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McKesson Corp. (MCK)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the McKesson's Second Quarter Fiscal 2025 Earnings Conference Call. Please be advised that today's conference is being recorded.

At this time, I'd like to turn the conference over to Rachel Rodriguez, Vice President of Investor Relations. Please go ahead, ma'am.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

Thank you, operator. Good afternoon, and welcome, everyone, to McKesson's second quarter fiscal 2025 earnings call. Today, I'm joined by Brian Tyler, our Chief Executive Officer; and Britt Vitalone, our Chief Financial Officer. Brian will lead off, followed by Britt, and then we will move to a question-and-answer session.

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

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

With that, let me turn it over to Brian.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Thank you, Rachel, and good afternoon to everybody. Thank you. I appreciate you joining our call. Today, McKesson reported solid performance in our second quarter, generating record quarterly revenue of \$93.7 billion. Adjusted operating profit increased 7% to \$1.3 billion and adjusted earnings per diluted share increased 13% to \$7.07.

We generated strong cash flows in the quarter, allowing us to return more capital to shareholders and to make strategic investments to support the future growth of the business. We're pleased with the continued progress in our differentiated oncology and biopharma services platforms and in the strength of the pharmaceutical distribution business.

Our company priorities remain the cornerstone of our enterprise strategy and the foundation for the positive impact we're driving as a diversified healthcare services company.

The second quarter results and our improved outlook for the full year led us to increase our fiscal 2025 guidance for adjusted earnings per diluted share from the previous range of \$31.75 to \$32.55 to an updated range of \$32.40 to \$33.

Before we jump into a discussion of the business, I thought it appropriate to just acknowledge the news that's probably top of mind for everyone, the 2024 presidential and congressional elections. Like many of you, we've been watching closely, including and evaluating the views and potential implications for healthcare policy. And I would just say at this point that consistent with our longstanding bipartisan pragmatic approach to this, we look forward to engaging and working with the new administration and the new Congress on these important health policy issues. We feel we have a unique responsibility to leverage our resources and tools to educate and advocate for the policies that are most in line with our purpose of advancing health outcomes for all.

Public policy is an element of the ever-evolving landscape in which we operate. Healthcare has been and will continue to be a dynamic market. I thought it appropriate to share a few observations about the key market trends that have been impacting our business.

First, we've seen consistent and stable pharmaceutical utilization trends, which support the growth of our distribution business. Through ClarusONE, our generic sourcing operation, we drive value to customers through competitive pricing and stable supply. And on the brand side, we're continuously engaged with suppliers to ensure that we deliver the highest quality of services and are fairly compensated for those services that we provide.

Continued biopharmaceutical innovation, be it GLP-1 medications, cell and gene or cancer therapies or other scientific breakthroughs bring really exciting opportunities for our solutions in oncology and biopharma services.

Within the oncology platform, patient visits have grown steadily across The US Oncology Network. Patient enrollment through Sarah Cannon Research Institute is increasing consistently as well, expanding availability and access to groundbreaking clinical trials. This growth enables us to empower more community-based providers and importantly, to drive better patient outcomes.

Within the biopharma services platform, we continue to see strong market demand for our commercialization services. Our growth is supported by the launch of new brand and specialty drugs, and we're strategically expanding our services to high-growth therapeutic areas. The growth of GLP-1 medications and related prior authorization services is just one example of the scale of our capabilities and how we can support biopharma in the commercialization process.

Within the Medical segment, we have built a strong presence across the alternate sites of care. The fundamentals the market remains solid, we believe care will continue to shift to the alternate site spectrum. However, in the past two quarters, we have seen instances of weakness in the primary care markets as demand for certain categories of products have normalized in the post-COVID environment.

In response to those recent trends, we've taken effective actions to drive operational efficiencies and to enhance our distribution capabilities and support of our customers. As we look across the business, we have built scaled assets that drive value for our customers, address the challenges in healthcare system and help shape the future of care.

Regardless of the external environment, we're confident that our portfolio of services and solutions are highly differentiated in the market and provide unique value propositions to our customers and that they will continue to support long-term sustainable growth for the company.

Let's shift gears a bit now. I thought I'd provide an update on our company priorities and strategy. And then I'll turn it over to Britt to provide more details on the financial aspects of the quarter. So as always, let me start with the

focus on people and culture. Our talent is at the center of everything we do and we care deeply about the development and wellness of our team members.

In October, employees across McKesson celebrated our annual Wellness Day, which we call, Your Day, Your Way, this is a company-sponsored day off. It's our way to show appreciation for the hard work and dedication of our employees, giving them an opportunity to unplug, recharge and take care of their physical and mental well-being.

An important element of our culture is also to create an inclusive workplace where everyone can do their very best work and feel comfortable being themselves. Recently, we were named one of the Best Places to Work for Disability Inclusion for the ninth consecutive year, earning a top rank score of 100. It's very satisfying to see our efforts to uphold an inclusive culture being recognized.

Let's move on to our next priority, driving sustainable growth in our core distribution businesses. Within the US Pharmaceutical segment, we successfully onboarded a new strategic partner in the quarter, which contributed to the strong growth year-over-year. The segment's results also reflect the breadth of our distribution capabilities and our commitment to drive operational excellence.

In October, we launched a dedicated business focused on supporting the commercialization of cell and gene therapies called InspiroGene by McKesson. We've been building this business around cell and gene therapy within the US Pharmaceutical segment over the last few years. And the solution includes things like third-party logistics, specialty pharmacy services, tailored access and support services. This launch, though marks a significant step in our efforts to address the complex challenges of bringing cell and gene therapies to market.

InspiroGene will help leverage our unique capabilities across the oncology platform, too, ranging from clinical trial research to care delivery in the community setting. We are committed to improving patients' access to these life-changing cell and gene therapies.

Moving on to our two strategic pillars of oncology and biopharma services. Within the oncology platform, we continue to grow The US Oncology Network. In September, we were excited to announce that we signed an agreement to acquire a controlling interest in Community Oncology Revitalization Enterprise Ventures or CORE Ventures.

It's an internal business and an administrative service organization that was established by Florida Cancer Specialists & Research Institute, which itself is a leading physician-owned community oncology practice. The transaction is subject to customary closing conditions, including required regulatory clearance.

Following the close of the transaction, McKesson will own 70% of CORE Ventures and Florida Cancer Specialists will join The US Oncology Network, bringing over 530 community providers across the State of Florida. They will have access to our drug purchasing services, our clinical trial services as well as our iKnowMed electronic health records and all the other services available through our network.

In the past quarter, we also welcomed the Illinois CancerCare and Tennessee Cancer Specialists groups, adding 118 providers to The US Oncology Network. The growth of The US Oncology Network brings exciting opportunities for us to accelerate our oncology strategy, expanding and strengthening our services across the platform. Upon the close of CORE Ventures, we anticipate The US Oncology Network will grow to approximately 3,300 providers across 740 sites of care in 31 states.

Now let's move to the biopharma services platform. We have a portfolio of technology-driven solutions focused on improving access and affordability of prescription drugs. These are complex challenges faced by many patients and could directly impact their healthcare outcomes. I know most of you are familiar with our prior authorization service, which is an example of solutions targeted at improving patient access to medication. Our solutions allow providers to initiate electronic prior authorizations at the point of prescribing, which helps patients access their medications on average 13 days sooner than they otherwise would have.

We also provide integrated tech-driven hub services that are designed to improve access to complex specialty therapeutics. As an example, once a patient is approved for the medication, our technology services can seamlessly enroll them in a hub program that would provide them with a range of supporting services, including fulfilling insurance requirements, coordinating financial assistance and others. Our solutions integrate a streamlined electronic platform with human intervention, ensuring patients' needs are supported in a timely and efficient manner.

Within the affordability portfolio, our automatic coupon programs help apply co-pay savings at the point of dispensing. We also provide an electronic prescription service that eliminates paper prescriptions and faxes, which increases the efficiency, safety and quality of the prescription medication process.

These solutions provide price transparency and empower providers to make the best prescription decisions, helping biopharma address cost barriers proactively and most importantly, bringing more affordable options to patients. During the second quarter alone, our affordability programs enabled patient savings of over \$2 billion in out-of-pocket costs.

Moving on to our next priority of modernizing and accelerating the enterprise. We deeply believe that driving sustainable growth requires continuous improvement in how we operate the business and in how we interact with customers.

In the past quarter, we launched a series of company-wide strategic initiatives to help us strengthen the business platform, improve operational efficiency and better serve our customers. Some examples include modernizing our cloud services, leveraging AI and automation to enhance the customer experience, the continued focus on investments in technology application led us to a collaboration between Ontada and Microsoft, together we'll utilize Azure AI to help efficiently process more than 150 million unstructured oncology documents, significantly improving the ability of Ontada to extract valuable clinical information.

I think this project is a good illustration of value of the actions we're taking which will not only generate short-term savings, but we believe further differentiate our capabilities and accelerate the growth outlook of the business.

During the second quarter, we also announced an agreement to sell our Rexall and Well.ca business in Canada. This transaction will enable us to focus and prioritize investments to further expand and grow on our two strategic pillars. Meanwhile, we remain fully committed to and confident in the strength of our Canadian distribution and biopharma businesses.

Let me wrap things up before handing it over to Britt. McKesson reported a solid fiscal second quarter, underpinned by focused and disciplined execution across the enterprise. I'm extremely proud of what team McKesson has achieved in advancing these important company priorities, we delivered strong growth in the pharmaceutical distribution business, made impactful investments in our strategic growth pillars and took effective actions to modernize and accelerate the enterprise. We're confident that these actions will strengthen our business and continue to support our sustainable long-term growth.

And with that, I'm going to hand it to you, Britt, for additional insights into the Q2 financials.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Well. Thank you, Brian, and good afternoon. As Brian mentioned, we delivered solid second quarter results led by strong performance in our US Pharmaceutical segment. Execution of our enterprise strategy delivered solid operating performance and robust cash flow results. Adjusted operating profit grew 7% to \$1.3 billion and adjusted earnings per diluted share of \$7.07 increased 13% and compared to the prior year. These results exceeded our expectations and were above the long-term growth targets.

Before I review our adjusted results, let me provide three updates. First, I'll share an update on our Canadian divestiture activity. In September, we announced an agreement to sell our Canada-based Rexall and Well.ca businesses for an adjusted purchase price of approximately \$148 million. We remeasured the net assets to fair value less the cost to sell. This resulted in a GAAP-only charge of \$643 million in the second quarter.

In September, due to held-for-sale accounting treatment, we discontinued recording depreciation and amortization on the assets involved in the in the transaction. This had a \$0.04 accretive impact in the second quarter.

For full year fiscal 2025, we anticipate held-for-sale accounting to drive approximately \$0.15 of adjusted earnings accretion. McKesson Canada will continue to own and operate Rexall and Well.ca until the transaction closes, which is subject to customary closing conditions, including required regulatory clearances. After the transaction close, we will remain a wholesale distribution supplier to each business.

This transaction enables McKesson to further focus and prioritize investments to grow our oncology and biopharma services platform. We have differentiated and leading distribution in biopharma platforms in Canada, delivering solutions to ensure the delivery of better health outcomes.

Next, during the second quarter, we began a series of company-wide initiatives focused on accelerating and modernizing the enterprise, delivering operational, digital and customer-centric efficiencies, which will underpin our long-term growth. These efforts include the previously announced initiatives within the Medical-Surgical segment.

We recorded charges of \$227 million in the second quarter of fiscal 2025, including \$147 million related to the Medical-Surgical cost optimization program that we previously announced. We anticipate the costs related to the Medical-Surgical segment initiative to be substantially completed by the end of the first half of fiscal 2026, and we anticipate these costs will have a payback period of less than two years.

Additionally, our acceleration and modernization program will be focused on enterprise technology opportunities and will be comprised of initiatives which will unlock innovation, modernize our technology operating model and infrastructure and increase customer centricity. These initiatives align with our continued evolution as a diversified healthcare services company, meeting customer and market needs and driving further leadership in the areas of oncology and biopharma services. These initiatives will generate meaningful benefits and savings over the long-term.

We anticipate the costs related to the acceleration program will be substantially complete in fiscal 2028 and will generate approximately \$250 million in benefits over the next five years with an annual run rate benefit of approximately \$100 million by the end of fiscal 2030.

Finally, as a result of Rite Aid's emergence from bankruptcy in August of 2024, we reassessed our initial estimates made in conjunction with the previously reserved balances, which included cash received as part of the bankruptcy emergence, resulting in a reversal of \$203 million recorded in our US Pharmaceutical segment during the second quarter of fiscal 2025.

The remainder of my comments will refer to our adjusted results, and let me start with our second quarter results. Consolidated revenues were \$93.7 billion, an increase of 21%, led by strong growth in the US Pharmaceutical segment, resulting from the onboarding of a new strategic partner and increased prescription volumes, including higher volumes from retail national account customers, specialty products and GLP-1 medications.

Adjusting for the addition of a new strategic partner, consolidated revenues increased 8% versus the prior year. Gross profit was \$3.2 billion, an increase of 7%, primarily a result of specialty distribution growth within the US Pharmaceutical segment, including our Provider Solutions business and higher distribution volumes resulting from a new strategic partner. Operating expenses increased 7% to \$2 billion, driven by higher expenses to support growth in the US Pharmaceutical segment.

We're pleased with the progress and discipline we're making in managing our cost structure as reflected in our operating expense to gross margin ratio, while also continuing to invest in the business to bring innovation to our products and to our partners.

Operating profit was \$1.3 billion, an increase of 7%. Year-over-year results benefited from continued growth in the US Pharmaceutical segment and our Canadian distribution business, partially offset by lower volumes in the Medical-Surgical Solutions segment. Interest expense was \$72 million, an increase over the prior year, resulting from higher average balances of our loan portfolio throughout the quarter. The effective tax rate for the quarter was 21%, which was in line with our guidance, driven by the recognition of net discrete tax benefits of \$44 million in the quarter.

Second quarter diluted weighted average shares outstanding was \$129.3 million, a decrease of 4%. And second quarter earnings per diluted share increased 13% to \$7.07, which was ahead of our previously expected guidance range. Year-over-year growth was driven by strength in the US Pharmaceutical segment and a lower share count.

Turning to second quarter segment results, which can be found on slides 8 through 11 and starting with US Pharmaceutical. Revenues were \$85.7 billion, an increase of 23%. Revenue growth reflects increased prescription volumes, including higher volumes from retail national account customers, specialty products and GLP-1 medication, offset by the anticipated decline of biosimilar volumes with the retail national account customer.

During the quarter, we successfully onboarded a new strategic partner. Excluding this, revenue growth was approximately 8% in the segment. Revenues from GLP-1 medications were \$10.4 billion in the quarter, an increase of approximately \$3.3 billion or 47% when compared to the prior year. We anticipate continued GLP-1 medication growth year-over-year, however, with variability from quarter-to-quarter. For the quarter, operating profit increased 11% to \$902 million, driven by growth in the distribution of specialty products to health systems and specialty providers, bolstered by the continued growth of our oncology platform.

Moving to Prescription Technology Solutions. Revenues were \$1.3 billion, an increase of 11%, driven by increased prescription volumes in our third-party logistics and technology services businesses. Segment operating profit increased 4% to \$218 million, reflecting increased demand for our technology solutions, including

growth in our affordability product suite and higher volumes in our pharmacy automation solutions. Operating profit was also impacted by higher investments to support future growth across the business.

Turning to Medical-Surgical Solutions. Revenues increased 4% in the quarter to \$2.9 billion, driven in part by higher levels of specialty pharmaceuticals and other illness season-related volumes in the primary care channel. As a reminder, each illness season is unique. The timing and severity level of each illness season can drive variability from quarter-to-quarter across several products within this segment, including seasonal vaccines, illness season testing, foot traffic in primary care sites, an over-the-counter product sales. Second quarter operating profit decreased 4% to \$243 million due to lower volume levels in the primary care channel as compared to the prior year, including the impact from customer and product mix. These results were in line with our expectations.

Next, let me address International results. Revenues were \$3.7 billion, an increase of 7%, and operating profit was \$100 million, an increase of 12% driven in part by higher pharmaceutical distribution volumes in the Canadian business compared to prior year. Second quarter operating profit included \$0.04 of earnings accretion, resulting from the held-for-sale accounting related to announced sale of our Canada-based Rexall and Well.ca businesses.

Wrapping up our segment review with corporate. Corporate expenses were \$172 million, which included pre-tax losses of \$15 million or \$0.09 per share related to equity investments within the McKesson Ventures portfolio compared to pre-tax losses of \$10 million or \$0.06 per share in the second quarter of fiscal 2024.

As we've previously discussed, McKesson Ventures' impact on consolidated financials can be influenced by the performance of each individual investment quarter-to-quarter, which may result in gains and losses, the timing and magnitude for which can vary for each investment.

Let me turn to cash and capital deployment, which can be found on slide 13. We ended the quarter with \$2.5 billion in cash and cash equivalents. During the quarter, we had free cash flow of \$1.9 billion, which included \$218 million of capital expenditures for technology, data and analytics to support our growth priorities as well as investments in new and existing distribution centers. This strong cash flow performance is a reflection of our operating execution and disciplined working capital management.

In the second quarter, we returned \$1.6 billion of cash to shareholders, which included \$1.5 billion of share repurchases and \$80 million in dividend payments. As a reminder, our cash position, working capital metrics and the resulting cash flows can each be impacted by timing, which includes the day of the week that the quarter ends on and therefore, can vary from quarter-to-quarter.

Now let me discuss our fiscal 2025 outlook. As a result of our second quarter performance and our confidence in the outlook over the balance of the year, we are raising and narrowing our guidance range for fiscal 2025 adjusted earnings per diluted share to \$32.40 to \$33. We remain confident in our differentiated oncology and biopharma services assets and platforms and our strategy to advance McKesson as a diversified healthcare services company as we accelerate and modernize the enterprise.

In the US Pharmaceutical segment, our core distribution business continues to demonstrate its strong value proposition to our customers. We anticipate revenues will increase 16% to 19% and operating profit to increase 9% to 11%. This updated segment outlook incorporates the strong second quarter performance as well as further growth in specialty distribution, including our differentiated plasma and biologics businesses and growth from retail national account customers.

In July, we successfully onboarded a new strategic partner. This partnership is a testament to our leading distribution and sourcing capabilities and our strong customer value proposition. We anticipate the strategic partnership will contribute approximately \$31 billion of incremental revenue in full year fiscal 2025, and this is incorporated in the full year outlook.

Let me take a moment to discuss the agreement we announced and signed in September to acquire a controlling interest in Community Oncology Revitalization Enterprise Ventures or CORE Ventures, an internal business and administrative services organization established by Florida Cancer Specialists and Research Institute. McKesson will purchase a controlling interest representing 70% ownership for approximately \$2.49 billion in cash. We anticipate financing the transaction with a mixture of cash and debt.

Transaction is subject to customary closing conditions, including required regulatory clearances. This transaction marks an important step as we continue to grow our oncology platform with the goal of improving and expanding patient access to quality cancer care close to home while reducing the overall cost of care for the patient. Following completion of the transaction, CORE Ventures will be part of McKesson's oncology platform and financial results will be reported within McKesson's US Pharmaceutical segment. We estimate this transaction to be \$0.40 to \$0.60 accretive in the first 12 months following the regulatory approval and close of the transaction. We also estimate by end of the third year following completion of this transaction, to achieve accretion of approximately \$1.40 to \$1.60.

We have not included any financial results from this transaction in our updated fiscal 2025 outlook. This transaction will accelerate McKesson's oncology strategy by providing opportunities to enhance and expand existing offerings across our oncology platform. It will allow us to enhance quality cancer care, expand patient access and accelerate clinical development.

In the Prescription Technology Solutions segment, we anticipate revenues to increase 8% to 12%, a modest decline from the prior guidance and we anticipate the operating profit will increase 11% to 15%. The updated revenue outlook for the segment reflects continuation of product launch delays and slower manufacturer program ramp in our third-party logistics business. For the segment, we remain confident in our ability to achieve operating profit growth at or the above long-term growth rate targets on an annual basis.

As we previously communicated, we anticipate the revenue and operating profit growth will not be linear and will vary from quarter-to-quarter, driven by several factors, which include the timing and trajectory of new product drug launches, utilization trends, the evolution of a products program support requirements as it matures, which could result in the shift to other services or program termination, product delays and supply shortages, payer requirements, including utilization management and formulary requirements, the annual verification programs that we provide to our customers that occur in our fiscal fourth quarter, and the size and timing of investments to support and expand our product portfolio.

Moving to Medical-Surgical Solutions, we anticipate revenues to increase 1% to 5%, and operating profit to be at the low end of the initial guidance range of 6% to 8%. As market conditions have normalized following the COVID-19 period, we have noted instances of lower volumes in the primary care channel. This has led to lower sales and operating profit contributions throughout the first half of the fiscal year.

As Brian mentioned, in response to the market conditions, we've previously announced a series of business rationalization initiatives within the segment, to drive operational efficiencies and increase cost optimization efforts. In addition to delivering improved operating performance, these actions will result in efficiencies across the

segment and greater alignment with our customers and partners. We anticipate these initiatives will deliver approximately \$100 million in cost savings in fiscal 2025, beginning with the third fiscal quarter, we'll have a payback period of less than two years.

Our updated full year outlook reflects first half results, trends that we're observing in the markets that we serve and the impact from the business rationalization initiatives that I previously announced.

The Medical-Surgical business is well-positioned with an unmatched breadth of products and depth of services across alternate sites of care led by an unparalleled customer focus. We remain confident in our ability to continue delivering long-term growth, as we support our customers' evolving needs with a diversified portfolio of products and solutions.

Finally, in the International segment, we anticipate revenues to increase 5% to 9% and operating profit to increase 16% to 20%. We're pleased with second quarter performance in our Canadian distribution business. We anticipate continued growth throughout the rest of fiscal 2025.

As I mentioned at the beginning of my remarks, we recently announced an agreement to sell our Canada-based Rexall and Well.ca businesses. This transaction is subject to customary regulatory approval. We anticipate this transaction will close in our fiscal fourth quarter. And based on this anticipated timing, our updated outlook assumes approximately \$0.15 of earnings accretion related to the held-for-sale accounting.

We also remain committed to exit and fully divest our European businesses. As a reminder, Norway remains the only operating country in Europe that we have not entered into an agreement to sell. Contributions related to operations in Norway are included in the fiscal 2025 outlook for the segment. We do intend to exit Norway as part of the completion of our European exit.

In the Corporate segment, we anticipate expenses to be in the range of \$510 million to \$560 million, which incorporates the impacts of \$15 million of pre-tax losses related to equity investments within the McKesson Ventures portfolio in the second quarter.

Now moving below the line. We anticipate interest expense to be approximately \$240 million to \$260 million, reflecting the impact from increased average balances of the company's loan portfolio and higher interest rates throughout the second quarter.

We anticipate income attributable to non-controlling interest to be in the range of \$180 million to \$190 million, reflecting the success of ClarusONE's generic sourcing operations. And we anticipate the full year effective tax rate will be in the range of approximately 17% to 19%. We also anticipate that the tax rate in the third quarter will be higher than the fourth quarter due to the timing of discrete tax items.

Turning to cash flow and capital deployment. We anticipate free cash flow of approximately \$4.8 billion to \$5.2 billion. Our working capital metrics and resulting free cash flow will vary from quarter-to-quarter and are impacted by timing, including the day of the week that marks the close of a quarter.

Our guidance assumes an increase to full year share repurchases. Based on our strong free cash flow and cash position, we've updated our guidance to repurchase approximately \$3.2 billion of shares in fiscal 2025 from our previous guidance of \$2.8 billion. As a result of this share repurchase activity, we estimate weighted average diluted shares outstanding to be in the range of approximately 127 million to 129 million.

Wrapping up fiscal 2025 guidance. We anticipate revenue growth of 15% to 17% and operating profit growth of 13% to 15% compared to the prior year. For fiscal 2025, we anticipate earnings per diluted share of \$32.40 to \$33, which represents growth of 18% to 20% as compared to fiscal 2024.

In closing, our second quarter results demonstrate outstanding execution against our strategic growth pillars. In addition to our strong operating performance, our acceleration and modernization initiatives are creating a more efficient organization, delivering meaningful differentiation. Our fiscal 2025 outlook combines continued operating momentum across the business in the second half of the year with a disciplined capital deployment approach. We remain focused on strategically investing in long-term opportunities that will increase returns and create shareholder value.

And with that, let's move to our Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question comes from Lisa Gill with JPMorgan.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Thanks very much and good afternoon. Thanks for all the details, Britt. I just want to go back to the key drivers of what's happening on the US Pharmaceutical side of the business. We saw some changes in Part D, especially around catastrophic, out-of-pocket cost for the senior population. We heard some of that from some managed care. So I'm just curious if you can maybe just talk to us about what specifically you're seeing that's driving that higher growth rate? And obviously, Part D doesn't impact Canada, but you see strong volumes there as well. So maybe if you can just give us a bigger picture as to what we're seeing as the key drivers of what's really driving the utilization trends right now.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Well, thank you for that question, Lisa. We've seen utilization trends over the last several quarters have been consistent and growing year-over-year. So we've not seen a significant change in the utilization rates or trends in this quarter that we've seen in the last few. In our US Pharmaceutical segment, first of all, we've added a new strategic partner. We're really pleased with that. We think that really is a reflection of all the services and capabilities that we have across the segment. We've continued to grow our specialty capabilities and certainly our sales of products to specialty providers, that's continued to grow nicely and that was part of my remarks in terms of the second quarter.

And we've continued to grow our oncology platform. You heard Brian talk about the addition of 118 providers year-to-date. That's a reflection of the value that we have across the oncology platform, and that's also adding to – really to flywheel effect to the growth that we're seeing in the segment.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question please?

Operator: And our next question comes from Kevin Caliendo with UBS.

Kevin Caliendo

Analyst, UBS Securities LLC

Q

Great. Thanks for taking my question. A lot of volatility in RxTS and the Medical segment. Has it gotten harder to model this? And obviously, there's been some variability. And I guess specifically on RxTS, you took down the guidance for the revenues, but not really for income. We understand there was cost-cutting done on Medical side. Was there anything that's impacting RxTS or like why was there no real impact to the EBIT line in that business?

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. Thanks for that question. So let me just start by reminding you that there are a lot of factors that drive quarter-to-quarter variability in this business. And I talked about some of those in my prepared remarks, were that, the utilization trends, timing trajectory of new product launches, product delays and supply shortages, and I'll come back to that here in a second.

We talked about payer requirements, including some of the utilization management requirements that they have that impact to our prior authorization programs as an example. So there's a lot of things that happen within this business that will create some of that quarter-to-quarter variability. We like to look at this business on an annual basis. I think when you look at it on an annual basis, we've had good consistent growth over the last several years.

In terms of the revenue, we have talked over the last couple of quarters about some impacts of program or product delays within our 3PL business. Not – those are more delays that are either regulatory in nature or customer-specific. And so that is the driver for the modest change we made to our revenue outlook. And as we've talked previously, well, 3PL is about 50% of the revenue within the segment. It drives less than 5% of the AOP for the segment. So with the change in revenue, again, being modest, it didn't have a very material impact on our AOP guidance for the full year.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And our next question comes from Daniel Grosslight with Citi.

Daniel Grosslight

Analyst, Citigroup Global Markets, Inc.

Q

Thanks for taking the question and congrats on another strong quarter here. I'd like to focus a little bit on the Med-Surg segment. Guidance does still imply a pretty significant step-up in adjusted operating profit. So I was hoping you could maybe walk us through or bridge us from 2Q to 3Q to 4Q, and how you expect to achieve that profitability? And if there's any change in how you're thinking about the long-term prospects of this business. Thanks.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah, I'll start with maybe the mechanical piece, and I'll let Brian talk about the longer-term view on the business. What we've seen in this business is slower volumes in primary care in the first half of the year. In our second quarter, the business actually performed a little bit better than we had anticipated. So I'd say there is modest improvement, and we saw some stronger foot traffic towards the end of the quarter than we had anticipated kind of mid-quarter.

As you think about the bridge for the first half to the second half, you could model about 20% growth first half over second half in terms of the year-over-year. And if you think about the initiatives that I talked about and savings that we anticipate in the second half of the year, it's about \$100 million in the second half of the year.

What we're not really anticipating or the business is not required to grow significantly outside of that. So if you take the \$100 million that I talked about, I think what you'll see is that our anticipation for the business outside of those initiatives is pretty flat year-over-year in the second half.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

And I would just say, longer term, as you think about the macro trends in healthcare, you think about the cost pressures, think about alternate site markets being low-cost settings of care or lower cost settings of care and being more accessible to people that need to consume. I think we've got a terrific footprint against those sort of secular long-term trends. And we've got leading breadth of product. We've got growing private brands. We've got a lab, a leading lab program, pharmaceutical, specialty pharmaceuticals.

So we think we're really well-positioned against long-term trends. We're not adjusting long-term targets intra-quarter. Those are long-term targets for a reason. I think if you look back five years across all our segments, you see we performed well over a long term against those targets, not necessarily quarter-to-quarter, but over a long-term horizon, we've been able to meet those commitments.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question, please.

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

Charles Rhyee

Analyst, TD Cowen

Q

Hi. Can you hear me? Hello?

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Yes.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yes. Yes.

Charles Rhyee

Analyst, TD Cowen

Q

Great. Thanks for taking the question. See, I wanted to talk about US Oncology a little bit and obviously, with the acquisition of Florida Cancer. I think in the past, you kind of noted that US Oncology sees over something like 15% of all cancer patients in the community setting. Can you give us an estimate of maybe what that market share might look like following the addition of FCS.

And then maybe if you could talk a little bit about sort what the decision-making that you go through when deciding either to acquire something like Florida Cancer or just going into agreement with maybe a group practice in other states? And then maybe lastly, your thoughts on looking into other specialties besides oncology. Thanks.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

I'll start that one. I mean, first off, we've been on this journey in community-based oncology for over 15 years. That was the original USON acquisition. So we've been after this and in this business for a very long time. And as we think about growing and expanding the market or our network, we think about, first and fundamentally, how do we bring accessible low-cost, high-quality care to these communities. And then how do we leverage best practices across the various network sites to continue to accelerate and enhance that quality care.

When we think about growing, we grow in a couple of ways. We'll assess a certain geography and the catchment area, assess payer dynamics, other market dynamics, demographics, obviously. And then we want to get an anchor site that we can then build off of. And so we'll, in some instances, recruit oncologists into our practice. In other instances, we may get a small practice and essentially merge or join it in. And sometimes, we entered long-term managed service agreements with these enterprises. So we have multiple ways that we can accomplish that growth. And really, we have to make that evaluation on a market-by-market, case-by-case basis. But we want to be as flexible and open to be as attractive to – continue to attract doctors to our network as we can be.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Okay. Next question please.

Operator: And we'll move to our next question from Brian Tanquilut with Jefferies.

Brian Tanquilut

Analyst, Jefferies LLC

Q

Hey. Good afternoon guys and congrats. Maybe, Britt, as I think about biosimilars as a whole, obviously, that was an impact to this year with the guidance change last quarter. So as we look down two to three years, are there any notable biosimilars that we should be thinking about? Or maybe how are you thinking about the dynamics with upcoming biosimilar releases?

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. Thanks for the question. I think there's really two components to the question that you asked. In terms of the revenue impact to the segment, we certainly saw a biosimilar introduction into the retail segment and we are continuing to service the innovator product, but the biosimilar that it was switched to is not part of our distribution.

As we think about biosimilars, just generally speaking, we think that, first of all, they provide more clinical choice. And second of all, we believe that they offer better value to patients.

And for a wholesale distributor like McKesson, where we can provide capabilities and services for our customers using the platforms that we have in place, they'll generally offer better margins for us. In areas like oncology or other specialty provider areas where we have more assets to bring to the table, we'll be able to provide more services and provide more value. Generally speaking, that will be better margins than the branded or the specialty drug.

So we think there's still a good opportunity, particularly in Part B – in the Part B section. And as biosimilars continue to develop and are introduced, that will be an opportunity for McKesson to utilize its capabilities and value proposition to drive biosimilar introduction.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question please.

Operator: And our next question comes from Elizabeth Anderson with Evercore ISI.

Elizabeth Anderson

Analyst, Evercore ISI

Q

Hi, guys. Thank you so much for the question. Maybe just one clarification question and one sort of conceptual question. As we think about the long-term guide, thank you for talking about the EPS growth. Can you just confirm that sort of the operating income growth component and contribution to that is also unchanged? Or if there are any differences, how you would think about that? And then secondly, maybe if you could talk about Florida Cancer Center. Obviously, you acquired the MSO portion of the business. Are there sort of capabilities out of that, that you can – as you've sort of started to look at that asset a little bit more like that you think you can sort of expand across other parts of USO? And if you could talk about those, those would be helpful? Thank you.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Let me start and I'll handle the mechanical piece of this. We have not made any adjustments to our long-term target rates. In terms of the consolidated adjusted operating profit target is still 6% to 8%.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

So at that, yes. And I'll just remind everybody, we're still working through closing conditions, including customary regulatory processes. So let me not talk just maybe specifically about them, but generally how we would think about this. And this is true any time we add a practice into the network. I mean we have specific criteria for what is an attractive new oncologists, new practice or a new addition to The US Oncology Network.

And our hope in all of those cases is that we can share best practice, we can learn from each other, we can expand, find new programs, services that they may have established in their communities that we can then leverage across the rest of the network. So we always want to come into this with the idea that we're a learning organization, and we're open to finding ways that both we can improve the practice that is joining USON, but they can help improve the other USON practices as well. And so that's very much a part of every thesis that we pursue.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

Next question please.

A

Operator: And our next question comes from Eric Percher with Nephron Research.

Eric Percher

Analyst, Nephron Research LLC

Thank you. A question on inventory and cash flow and there was some questioning of whether there was inventory build of GLP-1s in the prior quarter and then less of them in the current. It sounds like the overall growth and what we're seeing in the top line was very significant. Can you just speak to what level of visibility pharma has based on your distribution agreements and whether you have any ability to build in the quarter or whether there are fluctuations there?

Q

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

Yeah. Look, we manage our working capital based on customer demand, based on market needs. And our role in this is to be as efficient as possible, but make sure the product is there. And so the demand for GLP-1s has varied from quarter-to-quarter for a variety of reasons, and customer demand has continued to be strong. So we've just continued to try to meet the demand as it comes in and have the appropriate level of supply and have the product at the right place at the right time. And it's probably the best way that I can answer this and utilizing the efficient working capital systems and programs that we have in place.

A

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

Next question please.

A

Operator: And our next question comes from Stephanie Davis with Barclays. Miss Davis, please make sure your mute function is turned off, so we can hear you.

Stephanie July Davis

Analyst, Barclays Capital

Thank you. I apologize, but thank you for taking my questions. Congrats on the quarter. I was hoping we could dig a little deeper in the new InspiroGene business. How can you use leverage in this platform to maybe forward on your clinical trial solutions. And how are you thinking about this platform as it relates to the investments made by Florida Cancer Specialists, given you're integrating them into the broader platform?

Q

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Stephanie, I missed the first part of your question. You said about – what business are you asking about?

A

Stephanie July Davis

Analyst, Barclays Capital

InspiroGene.

Q

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Oh InspiroGene.

A

Stephanie July Davis

Analyst, Barclays Capital

So the cell and gene therapy.

Q

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

I'm sorry, I missed that. Yeah, yeah.

A

Stephanie July Davis

Analyst, Barclays Capital

No worries. I'm traveling. So, it's noisy in the background.

Q

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Yes. Okay. I've got it now. I just missed that first part. So, we're really excited about InspiroGene. We've been working on this kind of quietly internally for a couple of years, bringing together the capabilities we have across the organization, some long-established like 3PL, others some of the patient support and hub like services that we offer.

A

As you think about these cell and gene therapies, they're going to be very expensive, very complex supply chain and logistics and very complicated patient support and information services are going to have to go around it.

So, we thought we reached a point in the program. We're bringing these together into a single entity to focus on these highly specialized drugs with these highly specialized manufacturers is an important thing to do.

Now, we do believe over time, we will continue to find capabilities across the company as these markets mature and as the needs become more known to find ways to support the cell and gene therapies even earlier in their life cycle.

And clearly, a large portion of the pipeline in cell and gene is oncology related. So we think our assets in oncology, whether that's USON, iKnowMed, SCRI or other will become relevant.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

Next question, please.

A

Operator: And our next question comes from Stephen Baxter with Wells Fargo.

Stephen Baxter

Analyst, Wells Fargo Securities LLC

Q

Hi, thanks. I was hoping that you could remind us the product mix for the Medical business, what percentage is sourced versus what percentage is McKesson brand? And then how much of the brand product you manufacture yourself versus contract manufacturer?

And I guess just big picture, like how should we think about the key areas of product differentiation and customer preference to keep this becoming – to keep the business becoming less focused on price than we might otherwise expect over time? Thanks.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

So, first off, we do not own any manufacturing capability. So, we will contract for the product, essentially source the product under our own label. And we have been spending time over the past years with some intentionality of continuing to expand our private label, but also evolving our programs that can support our national brands.

I mean, we want our customers to have choice. We want them – if they have a preference for the national brand product that should be available, but we want to have strong value proposition around our private brand for those that are more focused on the value, the quality and the relative price point that that offering can bring.

So, I don't believe we disclose how big our private brand for our various competitive reasons are. But it's growing. It's been continuously growing, and we continue to invest in the growth and expansion of that.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And our next question comes from George Hill with Deutsche Bank.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Hey, good evening, guys and thanks for taking the question. Brian or Britt, I actually have a question about Sarah Cannon and I'm wondering if you guys can talk about what percent of practices or oncologists are now leveraging the Sarah Cannon relationship versus, call it, a year ago or six months ago? And I don't know if you're willing to provide any like – what is the right way to think about how accretive that relationship is to the practice by increasing the number of oncologists and patients that can participate in clinical trials?

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

The number of USON clinicians that are participating in clinical trials is growing, and that is the result of a very intentional effort on our part post the announcement of the joint venture to think about how we created the right structures, the right models to take up that participation. That was a big thesis of the joint venture was a tighter alignment with USON and SCRI could increase uptake. And that has the dual benefit of being good for us, but it's actually good for patient care in the communities. I mean, as we expand our number of practices, there's more convenient care, more convenient appropriate cutting-edge care that can be provided, more locally to more people to make sure that they're getting patient outcomes. So that's a number, and we continue to expect to expand and grow over the coming years.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. And just maybe to put an estimate around that. We've seen approximately an increase in the number of accruals of about 20% since we started the joint venture. So to Brian's point, we're really pleased with that.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question, please.

Operator: And our next question comes from Allen Lutz with Bank of America.

Allen Lutz

Analyst, BofA Securities, Inc.

Q

Good afternoon. Thanks for taking the question. Britt, one for you. On ClarusONE, you mentioned some strength in the quarter. That business growing organically. Obviously, you're adding a large client there. Trying to think through how to think about the contracts for generics, you have some new volume flowing through, how should we think about the timing benefits of you buying better and how to think about the benefit on the P&L versus working capital? Thanks.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. Thanks for the question. So clearly, adding a new strategic partner is going to bring some additional volume to the joint venture. But we really do a lot of different things in terms of partnering with our 200-plus partners on ClarusONE. There's certainly an aspect of looking at cost, and that's part of what we do for our customers to provide the best cost possible. But we're also working with our member partners in terms of making sure that we have the right supply. And so we'll do things to work with our partners to do long-term awards and other types of arrangements that are getting a little more stability in terms of products.

So I think there's a number of different things. It's certainly evolved over time. It's providing really good benefits in terms of best cost to our customers. But increasingly looking at supply and service levels has become just as important. It's important for us to make sure that when patient's shows up at pharmacy counter that the product is there. And so we're really focused on working with our partners to make sure that we have adequate and right supply as well.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

Next question please.

Operator: And our next question comes from Erin Wright from Morgan Stanley.

Erin Wilson Wright

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. A question on Med-Surg quickly. Just similar to last quarter, you did note that, that normalization and utilization across that primary care segment, but excluding the \$100 million in savings in the second half, it's still subdued growth in the second half, I guess, can you speak to a little bit more about the nature of this lower

utilization? Is it just respiratory? Would there be some seasonal components to think about there? And then just how we think about the quarterly progression. And can you just remind us to those cost savings initiatives where you are with that in terms of nature of those and how that flows through as well in terms of what's completed and what's to come? Thanks.

Britt J. Vitalone

Chief Financial Officer & Executive Vice President, McKesson Corp.

A

Yeah. Thanks for the questions. A lot to unpack there, let me maybe just start on in terms of the initiatives, those initiatives started in the third quarter. So they're really just underway now. We have confidence that we can generate about \$100 million of savings in the back half of the year.

In terms of the cadence, I would say, probably more towards the back half of the year in the fourth quarter more than the third quarter since we're just getting underway with this. We are looking at illness season, it's similar to what we've seen in prior years. Each illness season is pretty unique. Last year, was a little bit of a softer illness season than the prior year. So we'll see how the severity of the illness season plays out, but we're not anticipating anything significantly more than we've seen over the last few years.

So, we believe that the business is in a really good spot. As Brian has talked about, we have a wide range of services and capabilities across all the alternate sites of care and we were encouraged by the back half of the second quarter being a little bit stronger than we had anticipated. But as we go to the back half of the year, we're anticipating the trends will look very much like they did in the first half of the year.

Rachel Rodriguez

Vice President of Investor Relations, McKesson Corp.

A

We've time for one more question, please.

Operator: And our last question is from Michael Cherny with Leerink Partners.

Michael Cherny

Analyst, Leerink Partners LLC

Q

Afternoon. Thanks for taking the question. Maybe if I can just go back to RxTS and the ramp dynamics. I fully understand that this can have quarterly fluctuations. But as you think about the ramp into the end of the year as part of the reiterated guidance on the adjusted operating profit side, where do you feel like you have the most control versus some of the market dynamics, customer dynamics that are out of your control as you think through the level of visibility you have and the build there. Obviously, a business has grown fairly robustly. The prior authorization work leading the way. But curious as you sit here today, how you risk weight some of the metrics that goes into the build for the guidance.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

A

Thank you. So I'd say a couple of things. I mean one is some of our visibility into the programs that we've got under contract and growth trajectories that we see from those evaluation of our sales pipeline. I would remind you that in our second half of the year, we'll go through our blizzard season. So that's a typical seasonal pickup for that business. And we expect this year to be largely in line with last year. So that's going to help drive some of that back-end growth.

Britt spoke to some of the volatility in the revenue with 3PL, which really isn't going to have a material impact on the AOP. But I would say, just given the progression we've seen in the business at this point year and what we see in our reviews of the business, we've got confidence in the second half.

Brian Scott Tyler

Chief Executive Officer & Director, McKesson Corp.

Okay. Well, with that, let me thank everybody for joining the call. I appreciate the always great questions. Lisa, thank you for facilitating the call. McKesson reported good results in our fiscal second quarter, the improved fiscal 2025 guidance reflects our confidence in the strength of the underlying business, it reflects our commitment to our company priorities and strategy, I would be remiss if I didn't thank the 50,000-plus employees across the company for their consistent execution for their dedication to our customers, their passion, their conviction and the urgency with which they move. Together, we're improving healthcare in every setting, one product, one partner, one patient at a time. Thanks, again, everybody. I know there was a lot of distracting news flow today. We appreciate you joining us. Have a terrific evening.

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

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