The Henry Fund
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McKesson Corporation (MCK)

November 10, 2023

Healthcare – Medical Distribution & Supplies

Stock Rating **BUY**

Investment Thesis

Henry Fund recommends a BUY rating for McKesson Corporation with a target price range of $450 - $512, which represents an upside of as much as 15% to the most recent closing price.

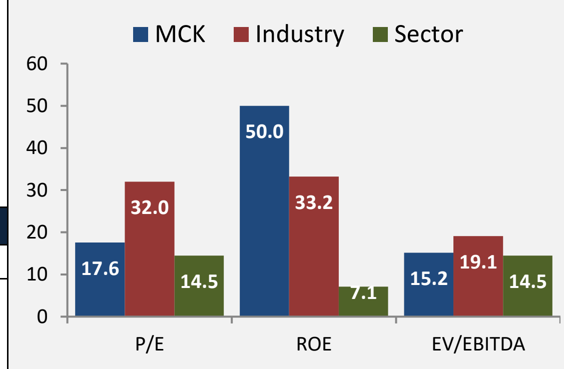
Drivers of Thesis

- The healthcare industry is seeing an increase in utilization trends, and as a medical distributor, MCK is able to capture the demand driven by strong prescription utilization volumes through its Prescription Technology Solutions as well as the increased demand for medical supplies in the U.S. Pharmaceutical segment.
- MCK is prioritizing the investment in its oncology business and the platform is seeing stable utilization growth, making more providers request for technology solutions that could improve accuracy and efficiency.
- MCK is a matured business with U.S. Pharmaceutical being the segment that generates over $240 billion in revenue; however, the matured business is expected to grow at 13.5% YOY in FY 2024 and at a CAGR of 6.5% over the next decade.

Risks to Thesis

- As a distributor that uses a LIFO inventory method, if the industry is seeing any deflation or if the government's Inflation Reduction Act implements a huge price reduction in prescription drug prices, MCK would record higher LIFO charges and hurt gross profit.
- MCK operates in a low margin industry; therefore, it has to manage its cost of sales efficiently – the sensitivity table in the record shows that a slight increase of 0.05% in cost of sale would lower the target price by 4%.

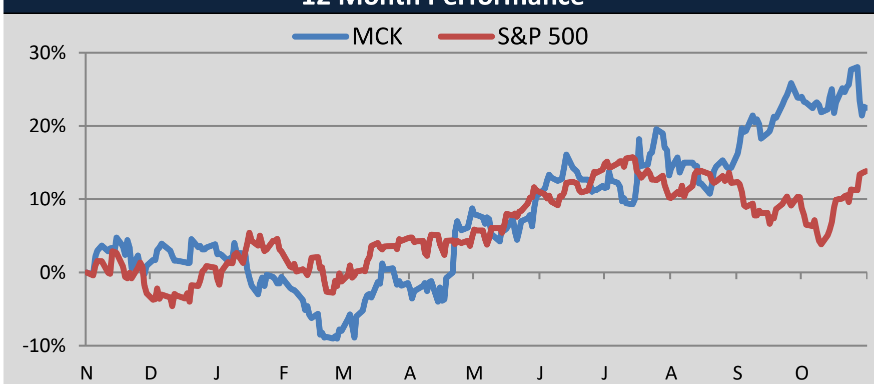
Target Price	$450 - $512
Henry Fund DCF	$575
Henry Fund DDM	$450
Relative Multiple	$450 - $540
Price Data	
Current Price	$450
52wk Range	$331 - $473
Consensus 1yr Target	$498
Key Statistics	
Market Cap (B)	$59.91
Shares Outstanding (M)	141.1
Institutional Ownership	84.67%
Beta	0.56
Dividend Yield	0.55%
Est. 5yr Growth	6.7%
Price/Earnings (TTM)	17.4
Price/Earnings (FY1)	16.8
Price/Sales (TTM)	0.16%
Profitability	
Operating Margin	1.58%
Profit Margin	4.47%
Return on Assets (TTM)	5.71%
Return on Equity (TTM)	191.7%



Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	-$28.26	$7.32	$25.23	$25.50	$00.00	$00.00
HF est.				$25.50	$26.47	$27.87
Growth		*486%*	*245%*	*1.1%*	*3.8%*	*5.3%*

12 Month Performance

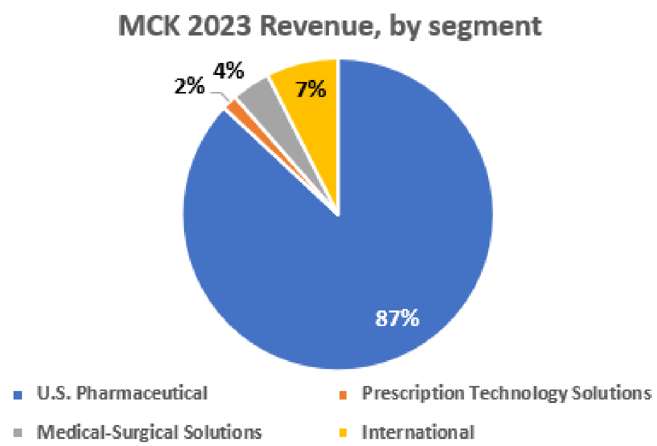


Company Description

McKesson Corporation (MCK) engages in supply chain solutions for the healthcare industry as well as managing the distribution and logistics for retail pharmacies, healthcare facilities, hospital systems and health insurers. The Company operates in four segments and has most of its business in the United States and Canada after announcing the exit of its European business. MCK is also the market leader in the medical distribution and supplies industry.

COMPANY DESCRIPTION

McKesson Corporation engages in the provision of supply chain solutions, retail pharmacy, community oncology and specialty care and healthcare information technology. [2] It reports in 4 segments: U.S. Pharmaceutical, Prescription Technology Solution, Medical-Surgical Solution and International. [10]



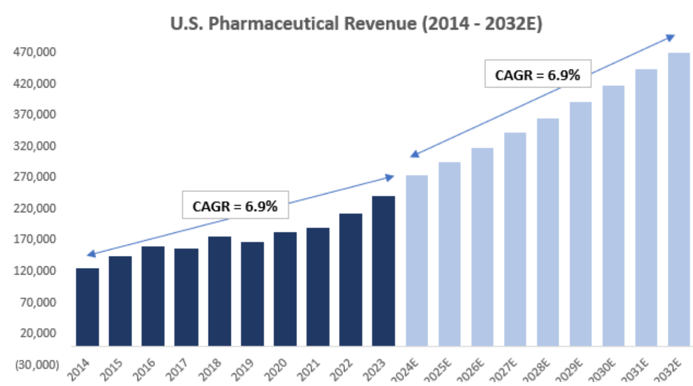
Sources: MCK's 10-K

U.S. Pharmaceutical

The U.S. Pharmaceutical segment provides distribution and logistics services for branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs along with other healthcare-related products to customers.[10] The segment operates through 29 distribution centers in the U.S., including two strategic redistribution centers. The Company continues to invest in technology to maximize distribution efficiency and effectiveness.

The segment is further split into four primary customer pharmaceutical distribution centers, and each offers different types of solutions based on customers' needs. [10] The retail national accounts focus on providing solutions that help to improve revenues and profitability. The community pharmacies and health category focuses on strengthening the overall health of communities with packages and programs that help maximize cost savings and provide comprehensive care. For institutional healthcare providers, MCK provides solutions to help them achieve operational efficiency, reduce waste, and improve financial performance. Lastly, for the oncology, biopharma and other specialty partners, it has an extensive set of customizable solutions and services designed to strengthen core practice operations, enhance value-based care delivery, and expand their service offerings to patients.

As of fiscal year 2023, the segment contributed to a total of 87% of the company's revenue, indicating that most of the business is within the U.S. itself. Historically, the segment has been growing at a steady rate and has a CAGR of 6.9% in the past decade. Moving on, Henry Fund estimates that the segment will continue to experience a high growth rate in the next fiscal year due to high demand in the industry and eventually grow at a lower but steady growth rate of 6%; bringing the CAGR to 6.9% for the next decade. The pharmaceutical distribution and logistics services are not likely to see any slowdown in demand; instead, it is expected to cost more to the U.S. economy especially when we are seeing a high healthcare inflation environment.



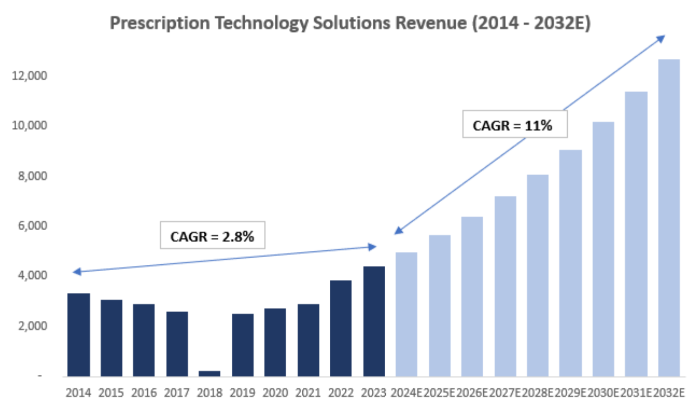
Sources: MCK's 10-K, Henry Fund

While the segment has a high revenue stream, it has a low operating profit of 1.48% on average; in the past two years, the segment has even experienced a reduction in operating profit margin. Thus, making MCK not a company with a high net income.

Prescription Technology Solution

The Prescription Technology Solution (RxTS) works across healthcare to connect patients, pharmacies, pharmacy benefit managers, health plans and biopharma companies. Through the broad connections and ability to navigate across the healthcare ecosystem, RxTS offers innovative solutions and comprehensive suites for the entire patient journey, including medication access and affordability, prescription decision support, price transparency, benefit insights, and other third-party logistics and wholesale distribution support.[2] During fiscal year 2023, the Company prevented an estimated 9.9 million prescriptions from being abandoned and helped patients save more than $8 million on brand and specialty medications.

As of the last fiscal year, the RxTS segment contributed to around 1.5% of the total revenue. At the same time, the segment historically experienced a more dramatic revenue stream due to restructuring among the segment in 2018 and the demand for the solution has been growing ever since. While 11% seems to be a higher CAGR for the next decade, Henry Fund believes that it is an achievable target for the segment due to the increased adoption of prescription automation technology that the Company offers – customers will not stop using the services after it is implemented and MCK's technology is widely integrated across electronic health record systems, pharmacies, health providers, PBM and health plans; making them one of the best-positioned suppliers in the industry.

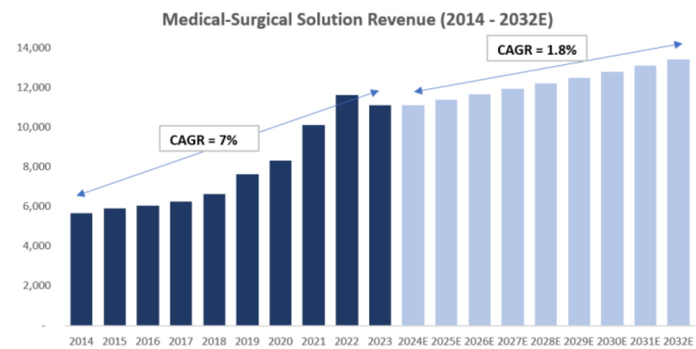


Sources: MCK's 10-K, Henry Fund

Medical-Surgical Solution

The Medical-Surgical Solution segment delivers medical supply distribution, logistics, biomedical maintenance, and other services to healthcare providers. [2] The customers include physician offices, surgery centers, post-acute care facilities, hospital reference labs, and home health agencies. The segment distributes medical supplies like gloves, needles, syringes, and wound care products, laboratory equipment and pharmaceutical products. [10] MCK also signed a contract with the U.S. Department of Health and Human Services and Pfizer to administer COVID-19 vaccines as well as sourcing the supplies to manufacture the vaccines.

The segment contributed 4% to the revenue in the last fiscal year and because of COVID-19, the segment had a much higher growth rate in the past three years, bringing the CAGR up to 7% in the past decade. Therefore, the Henry Fund is estimating that the segment will remain flat for the next fiscal year and resume its low and steady growth rate, giving us a CAGR of 1.8% for the next decade.



Sources: MCK's 10-K, Henry Fund

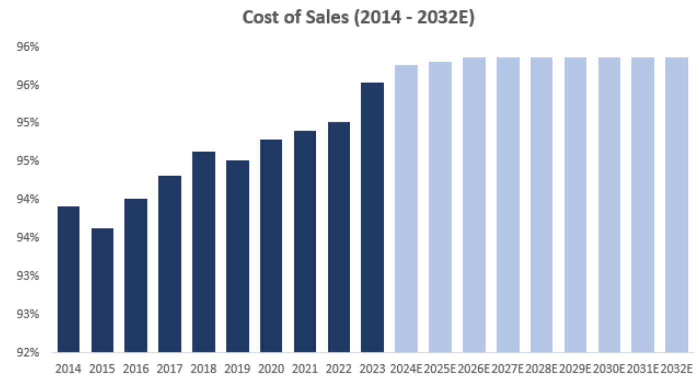
International

The International segment provides distribution and services to wholesale, institutional, and retail customers in Europe and Canada with partnering and franchising retail pharmacies. [10] Back in July 2021, MCK announced that it is planning to exit the business in Europe; in the next two years, MCK was actively trying to divesture its European business.[9] As of Q2 2024, MCK is almost completely out of the business, with the last few sales remaining in Norway. MCK Canada is one of the largest pharmaceutical wholesale and retail distributors in Canada and provides logistics and technology solutions that could be found in the U.S. Pharmaceutical segment. As of the last fiscal year, the segment contributed 7% of the company's revenue; according to the management outlook, the segment is estimated to lose another 35% of the revenue in the next fiscal year. After the divestiture of the European business that is expected to be completed next year, the segment is projected to grow at 3% in the following years.

Sources: MCK's 10-K, Henry Fund

Cost Structure Analysis

MCK only reports a line of cost of sales for all of its services and products. For a distributor, MCK mentioned that they are using a LIFO valuation method for its inventories, which assumes the most recent inventory purchased will be the first items to be sold.[10] The Company includes any LIFO charges or credits in the cost of sales, depending on if the net effect of the price increases or decreases during the distribution period.[10] The Company has been seeing an increase in the cost of sales over the past few years which was primarily caused by higher brand inflation and significantly higher off-patient launch activity in recent years. According to the reported cost of sales for the first two quarters, the rate is estimated to be high for the next fiscal year and the Henry Fund projects the 2024 rate to be 95.76% and stop growing at 95.9% by 2026 since that will bring the gross profit down to only 4.1% and we expect the Company to have incentives to manage the cost of sales by then. The cost of sales plays an important role in the valuation model since a slight change in projection would change the target price significantly; the current rates are decided to be the best estimation for the next decade.



Sources: MCK's 10-K, Henry Fund

The Company also reports the selling, distribution, general and administrative expenses but it has a much lower rate and does not affect the valuation model as much.

Customer Concentration

As the Company provides the distribution and logistics to the retail national partners, it is no surprise that there is a large customer concentration in the bigger players in the industry. During fiscal year 2023, the sales to MCK's ten largest customers accounted for as much as 68% of the total revenue and 42% of the trade accounts receivable. [10] CVS Health is MCK's largest customer, and it accounted for approximately 27% of the revenue in 2023. While having a larger percentage of revenue coming from one customer is not the best-diversified portfolio, MCK announced that it had extended the pharmaceutical distribution partnership with CVS to at least June 2027, making the Company not having any major risk of losing its largest customer in the next following years. [10]

Rite Aid

At the same time, Rite Aid, who filed for its Chapter 11 bankruptcy on October 2023 is also one of MCK's retail customers. The announcement from the company caused the Company to recognize a provision for bad debts of $210 million in Q2 2023 and the Company is anticipating to see another provision for bad debt of $511 million in Q3 2024 for trade accounts receivables. [10] The loss will be recorded as SGD&A expenses. With the recorded losses, MCK management mentioned that they do not see Rite Aid's bankruptcy to have any material impact on the Company's financials for fiscal year 2024.

Debt Maturity Analysis

As of the most recent fiscal year-end, MCK has $5.6 billion worth of U.S. dollar and foreign currency-denominated borrowings. MCK has a history of completing a public offering of notes and retiring them at an earlier date. For example, earlier this year, MCK offered a note due in 2026 but also announced the plan to redeem the note on or after February 2024. Therefore, Henry Fund thinks that the Company will continue retiring debt offerings at an earlier date with the cash balances that the company has.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment ($mil)
2024	3.80	$918
2025	0.90	500
2026	3.25	997
2027	7.65	150
2028	3.95	343
Thereafter	5.00	$1,718
Total		$5,594

Sources: MCK's 10-K

ESG Analysis

Overall, MCK has a low risk for ESG risk but due to its larger scale of operation as compared to its peers, it has one of the highest risk ratings. As a healthcare company, MCK spends a great effort in addressing ESG and splits this into four main categories according to the goals. (impact report)

	ESG Risk Rating	Ranking (out of 620)
MCK	15.2	33
CAH	14.9	28
COR	12.8	10
HSIC	14	17
HLN	16.4	44

Sources: Sustainalytics

Our People

This session discusses the care for employee well-being and making sure they find their sense of belonging, feel appreciated by the Company, and are proud of their work. To improve the overall quality of life of the people, MCK invested in social determinants of health for the employees, including providing education sessions for one's nutrition intake, financial wellness, and mental wellness while filling other health gaps.

Our Partners

MCK is strategically investing in its growth pillars of oncology and biopharmaceutical services and partnering with the government and other healthcare companies to speed up the process of finding solutions. These efforts include partnering with the government during the pandemic and joining the U.S. Oncology Network to provide access to new resources so that we can eliminate barriers to treatments.

Our Community

Oncology is the primary focus of MCK and it is also actively partnering with the American Cancer Society, Leukemia and Lymphoma Society as well as other health societies to support the cure of the diseases. MCK utilized the funds in the foundation to invest in advancing health outcomes for vulnerable and underserved communities. The funds were used in activities like providing scholarships to a diverse talent pipeline and matching employee's gift contributions to society.

Our Planet

Lastly, MCK is also trying to reduce its greenhouse gas emissions and increase procurement of renewable energy as a response to climate change. As a medical distributor, it is taking the approach to minimize fuel consumption, reduce carbon emissions, and develop sustainable packaging to improve operations efficiencies and reduce waste productions.

RECENT DEVELOPMENTS

Recent Earnings Announcement

On November 1, 2023, MCK reported the second quarter of fiscal year 2024. The reported revenue increased 10% year-over-year and the adjusted earnings per share were $6.23, beating the market consensus by 2%. The Company previously posted a target price range for the full year was $26.55 - $27.35 but due to the higher-than-expected momentum in the first two quarters, MCK updated the guidance range to $26.80 - $27.40.

MCK has a priority of expanding the oncology and biopharma platforms and announced the launching of iKnowMed, a new electronic health record system that is designed for close collaboration among the oncologists, US oncology network and Ontada, its data and insights business. Recently, the FDA awarded Ontada a contract to advance the use of real-world data in the community oncology setting, which is expected to further improve the results of care and clinical research.

Prescription Technology Solution is the segment that showed a significant growth performance, mainly driven by growth in access solutions. The Company is seeing an effect of increased volumes in prior authorization for GLP-1 medications. Currently, patients are required to obtain approval from their health plan to be eligible for the drugs, and if providers are seeing more manual requests for the drug, MCK is positive that more providers will invest in automated technology solutions and integrate them with their workflow system to improve efficiency. MCK also mentioned that the industry is seeing a stable and strong utilization trend in medical procedures and prescription volume. While high utilization trends are a headwind for health insurance companies, it is a growth opportunity for MCK since it offers services that support the providers to perform those procedures and programs.

Overall, the guidance and outlook provided by MCK is very positive for the remainder of the fiscal year as they are expecting both the U.S. Pharmaceutical and Prescription Technology Solution segments to have a double-digit improvement in operating profit for 2024. The medical-surgical segment is likely to show a flat revenue but if we exclude the COVID-19 impact the segment is expected to see at least a 5% improvement in operating profit. Lastly, the Company is still actively trying to complete the full divestiture of its European business; therefore, operating loss will be expected from the segment.

COVID-19 Impact

In August 2020, MCK announced that it had been selected by the Centers for Disease Control and Prevention (CDC) and will be operating as the centralized distributor for COVID-19 vaccines and any related ancillary supply kits to the government.[9] Under the centralized model, the U.S. government would direct MCK on all aspects of distributions, including where and when to ship vaccines and supply kits to different sites across the country. By the end of fiscal year 2023, MCK has distributed over 480 million COVID-19 vaccine doses, and as much as $216 million of segment operating profit was contributed by distributing COVID-19 test kits, and the distribution of ancillary supplies for COVID-19 vaccines.

The partnership between CDC and MCK ended in July 2023, and MCK has converted the distribution of all COVID-19-related items to its commercial channels and saw over 8 million sales in the first two quarters of the next fiscal year. Since the Company has materially benefited from the pandemic, the end of the public health emergency is keeping the medical-surgical solution's revenue to remain flat for the next fiscal year but MCK has a well-diversified enough portfolio to manage the growth rate expected from the shareholders.

In the most recent earnings call, MCK mentioned that the impact of COVID-19 related items will be immaterial to fiscal year 2024 as compared to 2023.

Surging Demand for GLP-1 Receptor Agonist

In the most recent earnings call, MCK management mentioned the surging demand for GLP-1 receptor agonist weight loss drugs like Ozempic and Wegovy and expects the demand to positively affect the segment's growth. Since the demand for the medications is high and is believed to remain elevated for at least the next two years, the industry will see an increase in prescription volumes, creating a higher volume from the retail national account customers and a higher demand for Access Solution. MCK's technology could approve more than 40% of the prior authorization instantly and approximately 65% of the request will be approved within the next hour.

MCK anticipates GLP-1 medication will continue being a revenue tailwind for U.S. Pharmaceutical segment as demand and distributions are expected to grow. According to a report from Trilliant Health, it showed that healthcare providers wrote over nine million prescriptions for weight-loss drugs in Q4 2022 itself, which represents more than a 300% increase in prescriptions over the past 2 years. (CNBC) JP Morgan projected that Novo Nordisk, one of the biggest manufacturers for the medications increased the drug's CAGR to 22% over the next three years and expects the global market for weight-loss drugs to reach $71 billion by 2032.[14] While the full benefits and side effects of weight-loss drugs are still yet to be discovered, there is no doubt that the demand of the weight-loss drugs is higher than supply so the future sales of the medications will be depended on manufacturers' capability. This serves as a positive driver for MCK since it operates as the supplier for the pharmaceutical company.

MARKETS AND COMPETITION

McKesson operates in the medical distribution services in the healthcare sector and the core business includes the distribution, logistics and supply chain management to manufacturers of drugs and medical-surgical products, as well as to end-user outlets including retail pharmacies, hospitals, and medical facilities.[3] According to Precedence Research, the global medical distribution market size is expected to reach $1,137 billion in 2023 and with the rapid adoption of technologies and developments to expand better facilities and improve efficiencies, the market size is anticipated to grow at a CAGR as high as 15% from 2023 – 2032, reaching at a $4.3 billion valuation in 2032. [15]

The industry will continue to see stable growth primarily because more populations are diagnosed with chronic disorders, resulting in more prescriptions and treatments for a healthier body. The World Preview projected that the total global worldwide prescription drug sales will grow at a CAGR of 6% because baby boomers are aging and they tend to have more healthcare needs. [3]

MCK is one the largest medical distributors in the industry, and according to CSI market's estimation, MCK captures over 40% of the market share for the industry with its improved revenue. The market share distribution is closely followed by its competitors with COR at approximately 30% and CAH at 25% of the market share.[6] With these, we can conclude that the medical distribution industry has a very high barrier of entry since the top three companies contributed more than 90% of the market share, the little competitions also made the industry price competitive.

The medical distribution industry typically has a low gross margin and MCK is one of the best-positioned companies with a gross margin of 4%. Referring to the table below, HSIC has a much higher gross margin of 29% and that is because it has a lower market share in the industry and supply to more portion of their products to office-based practitioners, who normally purchase at lower volumes and higher price due to economic of scale. [13]

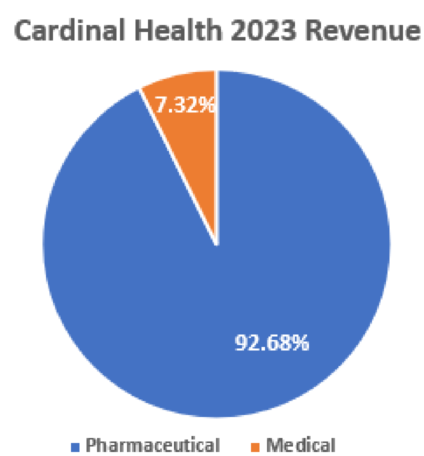
	Market Capitalization	EPS NTM	P/E 23	Gross Margin (%)
MCK	60,289	25.52	17.40	4.00
CAH	25,559	7.09	14.13	3.30
COR	39,424	13.01	15.00	3.00
HSIC	8,966	5.60	11.14	29.10
HLN	37,637	0.46	17.54	N/A

Sources: Companies' 10-K

Peer Comparisons

Cardinal Health (CAH)

Cardinal Health is a healthcare services and products company that provides customized solutions for hospitals, healthcare systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices. Besides, it also provides medical products and pharmaceuticals while enhancing supply chain efficiency. CAH operates in two segments, the Pharmaceutical segment distributes branded and generic, specialty pharmaceutical, and over-the-counter healthcare and consumer products. The Medical segment manufactures, sources and distributes its branded medical, surgical, and laboratory products.

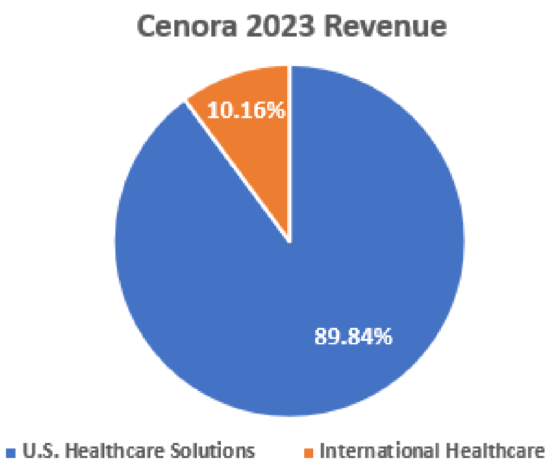


Sources: CAH's 10-K

CAH has a lower P/E ratio as compared to MCK and a lower gross margin. It reported its first quarter of fiscal year 2024 and it saw an EPS of $1.73, representing a 23% surprise to the consensus and bringing the stock price up by more than 7% in a day. The Company provides an EPS guidance of $6.75 - $7.00 for the next fiscal year.

Cenora (COR)

Cenora, formerly known as AmerisourceBergen, offers pharmaceutical products and business solutions that improve access to care. COR operates in two segments: U.S. Healthcare Solutions distributes the offering of brand-name, specialty brand-name and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment and related services to healthcare providers. Additionally, the segment also provides a full suite of integrated manufacturer services that ranges from clinical trial support and pharmacy management, making them one of McKesson's competitors. It also has an International Healthcare Solutions segment that focuses on global commercialization services and animal health, including its consulting services and global businesses.



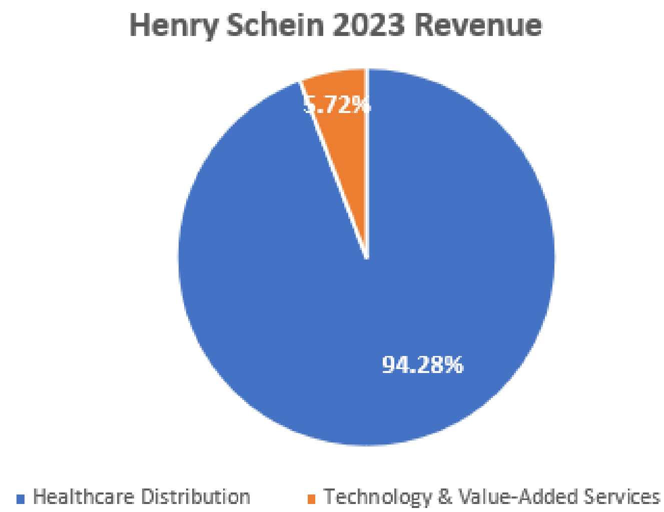
Sources: COR's 10-K, Henry Fund

The Company reported an EPS of $11.99 for the most recent fiscal year, beating the revenue by over 4%. The earnings call also provided an EPS outlook of $12.70 - $13.00 for fiscal year 2024.

Henry Schein, Inc (HSIC)

Henry Schein is another distributor that offers healthcare products and services to medical, dental and veterin

ary office-based practitioners. HSIC operates in two segments, the Healthcare Distribution segment which includes the distribution of consumable products laboratory, small and larger equipment repair services, branded and generic drugs, vaccines, surgical, diagnostic tests, infection-control products and vitamin. The Technology and Value-Added Services offers financials, network and hardware services.



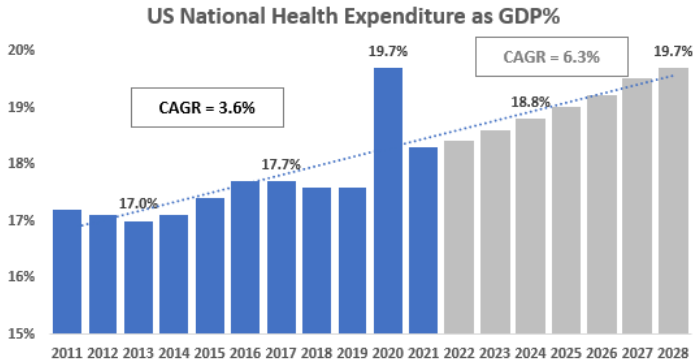
Sources: HSIC's 10-K

The Company reported its Q3 2023 result and beat the EPS estimated slightly while missing the revenue forecast by 1.5%. Due to operational headwinds from an interruption impact of a cybersecurity incident, the management also adjusted its EPS guidance downwards from $5.20 - $5.40 to $4.40 - $4.70; the incident is expected to cost the company $0.55 - $0.75 per share.

ECONOMIC OUTLOOK

National Health Care Expenditure (NHE)

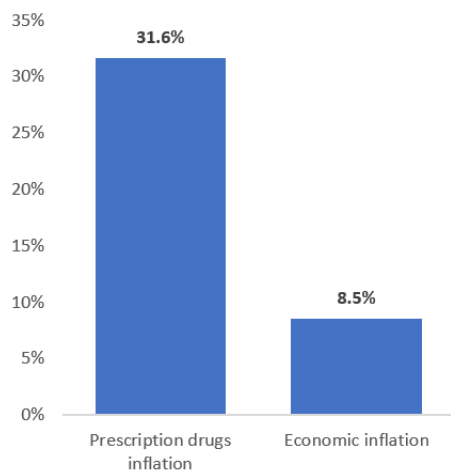
In 2022, up to $4.3 trillion was spent on healthcare expenditures by the U.S. government. The NHE has been growing at a CAGR of 3.6% in the past decade and economists project that it will grow at an even greater rate of 6.3% in the next five years, indicating that spending will not slow down but rather, demand will increase at an even faster rate. the NHE will be growing at a higher than the expected average U.S. GDP rate of 2% and further increasing the government balance sheet deficit. The economic indicator should be monitored because it shows us that healthcare spending will not slow down and instead, it is increasing at a quicker rate because the advancement in medical technology and innovative treatments like gene therapy or infusion will continue to require medical supplies; thus, allowing MCK to grow at a high long-term CAGR over the next decade.



Sources: Satista

Prescription Drug Inflation

High prescription drug costs are a leading concern among Americans because we are already paying at least 2.5 times higher prices for prescription drugs than other developed countries. [7] According to a U.S. Department of Health and Human Services analysis, the listed prices of over 1,200 prescription drugs increased by an average of 32%, while the economy has seen a peak inflation rate of 8.5% in 2022. [7]



Sources: ASPE HHS

To combat the high drug prices, the U.S. Government has launched the Inflation Reduction Act to address rising drug prices and limit the pharmaceutical companies to limit the Medicare price increases to the inflation rate or pay rebates for the beneficiaries. (ASPE) While we are seeing a rapid increase in drug inflation, the government provisions could change trends in prescription drug spending over time, especially when Medicare Part D prescription drug spending had a gross spending of $216 billion in 2021. (KFF)

Since MCK is using a LIFO distribution method, any drug price inflation or deflation will affect its gross profit since it records LIFO inventory charges as well as a LIFO credit whenever there is a mismatch in market drug prices and inventory drug prices. In fiscal year 2023, the Company recorded a charge of $1 million while the credit was $23 million. The high LIFO credit was due to higher brand inflation and lower generics deflation.

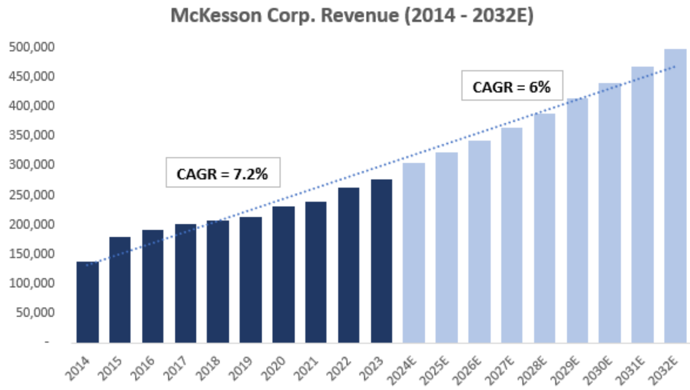
U.S. Demographics

As the demand of the industry is highly correlated with the number of people who require medical attention, it is crucial to understand the U.S. demographics and its outlook. The government census is expecting to see a demographic turning point for the United States in 2030 because by then, all of the baby boomers, people who were born between 1946 - 1964 will turn 65 years old. [16] That being said, it will make 21% of the population to be over 65 years and older, making the average age of the country higher as we are also seeing a decline in birth rate. [16] In 2030, the Census projects that the U.S. will have 75 million people under 18 years old, as well as over 65 years old, making the demographic scales to tip to the right end. As older individuals are more likely to have medical needs, the aging population will help healthcare-related services to grow at a high and steady growth rate, and MCK is expected to benefit by the aging population in the future decades.

VALUATION

Revenue growth

Henry Fund is projecting the future revenue according to each segment while referencing the historical growth rate. The Prescription Technology Solution is expected to experience the greatest growth due to the rapid adoption of automation services in the industry. At the same time, the U.S. Pharmaceutical is the largest revenue-generating segment of the Company, it is also expected to continue having a high growth rate since the industry will always have demand for medical equipment moving forward. With the past decade's CAGR to be 7.2%, the Henry Fund is projecting the company to continue growing at a CAGR of 6% in the next decade.



Sources: MCK's 10-K, Henry Fund

Earnings estimates relative to the Consensus

MCK does not provide earnings per share estimate on a GAAP basis but Henry Fund is comparing our estimation of $25.50 to FactSet's estimated EPS with GAAP reporting method to show a fairer comparison to the management outlook. Overall, MCK is experiencing greater growth than expected so it adjusted EPS guidance upwards since the beginning of the year. Now, Henry Fund believes after the adjustment for EPS, the projected rate will fall within the guidance range that MCK provided for the next fiscal year.

	Management Outlook 2023	Management Outlook 2024E
Estimation	$22.90 - $23.60	$26.80 - $27.40
2022 Act. / Henry Fund Est.	$25.23	$25.50
FactSet GAAP Est.	$23.64 - $25.05	$24.70 - $26.93
Guidance vs Henry Fund	Beats by 7%	Within

Sources: MCK's 10-K, Henry Fund

Capital Structure

Other than the debt structure mentioned in the company analysis, MCK is also known to have share repurchase plans during the fiscal year. As of the past six months, MCK has completed a share repurchase of $1.5 billion and announced that it is planning to have a total of $3.5 billion of shares repurchased by the end of the fiscal year. The valuation model follows the management guidance and expects the Company to continue doing share repurchases in the next couple of years.

Payout policy

MCK pays a dividend every quarter and has an average dividend payout ratio of 0.08%. The Company decided to continue paying the same rate of dividend when the Company saw a net loss back in 2021. Moving on, the Henry Fund sees the Company continue paying its shareholders a small dividend every quarter depending on its net income; else, using the cash reserves to make up for the losses.

Contingent liabilities or concerns

MCK is the defendant in many legal proceedings with claims related to the distribution of controlled substances (opioids) in federal and state courts throughout the U.S. and Canada. Under the most recent settlement, the distributors will have to pay up to $20.3 billion over 18 years, and MCK is responsible for approximately $7.8 billion of the portion. As of the last fiscal year-end, the total estimated liability for opioids-related claims was $7.2 million and they are split into the other accrued liabilities with the remaining included in long-term litigation liabilities in the balance sheet. MCK still gave cases unsettled by private plaintiffs and since there are many uncertainties associated with the litigation matters, MCK does not currently have any reasonable estimate of the upper or lower ends of the range of ultimate loss for all opioids-related litigation.

Valuation models

DCF/EP Model

The Henry Fund utilized the DCF model and arrived at a target price for MCK to be $575, which represents almost a 30% upside of the most current closing price. Henry Fund does think that the valuation model represents a good upside for the Company but $575 is too overvalued in this case. Therefore, Henry Fund decides on the higher end of the target price range by taking a 50% weight from the DCF model and 50% weight from the DDM model, which brings us to have a target price of $450 - $510.

DDM Model

As mentioned above, since MCK has a steady dividend payout ratio, the DDM model is a reasonable valuation model in this case. However, since the Henry Fund's model uses the GAAP reporting method, and since our EPS does not represent the non-GAAP adjustments, it makes the dividends paid to the shareholders slightly lower during the projected period. With this reasoning, the target price of $450 that we found from the DDM model will represent the lower end of the target price range.

Relative Valuation

As compared to the other two valuation models, the Henry Fund only uses the relative valuation as a sanity check since McKesson is at an unique position where it is under the medical distribution industry but has a much higher multiple since it is one of the market leaders in the industry, making the competitor's multiples to be not as effective in the valuation. As a solution, we brought in three companies that are also leaders in the distribution and logistics services but do not primarily operate in the medical field. As a comparison to its peers, these companies have a closer P/E multiple to MCK, making the target price range of $450 - $543 to be more reliable.

P/E (EPS23)	**$**	**448.17**
P/E (EPS24)	**$**	**449.22**
EV/EBITDA multiple	**$**	**543.88**
EV/Sales multiple	**$**	**1,098.64**

Sensitivity Analysis

Beta vs Risk-free rate

Henry Fund uses Yahoo! Finance 5Y monthly beta of 0.56 and the risk-free rate of 4.58% is the most recent 10Y U.S. treasury yield. The two inputs were used for the sensitivity analysis because these assumptions are likely to change depending on the current market environment, which would then change our target price. For example, if we use the beta of 0.73 that FactSet provided, it will bring our target price down to almost $80. Since both inputs were needed to compute WACC which would then affect our DCF valuation.

Beta (columns); Risk free rate (rows)

512.21	0.41	0.46	0.51	0.56	0.61	0.66	0.71
3.08%	952.82	874.82	807.51	748.87	697.32	651.68	611.00
3.58%	807.51	748.87	697.32	651.68	611.00	574.53	541.65
4.08%	697.32	651.68	611.00	574.53	541.65	511.87	484.78
4.58%	611.46	574.94	542.02	512.21	485.09	460.32	437.62
5.08%	541.65	511.87	484.78	460.04	437.36	416.50	397.26
5.58%	484.78	460.04	437.36	416.50	397.26	379.46	362.94
6.08%	437.36	416.50	397.26	379.46	362.94	347.59	333.28

Pre-tax cost of debt vs Equity Risk Premium

The Equity Risk Premium that Henry Fund uses is 5%, which is an average ERP over the past decade as well as considering Damodaran's cash yield ERP for the past year. The cost of debt of 5.25% is the Company's latest debt offering's yield to maturity. Both values are also needed for the WACC calculation so will affect the DCF stock price as well.

Pre-tax cost fo debt (columns); Equity Risk Premium (rows)

512.21	2.25%	3.25%	4.25%	5.25%	6.25%	7.25%	8.25%
2%	819.21	809.15	799.78	791.02	782.81	775.08	767.81
3%	694.19	686.84	679.94	673.46	667.36	661.59	656.13
4%	599.08	593.52	588.29	583.36	578.69	574.27	570.06
5%	524.43	520.12	516.06	512.21	508.56	505.09	501.79
6%	464.36	460.96	457.74	454.69	451.79	449.03	446.39
7%	415.07	412.34	409.76	407.30	404.97	402.73	400.60
8%	373.95	371.74	369.64	367.64	365.74	363.92	362.17

Reduction in Revenue vs Cost of Sales Adjustment

As MCK is a matured company and the U.S. Pharmaceutical has a high revenue stream, the growth rate assumption would greatly affect the overall stock price estimate. Therefore, one of the inputs is the reduction in revenue growth, signaling that the segment would have a slight reduction in growth rate over the years, bringing the long-term growth rate to 6% a decade later. Secondly, the cost of sales is the only cost structure that the company provides so depending on if MCK has a reduction of improvement in cost of sales over the next few years, the target stock price will change significantly too.

Reduction in revenue (2025E - 2032E) (columns); Cost of sales adjustement (2024E - 2032E) (rows)

512.21	-0.50%	-0.25%	0.00%	0.25%	0.50%	0.75%	1.00%
-0.10%	755.31	713.59	674.00	636.46	600.88	567.17	535.26
-0.05%	705.99	667.04	630.09	595.04	561.83	530.36	500.57
0.00%	656.66	620.49	586.17	553.63	522.78	493.55	465.89
0.05%	607.34	573.95	542.26	512.21	483.73	456.75	431.20
0.15%	508.70	480.85	454.43	429.37	405.63	383.13	361.84
0.25%	410.08	387.79	366.64	346.57	327.56	309.55	292.50
0.35%	311.77	295.10	279.31	264.34	250.18	236.83	225.99

Cost of Sales 2024 assumption vs Cost of Sale Adjustment (2025E-2026E)

As this is the only cost structure, any small changes in the cost of sales assumption will cause a drastic change in the stock price. Currently, the first two quarters of the next fiscal year indicate that MCK is very likely to experience a greater cost of sales percentage than the previous year and is expected to see the rate increase slightly over the next two years. The projected 2024 cost of sales rate is deduced by the average rate reported in 2023 and the first two quarters of fiscal year 2024. While a small change in the cost of sales percentage will change the target stock price, the sensitivity analysis is still telling us that MCK is most likely to be undervalued right now.

Cost of sales adjustment (2025E-2026E)	Cost of sales 2024E assumption						
512.21	-95.61%	-95.66%	-95.71%	-95.76%	-95.81%	-95.86%	-95.91%
-0.10%	699.93	678.77	657.62	636.46	615.30	594.15	573.00
-0.05%	658.51	637.36	616.20	595.04	573.89	552.73	531.61
0.00%	617.09	595.94	574.78	553.63	532.47	511.32	490.22
0.05%	575.68	554.52	533.36	512.21	491.05	469.93	448.82
0.15%	492.84	471.69	450.53	429.37	408.25	387.15	366.08
0.25%	410.01	388.85	367.70	346.57	325.52	304.62	283.90
0.35%	327.18	306.02	285.05	264.34	243.73	225.36	208.25

SGD&A Expenses Assumption vs SGD&A Adjustment

Similarly to the cost of sales assumption, this expense is tied to operation and has a relatively steady ratio to the sales revenue. The Henry Fund uses the average SDG&A ratio last fiscal year and from the first two quarters of the year to project the rate for next year. The valuation model also projects the company to maintain its operating efficiency and have only a slight increase in expenses over the next decade; however, the increased rate will still be way lower than the historical average.

SDG&A expenses adjustement (2025E - 2032E)	SDG&A expenses assumption (2024E)						
512.21	-2.41%	-2.51%	-2.61%	-2.71%	-2.81%	-2.91%	-3.01%
-0.01%	734.51	692.19	649.86	607.53	565.23	523.00	480.85
0.00%	726.57	684.24	641.92	599.59	557.29	515.06	472.91
0.00%	718.62	676.30	633.97	591.65	549.34	507.12	464.97
0.03%	639.19	596.86	554.54	512.21	469.92	427.69	385.59
0.05%	559.75	517.42	475.10	432.77	390.49	348.28	306.26
0.08%	480.31	437.99	395.66	353.33	311.07	268.89	227.07
0.01%	686.85	644.52	602.20	559.87	517.57	475.35	433.22

KEYS TO MONITOR

Medical Utilization Trend

As mentioned in UnitedHealth, Humana, Cigna, and other health insurance companies' most recent earnings calls, the industry is seeing an uptick in medical utilization as patients are resuming their postponed medical procedures due to the pandemic. Companies like UnitedHealth have seen an increase in the medical cost ratio for the past two quarters and are expecting the trend to continue through 2024. At the same time, MCK's most recent earnings call also mentioned that it is seeing a decline in respiratory illness and flu as well as lower primary care volumes, its biggest channel in the medical-surgical segment; therefore, depending on utilization trends and medical foot traffic, MCK will be seeing changes in distribution volumes from the medical facilities.

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DISCLAIMER

McKesson Corporation

Revenue Decomposition

Fiscal Years Ending March 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Segment revenue (in $ million)												
U.S. Pharmaceutical	189,274	212,149	240,616	273,852	295,399	317,903	341,327	365,623	390,734	416,594	443,123	470,234
Prescription Technology Solutions	2,890	3,864	4,387	4,981	5,642	6,378	7,193	8,095	9,090	10,184	11,384	12,697
Medical-Surgical Solutions	10,099	11,608	11,110	11,110	11,372	11,641	11,916	12,197	12,485	12,780	13,081	13,390
International	35,965	36,345	20,598	13,389	11,380	11,380	11,722	12,073	12,436	12,809	13,193	13,589
Total revenue	238,228	263,966	276,711	303,331	323,794	347,302	372,157	397,988	424,744	452,366	480,781	509,910
Segment operating profit (in $ million)												
U.S. Pharmaceutical	2,763	2,879	3,206	3,649	3,936	4,236	4,548	4,872	5,206	5,551	5,904	6,265
Prescription Technology Solutions	395	500	566	656	743	840	947	1,066	1,197	1,341	1,499	1,672
Medical-Surgical Solutions	707	959	1,117	1,039	1,064	1,089	1,114	1,141	1,168	1,195	1,223	1,252
International	(37)	(968)	136	(85)	(72)	(72)	(74)	(76)	(79)	(81)	(83)	(86)
Subtotal	3,828	3,370	5,025	5,259	5,671	6,093	6,536	7,002	7,492	8,006	8,544	9,104
Segment operating profit margin (in %)												
U.S. Pharmaceutical	1.46%	1.36%	1.33%	1.33%	1.33%	1.33%	1.33%	1.33%	1.33%	1.33%	1.33%	1.33%
Prescription Technology Solutions	13.67%	12.94%	12.90%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%	13.17%
Medical-Surgical Solutions	7.00%	8.26%	10.05%	9.35%	9.35%	9.35%	9.35%	9.35%	9.35%	9.35%	9.35%	9.35%
International	-0.10%	-2.66%	0.66%	-0.63%	-0.63%	-0.63%	-0.63%	-0.63%	-0.63%	-0.63%	-0.63%	-0.63%
Total operating profit margin	1.61%	1.28%	1.82%	1.73%	1.75%	1.75%	1.76%	1.76%	1.76%	1.77%	1.78%	1.79%
Segment revenue (in growth %)												
U.S. Pharmaceutical	4.17%	12.09%	13.42%	13.81%	7.87%	7.62%	7.37%	7.12%	6.87%	6.62%	6.37%	6.12%
Prescription Technology Solutions	6.84%	33.70%	13.54%	13.54%	13.29%	13.04%	12.79%	12.54%	12.29%	12.04%	11.79%	11.54%
Medical-Surgical Solutions	21.60%	14.94%	-4.29%	0.00%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%
International	-6.20%	1.06%	-43.33%	-35.00%	-15.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Total revenue	3.11%	10.80%	4.83%	9.62%	6.75%	7.26%	7.16%	6.94%	6.72%	6.50%	6.28%	6.06%
Segment operating profit (in growth %)												
U.S. Pharmaceutical	0.66%	4.20%	11.36%	13.81%	7.87%	7.62%	7.37%	7.12%	6.87%	6.62%	6.37%	6.12%
Prescription Technology Solutions	-0.25%	26.58%	13.20%	15.89%	13.29%	13.04%	12.79%	12.54%	12.29%	12.04%	11.79%	11.54%
Medical-Surgical Solutions	41.68%	35.64%	16.48%	-6.98%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%
International	-77.02%	2516.22%	-114.05%	-162.17%	-15.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Subtotal	10.03%	-11.96%	49.11%	4.66%	7.82%	7.44%	7.27%	7.14%	7.00%	6.86%	6.71%	6.56%

McKesson Corporation

Income Statement

Fiscal Years Ending March 31	31 MAR '21	31 MAR '22	31 MAR '23	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues	238,228	263,966	276,711	303,331	323,794	347,302	372,157	397,988	424,744	452,366	480,781	509,910
Cost of sales	(226,080)	(250,836)	(264,353)	(290,468)	(310,225)	(332,922)	(356,748)	(381,509)	(407,157)	(433,635)	(460,874)	(488,796)
Gross profit	12,148	13,130	12,358	12,863	13,569	14,380	15,410	16,479	17,587	18,731	19,907	21,113
Operating Costs:												
Selling, distribution, general, and administrative expenses	(8,849)	(10,537)	(7,776)	(8,223)	(8,859)	(9,589)	(10,368)	(11,187)	(12,046)	(12,942)	(13,875)	(14,843)
Claims and litigation charges, net	(7,936)	(274)	8	-	-	-	-	-	-	-	-	-
Goodwill impairment charge	(69)	-	-	-	-	-	-	-	-	-	-	-
Restructuring and asset impairment charges	(334)	(281)	(209)	(332)	(355)	(380)	(408)	(436)	(465)	(496)	(527)	(559)
Total operating expenses	(17,188)	(11,092)	(7,977)	(8,555)	(9,214)	(9,969)	(10,776)	(11,623)	(12,511)	(13,438)	(14,402)	(15,402)
Operating income / loss	(5,040)	2,038	4,381	4,308	4,355	4,411	4,634	4,856	5,076	5,293	5,506	5,712
Other income / loss, net	223	259	497	275	278	282	296	310	324	338	352	365
Loss on debt extinguishment	-	(191)	-	-	-	-	-	-	-	-	-	-
Interest expense	(217)	(178)	(248)	(226)	(253)	(218)	(234)	(251)	(268)	(286)	(305)	(324)
Income / loss from continuing operations before income taxes	(5,034)	1,928	4,630	4,357	4,381	4,475	4,696	4,915	5,132	5,345	5,552	5,752
Income tax expense / benefit	695	(636)	(905)	(852)	(856)	(875)	(918)	(961)	(1,003)	(1,045)	(1,085)	(1,124)
Income from continuing operations	(4,339)	1,292	3,725	3,505	3,525	3,600	3,778	3,954	4,129	4,300	4,467	4,628
Income / loss from discontinued operations, net of tax	(1)	(5)	(3)	-	-	-	-	-	-	-	-	-
Net income / loss	(4,340)	1,287	3,722	3,505	3,525	3,600	3,778	3,954	4,129	4,300	4,467	4,628
Net income / loss attributable to noncontrolling interests	(199)	(173)	(162)	(105)	(106)	(108)	(113)	(119)	(124)	(129)	(134)	(139)
Net income / loss attributable to McKesson Corporation	(4,539)	1,114	3,560	3,400	3,419	3,492	3,664	3,836	4,005	4,171	4,333	4,489

McKesson Corporation
Balance Sheet

Fiscal Years Ending March 31	31 MAR '21	31 MAR '22	31 MAR '23	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:												
Cash and cash equivalents	6,278	3,532	4,678	5,097	5,604	8,930	10,334	11,660	14,033	17,672	21,482	25,487
Receivables, net	19,181	18,583	19,410	21,423	22,880	24,554	26,312	28,138	30,030	31,982	33,991	36,051
Inventories, net	19,246	18,702	19,691	21,647	23,119	24,810	26,586	28,431	30,343	32,316	34,346	36,427
Current assets held for sale	12	4,516	17	-	-	-	-	-	-	-	-	-
Prepaid expenses and other	665	898	496	816	871	935	1,002	1,072	1,144	1,218	1,294	1,373
Total current assets	45,382	46,231	44,292	48,983	52,475	59,230	64,234	69,301	75,549	83,188	91,114	99,338
Property, plant and equipment, net	2,581	2,092	2,177	2,434	2,693	2,961	3,238	3,526	3,823	4,131	4,449	4,778
Operating lease right-of-use assets	2,100	1,548	1,635	1,835	2,094	2,362	2,639	2,927	3,224	3,532	3,850	4,179
Goodwill	9,493	9,451	9,947	9,947	9,947	9,947	9,947	9,947	9,947	9,947	9,947	9,947
Intangible assets, net	2,878	2,059	2,277	2,031	1,791	1,583	1,382	1,185	945	705	465	225
Other noncurrent assets	2,581	1,917	1,992	2,196	2,376	2,515	2,769	2,967	3,166	3,406	3,696	4,000
Total assets	65,015	63,298	62,320	67,425	71,376	78,598	84,210	89,852	96,654	104,909	113,522	122,467
Liabilities and Deficit:												
Drafts and accounts payable	38,975	38,086	42,490	47,169	50,377	54,063	57,932	61,953	66,118	70,417	74,841	79,375
Current portion of long-term debt	742	799	968	968	39	1,700	1,200	376	325	325	325	325
Current portion of operating lease liabilities	390	297	299	343	392	442	494	547	603	661	720	782
Current liabilities held for sale	9	4,741	5	-	-	-	-	-	-	-	-	-
Other accrued liabilities	3,987	4,543	4,195	4,924	5,257	5,638	6,042	6,461	6,895	7,344	7,805	8,278
Total current liabilities	44,103	48,466	47,957	53,404	56,064	61,843	65,667	69,337	73,941	78,747	83,691	88,760
Long-term debt	6,406	5,080	4,626	5,173	5,525	5,929	6,353	6,794	7,251	7,723	8,208	8,705
Long-term deferred tax liabilities	1,411	1,418	1,387	1,457	1,528	1,600	1,676	1,755	1,838	1,924	2,013	2,106
Long-term operating lease liabilities	1,867	1,366	1,402	1,610	1,837	2,072	2,315	2,567	2,828	3,098	3,378	3,666
Long-term litigation liabilities	8,067	7,220	6,625	6,004	5,442	4,932	4,470	4,051	3,671	3,327	3,015	2,733
Other noncurrent liabilities	1,715	1,540	1,813	2,031	2,218	2,311	2,505	2,642	2,774	2,938	3,112	3,292
Total liabilities	63,569	65,090	63,810	69,680	72,614	78,687	82,986	87,146	92,304	97,757	103,417	109,262
Additional paid-in capital	6,927	7,277	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750
Retained earnings	8,202	9,030	12,295	15,341	18,415	21,565	24,881	28,363	32,008	35,809	39,762	43,862
Accumulated other comprehensive loss / income	(1,480)	(1,534)	(905)	(905)	(905)	(905)	(905)	(905)	(905)	(905)	(905)	(905)
Treasury shares, at cost	(13,670)	(17,045)	(20,997)	(24,497)	(26,497)	(28,497)	(30,497)	(32,497)	(34,497)	(35,497)	(36,497)	(37,497)
Total McKesson Corporation stockholders' equity	(21)	(2,272)	(1,857)	(2,311)	(1,237)	(87)	1,229	2,711	4,356	7,157	10,110	13,210
Noncontrolling interests	196	480	367	57	(1)	(2)	(5)	(5)	(5)	(5)	(5)	(5)
Total equity	175	(1,792)	(1,490)	(2,254)	(1,238)	(89)	1,224	2,705	4,350	7,152	10,105	13,205
Total liabilities and deficit	65,015	63,298	62,320	67,425	71,376	78,598	84,210	89,852	96,654	104,909	113,522	122,467

All figures in millions of U.S. Dollar.

McKesson Corporation
Common Size Income Statement

Fiscal Years Ending March 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	-94.90%	-95.03%	-95.53%	-95.76%	-95.81%	-95.86%	-95.86%	-95.86%	-95.86%	-95.86%	-95.86%	-95.86%
Gross profit	5.10%	4.97%	4.47%	4.24%	4.19%	4.14%	4.14%	4.14%	4.14%	4.14%	4.14%	4.14%
Operating Costs:												
Selling, distribution, general, and administrative expenses	-3.71%	-3.99%	-2.81%	-2.71%	-2.74%	-2.76%	-2.79%	-2.81%	-2.84%	-2.86%	-2.89%	-2.91%
Claims and litigation charges, net	-3.33%	-0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill impairment charge	-0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Restructuring and asset impairment charges	-0.14%	-0.11%	-0.08%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%
Total operating expenses	-7.21%	-4.20%	-2.88%	-2.82%	-2.85%	-2.87%	-2.90%	-2.92%	-2.95%	-2.97%	-3.00%	-3.02%
Operating income / loss	-2.12%	0.77%	1.58%	1.42%	1.35%	1.27%	1.25%	1.22%	1.20%	1.17%	1.15%	1.12%
Other income / loss, net	-4.42%	12.71%	11.34%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%
Loss on debt extinguishment	0.00%	-9.37%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest expense	-3.43%	-2.78%	-4.88%	-4.88%	-4.88%	-3.95%	-3.95%	-3.95%	-3.95%	-3.95%	-3.95%	-3.95%
Income / loss from continuing operations before income taxes	99.88%	94.60%	105.68%	101.14%	100.59%	101.44%	101.33%	101.22%	101.10%	100.98%	100.85%	100.71%
Income tax expense / benefit	-13.79%	-31.21%	-20.66%	-19.55%	-19.55%	-19.55%	-19.55%	-19.55%	-19.55%	-19.55%	-19.55%	-19.55%
Income from continuing operations	86.09%	63.40%	85.03%	81.37%	80.93%	81.61%	81.53%	81.43%	81.34%	81.24%	81.13%	81.03%
Income / loss from discontinued operations, net of tax	0.02%	-0.25%	-0.07%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%
Net income / loss	86.11%	63.15%	84.96%	81.37%	80.93%	81.61%	81.53%	81.43%	81.34%	81.24%	81.13%	81.03%
Net income / loss attributable to noncontrolling interests	4.59%	-13.44%	-4.35%	-3.00%	-3.00%	-3.00%	-3.00%	-3.00%	-3.00%	-3.00%	-3.00%	-3.00%
Net income / loss attributable to McKesson Corporation	90.06%	54.66%	81.26%	78.93%	78.50%	79.16%	79.08%	78.99%	78.90%	78.80%	78.70%	78.59%

McKesson Corporation

Common Size Balance Sheet

Fiscal Years Ending March 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:												
Cash and cash equivalents	13.83%	7.64%	10.56%	10.41%	10.68%	15.08%	16.09%	16.82%	18.58%	21.24%	23.58%	25.66%
Receivables, net	-8.48%	-7.41%	-7.34%	-7.38%	-7.38%	-7.38%	-7.38%	-7.38%	-7.38%	-7.38%	-7.38%	-7.38%
Inventories, net	-8.51%	-7.46%	-7.45%	-7.45%	-7.45%	-7.45%	-7.45%	-7.45%	-7.45%	-7.45%	-7.45%	-7.45%
Current assets held for sale	0.03%	9.77%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid expenses and other	-0.29%	-0.36%	-0.19%	-0.28%	-0.28%	-0.28%	-0.28%	-0.28%	-0.28%	-0.28%	-0.28%	-0.28%
Total current assets	69.80%	73.04%	71.07%	72.65%	73.52%	75.36%	76.28%	77.13%	78.16%	79.30%	80.26%	81.11%
Property, plant and equipment, net	3.97%	3.31%	3.49%	3.61%	3.77%	3.77%	3.85%	3.92%	3.96%	3.94%	3.92%	3.90%
Operating lease right-of-use assets	3.23%	2.45%	2.62%	2.72%	2.93%	3.01%	3.13%	3.26%	3.34%	3.37%	3.39%	3.41%
Goodwill	14.60%	14.93%	15.96%	14.75%	13.94%	12.66%	11.81%	11.07%	10.29%	9.48%	8.76%	8.12%
Intangible assets, net	4.43%	3.25%	3.65%	3.01%	2.51%	2.01%	1.64%	1.32%	0.98%	0.67%	0.41%	0.18%
Other noncurrent assets	4.21%	2.95%	3.15%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Liabilities and Deficit:												
Drafts and accounts payable	-17.24%	-15.18%	-16.07%	-16.24%	-16.24%	-16.24%	-16.24%	-16.24%	-16.24%	-16.24%	-16.24%	-16.24%
Current portion of long-term debt	1.90%	1.87%	2.44%	2.32%	2.32%	2.32%	2.32%	2.32%	2.32%	2.32%	2.32%	2.32%
Current portion of operating lease liabilities	18.57%	19.19%	18.29%	18.70%	18.70%	18.70%	18.70%	18.70%	18.70%	18.70%	18.70%	18.70%
Current liabilities held for sale	75.00%	104.98%	29.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other accrued liabilities	1.67%	1.72%	1.52%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%
Total current liabilities	69.38%	74.46%	75.16%	76.64%	77.21%	78.59%	79.13%	79.56%	80.11%	80.55%	80.93%	81.24%
Long-term debt	16.38%	11.90%	11.68%	11.79%	11.79%	11.79%	11.79%	11.79%	11.79%	11.79%	11.79%	11.79%
Long-term deferred tax liabilities	2.22%	2.18%	2.17%	2.09%	2.10%	2.03%	2.02%	2.01%	1.99%	1.97%	1.95%	1.93%
Long-term operating lease liabilities	88.90%	88.24%	85.75%	87.73%	87.73%	87.73%	87.73%	87.73%	87.73%	87.73%	87.73%	87.73%
Long-term litigation liabilities		-10.50%	-8.24%	-9.37%	-9.37%	-9.37%	-9.37%	-9.37%	-9.37%	-9.37%	-9.37%	-9.37%
Other noncurrent liabilities	3.14%	2.42%	2.79%	3.18%	3.18%	3.18%	3.18%	3.18%	3.18%	3.18%	3.18%	3.18%
Total liabilities	97.78%	102.83%	102.39%	103.34%	101.73%	100.11%	98.55%	96.99%	95.50%	93.18%	91.10%	89.22%
Additional paid-in capital	10.90%	11.18%	12.15%	11.12%	10.67%	9.85%	9.34%	8.89%	8.40%	7.93%	7.49%	7.09%
Retained earnings	12.62%	14.27%	19.73%	22.75%	25.80%	27.44%	29.55%	31.57%	33.12%	34.13%	35.03%	35.82%
Accumulated other comprehensive loss / income	-2.28%	-2.42%	-1.45%	-1.34%	-1.27%	-1.15%	-1.07%	-1.01%	-0.94%	-0.86%	-0.80%	-0.74%
Treasury shares, at cost	-21.03%	-26.93%	-33.69%	-36.33%	-37.12%	-36.26%	-36.22%	-36.17%	-35.69%	-33.84%	-32.15%	-30.62%
Total McKesson Corporation stockholders' equity	-0.03%	-3.59%	-2.98%	-3.43%	-1.73%	-0.11%	1.46%	3.02%	4.51%	6.82%	8.91%	10.79%
Noncontrolling interests	3.09%	7.49%	7.22%	7.36%	7.36%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%
Total equity	0.27%	-2.83%	-2.39%	-3.34%	-1.73%	-0.11%	1.45%	3.01%	4.50%	6.82%	8.90%	10.78%
Total liabilities and deficit	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

McKesson Corporation

Historical Cash Flow Statement

Fiscal Years Ending March 31	31 MAR '14	31 MAR '15	31 MAR '16	31 MAR '17	31 MAR '18	31 MAR '19	31 MAR '20	31 MAR '21	31 MAR '22	31 MAR '23
Operating Activities:										
Net income / loss	1,258	1,543	2,310	5,153	297	255	1,120	(4,340)	1,287	3,722
Depreciation	185	306	281	324	303	317	321	321	279	248
Amortization	550	711	604	586	648	632	601	566	481	360
Impairment charges and impairment of equity investment	80	241	8	290	2,217	2,079	139	242	175	72
Deferred taxes	17	171	64	882	(868)	189	(342)	(908)	34	(20)
Charges associated with last-in-first-out inventory method	311	337	244	(7)	(99)	(210)	(252)	(38)	(23)	1
Non-cash operating lease expense					-	-	366	334	241	249
Loss / gain from sale of businesses and equity investments	-	-	(103)	94	(169)	(86)	33	(9)	(132)	(211)
European businesses held for sale							-	-	1,509	-
Other non-cash items	130	47	108	203	67	52	615	188	501	298
Receivables	(868)	(2,821)	(1,957)	(762)	1,175	(967)	(2,494)	1,145	(1,843)	(1,082)
Inventories	(1,182)	(2,144)	(1,251)	320	(458)	(368)	(376)	(2,276)	(1,169)	(1,259)
Drafts and accounts payable	2,412	4,718	3,302	2,070	271	1,976	3,952	1,267	2,802	3,788
Operating lease liabilities					-	-	(377)	(362)	(356)	(338)
Taxes	218	(222)	(78)	146	671	(95)	(8)	(166)	243	363
Litigation liabilities						-	-	8,067	199	(1,088)
Other	(17)	42	137		79	68	(8)	511	206	56
Net cash provided by / used in operating activities	3,136	3,112	3,672	4,744	4,345	4,036	4,374	4,542	4,434	5,159
Investing Activities:										
Payments for property, plant and equipment	(278)	(376)	(488)	(404)	(405)	(426)	(362)	(451)	(388)	(390)
Capitalized software expenditures	(141)	(169)	(189)	(158)	(175)	(131)	(144)	(190)	(147)	(168)
Acquisitions, net of cash and cash equivalents acquired	(4,634)	(170)	(40)	(4,212)	(2,893)	(905)	(133)	(35)	(6)	(867)
Other	7	38	(840)	354	279	81	60	261	452	883
Net cash used in investing activities	(5,046)	(677)	(1,557)	(3,269)	(2,993)	(1,381)	(579)	(415)	(89)	(542)
Financing Activities:										
Proceeds from short-term borrowings	6,080	3,100	1,561	8,294	20,542	37,265	21,437	6,323	11,192	8,450
Repayments of short-term borrowings	(6,132)	(3,152)	(1,688)	(8,124)	(20,725)	(37,268)	(21,437)	(6,323)	(11,192)	(8,450)
Proceeds from issuances of long-term debt	4,124	3	-	1,824	1,522	1,099	-	500	498	997
Repayments of long-term debt	(348)	(353)	(1,598)	(1,601)	(2,287)	(1,112)	(298)	(1,040)	(1,648)	(1,274)
Payments for debt extinguishments			-	-	(112)		-	-	(184)	-
Issuances	177	152	123	120	132	75	113	92	220	163
Share repurchases	(130)	(450)	(1,612)	(2,311)	(1,709)	(1,639)	(1,934)	(742)	(3,516)	(3,638)
Dividends paid	(214)	(227)	(244)	(253)	(262)	(292)	(294)	(276)	(277)	(292)
Other	62	(41)	5	(18)	(185)	(355)	(321)	(227)	(1,414)	(324)
Net cash provided by / used in financing activities	3,619	(968)	(3,453)	(2,069)	(3,084)	(2,227)	(2,734)	(1,693)	(6,321)	(4,368)
Effect of exchange rate changes on cash and cash equivalents	28	(319)	45	(144)	150	(119)	(19)	(61)	55	25
Cash, cash equivalents, and restricted cash classified within assets held for sale							-	-	(540)	470
Net increase / decrease in cash and cash equivalents	1,737	1,148	(1,293)	(738)	(1,582)	309	1,042	2,373	(2,461)	744
Cash and cash equivalents at beginning of period	2,456	4,193	5,341	4,992	4,254	2,672	2,981	4,023	6,396	3,935
Cash and cash equivalents at end of period	4,193	5,341	4,048	4,254	2,672	2,981	4,023	6,396	3,935	4,679
Restricted cash at end of period included in prepaid expenses and other						-	(8)	(118)	(403)	(1)
Cash and cash equivalents at end of period	4,193	5,341	4,048	4,254	2,672	2,981	4,015	6,278	3,532	4,678

McKesson Corporation
Forecasted Cash Flow Statement

Fiscal Years Ending March 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net Income	3,400	3,419	3,492	3,664	3,836	4,005	4,171	4,333	4,489
Depreciation	283	316	350	384	420	458	496	536	578
Amortization	246	240	208	201	197	240	240	240	240
Operating Activities:									
Receivables, net	(2,013)	(1,457)	(1,674)	(1,757)	(1,826)	(1,892)	(1,953)	(2,009)	(2,059)
Inventories, net	(1,956)	(1,472)	(1,691)	(1,776)	(1,845)	(1,911)	(1,973)	(2,030)	(2,081)
Current assets held for sale	17	-	-	-	-	-	-	-	-
Prepaid expense and other	(320)	(55)	(64)	(67)	(70)	(72)	(74)	(77)	(78)
Draft and accounts payable	4,679	3,208	3,686	3,869	4,021	4,165	4,300	4,423	4,534
Current liabilities held for sale	(5)	-	-	-	-	-	-	-	-
Other accrued liabilities	729	332	382	404	419	434	448	461	473
Long-term deferred tax liabilities	70	71	72	76	79	83	86	89	93
Long-term litigation liabilities	(621)	(563)	(510)	(462)	(419)	(380)	(344)	(312)	(283)
Other noncurrent liabilities	218	187	93	193	137	132	164	174	180
Net cash flows from operating activities	4,728	4,225	4,343	4,729	4,949	5,262	5,561	5,829	6,085
Investing Activities:									
Purchase of PPE	(539)	(576)	(617)	(662)	(707)	(755)	(804)	(855)	(906)
Operating lease right-of-use assets	(200)	(260)	(268)	(277)	(287)	(297)	(308)	(318)	(329)
Other noncurrent assets	(204)	(180)	(139)	(254)	(198)	(199)	(240)	(291)	(303)
Net cash flows from investing activities	(943)	(1,015)	(1,024)	(1,193)	(1,192)	(1,251)	(1,352)	(1,464)	(1,539)
Financing Activities:									
Current portion of long-term debt	-	(929)	1,661	(500)	(824)	(51)	-	-	-
Current portion of operating lease liabilities	44	49	50	52	54	56	58	60	62
Long-term debt	547	352	404	424	441	457	472	485	497
long-term operating lease liabilities	208	228	235	243	252	261	270	279	289
Noncontrolling interest	(310)	(57)	(2)	(3)	0	0	0	0	0
Dividend paid	(354)	(345)	(342)	(348)	(354)	(360)	(370)	(380)	(389)
Treasury shares	(3,500)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(1,000)	(1,000)	(1,000)
Net cash flows from financing activities	(3,366)	(2,703)	7	(2,132)	(2,432)	(1,638)	(571)	(555)	(541)
Cash, beginning of period	4,678	5,097	5,604	8,930	10,334	11,660	14,033	17,672	21,482
Net cash increase	419	507	3,326	1,404	1,325	2,374	3,639	3,810	4,005
Cash, end of period	5,097	5,604	8,930	10,334	11,660	14,033	17,672	21,482	25,487

McKesson Corporation

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:			*ASSUMPTIONS:*
Risk-Free Rate	4.58%		*10-Year Treasury Yield*
Beta	0.56		*Yahoo Finance 5Y Monthly Beta*
Equity Risk Premium	5.00%		*Henry Fund Estimates*
Cost of Equity	**7.38%**		
Cost of Debt:			
Risk-Free Rate	4.58%		*10Y Treasury Yield*
Implied Default Premium	0.67%		
Pre-Tax Cost of Debt	5.25%		*Company's latest debt offerings ' YTM*
Marginal Tax Rate	20%		
After-Tax Cost of Debt	**4.22%**		

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	141.10	
Current Stock Price	$450.00	
MV of Equity	**63,495.00**	89.88%
Market Value of Debt:		
Current Portion of LTD	968.00	
Long-Term Debt	4,626.00	
PV of Operating Leases	1,558.85	
MV of Total Debt	**7,152.85**	10.12%
Market Value of the Firm	**70,647.85**	100.00%

Estimated WACC	**7.06%**

McKesson Corporation

Value Driver Estimation

Fiscal Years Ending March 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NOPLAT:												
Revenue	238,228	263,966	276,711	303,331	323,794	347,302	372,157	397,988	424,744	452,366	480,781	509,910
- Cost of Sales	(226,080)	(250,836)	(264,353)	(290,468)	(310,225)	(332,922)	(356,748)	(381,509)	(407,157)	(433,635)	(460,874)	(488,796)
- SDG&A Expenses	(8,849)	(10,537)	(7,776)	(8,223)	(8,859)	(9,589)	(10,368)	(11,187)	(12,046)	(12,942)	(13,875)	(14,843)
+ Impled interest on operating lease l	97	107	79	74	84	96	109	122	135	148	163	177
EBIT	3,396	2,700	4,661	4,714	4,795	4,888	5,150	5,413	5,676	5,937	6,195	6,448
Marginal Tax Rate	-13.81%	32.99%	19.55%	19.55%	19.55%	19.55%	19.55%	19.55%	19.55%	19.55%	19.55%	19.55%
Income tax expense / benefit	(695)	636	905	852	856	875	918	961	1,003	1,045	1,085	1,124
+ Tax shield on implied interest on op	(13)	35	15	14	17	19	21	24	26	29	32	35
- Tax shield on other income/loss	(31)	85	97	54	54	55	58	61	63	66	69	71
+ Tax shield claims and litigation char	(2,709)	(94)	3	-	-	-	-	-	-	-	-	-
+ Tax shield goodwill impairment cha	(24)	-	-	-	-	-	-	-	-	-	-	-
+ Tax shield restructuring and asset ir	(114)	(96)	(71)	(113)	(121)	(130)	(139)	(149)	(159)	(169)	(180)	(191)
+ Tax shield on debt extinguishment	-	(63)	-	-	-	-	-	-	-	-	-	-
+ Tax shield on interest expense	30	(59)	(48)	(44)	(49)	(43)	(46)	(49)	(52)	(56)	(60)	(63)
Adjusted tax	(3,556)	446	900	762	757	776	812	847	882	915	946	976
Changes in Deferred Tax	970	5	45	(59)	(59)	(60)	(63)	(66)	(69)	(72)	(75)	(77)
NOPLAT	7,922	2,259	3,805	3,893	3,979	4,052	4,275	4,500	4,726	4,951	5,174	5,394
Invested Capital (IC):												
Normal Cash	4,677	3,532	4,678	5,097	5,604	6,818	7,306	7,813	8,339	8,881	9,439	10,011
Receivables	19,181	18,583	19,410	21,423	22,880	24,554	26,312	28,138	30,030	31,982	33,991	36,051
Inventories	19,246	18,702	19,691	21,647	23,119	24,810	26,586	28,431	30,343	32,316	34,346	36,427
Prepaid expenses and other	665	898	496	816	871	935	1,002	1,072	1,144	1,218	1,294	1,373
Operating Current Assets	43,769	41,715	44,275	48,983	52,475	57,118	61,206	65,454	69,855	74,397	79,071	83,861
Drafts and accounts payable	38,975	38,086	42,490	47,169	50,377	54,063	57,932	61,953	66,118	70,417	74,841	79,375
Other accrued liabilities	3,987	4,543	4,195	4,924	5,257	5,638	6,042	6,461	6,895	7,344	7,805	8,278
Operating Current Liabilities	42,962	42,629	46,685	52,093	55,634	59,701	63,974	68,414	73,013	77,761	82,646	87,653
Operating Working Capital	807	(914)	(2,410)	(3,110)	(3,159)	(2,583)	(2,768)	(2,960)	(3,159)	(3,364)	(3,575)	(3,792)
Property, plant, and equipment	2,581	2,092	2,177	2,434	2,693	2,961	3,238	3,526	3,823	4,131	4,449	4,778
Other long-term assets	7,559	5,524	5,904	6,061	6,261	6,460	6,791	7,079	7,335	7,642	8,012	8,404
Other long-term liabilities	1,715	1,540	1,813	2,031	2,218	2,311	2,505	2,642	2,774	2,938	3,112	3,292
Invested Capital	9,232	5,162	3,858	3,354	3,578	4,527	4,757	5,003	5,225	5,471	5,774	6,098
Free Cash Flow (FCF):												
NOPLAT	7,922	2,259	3,805	3,893	3,979	4,052	4,275	4,500	4,726	4,951	5,174	5,394
Change in IC	448	(4,070)	(1,304)	(504)	224	949	230	246	222	246	303	325
FCF	7,474	6,329	5,109	4,397	3,755	3,103	4,045	4,254	4,503	4,705	4,871	5,069
Return on Invested Capital (ROIC):												
NOPLAT	7,922	2,259	3,805	3,893	3,979	4,052	4,275	4,500	4,726	4,951	5,174	5,394
Beginning IC	8,784	9,232	5,162	3,858	3,354	3,578	4,527	4,757	5,003	5,225	5,471	5,774
ROIC	90.19%	24.47%	73.72%	100.90%	118.64%	113.25%	94.44%	94.61%	94.46%	94.75%	94.57%	93.42%
Economic Profit (EP):												
Beginning IC	8,784	9,232	5,162	3,858	3,354	3,578	4,527	4,757	5,003	5,225	5,471	5,774
x (ROIC - WACC)	83.13%	17.42%	66.66%	93.84%	111.58%	106.20%	87.38%	87.55%	87.40%	87.69%	87.51%	86.36%
EP	7,302	1,608	3,441	3,620	3,742	3,799	3,956	4,164	4,373	4,582	4,788	4,986

McKesson Corporation

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	2.00%
CV Year ROIC	93.42%
WACC	7.06%
Cost of Equity	7.38%

Fiscal Years Ending March 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
DCF Model:									
Free Cash Flow (FCF)	4,397	3,755	3,103	4,045	4,254	4,503	4,705	4,871	5,069
Continuing Value (CV)									104,362
PV of FCF	4,107	3,276	2,528	3,080	3,025	2,991	2,919	2,823	60,478
Value of Operating Assets:	85,227								
Non-Operating Adjustments									
- Debt Obligation	(7,153)								
- Pension liabilities	(94)								
- Liabilities held for sales	(5)								
+ Assets held for sales	17								
- Non controlling interest	(162)								
Value of Equity	77,830								
Shares Outstanding	141								
Intrinsic Value of Last FYE	$ 551.60								
Implied Price as of Today	$ 575.05								
EP Model:									
Economic Profit (EP)	3,620	3,742	3,799	3,956	4,164	4,373	4,582	4,788	4,986
Continuing Value (CV)									98,588
PV of EP	3,382	3,265	3,096	3,011	2,961	2,904	2,843	2,774	57,132
Total PV of EP	81,369								
Invested Capital (last FYE)	3,858								
Value of Operating Assets:	85,227								
Non-Operating Adjustments									
- Debt Obligation	(7,153)								
- Pension liabilities	(94)								
- Liabilities held for sales	(5)								
+ Assets held for sales	17								
- Non controlling interest	(162)								
Value of Equity	77,830								
Shares Outstanding	141								
Intrinsic Value of Last FYE	$ 551.60								
Implied Price as of Today	$ 575.05								

McKesson Corporation

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending March 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EPS	$ 25.50	$ 26.47	$ 27.87	$ 30.12	$ 32.44	$ 34.81	$ 36.73	$ 38.62	$ 40.49
Key Assumptions									
CV growth of EPS	2.00%								
CV Year ROE	44.40%								
Cost of Equity	7.38%								
Future Cash Flows									
P/E Multiple (CV Year)									17.99
EPS (CV Year)									$ 40.49
Future Stock Price									$ 728.53
Dividends Per Share	$ 2.66	$ 2.67	$ 2.73	$ 2.86	$ 3.00	$ 3.13	$ 3.26	$ 3.38	
Discounted Cash Flows	$ 2.47	$ 2.32	$ 2.20	$ 2.15	$ 2.10	$ 2.04	$ 1.98	$ 1.92	$ 412.24
Intrinsic Value as of Last FYE	$ 429.43								
Implied Price as of Today	**$ 447.68**								

Ticker	Company	Price	EPS NTM	EPS FY2	P/E 23	P/E 24	Enterprise Value	EBITDA	EV/EBIT	EV/Sales
CAH	Cardinal Health	$ 100.21	$7.09	$7.63	14.13	13.13	25,980	2,005	12.96	0.11
COR	Cecora	$ 195.17	$13.01	$14.16	15.00	13.78	42,255	2,485	17.00	0.15
HSIC	Henry Schein, Inc	$ 62.40	$5.60	$5.67	11.14	11.01	11,146	828	13.46	0.93
HLN	Haleon plc	$ 8.07	$0.46	$0.47	17.54	17.17	48,563	-	-	3.39
BSX	Boston Scientific Corporation	$ 52.53	$2.20	$2.24	23.88	23.45	85,638	2,073	41.31	5.67
WAL	Walmart	$ 164.66	$6.96	$7.11	23.66	23.16	489,509	21,812	22.44	0.74
AMZN	Amazon	$ 138.60	$3.37	$3.51	41.13	39.49	1,504,359	27,752	54.21	2.40
				Average	17.56	16.95			16.47	0.48
MCK	McKesson Corporation	$ 450.00	25.50	26.47	17.6	17.0	70,648	4,661	15.16	0.23

Implied Relative Value:

P/E (EPS23)	**$**	**447.81**
P/E (EPS24)	**$**	**448.66**
EV/EBITDA multiple	**$**	**543.88**
EV/Sales multiple	**$**	**1,097.77**

McKesson Corporation

Key Management Ratios

Fiscal Years Ending March 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Liquidity Ratios:												
Current Ratio (Current Assets/Current Liabilities)	1.03	0.95	0.92	0.92	0.94	0.96	0.98	1.00	1.02	1.06	1.09	1.12
Quick Ratio (Cash + Receivables + Investment Securities)/Current Liabilities	0.58	0.46	0.50	0.50	0.51	0.54	0.56	0.57	0.60	0.63	0.66	0.69
Asset-Management Ratios:												
Total Asset Turnover (Revenue/Total Assets)	3.66	4.17	4.44	4.50	4.54	4.42	4.42	4.43	4.39	4.31	4.24	4.16
Net Working Capital Turnover (Revenue/Net Working Capital)	15.05	(14.37)	(5.13)	(4.14)	(4.30)	(5.57)	(5.57)	(5.57)	(5.57)	(5.57)	(5.57)	(5.57)
Receivables Turnover (Revenue/Net Receivable)	12.42	14.20	14.26	14.16	14.15	14.14	14.14	14.14	14.14	14.14	14.14	14.14
Financial Leverage Ratios:												
Debt to Equity (Total Liabilities/Total Shareholder's Equity)	(3,027.10)	(28.65)	(34.36)	(30.15)	(58.70)	(905.41)	67.51	32.15	21.19	13.66	10.23	8.27
Equity Multiplier (Total Asset/Total Equity)	371.51	(35.32)	(41.83)	(29.91)	(57.67)	(881.44)	68.80	33.21	22.22	14.67	11.23	9.27
Debt to Asset (Total Liabilities/Total Assets)	0.98	1.03	1.02	1.03	1.02	1.00	0.99	0.97	0.95	0.93	0.91	0.89
Profitability Ratios:												
Return on Equity (Net Income/Total Shareholder's Equity)	21614.29%	-49.03%	191.71%	-147.12%	-276.36%	-4018.01%	298.10%	141.50%	91.95%	58.28%	42.86%	33.98%
Return on Assets (Net Income / Total Assets)	-6.98%	1.76%	5.71%	5.04%	4.79%	4.44%	4.35%	4.27%	4.14%	3.98%	3.82%	3.67%
Gross Profit Margin (Operating Income/Revenue)	-2.12%	0.77%	1.58%	1.42%	1.35%	1.27%	1.25%	1.22%	1.20%	1.17%	1.15%	1.12%
Payout Policy Ratios:												
Dividend Payout Ratio (Dividend/EPS)	-5.91%	25.00%	8.28%	10.41%	10.09%	9.79%	9.50%	9.24%	8.99%	8.87%	8.76%	8.66%
Total Payout Ratio ((Divs. + Repurchases)/NI)	-83.17%	443.78%	106.60%	69.24%	68.59%	67.06%	64.08%	61.38%	33.96%	32.85%	31.84%	30.94%

McKesson Corporation

Present Value of Operating Lease Obligations

Fiscal Years Ending March 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Year 1	358	316	363	477	502	454	398	433	328	340
Year 2	299	271	309	414	443	397	371	401	310	321
Year 3	246	219	252	315	383	343	310	332	268	273
Year 4	193	170	209	264	333	290	252	283	223	230
Year 5	168	140	168	231	277	236	213	233	180	183
Thereafter	806	650	669	932	1134	936	730	823	506	547
Total Minimum Payments	2,070	1,766	1,970	2,633	3,072	2,656	2,274	2,505	1,815	1,894
Less: Cumulative Interest	422	350	373	506	609	514	420	468	317	335
PV of Minimum Payments	**1,648**	**1,416**	**1,597**	**2,127**	**2,463**	**2,142**	**1,854**	**2,037**	**1,498**	**1,559**
Implied Interest in Year 1 Payment		**86.5**	**74.4**	**83.8**	**111.6**	**129.3**	**112.5**	**97.4**	**107.0**	**78.6**
Pre-Tax Cost of Debt	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Years Implied by Year 6 Payment	4.8	4.6	4.0	4.0	4.1	4.0	3.4	3.5	2.8	3.0
Expected Obligation in Year 6 & Beyond	168	140	168	231	277	236	213	233	180	183

McKesson Corporation

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	0
Average Time to Maturity (years):	0.00
Expected Annual Number of Options Exercised:	0
Current Average Strike Price:	$ -
Cost of Equity:	7.38%
Current Stock Price:	$450.00

Fiscal Years Ending March 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Increase in Shares Outstanding:	0	0	0	0	0	0	0	0	0	0
Average Strike Price:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Increase in Common Stock Account:	-	-	-	-	-	-	-	-	-	-
Share Repurchases ($)	3,500	2,000	2,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000
Expected Price of Repurchased Shares:	$ 450.00	$ 481.11	$ 514.36	$ 549.92	$ 587.93	$ 628.57	$ 672.02	$ 718.48	$ 768.14	$ 821.24
Number of Shares Repurchased:	**8**	**4**	**4**	**4**	**3**	**3**	**1**	**1**	**1**	**1**
Shares Outstanding (beginning of the year)	141	133	129	125	122	118	115	114	112	111
Plus: Shares Issued Through ESOP	0	0	0	0	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	8	4	4	4	3	3	1	1	1	1
Shares Outstanding (end of the year)	**133**	**129**	**125**	**122**	**118**	**115**	**114**	**112**	**111**	**110**