proposed settlement with a nationwide class of acute care hospitals and certain third-party payors, was as follows:

<i>(In millions)</i>	June 30, 2024	March 31, 2024
Current litigation liabilities ⁽¹⁾	\$ 778	\$ 665
Long-term litigation liabilities	6,114	6,113
Total litigation liabilities	\$ 6,892	\$ 6,778

(1) These amounts, recorded in “Other accrued liabilities” in the Condensed Consolidated Balance Sheets, are the amounts estimated to be paid within the next twelve months following each respective period end date.

During the three months ended June 30, 2024, the Company made no payments associated with the Settlement and the separate settlement agreements for opioid-related claims discussed above. In July 2024, the Company made payments totaling \$500 million associated with the Settlement and the separate settlement agreements.

Canadian Plaintiff Claims

The Company and its Canadian affiliate are also defendants in four opioid-related cases pending in Canada. These cases involve the claims of the provincial governments, municipal governments, a group representing indigenous people, as well as one case brought by an individual.

Defense of Opioids Claims

The Company believes it has valid legal defenses in all opioid-related matters, including claims not covered by settlement agreements, and it intends to mount a vigorous defense in such matters. Other than the accruals described above, the Company has not concluded a loss is probable in any of the matters; nor is any possible loss or range of loss reasonably estimable. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on the Company’s financial position, cash flows or liquidity, or results of operations.

II. Other Litigation and Claims

In July 2015, The Great Atlantic & Pacific Tea Company (“A&P”), a former customer of the Company, filed for reorganization in bankruptcy under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the Southern District of New York. *In re The Great Atlantic & Pacific Tea Company, Inc., et al.*, Case No. 15-23007. A suit filed in 2017 against the Company in this bankruptcy case seeks to recover alleged preferential transfers. *The Official Committee of Unsecured Creditors on behalf of the bankruptcy estate of The Great Atlantic & Pacific Tea Company, Inc., et al. v. McKesson Corporation d/b/a McKesson Drug Co.*, Adv. Proc. No. 17-08264. Trial concluded on July 18, 2024. The outcome of that trial is pending.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

In July 2020, the Company was served with a first amended *qui tam* complaint filed in the United States District Court for the Southern District of New York by a relator on behalf of the United States, 27 states and the District of Columbia against McKesson Corporation, McKesson Specialty Distribution LLC, and McKesson Specialty Care Distribution Corporation, alleging that defendants violated the Anti-Kickback Statute, federal False Claims Act, and various state false claims statutes by providing certain business analytical tools to oncology practice customers, *United States ex rel. Hart v. McKesson Corporation, et al.*, 15-cv-00903-RA. The United States and the named states have declined to intervene in the case. The complaint seeks relief including damages, treble damages, civil penalties, attorney fees, and costs of suit, all in unspecified amounts. The relator filed the second amended complaint on June 7, 2022, which was dismissed by the district court on March 28, 2023. On March 12, 2024, the U.S. Court of Appeals for the Second Circuit affirmed the dismissal of claims under the Anti-Kickback Statute and federal False Claims Act, vacated the dismissal of the remaining claims, and remanded for further proceedings. On June 7, 2024, the relator filed a petition seeking review by the U.S. Supreme Court.

III. Government Subpoenas and Investigations

From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough, and timely manner. These responses sometimes require time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements of claims against the Company. The Company responds to these requests in the ordinary course of business.

On May 19, 2021, the Norwegian Competition Authority carried out an inspection of Norsk Medisinaldepot AS regarding its and its competitors alleged sharing of competitively sensitive information. On June 28, 2024, the Norwegian Competition Authority announced that it closed the investigation without finding grounds to continue the case.

IV. State Opioid Statutes

In April 2018, the State of New York Opioid Stewardship Act (“OSA”) imposed an aggregate \$100 million annual surcharge for 2017 and 2018 on all manufacturers and distributors licensed to sell or distribute opioids in New York. In December 2021, the Company paid \$26 million for the 2017 OSA surcharge assessment. On May 18, 2022, the Company filed a lawsuit in New York state court challenging the constitutionality of the OSA. In November 2022, the Company received a 2018 OSA surcharge assessment of approximately \$42 million, which the Company subsequently paid. On December 14, 2022, the state court ruled that the OSA is constitutional. On May 23, 2024, the New York Supreme Court, Appellate Division, held that the 2017 assessment was unconstitutional but that the 2018 assessment was not. The State of New York appealed the portion of the decision regarding the 2017 assessment to the NY Court of Appeals on June 24, 2024, and the Company cross-appealed the decision regarding the 2018 assessment. The Company reserves its rights and intends to vigorously challenge the OSA and the OSA surcharge assessments.

V. Antitrust Settlement

In May 2024, the Company received proceeds of \$90 million related to its share of an antitrust settlement. A lawsuit was filed against a brand manufacturer alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company was not a named party to the litigation but was a member of the class of those who purchased directly from the pharmaceutical manufacturer. The Company recognized a gain in that amount within "Cost of sales" in the Condensed Consolidated Statement of Operations in the first quarter of fiscal 2025 related to the settlement.

10. Stockholders' Deficit

Each share of the Company’s outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to participate equally in any dividends declared by the Company’s Board of Directors (the “Board”).

In July 2024, the Company’s quarterly dividend was raised from \$0.62 to \$0.71 per share of common stock for dividends declared on or after such date by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements, legal requirements, and other factors.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Share Repurchase Plans

The Board has authorized the repurchase of common stock. The Company may repurchase common stock from time-to-time through open market transactions, privately negotiated transactions, accelerated share repurchase programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company’s stock price, corporate and regulatory requirements, tax implications, restrictions under the Company’s debt obligations, other uses for capital, impacts on the value of remaining shares, cash generated from operations, and market and economic conditions.

During the three months ended June 30, 2024, the Company repurchased 1.0 million shares of common stock for \$528 million through open market transactions at an average price per share of \$548.20. During the three months ended June 30, 2023, the Company repurchased 1.8 million shares of common stock for \$673 million through open market transactions at an average price per share of \$379.14.

Effective January 1, 2023, the Company’s repurchase of common stock, adjusted for allowable items, are subject to a 1% excise tax as a result of the Inflation Reduction Act of 2022. Excise taxes incurred on share repurchases of an entity’s own common stock are direct and incremental costs to purchase treasury stock, and accordingly are included in the total cost basis of the common stock acquired and reflected as a reduction of stockholders’ equity within “Treasury shares” in the Company’s Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Stockholders’ Deficit. Excise taxes do not reduce the Company’s remaining authorization for the repurchase of common stock. Excise taxes of \$1 million and \$4 million were incurred and accrued for shares repurchased during the three months ended June 30, 2024 and 2023, respectively. As of June 30, 2024 and March 31, 2024, the amounts accrued for excise taxes were \$26 million and \$25 million, respectively, within “Other accrued liabilities” in the Company’s Condensed Consolidated Balance Sheets.

The total remaining authorization outstanding for repurchases of common stock at June 30, 2024 was \$6.1 billion. In July 2024, the Board approved an increase of \$4.0 billion in the authorization for the repurchase of common stock.

Accumulated Other Comprehensive Loss

Information regarding changes in accumulated other comprehensive loss, including noncontrolling interests, by components for the three months ended June 30, 2024 and 2023 was as follows:

	Foreign Currency Translation Adjustments			Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains on Cash Flow and Other Hedges, Net of Tax	Unrealized Losses and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss
	Foreign Currency Translation Adjustments, Net of Tax⁽¹⁾	Foreign Currency Translation Adjustments, Net of Tax⁽¹⁾	Foreign Currency Translation Adjustments, Net of Tax⁽¹⁾				
<i>(In millions)</i>							
Balance, March 31, 2024	\$ (856)	\$ (12)	\$ 3	\$ (16)	\$ (881)		
Other comprehensive income (loss) before reclassifications	(36)	5	—	(1)	(32)		
Amounts reclassified to earnings and other	—	—	—	—	—		
Other comprehensive income (loss)	(36)	5	—	(1)	(32)		
Less: amounts attributable to noncontrolling interests	—	—	—	—	—		
Other comprehensive income (loss) attributable to McKesson	(36)	5	—	(1)	(32)		
Balance, June 30, 2024	\$ (892)	\$ (7)	\$ 3	\$ (17)	\$ (913)		

- (1) Primarily results from the conversion of non-U.S. dollar financial statements of the Company’s operations in Canada and Norway into the Company’s reporting currency, U.S. dollars.
- (2) Amounts recorded for the three months ended June 30, 2024 include gains of \$7 million related to net investment hedges from cross-currency swaps, which are net of income tax expense of \$2 million.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

	<u>Foreign Currency Translation Adjustments</u>		<u>Unrealized Gains (Losses) on Cash Flow and Other Hedges, Net of Tax ⁽³⁾</u>	<u>Unrealized Losses and Other Components of Benefit Plans, Net of Tax</u>	<u>Total Accumulated Other Comprehensive Loss</u>
	<u>Foreign Currency Translation Adjustments, Net of Tax ⁽¹⁾</u>	<u>Unrealized Losses on Net Investment Hedges, Net of Tax ⁽²⁾</u>			
<i>(In millions)</i>					
Balance, March 31, 2023	\$ (847)	\$ (14)	\$ (36)	\$ (8)	\$ (905)
Other comprehensive income (loss) before reclassifications	67	(15)	7	(2)	57
Amounts reclassified to earnings and other	—	—	—	—	—
Other comprehensive income (loss)	67	(15)	7	(2)	57
Less: amounts attributable to noncontrolling interests	—	—	—	—	—
Other comprehensive income (loss) attributable to McKesson	67	(15)	7	(2)	57
Balance, June 30, 2023	\$ (780)	\$ (29)	\$ (29)	\$ (10)	\$ (848)

- (1) Primarily results from the conversion of non-U.S. dollar financial statements of the Company's operations in Canada and Norway into the Company's reporting currency, U.S. dollars.
- (2) Amounts recorded for the three months ended June 30, 2023 include losses of \$20 million related to net investment hedges from cross-currency swaps, which are net of income tax benefit of \$5 million.
- (3) Amounts recorded for the three months ended June 30, 2023 include losses of \$6 million related to cash flow and other hedges from cross-currency swaps and gains of \$16 million related to cash flow hedges from fixed interest rate swaps. These amounts are net of income tax expense of \$3 million.

11. Segments of Business

The Company reports its financial results in four reportable segments: U.S. Pharmaceutical, RxTS, Medical-Surgical Solutions, and International. The organizational structure also includes Corporate, which consists of income and expenses associated with administrative functions and projects, and the results of certain investments. The factors for determining the reportable segments include the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. The Company evaluates the performance of its operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes. Assets by operating segment are not reviewed by management for the purpose of assessing performance or allocating resources.

The U.S. Pharmaceutical segment distributes branded, generic, specialty, biosimilar and over-the-counter pharmaceutical drugs, and other healthcare-related products in the U.S. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate sites) and provides consulting, outsourcing, technological, and other services.

The RxTS segment helps solve medication access, affordability, and adherence challenges for patients by working across healthcare to connect patients, pharmacies, providers, pharmacy benefit managers, health plans, and biopharma companies. RxTS serves our biopharma and life sciences partners, delivering innovative solutions that help people get the medicine they need to live healthier lives. RxTS also offers prescription price transparency, benefit insight, dispensing support services, third-party logistics, and wholesale distribution support across various therapeutic categories and temperature ranges to biopharma customers throughout the product lifecycle.

The Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference labs, and home health care agencies. This segment offers national brand medical-surgical products as well as McKesson's own line of high-quality products through a network of distribution centers in the U.S.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The International segment includes the Company’s operations in Canada and Norway, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. The Company’s Canadian operations deliver medicines, supplies, and information technology solutions throughout Canada and include Rexall Health retail pharmacies. The Company’s Norwegian operations provide distribution and services to wholesale and retail customers in Norway where it owns, partners, or franchises with retail pharmacies.

Financial information relating to the Company’s reportable operating segments and reconciliations to the condensed consolidated totals was as follows:

<i>(In millions)</i>	Three Months Ended June 30,	
	2024	2023
Segment revenues ⁽¹⁾		
U.S. Pharmaceutical	\$ 71,715	\$ 67,160
Prescription Technology Solutions	1,241	1,244
Medical-Surgical Solutions	2,636	2,611
International	3,691	3,468
Total revenues	\$ 79,283	\$ 74,483
Segment operating profit ⁽²⁾		
U.S. Pharmaceutical ⁽³⁾	\$ 781	\$ 827
Prescription Technology Solutions ⁽⁴⁾	203	231
Medical-Surgical Solutions	188	227
International	90	57
Subtotal	1,262	1,342
Corporate expenses, net ⁽⁵⁾	(103)	(204)
Interest expense	(75)	(47)
Income before income taxes	\$ 1,084	\$ 1,091

(1) Revenues from services on a disaggregated basis represent approximately 1% of the U.S. Pharmaceutical segment’s total revenues, less than 39% of the RxTS segment’s total revenues, less than 1% of the Medical-Surgical Solutions segment’s total revenues, and less than 1% of the International segment’s total revenues. The International segment reflects foreign revenues. Revenues for the remaining three reportable segments are derived in the U.S.

(2) Segment operating profit includes gross profit, net of total operating expenses, as well as other income, net, for the Company’s reportable segments.

- (3) The Company’s U.S. Pharmaceutical segment’s operating profit includes the following:
- cash receipts for the Company’s share of antitrust legal settlements of \$90 million and \$118 million for the three months ended June 30, 2024 and 2023, respectively. These gains were recorded within “Cost of sales” in the Company’s Condensed Consolidated Statements of Operations;
 - a charge of \$57 million for the three months ended June 30, 2024 related to the estimated liability for opioid-related claims, as discussed in more detail in [Financial Note 9, “Commitments and Contingent Liabilities.”](#)
 - a loss of \$43 million for the three months ended June 30, 2024 related to one of the Company’s equity method investments, which was recorded within “Other income, net” in the Company’s Condensed Consolidated Statement of Operations; and
 - a credit of \$2 million and a charge of \$32 million related to the last-in, first-out method of accounting for inventories for the three months ended June 30, 2024 and 2023, respectively. These amounts were recorded within “Cost of sales” in the Company’s Condensed Consolidated Statements of Operations.

(4) The Company’s RxTS segment’s operating profit for the three months ended June 30, 2023 includes a gain of \$28 million resulting from a fair value adjustment of the Company’s contingent consideration liability related to the acquisition of Rx Savings Solutions, LLC completed in November 2022.

McKESSON CORPORATION
FINANCIAL NOTES (CONCLUDED)
(UNAUDITED)

(5) Corporate expenses, net includes the following:

- a net gain of \$110 million for the three months ended June 30, 2024 related to the Company's investments in equity securities of certain U.S. growth stage companies in the healthcare industry, as discussed in more detail in [Financial Note 8, "Fair Value Measurements;"](#)
- a net charge of \$55 million for the three months ended June 30, 2024 related to the estimated liability for opioid-related claims, as discussed in more detail in [Financial Note 9, "Commitments and Contingent Liabilities;"](#) and
- restructuring charges of \$40 million for the three months ended June 30, 2023 for restructuring initiatives as discussed in more detail in [Financial Note 2, "Restructuring, Impairment, and Related Charges, Net."](#)

McKESSON CORPORATION
FINANCIAL REVIEW
(UNAUDITED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

INDEX TO MANAGEMENT’S DISCUSSION AND ANALYSIS

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GENERAL

Management’s discussion and analysis of financial condition and results of operations, referred to as the “Financial Review,” is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of McKesson Corporation together with its subsidiaries (collectively, the “Company,” “McKesson,” “we,” “our,” or “us,” and other similar pronouns). This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying financial notes in Item 1 of Part I of this Quarterly Report on Form 10-Q (“Quarterly Report”) and in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended March 31, 2024 previously filed with the Securities and Exchange Commission (the “SEC”) on May 8, 2024 (“2024 Annual Report”).

Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year means our fiscal year.

Certain statements in this report constitute forward-looking statements. See “*Cautionary Notice About Forward-Looking Statements*” included in this Quarterly Report.

Overview of our Business:

We are a diversified healthcare services leader dedicated to advancing health outcomes for patients everywhere. Our teams partner with biopharma companies, care providers, pharmacies, manufacturers, governments, and others to deliver insights, products, and services to help make quality care more accessible and affordable.

We report our financial results in four reportable segments: U.S. Pharmaceutical, Prescription Technology Solutions (“RxTS”), Medical-Surgical Solutions, and International. Our organizational structure also includes Corporate, which consists of income and expenses associated with administrative functions and projects, as well as the results of certain investments. The factors for determining the reportable segments include the manner in which management evaluates the performance of the Company combined with the nature of individual business activities. We evaluate the performance of our operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

The following summarizes our four reportable segments. Refer to [Financial Note 11, “Segments of Business.”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report for further information regarding our reportable segments.

- **U.S. Pharmaceutical** is a reportable segment that distributes branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs, and other healthcare-related products in the United States (“U.S.”). This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate sites) and provides consulting, outsourcing, technological, and other services.
- **Prescription Technology Solutions** is a reportable segment that combines automation and our ability to navigate the healthcare ecosystems to connect patients, pharmacies, providers, pharmacy benefit managers, health plans, and biopharma companies to address patients’ medication access, affordability, and adherence challenges. RxTS also offers prescription price transparency, benefit insight, dispensing support services, third-party logistics, and wholesale distribution support across various therapeutic categories and temperature ranges to biopharma customers throughout the product lifecycle.
- **Medical-Surgical Solutions** is a reportable segment that provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference labs, and home health care agencies. This segment offers national brand medical-surgical products as well as McKesson’s own line of high-quality products through a network of distribution centers within the U.S.
- **International** is a reportable segment that includes our operations in Canada and Norway, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. Our Canadian operations deliver medicines, supplies, and information technology solutions throughout Canada and include Rexall Health retail pharmacies. Our Norwegian operations provide distribution and services to wholesale and retail customers in Norway where we own, partner, or franchise with retail pharmacies.

Executive Summary:

The following summary provides highlights and key factors that impacted our business, operating results, financial condition, and liquidity for the three months ended June 30, 2024:

- For the three months ended June 30, 2024 compared to the prior year, revenues increased by 6%, gross profit increased by 4%, total operating expenses increased by 10%, and other income, net increased by \$92 million. Refer to the [“Overview of Consolidated Results”](#) section below for an analysis of these changes;
- Diluted earnings per common share attributable to McKesson Corporation decreased to \$7.00 from \$7.02 for the three months ended June 30, 2024 compared to the prior year period;
- For the three months ended June 30, 2024, we recognized a net discrete tax benefit of \$125 million including \$58 million related to an election to change the tax status of a foreign affiliate;
- We recorded a charge of \$114 million for the three months ended June 30, 2024 related to our estimated liability for opioid-related claims as further described in the Opioid-Related Litigation and Claims section of [“Trends and Uncertainties”](#) below;
- For the three months ended June 30, 2024, we recognized a net gain of \$97 million related to a recapitalization event of one of our investments in equity securities which resulted in an increase to the carrying value of this investment;
- For the three months ended June 30, 2024, we received \$90 million related to our share of antitrust legal settlements. This amount was recorded as a gain within “Cost of sales” in the Condensed Consolidated Statements of Operations within our U.S. Pharmaceutical segment;
- We returned \$609 million of cash to shareholders during the three months ended June 30, 2024 through \$527 million of common stock repurchases through open market transactions and \$82 million of dividend payments. The total remaining authorization outstanding for repurchases of the Company’s common stock at June 30, 2024 was \$6.1 billion; and
- In July 2024, our Board of Directors (the “Board”) approved an increase of \$4.0 billion in the authorization for repurchase of the Company’s common stock and raised our quarterly dividend to \$0.71 from \$0.62 per share of common stock.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Trends and Uncertainties:

Opioid-Related Litigation and Claims

As described in the discussion of opioid-related matters in [Financial Note 9, “Commitments and Contingent Liabilities.”](#) to the condensed consolidated financial statements accompanying this Quarterly Report, we are a defendant in many legal proceedings asserting claims related to the distribution of controlled substances (opioids) in federal and state courts throughout the U.S., and in Puerto Rico and Canada. The plaintiffs in these actions have included state attorneys general, county and municipal governments, tribal nations, hospitals, health and welfare funds, third-party payors, and individuals. We believe we have valid legal defenses in all opioid-related matters, including claims not covered by settlement agreements, and we intend to mount a vigorous defense. Other than as to the settlements described in [Financial Note 9](#), we have not concluded a loss is probable in any of the matters; nor is any possible loss or range of loss reasonably estimable. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity, or results of operations.

The Company and two other national distributors have reached agreements in principle with representatives of nationwide groups of acute care hospitals and certain third-party payors.

With respect to acute care hospitals, for the year ended March 31, 2024, the Company recorded a charge of \$149 million within “Claims and litigation charges, net” in the Consolidated Statement of Operations to reflect its portion of a proposed settlement with a nationwide class of acute care hospitals, of which \$75 million was recorded within Corporate expenses, net, and \$74 million was recorded within U.S. Pharmaceutical. The corresponding liability was included within “Other accrued liabilities” in the Consolidated Balance Sheet. The proposed settlement is subject to, among other things, court approval and sufficient participation by hospitals.

With respect to the third party payors, the Company has reached an agreement in principle with representatives of a nationwide group of certain third-party payors. For the three months ended June 30, 2024, we recorded a charge of \$114 million within “Claims and litigation charges, net” in the Condensed Consolidated Statement of Operations to reflect our portion of the proposed settlement with representatives of a nationwide group of certain third-party payors, of which \$57 million was recorded within Corporate expenses, net, and \$57 million was recorded within U.S. Pharmaceutical. The corresponding liability was included within “Other accrued liabilities” in the Condensed Consolidated Balance Sheet. The proposed settlement is subject to, among other things, court approval and sufficient participation by third-party payors. The claims of remaining U.S. non-governmental plaintiffs and those plaintiffs in Canada are not included in the charges recorded by the Company.

During the three months ended June 30, 2024, we made no payments associated with various settlement agreements for opioid-related claims. Our total estimated liability for opioid-related claims was \$6.9 billion as of June 30, 2024, of which \$778 million was included within “Other accrued liabilities” for the amount estimated to be paid within the next twelve months, and the remaining liability was included in “Long-term litigation liabilities” in our Condensed Consolidated Balance Sheet. In July 2024, we made payments totaling \$500 million associated with the Settlement and the separate settlement agreements.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

RESULTS OF OPERATIONS
Overview of Consolidated Results:

<i>(Dollars in millions, except per share data)</i>	Three Months Ended June 30,		Change
	2024	2023	
Revenues	\$ 79,283	\$ 74,483	6 %
Gross profit	3,152	3,022	4
<i>Gross profit margin</i>	3.98 %	4.06 %	(8) bp
Total operating expenses	(2,123)	(1,922)	10 %
<i>Total operating expenses as a percentage of revenues</i>	2.68 %	2.58 %	10 bp
Other income, net	130	38	242 %
Interest expense	(75)	(47)	60
Income before income taxes	1,084	1,091	(1)
Income tax expense	(124)	(94)	32
<i>Reported income tax rate</i>	11.4 %	8.6 %	280 bp
Net income	960	997	(4)
Net income attributable to noncontrolling interests	(45)	(39)	15
Net income attributable to McKesson Corporation	<u>\$ 915</u>	<u>\$ 958</u>	(4) %
Diluted earnings per common share attributable to McKesson Corporation	\$ 7.00	\$ 7.02	— %
Weighted-average diluted common shares outstanding	130.7	136.6	(4) %

Any percentage changes displayed above which are not meaningful are displayed as zero percent.

bp - basis points

Revenues

Revenues increased for the three months ended June 30, 2024 compared to the same prior year period largely due to market growth in our U.S. Pharmaceutical segment, including growth in specialty pharmaceuticals and higher volumes largely from retail national account customers. Market growth includes growing drug utilization and newly launched products, partially offset by price deflation associated with branded to generic drug conversion. This revenue growth was also favorably impacted by higher pharmaceutical distribution volumes in our International segment.

Gross Profit

Gross profit increased for the three months ended June 30, 2024 compared to the same prior year period primarily in our U.S. Pharmaceutical segment driven by growth of specialty pharmaceuticals and in our International segment driven by higher volumes.

We recognized gains of \$90 million and \$118 million for the three months ended June 30, 2024 and 2023, respectively, related to our share of antitrust legal settlements. We recognized these amounts within "Cost of sales" in the Condensed Consolidated Statements of Operations within our U.S. Pharmaceutical segment.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

A last-in, first out (“LIFO”) credit of \$2 million and a charge of \$32 million were recognized during the three months ended June 30, 2024 and 2023, respectively, primarily due to lower expected brand inflation, partially offset by lower planned launches in the current fiscal year.

Our U.S. Pharmaceutical business uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The business’ practice is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price related inventory losses. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Our quarterly LIFO adjustment is based on our estimates of the annual LIFO adjustment which is impacted by expected changes in year-end inventory quantities, product mix, and manufacturer pricing practices, which may be influenced by market and other external factors. Changes to any of the above factors could have a material impact to our annual LIFO adjustment. The actual valuation of inventory under the LIFO method is calculated at the end of the fiscal year.

Total Operating Expenses

A summary of the components of our total operating expenses for the three months ended June 30, 2024 and 2023 is as follows:

- Selling, distribution, general, and administrative expenses (“SDG&A”): SDG&A consists of personnel costs, transportation costs, depreciation and amortization, lease costs, professional fee expenses, administrative expenses, provisions for bad debts, and other general charges.
- Claims and litigation charges, net: These charges include adjustments for estimated probable settlements related to our controlled substance monitoring and reporting, and opioid-related claims, as well as any applicable income items or credit adjustments due to subsequent changes in estimates. Legal fees to defend claims, which are expensed as incurred, are included within SDG&A.
- Restructuring, impairment, and related charges, net: Charges recorded under this component include those incurred for programs in which we change our operations, the scope of a business undertaken by our business units, or the manner in which that business is conducted, as well as long-lived asset impairments.

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Change
	2024	2023	
Selling, distribution, general, and administrative expenses	\$ 2,001	\$ 1,870	7 %
Claims and litigation charges, net	112	—	—
Restructuring, impairment, and related charges, net	10	52	(81)
Total operating expenses	\$ 2,123	\$ 1,922	10 %
<i>Percent of revenues</i>	2.68 %	2.58 %	10 bp

Any percentage changes displayed above which are not meaningful are displayed as zero percent.

bp - basis points

For the three months ended June 30, 2024, total operating expenses and total operating expenses as a percentage of revenues increased compared to the same prior year period. Total operating expenses were impacted by the following significant items:

- SDG&A increased compared to the same prior year period due to increased operating expenses to support higher volumes and the gain of \$28 million recognized in the prior year resulting from a fair value adjustment of our contingent consideration liability related to the Rx Savings Solutions, LLC acquisition;
- Claims and litigation charges, net primarily consists of a charge of \$114 million related to our estimated liability for opioid-related claims as previously discussed in the Opioid-Related Litigation and Claims section of “[Trends and Uncertainties](#),” and

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

- Restructuring, impairment, and related charges, net for the three months ended June 30, 2024 and 2023 were \$10 million and \$52 million, respectively, as discussed in more detail below under “*Restructuring Initiatives.*”

Goodwill Impairment

We evaluate goodwill for impairment on an annual basis in the first fiscal quarter, and at an interim date if indicators of potential impairment exist. The annual impairment testing performed in fiscal 2025 and fiscal 2024 did not indicate any impairment of goodwill, and no goodwill impairment charges were recorded during the three months ended June 30, 2024 and 2023. However, other risks, expenses, and future developments, such as additional government actions, increased regulatory uncertainty, and material changes in key market assumptions limit our ability to estimate projected cash flows, which could adversely affect the fair value of various reporting units in future periods.

Restructuring Initiatives

We recorded restructuring, impairment, and related charges of \$10 million and \$52 million for the three months ended June 30, 2024 and 2023, respectively. These charges were included in “Restructuring, impairment, and related charges, net” in the Condensed Consolidated Statements of Operations.

During the fourth quarter of fiscal 2023, we approved a broad set of initiatives to drive operational efficiencies and increase cost optimization efforts, with the intent of simplifying our infrastructure and realizing long-term sustainable growth. These initiatives included headcount reductions and the exit or downsizing of certain facilities. We recorded charges of \$36 million for the three months ended June 30, 2023 related to this program, which primarily includes real estate and other related asset impairments and facility costs within Corporate. This restructuring program was substantially complete in fiscal 2024.

Refer to [Financial Note 2, “Restructuring, Impairment, and Related Charges, Net.”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report for further information on our restructuring initiatives.

Other Income, Net

Other income, net increased for the three months ended June 30, 2024 compared to the same prior year period primarily due to a net gain of \$110 million related to our investments in equity securities of certain U.S. growth stage companies in the healthcare industry and a favorable impact to interest income compared to the prior year period, partially offset by a loss of \$43 million related to one of our equity method investments.

Interest Expense

Interest expense increased for the three months ended June 30, 2024 compared to the same prior year period primarily due to increased average balances of the Company’s loan portfolio throughout the quarter and a prior year gain on debt extinguishment of \$9 million. Refer to [Financial Note 6, “Debt and Financing Activities.”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information. Interest expense may fluctuate based on timing, amounts, and interest rates of term debt repaid and new term debt issued, as well as amounts incurred associated with financing fees.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Income Tax Expense

For the three months ended June 30, 2024 and 2023, we recorded income tax expense of \$124 million and \$94 million, respectively. Our reported income tax rates were 11.4% and 8.6% for the three months ended June 30, 2024 and 2023, respectively.

Fluctuations in our reported income tax rates are primarily due to changes in our business mix of earnings between various taxing jurisdictions and discrete tax items recognized in the quarters. For the three months ended June 30, 2024, we recognized a net discrete tax benefit of \$125 million primarily driven by discrete tax benefits of \$58 million related to an election to change the tax status of a foreign affiliate, \$37 million related to the tax impact of share-based compensation, and \$36 million related to the reduction in unrecognized tax benefits due to a change in case law. We recognized a net discrete tax benefit of \$147 million in the three months ended June 30, 2023 primarily related to the repatriation of certain intellectual property between McKesson wholly-owned legal entities that are based in different tax jurisdictions. Refer to [Financial Note 3, "Income Taxes,"](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the three months ended June 30, 2024 and 2023 primarily represents the proportionate results of third-party equity interests in ClarusONE Sourcing Services LLP, Vantage Oncology Holdings, LLC, and SCRI Oncology, LLC.

Net Income Attributable to McKesson Corporation

Net income attributable to McKesson Corporation was \$915 million and \$1.0 billion for the three months ended June 30, 2024 and 2023, respectively. Diluted earnings per common share attributable to McKesson Corporation was \$7.00 and \$7.02 for the three months ended June 30, 2024 and 2023, respectively. Our diluted earnings per share also reflects the cumulative effects of share repurchases during each period.

Weighted-Average Diluted Common Shares Outstanding

Diluted earnings per common share was calculated based on a weighted-average number of shares outstanding of 130.7 million and 136.6 million for the three months ended June 30, 2024 and 2023, respectively. Weighted-average diluted shares outstanding for the three months ended June 30, 2024 decreased from the same prior year period primarily due to the cumulative effect of share repurchases.

Overview of Segment Results:

Segment Revenues:

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Change
	2024	2023	
Segment revenues			
U.S. Pharmaceutical	\$ 71,715	\$ 67,160	7 %
Prescription Technology Solutions	1,241	1,244	—
Medical-Surgical Solutions	2,636	2,611	1
International	3,691	3,468	6
Total revenues	\$ 79,283	\$ 74,483	6 %

Any percentage changes displayed above which are not meaningful are displayed as zero percent.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

U.S. Pharmaceutical

Three Months Ended June 30, 2024 vs. 2023

U.S. Pharmaceutical revenues for the three months ended June 30, 2024 increased \$4.6 billion or 7% compared to the same prior year period. Within the segment, sales to pharmacies and healthcare providers increased \$2.9 billion and sales to specialty practices and other increased \$1.7 billion. Overall, these increases were primarily due to growth in specialty pharmaceuticals and higher volumes from retail national account customers, partially offset by branded to generic drug conversions.

Prescription Technology Solutions

Three Months Ended June 30, 2024 vs. 2023

RxTS revenues for the three months ended June 30, 2024 decreased \$3 million compared to the same prior year period due to decreased volumes from our third-party logistics and wholesale distribution services partially offset by higher technology service revenues.

Medical-Surgical Solutions

Three Months Ended June 30, 2024 vs. 2023

Medical-Surgical Solutions revenues for the three months ended June 30, 2024 increased \$25 million or 1% compared to the same prior year period. Within the segment, sales to primary care customers increased \$53 million driven by underlying business growth. This increase was partially offset by a decrease in sales to our extended care customers of \$15 million and our other segment sales of \$13 million driven by lower contribution from the kitting and distribution of ancillary supplies used to administer COVID-19 vaccines.

International

Three Months Ended June 30, 2024 vs. 2023

International revenues for the three months ended June 30, 2024 increased \$223 million or 6% compared to the same prior year period. Within the segment, sales in Canada increased by \$248 million primarily driven by higher pharmaceutical distribution volumes and sales in Norway increased by \$40 million primarily driven by higher retail pharmacy volumes. These increases were partially offset by unfavorable effects of foreign currency exchange fluctuations of \$65 million.

Segment Operating Profit and Corporate Expenses, Net:

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Change
	2024	2023	
Segment operating profit ⁽¹⁾			
U.S. Pharmaceutical ⁽²⁾	\$ 781	\$ 827	(6) %
Prescription Technology Solutions ⁽³⁾	203	231	(12)
Medical-Surgical Solutions	188	227	(17)
International	90	57	58
Subtotal	1,262	1,342	(6)
Corporate expenses, net ⁽⁴⁾	(103)	(204)	(50)
Interest expense	(75)	(47)	60
Income before income taxes	\$ 1,084	\$ 1,091	(1) %
Segment operating profit margin			
U.S. Pharmaceutical	1.09 %	1.23 %	(14) bp
Prescription Technology Solutions	16.36	18.57	(221)
Medical-Surgical Solutions	7.13	8.69	(156)
International	2.44	1.64	80

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Any percentage changes displayed above which are not meaningful are displayed as zero percent.

bp - basis points

- (1) Segment operating profit includes gross profit, net of total operating expenses, as well as other income, net, for our reportable segments.
- (2) Operating profit for our U.S. Pharmaceutical segment includes the following:
 - cash receipts for our share of antitrust legal settlements of \$90 million and \$118 million for the three months ended June 30, 2024 and 2023, respectively;
 - a charge of \$57 million for the three months ended June 30, 2024 related to our estimated liability for opioid-related claims as discussed previously in the [“Trends and Uncertainties”](#) section;
 - a loss of \$43 million for the three months ended June 30, 2024 related to one of the Company’s equity method investments; and
 - a credit of \$2 million and a charge of \$32 million related to the LIFO method of accounting for inventories for the three months ended June 30, 2024 and 2023, respectively.
- (3) Operating profit for our RxTS segment for the three months ended June 30, 2023 includes a gain of \$28 million resulting from a fair value adjustment of our contingent consideration liability related to the Rx Savings Solutions, LLC acquisition.
- (4) Corporate expenses, net includes the following:
 - a net gain of \$110 million for the three months ended June 30, 2024 related to our investments in equity securities of certain U.S. growth stage companies in the healthcare industry, as discussed in more detail in [Financial Note 8, “Fair Value Measurements.”](#)
 - a net charge of \$55 million for the three months ended June 30, 2024 related to our estimated liability for opioid-related claims as discussed previously in the [“Trends and Uncertainties”](#) section; and
 - a restructuring charge of \$40 million for the three months ended June 30, 2023 for restructuring initiatives as discussed in more detail in [Financial Note 2, “Restructuring, Impairment, and Related Charges, Net.”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report.

U.S. Pharmaceutical

Three Months Ended June 30, 2024 vs. 2023

Operating profit for this segment decreased for the three months ended June 30, 2024 compared to the same prior year period primarily due to a charge of \$57 million related to our estimated liability for opioid-related claims, a loss related to one of our equity method investments, a decrease from net cash proceeds received representing our share of antitrust legal settlements, and an increase in operating expenses to support higher volumes, partially offset by growth in specialty pharmaceuticals.

Prescription Technology Solutions

Three Months Ended June 30, 2024 vs. 2023

Operating profit for this segment decreased for the three months ended June 30, 2024 compared to the same prior year period driven by the gain of \$28 million recognized in the prior year resulting from a fair value adjustment of our contingent consideration liability related to the Rx Savings Solutions, LLC acquisition.

Medical-Surgical Solutions

Three Months Ended June 30, 2024 vs. 2023

Operating profit for this segment decreased for the three months ended June 30, 2024 compared to the same prior year period due to a decline in our core primary care business and a lower contribution from kitting and distribution of ancillary supplies for COVID-19 vaccines.

International

Three Months Ended June 30, 2024 vs. 2023

Operating profit for this segment increased for the three months ended June 30, 2024 compared to the same prior year period primarily as a result of higher pharmaceutical distribution and retail pharmacy volumes across the segment.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Corporate Expenses, Net

Three Months Ended June 30, 2024 vs. 2023

Corporate expenses, net decreased for the three months ended June 30, 2024 compared to the same prior year period primarily due to a net gain of \$110 million related to our investments in equity securities of certain U.S. growth stage companies in the healthcare industry and lower restructuring charges recorded in the first three months of fiscal 2025 compared to the prior year period, partially offset by a net charge of \$55 million related to our estimated liability for opioid-related claims.

New Accounting Pronouncements

New accounting pronouncements that we have recently adopted as well as those that have been recently issued but not yet adopted by us are included in [Financial Note 1, “Significant Accounting Policies.”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

We expect our available cash generated from operations and our short-term investment portfolio, together with our existing sources of liquidity from our credit facilities, commercial paper program, and other borrowings will be sufficient to fund our short-term and long-term capital expenditures, working capital, and other cash requirements. We remain adequately capitalized, including access to liquidity from our \$4.0 billion revolving credit facility. At June 30, 2024, we were in compliance with all debt covenants, and believe we have the ability to continue to meet our debt covenants in the future.

The following table summarizes the net change in cash, cash equivalents, and restricted cash for the periods shown:

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Change
	2024	2023	
Net cash provided by (used in):			
Operating activities	\$ (1,380)	\$ (1,052)	\$ (328)
Investing activities	(87)	(149)	62
Financing activities	(809)	(843)	34
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(5)	2	(7)
Net change in cash, cash equivalents, and restricted cash	\$ (2,281)	\$ (2,042)	\$ (239)

Operating Activities

Operating activities used cash of \$1.4 billion and \$1.1 billion during the three months ended June 30, 2024 and 2023, respectively. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers, inventory receipts, and payments to vendors. Additionally, working capital is primarily a function of sales and purchase volumes, inventory requirements, and vendor payment terms.

Operating activities for the three months ended June 30, 2024 were affected by net income of \$1.0 billion, adjusted for non-cash items, as well as increases in accounts payable of \$4.6 billion, inventories of \$4.4 billion, and receivables of \$2.1 billion, all primarily driven by higher revenues and timing.

Operating activities for the three months ended June 30, 2023 were affected by net income of \$1.0 billion, adjusted for non-cash items, as well as increases in receivables of \$2.4 billion, drafts and accounts payable of \$1.5 billion, and inventories of \$826 million, all primarily driven by higher revenues and timing.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Investing Activities

Investing activities used cash of \$87 million and \$149 million during the three months ended June 30, 2024 and 2023, respectively. Investing activities for the three months ended June 30, 2024 and 2023 includes \$167 million and \$124 million, respectively, in capital expenditures for property, plant, and equipment and capitalized software. Investing activities for the three months ended June 30, 2024 was also impacted by the receipt of proceeds of \$89 million related to the sale of equity securities, as discussed in more detail in [Financial Note 8, “Fair Value Measurements,”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report.

Financing Activities

Financing activities used cash of \$809 million and \$843 million during the three months ended June 30, 2024 and 2023, respectively. Financing activities for the three months ended June 30, 2024 and 2023 includes \$527 million and \$696 million of cash paid for share repurchases, as well as \$82 million and \$74 million of cash paid for dividends, respectively. Financing activities for the three months ended June 30, 2024 also includes cash receipts and cash payments of \$1.4 billion related to short-term borrowings of commercial paper.

On June 15, 2023, we completed a public offering of 4.90% Notes due July 15, 2028 in a principal amount of \$400 million and 5.10% Notes due July 15, 2033 in a principal amount of \$600 million, for proceeds received, net of discounts and offering expenses, of \$397 million and \$592 million, respectively. A portion of the net proceeds from these notes was utilized to fund the repurchase of our then outstanding 3.80% Notes due March 15, 2024 (the “2024 Notes”) discussed below, while the remaining net proceeds was available for general corporate purposes.

On June 16, 2023, we completed a cash tender offer for any and all of our then outstanding 2024 Notes with a principal amount of \$918 million, which was made concurrently with the June 15, 2023 notes offering described above. Using a portion of the proceeds from the June 15, 2023 notes offering described above, we paid an aggregate consideration of \$268 million to repurchase \$271 million principal amount of the 2024 Notes. Following the consummation of this tender offer, on June 16, 2023, we irrevocably deposited U.S. government obligations with the trustee under the indenture governing the 2024 Notes sufficient to fund the payment of accrued and unpaid interest of the remaining \$647 million principal amount of the 2024 Notes as it becomes due, and of the principal amount of those 2024 Notes on their March 15, 2024 maturity date.

Cash used for other financing activities generally includes the cash value of shares surrendered for tax withholding and payments to noncontrolling interests.

Share Repurchase Plans

The Board has authorized the repurchase of common stock. We may repurchase common stock from time-to-time through open market transactions, privately negotiated transactions, accelerated share repurchase programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934 (“Exchange Act”). The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, tax implications, restrictions under our debt obligations, other uses for capital, impacts on the value of remaining shares, cash generated from operations, and market and economic conditions.

During the three months ended June 30, 2024, we repurchased 1.0 million shares of common stock for \$528 million through open market transactions at an average price per share of \$548.20. During the three months ended June 30, 2023, we repurchased 1.8 million shares of common stock for \$673 million through open market transactions at an average price per share of \$379.14.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Effective January 1, 2023, our repurchase of common stock, adjusted for allowable items, are subject to a 1% excise tax as a result of the Inflation Reduction Act of 2022. Excise taxes incurred on share repurchases of an entity's own common stock are direct and incremental costs to purchase treasury stock, and accordingly are included in the total cost basis of the common stock acquired and reflected as a reduction of stockholders' equity within "Treasury shares" in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Stockholders' Deficit. Excise taxes do not reduce our remaining authorization for the repurchase of common stock. Excise taxes of \$1 million and \$4 million were incurred and accrued for shares repurchased during the three months ended June 30, 2024 and 2023, respectively. As of June 30, 2024 and March 31, 2024, the amounts accrued for excise taxes were \$26 million and \$25 million, respectively, within "Other accrued liabilities" in our Condensed Consolidated Balance Sheets.

The total remaining authorization outstanding for repurchases of common stock at June 30, 2024 was \$6.1 billion. In July 2024, the Board approved an increase of \$4.0 billion in the authorization for the repurchase of common stock.

Selected Measures of Liquidity and Capital Resources

<i>(Dollars in millions)</i>	June 30, 2024	March 31, 2024
Cash, cash equivalents, and restricted cash	\$ 2,304	\$ 4,585
Working capital	(4,182)	(4,387)
Debt to capital ratio ⁽¹⁾	117.6 %	124.0 %

(1) This ratio describes the relationship and changes within our capital resources, and is computed as the sum of total debt divided by the sum of total debt, and McKesson stockholders' deficit, which excludes noncontrolling interests and accumulated other comprehensive loss.

Cash equivalents, which are readily convertible to known amounts of cash, are carried at fair value. Cash equivalents are primarily invested in AAA-rated U.S. government money market funds, short-term deposits with financial institutions, and short-term commercial papers issued by non-financial institutions. Deposits with financial institutions are primarily denominated in U.S. dollars and the functional currencies of our foreign subsidiaries, including Canadian dollars. Deposits could exceed the amounts insured by the Federal Deposit Insurance Corporation in the U.S. and similar deposit insurance programs in other jurisdictions. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Our cash and cash equivalents balance as of June 30, 2024 and March 31, 2024 included approximately \$1.7 billion and \$1.6 billion, respectively, of cash held by our subsidiaries outside of the U.S. Our primary intent is to utilize this cash for foreign operations for an indefinite period of time. Although the majority of cash held outside the U.S. is available for repatriation, doing so could subject us to foreign withholding taxes and state income taxes. We may remit foreign earnings to the U.S. to the extent it is tax efficient to do so. We do not anticipate the tax impact from remitting these earnings to be material. Following enactment of the 2017 Tax Cuts and Jobs Act, the repatriation of cash to the U.S. is generally no longer taxable for federal income tax purposes.

Working capital primarily includes cash and cash equivalents, receivables, inventories, and prepaid expenses, net of drafts and accounts payable, short-term borrowings, current portion of long-term debt, current portion of operating lease liabilities, and other accrued liabilities. Our businesses require substantial investments in working capital that are susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements.

Consolidated working capital increased at June 30, 2024 compared to March 31, 2024 primarily due to an increase in inventories, net, and receivables, net, driven by higher sales and timing, and a decrease in other accrued liabilities, partially offset by an increase in drafts and accounts payable from increased purchasing driven by increased sales and timing, and a decrease in cash and cash equivalents.

Our debt to capital ratio decreased for the three months ended June 30, 2024 due to net income attributable to McKesson for the quarter, partially offset by share repurchases and dividend payments.

McKESSON CORPORATION
FINANCIAL REVIEW (CONCLUDED)
(UNAUDITED)

In July 2024, we raised our quarterly dividend from \$0.62 to \$0.71 per share of common stock for dividends declared on or after such date by the Board. We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon our future earnings, financial condition, capital requirements, legal requirements, and other factors.

Capital Resources

We fund our working capital requirements primarily with cash and cash equivalents, proceeds from short-term borrowings from our commercial paper issuances, and longer-term credit agreements and debt offerings. Funds necessary for future debt maturities and our other cash requirements, including any future payments that may be made related to our total estimated litigation liability of \$6.9 billion as of June 30, 2024 payable under the terms of various settlement agreements for opioid-related claims, are expected to be met by existing cash balances, cash flow from operations, existing credit sources, and future borrowings. Long-term debt markets and commercial paper markets, our primary sources of capital after cash flow from operations, are open and accessible to us should we decide to access those markets. Detailed information regarding our debt and financing activities is included in [Financial Note 6, “Debt and Financing Activities.”](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report.

We believe that our future operating cash flow, financial assets, and access to capital and credit markets, including our credit facilities, give us the ability to meet our financing needs for the foreseeable future. However, there can be no assurance that an increase in volatility or disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements may be identified by their use of terminology such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “projects,” “plans,” “estimates,” “targets,” or the negative of these words or other comparable terminology. The discussion of financial trends, strategy, plans, assumptions, expectations, or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they include, but are not limited to, the factors discussed in the “Risk Factors” section in Item 1A of Part I of the 2024 Annual Report and in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date the statements are made, or to reflect the occurrence of unanticipated events.

AVAILABLE INFORMATION

We routinely post on our company website, and via our social media channels, information that may be material to investors, including details and updates to information disclosed elsewhere, which may include business developments, earnings and financial performance, sustainability matters, and materials for presentations to investors and financial analysts. Investors are encouraged to monitor our website www.mckesson.com. Interested parties can sign up on our website, including our Investor Relations site, to receive automated e-mail alerts, such as via RSS newsfeed, when we post certain information. Interested parties can also follow our social media feed @McKesson on X. The content on any website or social media channel is not incorporated by reference into this report, unless expressly noted otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We believe there has been no material change in our exposure to risks associated with fluctuations in interest and foreign currency exchange rates as disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2024.

Item 4. Controls and Procedures.

McKESSON CORPORATION

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report, and our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

There were no changes in our "internal control over financial reporting" (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that occurred during the three months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth in [Financial Note 9, "Commitments and Contingent Liabilities,"](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, and in [Financial Note 17, "Commitments and Contingent Liabilities,"](#) to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2024, is incorporated herein by reference. Disclosure of an environmental proceeding with a governmental agency generally is included only if we expect monetary sanctions in the proceeding to exceed \$1 million, unless otherwise material.

Item 1A. Risk Factors.

Other than factual updates discussed in this Quarterly Report on Form 10-Q, there have been no material changes for the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I of Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2024.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Our Board of Directors has authorized the repurchase of common stock. We may repurchase common stock from time-to-time through open market transactions, privately negotiated transactions, accelerated share repurchase programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Exchange Act. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, tax implications, restrictions under our debt obligations, other uses for capital, impacts on the value of remaining shares, cash generated from operations, and market and economic conditions.

Refer to [Financial Note 10, "Stockholders' Deficit,"](#) to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a full discussion of the Company's share repurchases for the three months ended June 30, 2024 and 2023.

McKESSON CORPORATION

The following table provides information on the Company’s share repurchases during the three months ended June 30, 2024:

<i>(In millions, except price per share)</i>	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share ⁽²⁾	Total Number of Shares Purchased as Part of a Publicly Announced Program ⁽³⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs ⁽²⁾
April 1, 2024 – April 30, 2024	0.2	524.90	0.2	\$ 6,497
May 1, 2024 – May 31, 2024	0.7	552.63	0.7	6,109
June 1, 2024 – June 30, 2024	0.1	573.96	0.1	6,088
Total	1.0		1.0	

- (1) This table does not include the value of equity awards surrendered to satisfy tax withholding obligations or forfeitures of equity awards.
- (2) The average price paid per share excludes \$1 million of excise taxes incurred on share repurchases for the three months ended June 30, 2024. The remaining authorization outstanding for repurchases of common stock excludes \$26 million of cumulative excise taxes incurred on share repurchases through June 30, 2024.
- (3) In July 2024, the Board authorized the Company to repurchase up to an additional \$4.0 billion shares of common stock, which has no expiration date.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Pre-arranged Trading Plans

There were no trading arrangements adopted, modified, or terminated by our directors and officers during the three months ended June 30, 2024.

Item 6. Exhibits.

Exhibits identified under “Incorporated by Reference” in the table below are on file with the SEC and are incorporated by reference as exhibits hereto.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1†	Certificate of Incorporation of McKesson Corporation ("COI"), as amended through July 31, 2024.	—	—	—	—
3.1.1	Amended and Restated COI, dated July 27, 2011.	8-K	1-13252	3.1	August 2, 2011
3.1.2†	Certificate of Amendment of COI, dated July 31, 2024.	—	—	—	—
31.1†	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2†	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101†	The following materials from the McKesson Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders’ Deficit, (v) Condensed Consolidated Statements of Cash Flows, and (vi) related Financial Notes.	—	—	—	—
104†	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).	—	—	—	—

† Filed herewith.

†† Furnished herewith.

McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Date: August 7, 2024

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

McKESSON CORPORATION

Date: August 7, 2024

/s/ Napoleon B. Rutledge Jr.

Napoleon B. Rutledge Jr.

Senior Vice President and Controller

**CERTIFICATE OF INCORPORATION
OF
McKESSON CORPORATION**

(Showing cumulative amendments through July 31, 2024)¹

ARTICLE I.

The name of the Corporation is McKesson Corporation.

ARTICLE II.

The address of the registered office of the Corporation within the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington 19808, County of New Castle. The name of the registered agent of the Corporation at such address is The Prentice-Hall Corporation System, Inc.

ARTICLE III.

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV.

The total number of shares of stock of all classes which the Corporation has authority to issue is 900,000,000 shares, divided into 100,000,000 shares of Preferred Stock, par value \$0.01 per share (herein called the ‘Series Preferred Stock’) and 800,000,000 shares of Common Stock, par value \$0.01 per share (herein called ‘Common Stock’). The aggregate par value of all shares is \$9,000,000.

The Board of Directors of the Corporation is expressly authorized, as shall be stated and expressed in the resolution or resolutions it adopts, subject to limitations prescribed by law and the provisions of this Article IV, to provide for the issuance of the shares of Series Preferred Stock in one or more class or series, in addition to the shares thereof specifically provided for in this Article IV, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such distinctive designations, powers, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, including without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; or (v) subject to the terms and amounts of any sinking fund provided for the purchase or redemption of the shares of such series; all as may be stated in such resolution or resolutions.

¹Text from Amended and Restated Certificate of Incorporation of McKesson Corporation, dated July 27, 2011, except as otherwise indicated.

The number of authorized shares of Series Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the Common Stock, without a vote of the holders of the Series Preferred Stock, as the case may be, or of any series thereof, unless a vote of any such holders is required pursuant to the provisions of this Article IV or the certificate or certificates establishing any additional series of such stock.

A description of each class of the Corporation's stock, with the powers, designations, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, is as follows:

I. SERIES PREFERRED STOCK

A. General Provisions Relating to All Series

1. The Board of Directors shall have authority to classify and reclassify any unissued shares of the Series Preferred Stock from time to time by setting or changing in any one or more respects the powers, designations, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions of the Series Preferred Stock. Subject to the foregoing, the power of the Board of Directors to classify and reclassify any of the shares of Series Preferred Stock shall include, without limitation, subject to the provisions of this Certificate of Incorporation, authority to classify or reclassify any unissued shares of such stock into one or more series of Series Preferred Stock, and to divide and classify shares of any series into one or more series of Series Preferred Stock by determining, fixing or altering one or more of the following:

(a) The distinctive designation of such series and the number of shares to constitute such series; provided that, unless otherwise prohibited by the terms of such or any other series, the number of shares of any series may be decreased by the Board of Directors in connection with any classification or reclassification of unissued shares and the number of shares of such series may be increased by the Board of Directors in connection with any such classification or reclassification, and any shares of any series which have been redeemed, purchased, otherwise acquired or converted into shares of Common Stock or any other series shall remain part of the authorized Series Preferred Stock and be subject to classification and reclassification as provided in this Section.

(b) Whether or not and, if so, the rates, amounts and times at which, and the conditions under which, dividends shall be payable on shares of such series, whether any such dividends shall rank senior or junior to or on a parity with the dividends payable on any other series of Series Preferred Stock, and the status of any such dividends as cumulative, cumulative to a limited extent or non-cumulative and as participating or non-participating.

(c) Whether or not shares of such series shall have voting rights, in addition to any voting rights provided by law and, if so, the terms of such voting rights.

(d) Whether or not shares of such series shall have conversion or exchange privileges and, if so, the terms and conditions thereof, including provision for adjustment of the conversion or exchange rate in such events or at such times as the Board of Directors shall determine.

(e) Whether or not shares of such series shall be subject to redemption and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; and whether or not there shall be any sinking fund or purchase account in respect thereof, and if so, the terms thereof.

(f) The rights of the holders of shares of such series upon the liquidation, dissolution or winding up of the affairs of, or upon any distribution of the assets of, the Corporation, which rights may vary depending upon whether such liquidation, dissolution or winding up is voluntary or involuntary and, if voluntary, may vary at different dates, and whether such rights shall rank senior or junior to or on a parity with such rights of any other series of Series Preferred Stock.

(g) Whether or not there shall be any limitations applicable, while shares of such series are outstanding, upon the payment of dividends or making of distributions on, or the acquisition of, or the use of moneys for purchase or redemption of, any stock of the Corporation, or upon any other action of the Corporation, including action under this Section, and, if so, the terms and conditions thereof.

(h) Any other powers, designations, preferences and relative, participating, optional and other rights, if any, and any other qualifications, limitations and restrictions, on the shares of such series, not inconsistent with law and this Certificate of Incorporation.

2. For the purposes hereof and of any certificate providing for the classification or reclassification of any shares of Series Preferred Stock or of any other charter document of the Corporation (unless otherwise provided in any such certificate or document), any class or series of stock of the Corporation shall be deemed to rank:

(a) Prior to a particular class or series of stock if the holders of such class or classes or series shall be entitled to the receipt of dividends or of amounts distributable in the event of any liquidation, dissolution or winding up, as the case may be, in preference to or with priority over the holders of such particular class or series of stock;

(b) On a parity with a particular class or series of stock, whether or not the dividend rates, dividend payment dates, voting rights or redemption or liquidation prices per share thereof, be different from those of such particular class or series of stock, if the rights of holders of such class or classes or series to the receipt of dividends or of amounts distributable in event of any liquidation, dissolution or winding up, as the case may be, shall be neither (i) in preference to, or with priority over, nor (ii) subject or subordinate to, the rights of holders of such particular class or series of stock in respect of the receipt of dividends or of amounts distributable in the event of any liquidation, dissolution or winding up of the Corporation, as the case may be; and

(c) Junior to a particular class or series of stock if the rights of the holders of such class or classes or series shall be subject or subordinate to the rights of the holders of such particular class or series of stock in respect of the receipt of dividends or of amounts distributable in the event of any liquidation, dissolution or winding up, as the case may be.

B. Series A Junior Participating Preferred Stock

1. ***Designation and Amount.*** The shares of this series shall be designated as “Series A Junior Participating Preferred Stock” and the number of shares constituting such series shall initially be 10,000,000, par value \$0.01 per share, such number of shares to be subject to increase or decrease by action of the Board of Directors as evidenced by a certificate or certificates evidencing such change.

2. Dividends and Distributions.

(a) The holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first business day of January, April, July and October in each year (each such date being referred to herein as a “Series A Quarterly Dividend Payment Date”), commencing on the first Series A Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) \$10.00 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Series A Quarterly Dividend Payment Date, or, with respect to the first Series A Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after November 1, 1994 (the “Rights Declaration Date”) (A) declare any dividend on Common Stock payable in shares of Common Stock, (B) subdivide the outstanding Common Stock, or (C) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Series A Quarterly Dividend Payment Date and the next subsequent Series A Quarterly Dividend Payment Date, a dividend of \$10.00 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Series A Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Series A Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Series A Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Series A Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Series A Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Series A Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

3. **Voting Rights.** The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a “default period”) which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Series Preferred Stock, (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) Directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(c) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Series Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of ten percent (10%) in number of shares of Series Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Series Preferred Stock of such voting right. At any meeting at which the holders of Series Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) Directors or, if such right is exercised at an annual meeting, to elect two (2) Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Series Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Series Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Series Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Series Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Series Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Series Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Series Preferred Stock are entitled to vote pursuant to this paragraph (c)(iii) shall be given to each holder of record of Series Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Series Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (c)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Series Preferred Stock shall have exercised their right to elect two (2) Directors voting as a class, after the exercise of which right (A) the Directors so elected by the holders of Series Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (B) any vacancy in the Board of Directors may (except as provided in paragraph (c)(ii) of this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (c) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (B) of the preceding sentence.

(v) Immediately upon the expiration of a default period, (A) the right of the holders of Series Preferred Stock as a class to elect Directors shall cease, (B) the term of any Directors elected by the holders of Series Preferred Stock as a class shall terminate, and (C) the number of Directors shall be such number as may be provided for in this Certificate of Incorporation or the By-laws of the Corporation irrespective of any increase made pursuant to the provisions of paragraph (c)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in this Certificate of Incorporation or the By-laws of the Corporation). Any vacancies in the Board of Directors effected by the provisions of clauses (B) and (C) in the preceding sentence may be filled by a majority of the remaining Directors.

(d) Except as set forth herein or as otherwise required by applicable law, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

4. *Certain Restrictions.*

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock;

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. *Reacquired Shares.* Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Series Preferred Stock and may be reissued as part of a new series of Series Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

6. *Liquidation, Dissolution or Winding Up.*

(a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. **Consolidation, Merger, etc.** In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (a) declare any dividend on Common Stock payable in shares of Common Stock, (b) subdivide the outstanding Common Stock, or (c) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

8. **No Redemption.** The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

9. **Ranking.** The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Series Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

10. **Amendment.** This Certificate of Incorporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

11. **Fractional Shares.** Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

II. COMMON STOCK

A. Dividends. Subject to all of the rights of the Series Preferred Stock, dividends may be paid upon the Common Stock as and when declared by the Board of Directors out of funds legally available for the payment of dividends.

B. Liquidation Rights. In the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, and after the holders of the Series Preferred Stock shall have been paid in full amounts to which they respectively shall be entitled, or an amount sufficient to pay the aggregate amount to which such holders shall be entitled shall have been deposited in trust with a bank or trust company having its principal office in the Borough of Manhattan, City, County and State of New York, having a capital, undivided profits and surplus aggregating at least \$5,000,000, for the benefit of the holders of the Series Preferred Stock, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock.

C. Voting Rights. Except as otherwise expressly provided with respect to the Series Preferred Stock and except as otherwise may be required by law, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes and each holder of Common Stock shall be entitled to one vote for each share held.

ARTICLE V.

A. Board of Directors of the Corporation.

1. **General Provisions.** The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The exact number of directors shall be fixed from time to time by, or in the manner provided in, the By-Laws of the Corporation and may be increased or decreased as therein provided. Directors of the Corporation need not be elected by ballot unless required by the By-Laws.

2. **Term.** Each nominee elected at an annual meeting of stockholders to serve as director shall hold office for a term commencing on the date of the annual meeting, or such later date as shall be determined by the Board of Directors, and ending on the next annual meeting of stockholders and until such director's successor is elected and qualified, or until such director's earlier resignation or removal. A director may be removed from office, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors and, subject to such removal, death, resignation, retirement or disqualification, shall hold office until such director's term expires and until such director's successor shall be elected and qualified. In no case shall a decrease in the number of directors shorten the term of any incumbent director.

3. **Directors Appointed by a Specific Class of Stockholders.** To the extent that any holders of any class or series of stock other than Common Stock issued by the Corporation shall have the separate right, voting as a class or series, to elect directors, the directors elected by such class or series shall be deemed to constitute an additional class of directors and shall have a term of office for one year or such other period as may be designated by the provisions of such class or series providing such separate voting right to the holders of such class or series of stock, and any such class of directors shall be in addition to the classes designated above.

ARTICLE VI.

A. General Provisions. The following provisions are hereby adopted for the purpose of defining, limiting and regulating the powers of the Corporation and of its directors and stockholders:

1. **Amendments to the Certificate of Incorporation.** Subject to the provisions of applicable law, the Corporation reserves the right from time to time to make any amendment to its Certificate of Incorporation, now or hereafter authorized by law, including any amendment which alters the contract rights as expressly set forth therein of any outstanding stock.

2. ***Amendments to the By-Laws.*** The Board of Directors is expressly authorized to adopt, alter or repeal the By-Laws of the Corporation in whole or in part at any regular or special meeting of the Board of Directors, by vote of a majority of the entire Board of Directors. The By-Laws may also be adopted, altered or repealed in whole or in part at any annual or special meeting of the stockholders by the affirmative vote of a majority of the shares of the Corporation outstanding and entitled to vote thereon.

3. ***No Preemptive Rights.*** No holder of any class of stock of the Corporation, whether now or hereafter authorized or outstanding, shall have any preemptive, preferential or other right to subscribe for or purchase any class of the Corporation's stock, whether now or hereafter authorized or outstanding, which it may at any time issue or sell, or to subscribe for or purchase any notes, debentures, bonds or other securities which it may at any time issue or sell, whether or not the same be convertible into or exchangeable for or carry options or warrants to purchase shares of any class of the Corporation's stock or other securities, or to receive or purchase any warrants or options which may be issued or granted evidencing the right to purchase any such stock or other securities, it being intended by this Section 3 that all preemptive rights of any kind applicable to securities of the Corporation are eliminated.

4. ***Vote Required to Take Action; Action by Written Consent.*** Except as otherwise provided in this Certificate of Incorporation or the By-Laws or as otherwise provided by applicable law, the Corporation may take or authorize any action upon the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter thereof. Action shall be taken by stockholders of the Corporation only at annual or special meetings of stockholders, and stockholders may act in lieu of a meeting only by unanimous written consent.

5. ***Compensation of Directors.*** The Board of Directors may determine from time to time the amount and type of compensation which shall be paid to its members for service on the Board of Directors. The Board of Directors shall also have the power, in its discretion, to provide for and to pay to directors rendering services to the Corporation not ordinarily rendered by directors, as such, special compensation appropriate to the value of such services, as determined by the Board from time to time.

6. ***Interested Transactions.*** No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of the Corporation's directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose if (i) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

7. ***Indemnification.*** The Corporation shall indemnify (a) its directors to the fullest extent permitted by the laws of the State of Delaware now or hereafter in force, including the advancement of expenses under the procedures provided by such laws, (b) all of its officers to the same extent as it shall indemnify its directors, and (c) its officers who are not directors to such further extent as shall be authorized by the Board of Directors and be consistent with law. Subject only to any limitations prescribed by the laws of the State of Delaware now or hereafter in force, the foregoing shall not limit the authority of the Corporation to indemnify the directors, officers and other employees and agents of this Corporation consistent with law and shall not be deemed to be exclusive of any rights to which those indemnified may be entitled as a matter of law or under any resolution, By-Law provision, or agreement.

8. ***Court-Ordered Meetings of Creditors and/or Stockholders.*** Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as such court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which such application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

9. ***Liability of Directors and Officers.***² To the fullest extent permitted by Delaware statutory or decisional law, as amended or interpreted, no director or officer of this Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director or officer, as applicable. This Section 9 does not affect the availability of equitable remedies for breach of fiduciary duties. Solely for purposes of this Section 9, “officer” shall have the meaning determined in accordance with Section 102(b)(7) of Title 8 of the Delaware Code, as amended from time to time.

² Underlined text in Article VI Section 9 indicates changes made by Certificate of Amendment dated July 31, 2024.

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian S. Tyler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2024

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Britt J. Vitalone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2024

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of McKesson Corporation (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

August 7, 2024

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

August 7, 2024

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.