

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

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 1-13252

McKESSON

McKESSON CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

94-3207296
(I.R.S. Employer
Identification No.)

**6555 State Hwy 161,
Irving, TX 75039**
(Address of principal executive offices, including zip code)
(972) 446-4800
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 141,793,480 shares of the issuer's common stock were outstanding as of September 30, 2022.

McKESSON CORPORATION

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McKESSEON CORPORATION

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 70,157	\$ 66,576	\$ 137,311	\$ 129,250
Cost of sales	(67,062)	(63,224)	(131,193)	(122,866)
Gross profit	3,095	3,352	6,118	6,384
Selling, distribution, general, and administrative expenses	(1,950)	(2,669)	(3,909)	(4,901)
Claims and litigation charges, net	9	(112)	4	(186)
Restructuring, impairment, and related charges, net	(30)	(32)	(53)	(190)
Total operating expenses	(1,971)	(2,813)	(3,958)	(5,277)
Operating income	1,124	539	2,160	1,107
Other income, net	175	139	190	182
Loss on debt extinguishment	—	(191)	—	(191)
Interest expense	(55)	(45)	(100)	(94)
Income from continuing operations before income taxes	1,244	442	2,250	1,004
Income tax expense	(271)	(132)	(470)	(158)
Income from continuing operations	973	310	1,780	846
Loss from discontinued operations, net of tax	(6)	—	(4)	(3)
Net income	967	310	1,776	843
Net income attributable to noncontrolling interests	(41)	(43)	(82)	(90)
Net income attributable to McKesson Corporation	\$ 926	\$ 267	\$ 1,694	\$ 753
Earnings (loss) per common share attributable to McKesson Corporation				
Diluted				
Continuing operations	\$ 6.46	\$ 1.71	\$ 11.71	\$ 4.82
Discontinued operations	(0.04)	—	(0.03)	(0.02)
Total	\$ 6.42	\$ 1.71	\$ 11.68	\$ 4.80
Basic				
Continuing operations	\$ 6.51	\$ 1.73	\$ 11.81	\$ 4.87
Discontinued operations	(0.04)	—	(0.02)	(0.02)
Total	\$ 6.47	\$ 1.73	\$ 11.79	\$ 4.85
Weighted-average common shares outstanding				
Diluted	144.1	155.8	145.0	156.9
Basic	143.1	154.1	143.7	155.1

See Financial Notes

McKESSON CORPORATION

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 967	\$ 310	\$ 1,776	\$ 843
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(192)	(48)	390	(24)
Unrealized gains on cash flow hedges	18	8	36	8
Changes in retirement-related benefit plans	2	2	38	4
Other comprehensive income (loss), net of tax	(172)	(38)	464	(12)
Comprehensive income	795	272	2,240	831
Comprehensive income attributable to noncontrolling interests	(35)	(43)	(126)	(93)
Comprehensive income attributable to McKesson Corporation	<u>\$ 760</u>	<u>\$ 229</u>	<u>\$ 2,114</u>	<u>\$ 738</u>

See Financial Notes

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

	September 30, 2022	March 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,916	\$ 3,532
Receivables, net	20,109	18,583
Inventories, net	19,876	18,702
Assets held for sale	2,825	4,516
Prepaid expenses and other	722	898
Total current assets	46,448	46,231
Property, plant, and equipment, net	2,071	2,092
Operating lease right-of-use assets	1,548	1,548
Goodwill	9,239	9,451
Intangible assets, net	1,872	2,059
Other non-current assets	1,903	1,917
Total assets	<u>\$ 63,081</u>	<u>\$ 63,298</u>
LIABILITIES AND DEFICIT		
Current liabilities		
Drafts and accounts payable	\$ 41,003	\$ 38,086
Current portion of long-term debt	800	799
Current portion of operating lease liabilities	284	297
Liabilities held for sale	1,991	4,741
Other accrued liabilities	4,279	4,543
Total current liabilities	48,357	48,466
Long-term debt	4,813	5,080
Long-term deferred tax liabilities	1,660	1,418
Long-term operating lease liabilities	1,315	1,366
Long-term litigation liabilities	6,644	7,220
Other non-current liabilities	1,541	1,540
McKesson Corporation stockholders' deficit		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 800 shares authorized, 277 and 275 shares issued at September 30, 2022 and March 31, 2022, respectively	3	2
Additional paid-in capital	7,609	7,275
Retained earnings	10,579	9,030
Accumulated other comprehensive loss	(1,114)	(1,534)
Treasury shares, at cost, 135 and 130 shares at September 30, 2022 and March 31, 2022, respectively	(18,844)	(17,045)
Total McKesson Corporation stockholders' deficit	(1,767)	(2,272)
Noncontrolling interests	518	480
Total deficit	(1,249)	(1,792)
Total liabilities and deficit	<u>\$ 63,081</u>	<u>\$ 63,298</u>

See Financial Notes

McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In millions, except per share amounts)

(Unaudited)

Three Months Ended September 30, 2022									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Deficit
	Shares	Amount				Common Shares	Amount		
Balance, June 30, 2022	277	\$ 3	\$ 7,350	\$ 9,732	\$ (948)	(133)	\$ (18,141)	\$ 532	\$ (1,472)
Issuance of shares under employee plans, net of forfeitures	—	—	36	—	—	—	(2)	—	34
Share-based compensation	—	—	46	—	—	—	—	—	46
Repurchase of common stock	—	—	177	—	—	(2)	(701)	—	(524)
Net income	—	—	—	926	—	—	—	41	967
Other comprehensive loss	—	—	—	—	(166)	—	—	(6)	(172)
Cash dividends declared, \$0.54 per common share	—	—	—	(78)	—	—	—	—	(78)
Payments to noncontrolling interests	—	—	—	—	—	—	—	(41)	(41)
Reclassification of recurring compensation to other accrued liabilities	—	—	—	—	—	—	—	(2)	(2)
Other	—	—	—	(1)	—	—	—	(6)	(7)
Balance, September 30, 2022	277	\$ 3	\$ 7,609	\$ 10,579	\$ (1,114)	(135)	\$ (18,844)	\$ 518	\$ (1,249)

Three Months Ended September 30, 2021									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Deficit
	Shares	Amount				Common Shares	Amount		
Balance, June 30, 2021	274	\$ 2	\$ 7,057	\$ 8,618	\$ (1,627)	(119)	\$ (14,579)	\$ 484	\$ (45)
Issuance of shares under employee plans, net of forfeitures	1	—	40	—	—	—	(1)	—	39
Share-based compensation	—	—	43	—	—	—	—	—	43
Repurchase of common stock	—	—	171	—	—	(3)	(451)	—	(280)
Net income	—	—	—	267	—	—	—	43	310
Other comprehensive loss	—	—	—	—	(38)	—	—	—	(38)
Cash dividends declared, \$0.47 per common share	—	—	—	(74)	—	—	—	—	(74)
Payments to noncontrolling interests	—	—	—	—	—	—	—	(40)	(40)
Reclassification of recurring compensation to other accrued liabilities	—	—	—	—	—	—	—	(2)	(2)
Other	—	—	—	1	—	—	—	(1)	—
Balance, September 30, 2021	275	\$ 2	\$ 7,311	\$ 8,812	\$ (1,665)	(122)	\$ (15,031)	\$ 484	\$ (87)

See Financial Notes

McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In millions, except per share amounts)
(Unaudited)

Six Months Ended September 30, 2022									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Deficit
	Shares	Amount				Common Shares	Amount		
Balance, March 31, 2022	275	\$ 2	\$ 7,275	\$ 9,030	\$ (1,534)	(130)	\$ (17,045)	\$ 480	\$ (1,792)
Issuance of shares under employee plans, net of forfeitures	2	1	127	—	—	—	(154)	—	(26)
Share-based compensation	—	—	86	—	—	—	—	—	86
Repurchase of common stock	—	—	121	—	—	(5)	(1,645)	—	(1,524)
Net income	—	—	—	1,694	—	—	—	82	1,776
Other comprehensive income	—	—	—	—	420	—	—	44	464
Cash dividends declared, \$1.01 per common share	—	—	—	(145)	—	—	—	—	(145)
Payments to noncontrolling interests	—	—	—	—	—	—	—	(77)	(77)
Reclassification of recurring compensation to other accrued liabilities	—	—	—	—	—	—	—	(4)	(4)
Other	—	—	—	—	—	—	—	(7)	(7)
Balance, September 30, 2022	<u>277</u>	<u>\$ 3</u>	<u>\$ 7,609</u>	<u>\$ 10,579</u>	<u>\$ (1,114)</u>	<u>(135)</u>	<u>\$ (18,844)</u>	<u>\$ 518</u>	<u>\$ (1,249)</u>

Six Months Ended September 30, 2021									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury		Noncontrolling Interests	Total Equity (Deficit)
	Shares	Amount				Common Shares	Amount		
Balance, March 31, 2021	273	\$ 2	\$ 6,925	\$ 8,202	\$ (1,480)	(115)	\$ (13,670)	\$ 196	\$ 175
Issuance of shares under employee plans, net of forfeitures	2	—	111	—	—	—	(60)	—	51
Share-based compensation	—	—	76	—	—	—	—	—	76
Repurchase of common stock	—	—	21	—	—	(7)	(1,301)	—	(1,280)
Net income	—	—	—	753	—	—	—	82	835
Other comprehensive loss	—	—	—	—	(15)	—	—	—	(15)
Cash dividends declared, \$0.89 per common share	—	—	—	(139)	—	—	—	—	(139)
Payments to noncontrolling interests	—	—	—	—	—	—	—	(79)	(79)
Exercise of put right by noncontrolling shareholders of McKesson Europe AG	—	—	178	—	(170)	—	—	—	8
Reclassification of McKesson Europe AG redeemable noncontrolling interests	—	—	—	—	—	—	—	287	287
Reclassification of recurring compensation to other accrued liabilities	—	—	—	—	—	—	—	(2)	(2)
Other	—	—	—	(4)	—	—	—	—	(4)
Balance, September 30, 2021	<u>275</u>	<u>\$ 2</u>	<u>\$ 7,311</u>	<u>\$ 8,812</u>	<u>\$ (1,665)</u>	<u>(122)</u>	<u>\$ (15,031)</u>	<u>\$ 484</u>	<u>\$ (87)</u>

See Financial Notes

McKESSON CORPORATION

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

	Six Months Ended September 30,	
	2022	2021
OPERATING ACTIVITIES		
Net income	\$ 1,776	\$ 843
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	124	148
Amortization	175	265
Long-lived asset impairment charges	11	127
Deferred taxes	170	(18)
Credits associated with last-in, first-out inventory method	(36)	(46)
Non-cash operating lease expense	126	152
Gain from sales of businesses and investments	(148)	(101)
European businesses held for sale	(35)	470
Other non-cash items	157	381
Changes in assets and liabilities, net of acquisitions:		
Receivables	(1,883)	(2,311)
Inventories	(1,453)	(1,164)
Drafts and accounts payable	2,292	1,431
Operating lease liabilities	(174)	(186)
Taxes	82	40
Litigation liabilities	(915)	151
Other	(103)	(12)
Net cash provided by operating activities	<u>166</u>	<u>170</u>
INVESTING ACTIVITIES		
Payments for property, plant, and equipment	(157)	(186)
Capitalized software expenditures	(65)	(93)
Acquisitions, net of cash, cash equivalents, and restricted cash acquired	(23)	(4)
Proceeds from sales of businesses and investments, net	496	179
Other	(135)	(53)
Net cash provided by (used in) investing activities	<u>116</u>	<u>(157)</u>
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	100	3,020
Repayments of short-term borrowings	(100)	(3,020)
Proceeds from issuances of long-term debt	—	498
Repayments of long-term debt	(4)	(1,636)
Payments for debt extinguishments	—	(184)
Common stock transactions:		
Issuances	127	111
Share repurchases	(1,484)	(1,272)
Dividends paid	(139)	(134)
Exercise of put right by noncontrolling shareholders of McKesson Europe AG	—	(1,031)
Other	(253)	(246)
Net cash used in financing activities	<u>(1,753)</u>	<u>(3,894)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	24	18
Change in cash, cash equivalents, and restricted cash classified within Assets held for sale	470	—
Net decrease in cash, cash equivalents, and restricted cash	(977)	(3,863)
Cash, cash equivalents, and restricted cash at beginning of period	3,935	6,396
Cash, cash equivalents, and restricted cash at end of period	2,958	2,533
Less: Restricted cash at end of period included in Prepaid expenses and other	(42)	(382)
Cash and cash equivalents at end of period	<u>\$ 2,916</u>	<u>\$ 2,151</u>

See Financial Notes

McKESSEON CORPORATION

FINANCIAL NOTES
(UNAUDITED)

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation (“McKesson,” or the “Company,”) is a diversified healthcare services leader dedicated to advancing health outcomes for patients everywhere. McKesson partners with biopharma companies, care providers, pharmacies, manufacturers, governments, and others to deliver insights, products, and services to help make quality care more accessible and affordable. The Company reports its financial results in four reportable segments: U.S. Pharmaceutical, Prescription Technology Solutions (“RxTS”), Medical-Surgical Solutions, and International. Refer to Financial Note 14, “Segments of Business,” for additional information.

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

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

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

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

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

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts could differ from those estimated amounts. The Company continues to evaluate the ongoing impacts, including the economic consequences, of the pandemic caused by the SARS-CoV-2 coronavirus (“COVID-19”), and therefore the Company’s accounting estimates and assumptions may change over time and may change materially in future periods. In the opinion of management, the unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the results of operations, financial position, and cash flows of McKesson for the interim periods presented.

The results of operations for the three and six months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies, and financial notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2022, previously filed with the SEC on May 9, 2022 (“2022 Annual Report”).

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 (the “IR Act”). Among other provisions, the IR Act includes a 15% corporate minimum tax, a 1% excise tax on certain repurchases of an entity’s own common stock after December 31, 2022, and various drug pricing reforms. Based on its preliminary assessment, the Company does not currently expect the IR Act to have a material impact on its results of operations, financial position, or cash flows in the foreseeable future; however, the Company will continue to evaluate the full impact of these legislative changes.

McKESSEON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Recently Adopted Accounting Pronouncements

There were no adopted accounting standards during the first half of fiscal 2023 that had a material impact to the Company's results of operations, financial position, cash flows, or notes to the financial statements upon their adoption.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2022, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which clarifies the guidance when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of the equity security, and requires additional disclosure requirements. ASU 2022-03 is effective for the Company on a prospective basis for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company does not expect that this guidance will have a material impact on its consolidated financial statements or related disclosures.

2. Business Acquisitions and Divestitures

Acquisitions

Rx Savings Solutions, LLC

On November 1, 2022, the Company completed its acquisition of Rx Savings Solutions, LLC ("RxSS"), a privately-owned company headquartered in Overland Park, Kansas, to expand on connecting biopharma and payer services to patients. RxSS is a prescription price transparency and benefit insight company that offers affordability and adherence solutions to health plans and employers. The purchase consideration included a payment of approximately \$600 million made upon closing and a maximum of \$275 million of contingent consideration based on RxSS' financial performance through calendar year 2025. The financial results of RxSS will be included in the Company's RxTS segment as of the acquisition date in the third quarter of fiscal 2023. The transaction will be accounted for as a business combination and the analysis to assign fair values to the assets acquired and liabilities assumed is currently underway.

Oncology Research Business

On October 31, 2022, the Company completed a transaction with HCA Healthcare, Inc. ("HCA") to form an oncology research business, combining McKesson's U.S. Oncology Research ("USOR") and HCA's Sarah Cannon Research Institute ("SCRI"), to advance cancer care and increase access to oncology clinical research. McKesson owns a 51% controlling interest in the combined business, and the financial results will be consolidated by the Company and reported within its U.S. Pharmaceutical segment as of the acquisition date in the third quarter of fiscal 2023. Transaction consideration included the transfer of full ownership interest in USOR to the combined business and \$173 million of cash paid to HCA. The transaction will be accounted for as a business combination and the analysis to assign fair values to the assets acquired, liabilities assumed, and noncontrolling interest is currently underway.

Separately, on October 31, 2022, McKesson acquired Genospace, SCRI's personalized medicine platform. Genospace is a leading innovator in precision medicine and clinical trial matching and will enhance McKesson's oncology data and analytics capabilities. The acquisition of Genospace will be accounted for as a business combination and its financial results will be included in the U.S. Pharmaceutical segment as of the acquisition date in the third quarter of 2023. The analysis to assign fair values to the assets acquired and liabilities assumed is currently underway.

Divestitures

In July 2021, the Company announced its intention to exit its businesses in Europe resulting in classification of certain assets and liabilities as held for sale. Assets and liabilities of \$2.8 billion and \$2.0 billion, respectively, at September 30, 2022, and \$4.5 billion and \$4.7 billion, respectively, at March 31, 2022, met the criteria for classification as held for sale, primarily consisting of disposal groups related to the Company's European divestiture activities discussed below. The decrease in assets and liabilities held for sale during fiscal 2023 was driven by the divestiture of the Company's U.K. disposal group in April 2022, as discussed in more detail below.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Assets and liabilities to be disposed of by sale (“disposal groups”) are classified as “held for sale” if their carrying amounts are principally expected to be recovered through a sale transaction rather than through continuing use. The classification occurs when the disposal group is available for immediate sale and the sale is probable. These criteria are generally met when an agreement to sell exists, or management has committed to a plan to sell the assets within one year. Disposal groups are measured at the lower of carrying amount or fair value less costs to sell, and long-lived assets included within the disposal group are not depreciated or amortized. The fair value of a disposal group, less any costs to sell, is assessed each reporting period it remains classified as held for sale and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value of the disposal group. When the net realizable value of a disposal group increases during a period, a gain can be recognized to the extent that it does not increase the value of the disposal group beyond its original carrying value when the disposal group was classified as held for sale. The Company determined that the disposal groups classified as held for sale do not meet the criteria for classification as discontinued operations.

European Divestiture Activities

On July 5, 2021, the Company entered into an agreement to sell certain of its businesses in the European Union (“E.U.”) located in France, Italy, Ireland, Portugal, Belgium, and Slovenia, along with its German headquarters and wound-care business, part of a shared services center in Lithuania, and its ownership stake in a joint venture in the Netherlands (“E.U. disposal group”) to the PHOENIX Group for a purchase price of €1.2 billion (or, approximately \$1.2 billion) adjusted for certain items, including cash, net debt and working capital adjustments, and reduced by the value of the noncontrolling interest held by minority shareholders of McKesson Europe AG (“McKesson Europe”) at the transaction closing date. The transaction closed on October 31, 2022, and the Company received net cash proceeds of \$892 million after the adjustments listed above. As of September 30, 2022 and March 31, 2022, the E.U. disposal group within the Company’s International segment, was classified as “Assets held for sale” and “Liabilities held for sale,” respectively, in the Condensed Consolidated Balance Sheets.

During the three and six months ended September 30, 2022, the Company recorded a gain of \$23 million and \$35 million, respectively, and during the three and six months ended September 30, 2021, recorded charges totaling \$491 million to remeasure the assets and liabilities of the E.U. disposal group to fair value less costs to sell. The fiscal 2022 charges also included impairments of individual assets, such as certain internal-use software that will not be utilized in the future, prior to adjusting the E.U. disposal group as a whole. The remeasurement adjustment in the three and six months ended September 30, 2021 included a \$226 million loss related to the accumulated other comprehensive income balances associated with the E.U. disposal group. These amounts were recorded within “Selling, distribution, general, and administrative expenses” in the Condensed Consolidated Statements of Operations. The Company’s measurement of the fair value of the E.U. disposal group was based on the total consideration expected to be received by the Company as outlined in the transaction agreement. Certain components of the total consideration included fair value measurements that fall within Level 3 of the fair value hierarchy.

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The total assets and liabilities of the E.U. disposal group that have met the classification of held for sale in the Company's Condensed Consolidated Balance Sheets are as follows:

<i>(In millions)</i>	September 30, 2022	March 31, 2022
Assets		
Current assets		
Receivables, net	\$ 1,175	\$ 1,322
Inventories, net	810	809
Prepaid expenses and other	68	72
Property, plant, and equipment, net	278	304
Operating lease right-of-use assets	206	224
Intangible assets, net	236	267
Other non-current assets	297	328
Remeasurement of assets of businesses held for sale to fair value less costs to sell ⁽¹⁾	(245)	(302)
Total assets held for sale	<u>\$ 2,825</u>	<u>\$ 3,024</u>
Liabilities		
Current liabilities		
Drafts and accounts payable	\$ 1,258	\$ 1,826
Current portion of long-term debt	4	4
Current portion of operating lease liabilities	28	33
Other accrued liabilities	360	473
Long-term debt	10	11
Long-term deferred tax liabilities	64	55
Long-term operating lease liabilities	153	180
Other non-current liabilities	114	138
Total liabilities held for sale	<u>\$ 1,991</u>	<u>\$ 2,720</u>

(1) Excludes charges in fiscal 2022 related to the impairment of individual assets, including a \$113 million impairment of internally developed software recorded directly against the gross value of the assets impacted.

On April 6, 2022, the Company completed the previously announced sale of its retail and distribution businesses in the United Kingdom ("U.K. disposal group") to Aurelius Elephant Limited for a purchase price of £110 million (or, approximately \$144 million), including certain adjustments. As part of the transaction, the Company divested net assets of \$615 million and released \$731 million of accumulated other comprehensive loss, within the International segment, and the buyer assumed and repaid a note payable to the Company of approximately \$118 million.

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Following the completion of the transaction on April 6, 2022, there were no assets or liabilities of the U.K. disposal group classified as held for sale in the Company's Condensed Consolidated Balance Sheets. The total assets and liabilities of the U.K. disposal group that met the classification of held for sale in the Company's Condensed Consolidated Balance Sheet at March 31, 2022 were as follows:

<i>(In millions)</i>	March 31, 2022
Assets	
Current assets	
Cash and cash equivalents	\$ 531
Receivables, net	931
Inventories, net	563
Prepaid expenses and other	50
Property, plant, and equipment, net	91
Operating lease right-of-use assets	270
Intangible assets, net	117
Other non-current assets	88
Remeasurement of assets of businesses held for sale to fair value less costs to sell	(1,159)
Total assets held for sale	<u>\$ 1,482</u>
Liabilities	
Current liabilities	
Drafts and accounts payable	\$ 1,593
Current portion of operating lease liabilities	50
Other accrued liabilities	59
Long-term deferred tax liabilities	16
Long-term operating lease liabilities	262
Other non-current liabilities	38
Total liabilities held for sale	<u>\$ 2,018</u>

Other

For the periods presented, the Company also completed de minimis acquisitions and divestitures within its operating segments. Financial results for the Company's business acquisitions have been included in its consolidated financial statements as of their respective acquisition dates. Purchase prices for business acquisitions have been allocated based on estimated fair values at the respective acquisition dates.

3. Restructuring, Impairment, and Related Charges, Net

The Company recorded restructuring, impairment, and related charges, net of \$30 million and \$32 million for the three months ended September 30, 2022 and 2021, respectively, and \$53 million and \$190 million for the six months ended September 30, 2022 and 2021, respectively. These charges were included in "Restructuring, impairment, and related charges, net" in the Condensed Consolidated Statements of Operations.

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Restructuring Initiatives

During the first quarter of fiscal 2022, the Company approved an initiative to increase operational efficiencies and flexibility by transitioning to a partial remote work model for certain employees. This initiative primarily included the rationalization of the Company's office space in North America. Where the Company ceased using office space, it exited the portion of the facility no longer used. It also retained and repurposed certain other office locations. The Company recorded charges of \$15 million and \$110 million for the three and six months ended September 30, 2021, respectively, primarily related to lease right-of-use and other long-lived asset impairments, lease exit costs, and accelerated depreciation and amortization. This initiative was substantially complete in fiscal 2022 and remaining costs the Company recorded and expects to record under this initiative are not material.

Restructuring, impairment, and related charges, net, for the three months ended September 30, 2022 and 2021 consisted of the following:

	Three Months Ended September 30, 2022										
(In millions)	U.S. Pharmaceutical		Prescription Technology Solutions		Medical-Surgical Solutions		International		Corporate		Total
Severance and employee-related costs, net	\$	—	\$	—	\$	—	\$	2	\$	(5)	\$ (3)
Exit and other-related costs ⁽¹⁾		—		1		1		6		14	22
Asset impairments and accelerated depreciation		3		6		—		1		1	11
Total	\$	3	\$	7	\$	1	\$	9	\$	10	\$ 30

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

	Three Months Ended September 30, 2021											
(In millions)	U.S. Pharmaceutical ⁽¹⁾		Prescription Technology Solutions		Medical-Surgical Solutions		International		Corporate ⁽¹⁾		Total	
Severance and employee-related costs, net	\$	—	\$	(1)	\$	1	\$	(2)	\$	1	\$	(1)
Exit and other-related costs ⁽²⁾		2		1		—		1		6		10
Asset impairments and accelerated depreciation		8		—		1		2		12		23
Total	\$	10	\$	—	\$	2	\$	1	\$	19	\$	32

(1) Includes costs related to the transition to a partial remote work model described above.

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

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Restructuring, impairment, and related charges, net, for the six months ended September 30, 2022 and 2021 consisted of the following:

	Six Months Ended September 30, 2022											
(In millions)	U.S. Pharmaceutical		Prescription Technology Solutions		Medical-Surgical Solutions		International	Corporate	Total			
Severance and employee-related costs, net	\$	3	\$	—	\$	—	\$	2	\$	(6)	\$	(1)
Exit and other-related costs ⁽¹⁾		1		3		2		8		29		43
Asset impairments and accelerated depreciation		3		11		—		1		(4)		11
Total	\$	7	\$	14	\$	2	\$	11	\$	19	\$	53

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

	Six Months Ended September 30, 2021											
(In millions)	U.S. Pharmaceutical ⁽¹⁾		Prescription Technology Solutions ⁽¹⁾		Medical-Surgical Solutions ⁽¹⁾		International ⁽²⁾		Corporate ⁽¹⁾		Total	
Severance and employee-related costs, net	\$	2	\$	(1)	\$	1	\$	10	\$	1	\$	13
Exit and other-related costs ⁽³⁾		4		2		2		15		27		50
Asset impairments and accelerated depreciation		16		17		5		36		53		127
Total	\$	22	\$	18	\$	8	\$	61	\$	81	\$	190

(1) Includes costs related to the transition to a partial remote work model described above.

(2) Includes costs related to the transition to a partial remote work model described above, U.K. operating model and cost optimization efforts, and costs for optimization programs in Canada.

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

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The following table summarizes the activity related to the liabilities associated with the Company's restructuring initiatives for the six months ended September 30, 2022:

<i>(In millions)</i>	U.S. Pharmaceutical	Prescription Technology Solutions	Medical- Surgical Solutions	International	Corporate	Total
Balance, March 31, 2022 ⁽¹⁾	\$ 11	\$ 3	\$ 1	\$ 56	\$ 59	\$ 130
Restructuring, impairment, and related charges, net	7	14	2	11	19	53
Non-cash charges	(3)	(11)	—	(1)	4	(11)
Cash payments	(3)	(3)	(2)	(6)	(25)	(39)
Other ⁽²⁾	(1)	—	—	(24)	1	(24)
Balance, September 30, 2022 ⁽³⁾	\$ 11	\$ 3	\$ 1	\$ 36	\$ 58	\$ 109

- (1) As of March 31, 2022, the total reserve balance was \$130 million, of which \$58 million was recorded in "Other accrued liabilities," \$36 million was recorded in "Liabilities held for sale," and \$36 million was recorded in "Other non-current liabilities" in the Condensed Consolidated Balance Sheet.
- (2) Other primarily includes cumulative translation adjustments and transfers to certain other liabilities. For the Company's International segment, other also includes a reduction of the liability related to the sale of the U.K. disposal group in April 2022, as discussed in more detail in Financial Note 2, "Business Acquisitions and Divestitures."
- (3) As of September 30, 2022, the total reserve balance was \$109 million, of which \$60 million was recorded in "Other accrued liabilities," \$22 million was recorded in "Liabilities held for sale," and \$27 million was recorded in "Other non-current liabilities" in the Condensed Consolidated Balance Sheet.

4. Income Taxes

Income tax expense related to continuing operations was as follows:

<i>(Dollars in millions)</i>	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Income tax expense	\$ 271	\$ 132	\$ 470	\$ 158
Reported income tax rate	21.8 %	29.9 %	20.9 %	15.7 %

Fluctuations in the Company's reported income tax rates were primarily due to non-cash charges related to remeasuring the value of the E.U. disposal group in the second quarter of fiscal 2022, changes in the mix of earnings between various taxing jurisdictions, and discrete benefits recognized in the quarters.

During the three months ended September 30, 2022 and 2021, the Company recognized a net discrete tax benefit primarily related to increased tax credits of \$16 million and a decrease in the global intangible low-tax income ("GILTI") of \$55 million, respectively. During the six months ended September 30, 2022, the Company recognized a net discrete tax benefit primarily related to the tax impact of share-based compensation of \$53 million. During the six months ended September 30, 2021, the Company also recognized a net discrete tax benefit primarily related to statute of limitation expirations of \$97 million in various taxing jurisdictions.

During the second quarter of fiscal 2022, the Company recorded non-cash pre-tax charges totaling \$491 million primarily to remeasure the assets and liabilities of the E.U. disposal group to fair value less costs to sell, as described in Financial Note 2, "Business Acquisitions and Divestitures." The Company's reported income tax rates for the three and six months ended September 30, 2021 were unfavorably impacted by this due to the non-deductible nature of the majority of these charges for income tax purposes.

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As of September 30, 2022, the Company had \$1.5 billion of unrecognized tax benefits, of which \$1.3 billion would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that our unrecognized tax benefits may decrease by as much as \$150 million to \$180 million due to settlements of tax examinations and statute of limitation expirations based on the information currently available. However, this may change as the Company continues to have ongoing discussions with various taxing authorities throughout the year, and if the ultimate resolution of unrecognized tax benefits differs from this estimated range, the Company will record any additional income tax expense or benefit as necessary in the appropriate period. The unrecognized tax benefit may also increase or decrease due to future developments in opioid-related litigation and claims, as discussed in Financial Note 12, “Commitments and Contingent Liabilities.”

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions, and various foreign jurisdictions. The Internal Revenue Service (“IRS”) is currently examining the Company’s U.S. corporation income tax returns for 2018 and 2019. The Company is generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2014 through the current fiscal year.

The Company is a party to a certain tax receivable agreement (“TRA”) entered into as part of the formation of the joint venture with Change Healthcare Inc. (“Change”), from which McKesson has since exited. The TRA generally requires Change to pay McKesson 85% of the net cash tax savings realized, or deemed to be realized, by Change resulting from the amortization allocated to Change by the joint venture. In October 2022, Change exercised its right pursuant to the TRA to terminate the agreement. The Company received \$126 million in the third quarter of fiscal 2023 due to early termination of the TRA, which will result in a gain within “Other income, net” in the Condensed Consolidated Statements of Operations.

5. Redeemable Noncontrolling Interests and Noncontrolling Interests

Redeemable Noncontrolling Interests

The Company’s previously recognized redeemable noncontrolling interests primarily related to its consolidated subsidiary, McKesson Europe. Under the December 2014 domination and profit and loss transfer agreement (the “Domination Agreement”), the noncontrolling shareholders of McKesson Europe are entitled to receive an annual recurring compensation amount of €0.83 per share. As a result, the Company recorded a total attribution of net income to the noncontrolling shareholders of McKesson Europe of \$8 million during the six months ended September 30, 2021. This amount was recorded in “Net income attributable to noncontrolling interests” in the Company’s Condensed Consolidated Statement of Operations and the corresponding liability balance was recorded in “Other accrued liabilities” in the Company’s Condensed Consolidated Balance Sheet.

Under the Domination Agreement, the noncontrolling shareholders of McKesson Europe had a right to put (“Put Right”) their noncontrolling shares at €22.99 per share, increased annually for interest in the amount of five percentage points above a base rate published by the German Bundesbank semi-annually, less any compensation amount or guaranteed dividend already paid by McKesson with respect to the relevant time period (“Put Amount”). During the six months ended September 30, 2021, the Company paid \$1.0 billion to purchase 34.5 million shares of McKesson Europe through exercises of the Put Right by the noncontrolling shareholders. This decreased the carrying value of the redeemable noncontrolling interests by \$983 million for the six months ended September 30, 2021, and the Company recorded the associated effect of the increase in the Company’s ownership interest of \$178 million as an increase to McKesson stockholders’ additional paid-in capital. The Put Right expired on June 15, 2021, at which point the remaining shares owned by the minority shareholders, with a carrying value of \$287 million, were transferred from “Redeemable noncontrolling interests” to “Noncontrolling interests” in the Condensed Consolidated Balance Sheet.

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Noncontrolling Interests

Noncontrolling interests represent third-party equity interests in the Company's consolidated entities primarily related to ClarusONE Sourcing Services LLP and Vantage Oncology Holdings, LLC. As discussed above, after June 15, 2021, noncontrolling interests also represent minority shareholder equity interests in McKesson Europe. The Company's noncontrolling interest in McKesson Europe, with a carrying value of \$382 million at September 30, 2022, was included in the sale of the E.U. disposal group, as discussed in Financial Note 2, "Business Acquisitions and Divestitures." The Company allocated \$41 million and \$43 million of net income to noncontrolling interests during the three months ended September 30, 2022 and 2021, respectively, and \$82 million during each of the six months ended September 30, 2022 and 2021, which was recorded in "Net income attributable to noncontrolling interests" in the Company's Condensed Consolidated Statements of Operations.

Changes in noncontrolling interests for the three and six months ended September 30, 2022 were as follows:

<i>(In millions)</i>	Noncontrolling Interests
Balance, June 30, 2022	\$ 532
Net income attributable to noncontrolling interests	41
Other comprehensive loss	(6)
Payments to noncontrolling interests	(41)
Reclassification of recurring compensation to other accrued liabilities	(2)
Other	(6)
Balance, September 30, 2022	\$ 518

<i>(In millions)</i>	Noncontrolling Interests
Balance, March 31, 2022	\$ 480
Net income attributable to noncontrolling interests	82
Other comprehensive income	44
Payments to noncontrolling interests	(77)
Reclassification of recurring compensation to other accrued liabilities	(4)
Other	(7)
Balance, September 30, 2022	\$ 518

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Changes in redeemable noncontrolling interests and noncontrolling interests for the three and six months ended September 30, 2021 were as follows:

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, June 30, 2021	\$ 484	\$ 7
Net income attributable to noncontrolling interests	43	—
Payments to noncontrolling interests	(40)	—
Reclassification of recurring compensation to other accrued liabilities	(2)	—
Other	(1)	(7)
Balance, September 30, 2021	\$ 484	\$ —

<i>(In millions)</i>	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2021	\$ 196	\$ 1,271
Net income attributable to noncontrolling interests	82	8
Other comprehensive income	—	3
Payments to noncontrolling interests	(79)	—
Reclassification of recurring compensation to other accrued liabilities	(2)	(8)
Exercises of Put Right	—	(983)
Reclassification of McKesson Europe redeemable noncontrolling interests	287	(287)
Other	—	(4)
Balance, September 30, 2021	\$ 484	\$ —

6. Earnings (Loss) Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. The computation of diluted earnings per common share is similar to that of basic earnings per common share, except that the former reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. Potentially dilutive securities include outstanding stock options, restricted stock units, and performance-based restricted stock units. Less than 1 million potentially dilutive securities for each of the three and six months ended September 30, 2022 and 2021 were excluded from the computation of diluted earnings per common share as they were anti-dilutive.

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

<i>(In millions, except per share amounts)</i>	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Income from continuing operations	\$ 973	\$ 310	\$ 1,780	\$ 846
Net income attributable to noncontrolling interests	(41)	(43)	(82)	(90)
Income from continuing operations attributable to McKesson Corporation	932	267	1,698	756
Loss from discontinued operations, net of tax	(6)	—	(4)	(3)
Net income attributable to McKesson Corporation	<u>\$ 926</u>	<u>\$ 267</u>	<u>\$ 1,694</u>	<u>\$ 753</u>
Weighted-average common shares outstanding:				
Basic	143.1	154.1	143.7	155.1
Effect of dilutive securities:				
Stock options	0.2	0.2	0.3	0.2
Restricted stock units ⁽¹⁾	0.8	1.5	1.0	1.6
Diluted	<u>144.1</u>	<u>155.8</u>	<u>145.0</u>	<u>156.9</u>
Earnings (loss) per common share attributable to McKesson Corporation: ⁽²⁾				
Diluted				
Continuing operations	\$ 6.46	\$ 1.71	\$ 11.71	\$ 4.82
Discontinued operations	(0.04)	—	(0.03)	(0.02)
Total	<u>\$ 6.42</u>	<u>\$ 1.71</u>	<u>\$ 11.68</u>	<u>\$ 4.80</u>
Basic				
Continuing operations	\$ 6.51	\$ 1.73	\$ 11.81	\$ 4.87
Discontinued operations	(0.04)	—	(0.02)	(0.02)
Total	<u>\$ 6.47</u>	<u>\$ 1.73</u>	<u>\$ 11.79</u>	<u>\$ 4.85</u>

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

(2) Certain computations may reflect rounding adjustments.

7. Goodwill and Intangible Assets, Net

The Company evaluates goodwill for impairment on an annual basis and at an interim date, if indicators of potential impairment exist. The Company voluntarily changed its annual goodwill impairment testing date from October 1st to April 1st to align with a change in timing of the Company's annual long-term planning process. Accordingly, management determined that the change in accounting principle is preferable under the circumstance. This change has been applied prospectively from April 1, 2022 as retrospective application is deemed impracticable due to the inability to objectively determine the assumptions and significant estimates used in earlier periods without the benefit of hindsight. This change was not material to the Company's consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge. The annual impairment testing performed as of April 1, 2022 did not indicate an impairment of goodwill.

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Changes in the carrying amount of goodwill were as follows:

<i>(In millions)</i>	U.S. Pharmaceutical	Prescription Technology Solutions	Medical- Surgical Solutions	International	Total
Balance, March 31, 2022	\$ 3,923	\$ 1,542	\$ 2,453	\$ 1,533	\$ 9,451
Goodwill acquired	11	—	—	1	12
Foreign currency translation adjustments, net	(72)	—	—	(150)	(222)
Other adjustments	(2)	—	—	—	(2)
Balance, September 30, 2022	\$ 3,860	\$ 1,542	\$ 2,453	\$ 1,384	\$ 9,239

Information regarding intangible assets is as follows:

	September 30, 2022				March 31, 2022		
<i>(Dollars in millions)</i>	Weighted- Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	12	\$ 2,710	\$ (1,703)	\$ 1,007	\$ 2,777	\$ (1,691)	\$ 1,086
Service agreements	9	1,063	(591)	472	1,085	(573)	512
Trademarks and trade names	11	765	(402)	363	819	(386)	433
Technology	3	132	(120)	12	128	(116)	12
Other	9	190	(172)	18	187	(171)	16
Total		\$ 4,860	\$ (2,988)	\$ 1,872	\$ 4,996	\$ (2,937)	\$ 2,059

Amortization expense of intangible assets was \$57 million and \$84 million for the three months ended September 30, 2022 and 2021, respectively, and \$113 million and \$182 million for the six months ended September 30, 2022 and 2021, respectively. Estimated amortization expense of these assets is as follows: \$108 million, \$208 million, \$202 million, \$170 million, and \$164 million for the remainder of fiscal 2023 and each of the succeeding years through fiscal 2027, respectively, and \$1.0 billion thereafter. All intangible assets were subject to amortization as of September 30, 2022 and March 31, 2022. Amortization of intangible assets of the E.U. disposal group classified as held for sale ceased in the second quarter of fiscal 2022.

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8. Debt and Financing Activities

Long-term debt consisted of the following:

<i>(In millions)</i>	September 30, 2022	March 31, 2022
<u>U.S. Dollar notes</u> ^{(1) (2)}		
2.70% Notes due December 15, 2022	\$ 400	\$ 400
2.85% Notes due March 15, 2023	360	360
3.80% Notes due March 15, 2024	918	918
0.90% Notes due December 3, 2025	500	500
1.30% Notes due August 15, 2026	498	498
7.65% Debentures due March 1, 2027	150	150
3.95% Notes due February 16, 2028	343	343
4.75% Notes due May 30, 2029	196	196
6.00% Notes due March 1, 2041	217	217
4.88% Notes due March 15, 2044	255	255
<u>Foreign currency notes</u> ^{(1) (3)}		
1.50% Euro Notes due November 17, 2025	586	662
1.63% Euro Notes due October 30, 2026	490	554
3.13% Sterling Notes due February 17, 2029	503	582
Lease and other obligations	197	244
Total debt	5,613	5,879
Less: Current portion	800	799
Total long-term debt	\$ 4,813	\$ 5,080

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

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

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

Long-Term Debt

The Company's long-term debt includes both U.S. dollar and foreign currency-denominated borrowings. Debt outstanding totaled \$5.6 billion and \$5.9 billion at September 30, 2022 and March 31, 2022, respectively, of which \$800 million and \$799 million, was included under the caption "Current portion of long-term debt" within the Company's Condensed Consolidated Balance Sheets at September 30, 2022 and March 31, 2022, respectively.

On July 23, 2021, the Company completed a cash tender offer for a portion of its existing outstanding (i) 2.85% Notes due 2023, (ii) 3.80% Notes due 2024, (iii) 7.65% Debentures due 2027, (iv) 3.95% Notes due 2028, (v) 4.75% Notes due 2029, (vi) 6.00% Notes due 2041, and (vii) 4.88% Notes due 2044 (collectively referred to herein as the "Tender Offer Notes"). In connection with the tender offer, the Company paid an aggregate consideration of \$1.1 billion to redeem \$922 million principal amount of the notes at a redemption price equal to 100% of the principal amount and premiums of \$182 million, plus accrued and unpaid interest of \$14 million. The redemption of the Tender Offer Notes was accounted for as a debt extinguishment. As a result of the redemption, the Company incurred a pre-tax loss on debt extinguishment of \$191 million, which included premiums of \$182 million as well as the write-off of unamortized debt issuance costs and transaction fees incurred totaling \$9 million.

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(UNAUDITED)

Revolving Credit Facilities

The Company has a Credit Agreement, dated as of September 25, 2019, as amended (the “2020 Credit Facility”), that provides a syndicated \$4.0 billion five-year senior unsecured credit facility with a \$3.6 billion aggregate sublimit of availability in Canadian dollars, British pound sterling, and Euro. Borrowings under the 2020 Credit Facility bear interest based upon the London Interbank Offered Rate (“LIBOR”), Canadian Dealer Offered Rate for credit extensions denominated in Canadian dollars, a prime rate, or alternative overnight rates as applicable, plus agreed upon margins. The 2020 Credit Facility matures in September 2024 and had no borrowings during the six months ended September 30, 2022 and 2021 and no amounts outstanding as of September 30, 2022 and March 31, 2022.

The 2020 Credit Facility contains various customary investment grade covenants, including a financial covenant which obligates the Company to maintain a maximum Total Debt to Consolidated EBITDA ratio, as defined in the amended credit agreement. If the Company does not comply with these covenants, its ability to use the 2020 Credit Facility may be suspended and repayment of any outstanding balances under the 2020 Credit Facility may be required. At September 30, 2022, the Company was in compliance with all covenants.

The Company also maintains bilateral credit facilities primarily denominated in Euros with no committed amount and an uncommitted amount of \$99 million as of September 30, 2022. Borrowings and repayments were not material during the six months ended September 30, 2022 and 2021. Amounts outstanding under these credit lines were not material as of September 30, 2022 and March 31, 2022.

Commercial Paper

The Company maintains a commercial paper program to support its working capital requirements and for other general corporate purposes. Under the program, the Company can issue up to \$4.0 billion in outstanding commercial paper notes. During the six months ended September 30, 2022, the Company borrowed \$100 million and repaid \$100 million under the program. During the six months ended September 30, 2021, the Company borrowed \$3.0 billion and repaid \$3.0 billion under the program. At September 30, 2022 and March 31, 2022, there were no commercial paper notes outstanding.

9. Pension Benefits

The net periodic expense for defined benefit pension plans was not material for each of the three and six months ended September 30, 2022 and 2021. Cash contributions to these plans were \$2 million and \$5 million for the three and six months ended September 30, 2022, respectively, and \$3 million and \$17 million for the three and six months ended September 30, 2021, respectively. The projected unit credit method is utilized in measuring net periodic pension expense over the employees’ service life for the pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized on a straight-line basis over the average remaining future service periods and estimated life expectancy.

As part of the European divestiture activities discussed in more detail in Financial Note 2, “Business Acquisitions and Divestitures,” pension liabilities of \$74 million and \$85 million as of September 30, 2022 and March 31, 2022, respectively, were included under the caption “Liabilities held for sale,” in the Condensed Consolidated Balance Sheets as part of the E.U. disposal group. During the first quarter of fiscal 2023, the Company derecognized pension assets of \$49 million and released \$30 million of accumulated other comprehensive loss related to the sale of its U.K. disposal group. The pension assets were included within “Assets held for sale” in the Condensed Consolidated Balance Sheet as of March 31, 2022.

10. Hedging Activities

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

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Foreign Currency Exchange Risk

The Company conducts its business worldwide in U.S. dollars and the functional currencies of its foreign subsidiaries, including Euro, British pound sterling, and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on the Company's financial results that are reported in U.S. dollars. The Company is also exposed to foreign currency exchange rate risk related to its foreign subsidiaries, including intercompany loans denominated in non-functional currencies. The Company has certain foreign currency exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. These forward contracts and cross-currency swaps are generally used to offset the potential income statement effects from intercompany loans and other obligations denominated in non-functional currencies. These programs reduce but do not entirely eliminate foreign currency exchange rate risk. Subsequent to the completion of the U.K. divestiture in April 2022 as discussed in Financial Note 2, "Business Acquisitions and Divestitures," the Company's foreign currency exchange rate risk is limited to the Euro and Canadian dollar.

Non-Derivative Instruments Designated as Hedges

At September 30, 2022 and March 31, 2022, the Company had €1.1 billion of Euro-denominated notes designated as non-derivative net investment hedges. These hedges are utilized to hedge portions of the Company's net investments in non-U.S. subsidiaries against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. For all notes that are designated as net investment hedges and meet effectiveness requirements, the changes in carrying value of the notes attributable to the change in spot rates are recorded as foreign currency translation adjustments in "Accumulated other comprehensive loss" in the Condensed Consolidated Statements of Stockholders' Equity (Deficit) where they offset foreign currency translation gains and losses recorded on the Company's net investments. To the extent foreign currency denominated notes designated as net investment hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings.

In connection with the sale of the U.K. disposal group in April 2022, the Company reclassified \$26 million of gains from accumulated other comprehensive loss and recorded in "Selling, distribution, general, and administrative expenses" in the Condensed Consolidated Statements of Operations for the six months ended September 30, 2022. This amount related to the Company's £450 million British pound sterling-denominated notes, which were previously accounted for as net investment hedges until de-designated in fiscal 2020, and was included in the fiscal 2022 calculation of charges to remeasure the assets and liabilities to fair value less costs to sell.

Foreign currency gains (losses) from non-derivative instruments included in other comprehensive income in the Condensed Consolidated Statements of Comprehensive Income were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
<i>(In millions)</i>				
Non-derivatives designated as net investment hedges: ⁽¹⁾				
Euro-denominated notes	\$ 75	\$ 33	\$ 139	\$ 11

(1) There was no ineffectiveness in these hedges for the three and six months ended September 30, 2022 and 2021.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Derivative Instruments

At September 30, 2022 and March 31, 2022, the notional amounts of the Company's outstanding derivatives were as follows:

			September 30, 2022		March 31, 2022	
(In millions)	Currency	Maturity Date	Notional			
Derivatives designated as net investment hedges: ⁽¹⁾						
Cross-currency swaps ⁽²⁾	CAD	Nov-24	\$	500	\$	500
Derivatives designated as fair value hedges: ⁽¹⁾						
Cross-currency swaps ⁽³⁾	GBP	Feb-23	£	450	£	450
Floating interest rate swaps ⁽⁴⁾	USD	Aug-27 to Sep-29	\$	750	\$	—
Derivatives designated as cash flow hedges: ⁽¹⁾						
Cross-currency swaps ⁽²⁾	CAD	Jul-22 to Jan-24	\$	1,532	\$	1,678
Fixed interest rate swaps ⁽⁵⁾	USD	Mar-23	\$	500	\$	500

(1) There was no ineffectiveness in these hedges for the three and six months ended September 30, 2022 and 2021.

(2) The Company agreed with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts.

(3) The Company agreed with third parties to exchange fixed interest payments in British pound sterling for floating interest payments in U.S. dollars based on three-month LIBOR plus a spread.

(4) The Company entered into fixed-to-floating interest rate swaps to hedge the changes in fair value caused by fluctuations in the benchmark interest rates.

(5) The Company entered into agreements with financial institutions to lock into the fixed benchmark interest rates for future bond issuance.

Net Investment Hedges

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

Fair Value Hedges

The Company uses cross-currency swaps to hedge the changes in the fair value of British pound sterling notes resulting from changes in benchmark interest rates and foreign exchange rates. The changes in the fair value of these derivatives and the offsetting changes in the fair value of the hedged notes are recorded in earnings. Gains from the changes in the Company's fair value hedges recorded in earnings were largely offset by the losses recorded in earnings on the hedged item.

During the three and six months ended September 30, 2022, the Company entered into floating interest rate swaps to convert \$570 million and \$750 million, respectively, of its fixed rate debt to floating interest rate in order to hedge the changes in fair value caused by fluctuations in the benchmark interest rate. The changes in the fair value of these derivatives are recorded in "Interest expense" in the Condensed Consolidated Statements of Operations.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Cash Flow Hedges

From time to time, the Company enters into cross-currency swaps to hedge intercompany loans denominated in non-functional currencies to reduce the income statement effects arising from fluctuations in foreign currency rates and also enters into forward contracts to hedge the variability future benchmark interest rates on planned bond issuances. The effective portion of changes in the fair value of these hedges is recorded in accumulated other comprehensive loss and reclassified into earnings in the same period in which the hedged transaction affects earnings. Changes in fair values representing hedge ineffectiveness are recognized in current earnings. Gains or losses reclassified from accumulated other comprehensive loss and recorded in “Selling, distribution, general, and administrative expenses” in the Condensed Consolidated Statements of Operations were not material for the three and six months ended September 30, 2022 and 2021.

Derivatives Not Designated as Hedges

Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change in fair value included in earnings. From time to time, the Company enters into forward contracts to hedge the Euro against cash flows denominated in British pound sterling and other European currencies. Changes in the fair values for contracts not designated as hedges are recorded directly into earnings in “Selling, distribution, general, and administrative expenses” in the Condensed Consolidated Statements of Operations. Changes in the fair values were not material for the three and six months ended September 30, 2021 and the Company did not have any outstanding derivative instruments not designated as hedges during fiscal 2023. Gains or losses from these contracts are largely offset by changes in the value of the underlying intercompany obligations.

Other Information on Derivative Instruments

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
<i>(In millions)</i>				
Derivatives designated as net investment hedges:				
Cross-currency swaps	\$ 21	\$ 10	\$ 33	\$ 5
Derivatives designated as cash flow hedges:				
Cross-currency swaps	\$ (3)	\$ 1	\$ (5)	\$ (1)
Fixed interest rate swaps	28	10	55	12

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

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

(In millions)	Balance Sheet Caption	September 30, 2022			March 31, 2022		
		Fair Value of Derivative		U.S. Dollar Notional	Fair Value of Derivative		U.S. Dollar Notional
		Asset	Liability		Asset	Liability	
Derivatives designated for hedge accounting:							
Cross-currency swaps (current)	Prepaid expenses and other/Other accrued liabilities	\$ 43	\$ 62	\$ 1,417	\$ 30	\$ 39	\$ 1,537
Cross-currency swaps (non-current)	Other non-current assets/liabilities	26	—	679	—	36	679
Fixed interest rate swaps (current)	Prepaid expenses and other	85	—	500	31	—	500
Floating interest rate swaps (non-current)	Other non-current liabilities	—	34	750	—	—	—
Total		\$ 154	\$ 96		\$ 61	\$ 75	

Refer to Financial Note 11, "Fair Value Measurements," for more information on these recurring fair value measurements.

11. Fair Value Measurements

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

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

Level 2 - significant other observable market-based inputs.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Cash and cash equivalents at September 30, 2022 and March 31, 2022 included investments in money market funds of \$772 million and \$981 million, respectively, which are reported at fair value. The fair value of money market funds was determined using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates their fair value due to their relatively short-term nature. The Company's marketable securities were not material at September 30, 2022 and March 31, 2022.

Fair values of the Company's interest rate swaps, cross-currency swaps, and foreign currency forward contracts were determined using observable inputs from available market information, including quoted interest rates, foreign currency exchange rates, and other observable inputs from available market information. These inputs are considered Level 2 under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future. Refer to Financial Note 10, "Hedging Activities," for fair value and other information on the Company's derivatives including interest rate swaps, cross-currency swaps, and foreign currency forward contracts.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The Company holds investments in equity securities of U.S. growth stage companies that address both current and emerging business challenges in the healthcare industry and which had carrying values of \$252 million and \$346 million at September 30, 2022 and March 31, 2022, respectively. These investments primarily consist of equity securities without readily determinable fair values and are included in "Other non-current assets" in the Condensed Consolidated Balance Sheets. During the six months ended September 30, 2022, the Company recognized impairment charges and realized gains on the exit of certain investments. During the three months ended September 30, 2021, certain of the Company's investments in equity securities without readily determinable fair values were remeasured to fair value based on transactions which resulted in changes in the observable price of those securities. Net gains (losses) related to the Company's investments in these equity securities were \$(3) million and \$97 million for the three months ended September 30, 2022 and 2021, respectively, and \$(25) million and \$104 million for the six months ended September 30, 2022 and 2021, respectively. These amounts were recorded in "Other income, net" in the Condensed Consolidated Statements of Operations. The carrying value of publicly-traded investments, which was not material for the periods presented, was determined using quoted prices for identical investments in active markets and are considered to be Level 1 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company's assets and liabilities are also subject to nonrecurring fair value measurements. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges.

At September 30, 2022 and March 31, 2022, the assets and liabilities associated with the disposal groups in Europe classified as held for sale were measured at the lower of carrying value or fair value less costs to sell, as discussed in more detail in Financial Note 2, "Business Acquisitions and Divestitures." At March 31, 2022, assets measured at fair value on a nonrecurring basis also included certain long-lived assets within the International segment related to the Company's previous operations in Denmark and its retail pharmacy businesses in Canada.

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

There were no other material assets or liabilities measured at fair value on a nonrecurring basis at September 30, 2022 and March 31, 2022.

Other Fair Value Disclosures

At September 30, 2022 and March 31, 2022, the carrying amounts of cash, certain cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, short-term borrowings, and other current liabilities approximated their estimated fair values because of the short-term maturity of these financial instruments.

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

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

	September 30, 2022		March 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In millions)				
Long-term debt, including current maturities	\$ 5,613	\$ 5,321	\$ 5,879	\$ 5,999

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

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

Restricted Cash

Restricted cash, included within "Prepaid expenses and other" in the Company's Condensed Consolidated Balance Sheets primarily consists of \$35 million and \$395 million as of September 30, 2022 and March 31, 2022, respectively, held in escrow related to obligations under settlement agreements for opioid-related claims of governmental entities, as discussed in more detail in Financial Note 12, "Commitments and Contingent Liabilities."

Goodwill

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

Long-lived Assets

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

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

12. Commitments and Contingent Liabilities

In addition to commitments and obligations incurred in the ordinary course of business, the Company is subject to a variety of claims and legal proceedings, including claims from customers and vendors, pending and potential legal actions for damages, governmental investigations, and other matters. The Company and its affiliates are parties to the legal claims and proceedings described below and in [Financial Note 18 to the Company's 2022 Annual Report](#), which disclosure is incorporated in this footnote by this reference. The Company is vigorously defending itself against those claims and in those proceedings. Significant developments in those matters are described below. If the Company is unsuccessful in defending, or if it determines to settle, any of these matters, it may be required to pay substantial sums, be subject to injunction and/or be forced to change how it operates its business, which could have a material adverse impact on its financial position or results of operations.

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

McKESON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

I. Litigation and Claims Involving Distribution of Controlled Substances

The Company and its affiliates have been sued as defendants in many cases asserting claims related to distribution of controlled substances. They have been named as defendants along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers, and retail pharmacy chains. The plaintiffs in these actions have included state attorneys general, county and municipal governments, school districts, tribal nations, hospitals, health and welfare funds, third-party payors, and individuals. These actions have been filed in state and federal courts throughout the U.S., and in Puerto Rico and Canada. They seek monetary damages and other forms of relief based on a variety of causes of action, including negligence, public nuisance, unjust enrichment, and civil conspiracy, as well as alleging violations of the Racketeer Influenced and Corrupt Organizations Act (“RICO”), state and federal controlled substances laws, and other statutes.

The Company and two other national pharmaceutical distributors (collectively “Distributors”) settled with 46 of 49 eligible states and their participating subdivisions, as well as the District of Columbia and all eligible territories (collectively, “Settling Governmental Entities”) effective on April 2, 2022 (“Settlement”). Under the Settlement, the Distributors will pay the Settling Governmental Entities up to approximately \$19.5 billion over 18 years, with up to approximately \$7.4 billion to be paid by the Company for its 38.1% portion. A minimum of 85% of the Settlement payments must be used by state and local governmental entities to remediate the opioid epidemic. Most of the remaining percentage relates to plaintiffs’ attorneys’ fees and costs, and would be payable over a shorter time period. Under the Settlement, the Distributors will establish a clearinghouse to consolidate their controlled-substance distribution data, which will be available to the settling U.S. states to use as part of their anti-diversion efforts. The Distributors do not admit liability or wrongdoing and do not waive any defenses pursuant to the Settlement. Consent judgments have been entered in all participating states and territories, and approximately 2,000 cases have been dismissed pursuant to the Settlement.

Three eligible states, Alabama, Washington, and Oklahoma did not join the Settlement, but they have all now reached agreements with the Company. With respect to the claims of the Alabama attorney general, the Company has negotiated an agreement under which the Company will pay \$141 million in ten equal annual installments and an additional approximately \$33 million in attorney fees and costs to resolve the opioid-related claims of the state of Alabama and its subdivisions. On May 3, 2022, the Distributors announced an agreement with the attorney general of Washington to settle the claims of the state of Washington and its subdivisions. Under that agreement, Washington and its subdivisions would be paid up to \$518 million over 18 years, of which the Company’s portion would be 38.1% (or approximately \$197 million), consistent with Washington’s allocation under the comprehensive framework, as well as certain additional attorneys’ fees and costs. On June 27, 2022, an agreement was announced between the Distributors and the attorney general of Oklahoma to settle claims of the state of Oklahoma and its subdivisions. Under that agreement, Oklahoma and its subdivisions will be paid up to approximately \$308 million over 18 years, of which the Company’s portion would be 38.1% (or approximately \$117 million), consistent with Oklahoma’s allocation under the comprehensive framework. The Company’s loss contingency accruals for these three states and their subdivisions reflect the amounts of these agreements.

The Company previously settled with the state of West Virginia, and West Virginia and its subdivisions were not eligible to participate in the comprehensive Settlement. Trial in the case of Cabell County and the City of Huntington occurred in the U.S. District Court for the Southern District of West Virginia and concluded on July 28, 2021. On July 4, 2022, the court entered judgment in defendants’ favor. On August 2, 2022, the plaintiffs filed an appeal. The claims of certain other West Virginia subdivisions were pending in the federal Multi-district Litigation and before the state Mass Litigation Panel. On July 5, 2022, the Mass Litigation Panel entered an order noting an agreement in principle between a group of plaintiffs’ attorneys representing the municipalities and the Distributors. Under the settlement agreement with the participating West Virginia municipalities, the Distributors will pay \$400 million over approximately 11 years, with the Company responsible for 38.1% of the total amount (or approximately \$152 million). All participating litigating subdivisions have dismissed their claims against the Company. The agreement does not include school districts or the claims of Cabell County and the City of Huntington. The Company’s loss contingency accruals for the West Virginia subdivisions are reflected in the estimated liability for the opioid-related claims as of September 30, 2022.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

With respect to the claims of Native American tribes, on September 28, 2021, the Company announced that the Distributors reached an agreement with the Cherokee Nation to pay approximately \$75 million over 6.5 years to resolve opioid-related claims, of which the Company's portion would be 38.1% (or, approximately \$29 million). The Company has also negotiated an agreement to resolve opioid-related claims brought by Native American tribes. Under that agreement, which was executed on October 26, 2022, the Distributors will pay the Native American tribes, other than the Cherokee Nation, approximately \$440 million over 6 years, of which the Company's portion would be 38.1% (or, approximately \$167 million). The agreement achieves broad resolution of opioid-related claims brought against the Distributors by federally recognized Native American tribes. Under these agreements, a minimum of 85% of the settlement payments must be used by the Native American tribes to remediate the opioid epidemic. The Company's loss-contingency accruals for the Native American tribes reflect these amounts and are reflected in the estimated liability for the opioid-related claims as of September 30, 2022.

Although the Settlement terminated the substantial majority of opioid-related suits by governmental entities pending against the Company, a small number of subdivisions have opted not to participate in the settlements described above. The Company continues to prepare for trial in these pending matters and believes that it has valid defenses to the claims pending against it, and it intends to vigorously defend against all such claims if acceptable settlement terms are not achieved. The Company's loss contingency accruals for these subdivisions are reflected in the estimated liability for the opioid-related claims consistent with what would be allocated under the framework of the settlement.

In the three and six months ended September 30, 2022, the Company paid \$535 million and \$910 million, respectively, associated with the Settlement and separate settlement agreements of opioid-related claims of participating states, subdivisions, and the Cherokee Nation.

The Company's estimated accrued liability for the opioid-related claims of governmental entities is as follows:

<i>(In millions)</i>	September 30, 2022	March 31, 2022
Current litigation liabilities ⁽¹⁾	\$ 703	\$ 1,046
Long-term litigation liabilities	6,644	7,220
Total litigation liabilities	\$ 7,347	\$ 8,266

(1) These amounts as of September 30, 2022 and March 31, 2022, recorded in "Other accrued liabilities" in the Condensed Consolidated Balance Sheets, are the amounts estimated to be paid within the next twelve months following each respective period end date.

During the six months ended September 30, 2022, the Company paid \$45 million into, and released \$406 million from, escrow consistent with the terms of the opioid settlement agreements. The remaining escrow amounts, totaling \$35 million, were presented as restricted cash within "Prepaid expenses and other" in our Condensed Consolidated Balance Sheet as of September 30, 2022. The Settlement created a binding obligation to release the funds from escrow upon entry of consent judgments and establishment of a settlement administrator.

Although the vast majority of opioid claims have been brought by governmental entities in the U.S., the Company is also a defendant in cases brought in the U.S. by private plaintiffs, such as hospitals, health and welfare funds, third-party payors, and individuals, as well as four cases brought in Canada (three by governmental or tribal entities and one by an individual). These claims, and those of private entities generally, are not included in the Settlement or in the charges recorded by the Company, described above. The Company believes it has valid legal defenses in these matters and intends to mount a vigorous defense. One such case was brought by a group of individual plaintiffs in Glynn County, Georgia Superior Court. These plaintiffs seek to recover for damages allegedly arising from their family members' abuse of prescription opioids. *Poppell v. Cardinal Health, Inc. et al.*, CE19-00472. Although trial began in this case on July 18, 2022, the court declared a mistrial on July 22, 2022; a new trial has been set for January 23, 2023. The Company has not concluded a loss is probable in any of these matters; nor is any possible loss or range of loss reasonably estimable.

Because of the many uncertainties associated with the remaining opioid-related litigation matters, the Company is not able to reasonably estimate the upper or lower ends of the range of ultimate possible loss for all opioid-related litigation matters. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on the Company's financial position, cash flows or liquidity, or results of operations.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

II. Other Litigation and Claims

On December 12, 2018, the Company received a purported class action complaint in the United States District Court for the Northern District of California, alleging that McKesson and two of its former officers, CEO John Hammergren and CFO James Beer, violated the Securities Exchange Act of 1934 by reporting profits and revenues from 2013 until early 2017 that were false and misleading, due to an alleged undisclosed conspiracy to fix the prices of generic drugs. *Evanston Police Pension Fund v. McKesson Corporation*, No. 3:18-06525. The complaint seeks relief including damages, attorney fees, and costs in unspecified amounts. On February 8, 2019, the court appointed the Pension Trust Fund for Operating Engineers as the lead plaintiff. On April 10, 2019, the lead plaintiff filed an amended complaint that added insider trading allegations against defendant Hammergren. On April 8, 2021, the court granted plaintiff's motion for class certification. On October 21, 2021, the court granted defendants' motion for partial summary judgment and shortened the class period. On December 29, 2021, plaintiff filed an amended complaint, which defendants have moved to dismiss. In October 2022, the parties reached an agreement in principle to settle this class action lawsuit for an amount covered in full by the Company's insurance policy. The settlement is subject to, among other things, approval by the court. This settlement does not include any admission of liability, and defendants expressly deny wrongdoing. Accordingly, the Company's estimated probable loss, entirely offset by probable loss recovery from the Company's insurers, is \$141 million, both of which have been recognized in the Condensed Consolidated Balance Sheet as of September 30, 2022 within "Other accrued liabilities" and "Prepaid expenses and other."

On December 9, 2019, the United States District Court for the Eastern District of New York ordered the unsealing of a complaint filed by a relator, purportedly on behalf of the United States, 30 states, the District of Columbia, and two cities, against US Oncology, Inc. alleging that from 2001 through 2010 the Company repackaged and sold single-dose syringes of oncology medications in a manner that violated the federal False Claims Act and various state and local false claims statutes, and seeking damages, treble damages, civil penalties, attorneys' fees and costs of suit, all in unspecified amounts, *United States ex rel. Omni Healthcare, Inc. v. US Oncology, Inc.*, 19-cv-05125. The United States and the named states declined to intervene in the case. On July 21, 2022, US Oncology, Inc.'s motion to dismiss was granted without prejudice. Relator filed an amended complaint on August 19, 2022. The related case against other Company defendants remains pending, *United States ex rel. Omni Healthcare Inc. v. McKesson Corporation, et al.*, 12-CV-06440 (NG).

III. Government Subpoenas and Investigations

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

IV. Antitrust Settlements

In October 2022, the Company received proceeds of \$129 million related to its share of an antitrust settlement. A lawsuit was filed against a brand manufacturer alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company was not a named party to the litigation but was a member of the class of those who purchased directly from the pharmaceutical manufacturer. The Company will recognize a gain in that amount within "Cost of sales" in the Condensed Consolidated Statement of Operations in the third quarter of fiscal 2023 related to the settlement.

13. Stockholders' Equity (Deficit)

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

In July 2022, the quarterly dividend was raised from \$0.47 to \$0.54 per common share for dividends declared on or after such date by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements, and other factors.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Share Repurchase Plans

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase (“ASR”) programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company’s stock price, corporate and regulatory requirements, restrictions under the Company’s debt obligations, and other market and economic conditions. The ASR programs discussed below were designed to comply with Rule 10b5-1(c).

In May 2022, the Company entered into an ASR program with a third-party financial institution to repurchase \$1.0 billion of the Company’s common stock. The total number of shares repurchased under this ASR program was 3.1 million shares at an average price per share of \$321.05. The Company received 2.6 million shares as the initial share settlement, and in August 2022, the Company received an additional 0.5 million shares upon the completion of this ASR program.

In February 2022, the Company entered into an ASR program with a third-party financial institution to repurchase \$1.5 billion of the Company’s common stock. The total number of shares repurchased under this ASR program was 5.1 million shares at an average price per share of \$295.16. The Company received 4.8 million shares as the initial share settlement during the fourth quarter of fiscal 2022, and in May 2022, the Company received an additional 0.3 million shares upon the completion of this ASR program.

In May 2021, the Company entered into an ASR program with a third-party financial institution to repurchase \$1.0 billion of the Company’s common stock. The total number of shares repurchased under this ASR program was 5.2 million shares at an average price per share of \$193.22. The Company received 4.3 million shares as the initial share settlement, and in August 2021, the Company received an additional 0.9 million shares upon the completion of this ASR program.

During the three and six months ended September 30, 2022, the Company repurchased 1.5 million of the Company’s shares of common stock for \$524 million through open market transactions at an average price per share of \$355.75, of which \$40 million was accrued within “Other accrued liabilities” in the Company’s Condensed Consolidated Balance Sheets for share repurchases that were executed in late September 2022 and settled in early October 2022. During the three and six months ended September 30, 2021, the Company repurchased 1.4 million of the Company’s shares of common stock for \$280 million through open market transactions at an average price per share of \$203.20, of which \$16 million was accrued within “Other accrued liabilities” in the Company’s Condensed Consolidated Balance Sheets for the period ended September 30, 2021 for share repurchases that were executed in late September 2021 and settled in early October 2021.

In July 2022, the Board approved an increase of \$4.0 billion in the authorization for repurchase of McKesson’s common stock. The total remaining authorization outstanding for repurchases of the Company’s common stock at September 30, 2022 was \$5.8 billion.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Accumulated Other Comprehensive Loss

Information regarding changes in accumulated other comprehensive loss, including noncontrolling interests, by components for the three and six months ended September 30, 2022 are as follows:

	Foreign Currency Translation Adjustments				
	Foreign Currency Translation Adjustments, Net of Tax ⁽¹⁾	Unrealized Gains on Net Investment Hedges, Net of Tax	Unrealized Gains on Cash Flow Hedges, Net of Tax	Unrealized Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss
<i>(In millions)</i>					
Balance at June 30, 2022	\$ (997)	\$ 38	\$ 45	\$ (34)	\$ (948)
Other comprehensive income (loss) before reclassifications	(280)	71 ⁽²⁾	18	2	(189)
Amounts reclassified to earnings and other	17	—	—	—	17
Other comprehensive income (loss)	(263)	71	18	2	(172)
Less: amounts attributable to noncontrolling interests	(6)	—	—	—	(6)
Other comprehensive income (loss) attributable to McKesson	(257)	71	18	2	(166)
Balance at September 30, 2022	\$ (1,254)	\$ 109	\$ 63	\$ (32)	\$ (1,114)

- (1) Primarily results from the conversion of non-U.S. dollar financial statements of the Company's operations in Europe and Canada into the Company's reporting currency, U.S. dollars.
- (2) Amounts recorded for the three months ended September 30, 2022 include gains of \$75 million related to net investment hedges from Euro-denominated notes and gains of \$21 million related to net investment hedges from cross-currency swaps. These amounts are net of income tax expense of \$25 million.

	Foreign Currency Translation Adjustments				
(In millions)	Foreign Currency Translation Adjustments, Net of Tax ⁽¹⁾	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains on Cash Flow Hedges, Net of Tax	Unrealized Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss
Balance at March 31, 2022	\$ (1,504)	\$ 10	\$ 27	\$ (67)	\$ (1,534)
Other comprehensive income (loss) before reclassifications	(456)	116 ⁽²⁾	36	14	(290)
Amounts reclassified to earnings and other	747	(17)	—	24	754
Other comprehensive income	291	99	36	38	464
Less: amounts attributable to noncontrolling interests	41	—	—	3	44
Other comprehensive income attributable to McKesson	250	99	36	35	420
Balance at September 30, 2022	\$ (1,254)	\$ 109	\$ 63	\$ (32)	\$ (1,114)

- (1) Primarily results from the conversion of non-U.S. dollar financial statements of the Company's operations in Europe and Canada into the Company's reporting currency, U.S. dollars.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

- (2) Amounts recorded for the six months ended September 30, 2022 include gains of \$139 million related to net investment hedges from Euro-denominated notes and gains of \$33 million related to net investment hedges from cross-currency swaps. These amounts are net of income tax expense of \$56 million.
- (3) Primarily includes adjustments for amounts related to the sale of the U.K. disposal group in April 2022, as discussed in more detail in Financial Note 2, “Business Acquisitions and Divestitures.” These amounts were included in the fiscal 2022 calculation of charges to remeasure the assets and liabilities to fair value less costs to sell recorded within “Selling, distribution, general, and administrative expenses” in the Consolidated Statements of Operations.

Information regarding changes in accumulated other comprehensive loss, including noncontrolling interests and redeemable noncontrolling interests, by components for the three and six months ended September 30, 2021 are as follows:

	Foreign Currency Translation Adjustments					
	Foreign Currency Translation Adjustments, Net of Tax ⁽¹⁾	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains on Cash Flow Hedges, Net of Tax	Unrealized Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss	
<i>(In millions)</i>						
Balance at June 30, 2021	\$ (1,477)	\$ (57)	\$ 13	\$ (106)	\$ (1,627)	
Other comprehensive income (loss) before reclassifications	(81)	32 ⁽²⁾	3	1	(45)	
Amounts reclassified to earnings and other	1	—	5	1	7	
Other comprehensive income (loss)	(80)	32	8	2	(38)	
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	—	—	—	—	—	
Other comprehensive income (loss) attributable to McKesson	(80)	32	8	2	(38)	
Balance at September 30, 2021	\$ (1,557)	\$ (25)	\$ 21	\$ (104)	\$ (1,665)	

- (1) Primarily results from the conversion of non-U.S. dollar financial statements of the Company’s operations in Europe and Canada into the Company’s reporting currency, U.S. dollars.
- (2) Amounts recorded for the three months ended September 30, 2021 include gains of \$33 million related to net investment hedges from Euro-denominated notes and gains of \$10 million related to net investment hedges from cross-currency swaps. These amounts are net of income tax expense of \$11 million.

McKESSEON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

	Foreign Currency Translation Adjustments				
	Foreign Currency Translation Adjustments, Net of Tax ⁽¹⁾	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains on Cash Flow Hedges, Net of Tax	Unrealized Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Loss
<i>(In millions)</i>					
Balance at March 31, 2021	\$ (1,361)	\$ (36)	\$ 13	\$ (96)	\$ (1,480)
Other comprehensive income (loss) before reclassifications	(47)	5 ⁽²⁾	3	6	(33)
Amounts reclassified to earnings and other	18	—	5	(2)	21
Other comprehensive income (loss)	(29)	5	8	4	(12)
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	9	(6)	—	—	3
Other comprehensive income (loss) attributable to McKesson	(38)	11	8	4	(15)
Exercise of put right by noncontrolling shareholders of McKesson Europe AG	(158)	—	—	(12)	(170)
Balance at September 30, 2021	\$ (1,557)	\$ (25)	\$ 21	\$ (104)	\$ (1,665)

- (1) Primarily results from the conversion of non-U.S. dollar financial statements of the Company's operations in Europe and Canada into the Company's reporting currency, U.S. dollars.
- (2) Amounts recorded for the six months ended September 30, 2021 include gains of \$11 million related to net investment hedges from Euro-denominated notes and gains of \$5 million related to net investment hedges from cross-currency swaps. These amounts are net of income tax expense of \$5 million.

14. Segments of Business

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

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

The RxTS segment serves McKesson's biopharma and life sciences partners and patients to address medication challenges for patients throughout their journeys. RxTS works across healthcare to connect pharmacies, providers, payers, and biopharma companies to deliver innovative access, affordability, and adherence solutions designed to benefit stakeholders and help people get the medicine they need to live healthier lives. RxTS also offers third-party logistics and wholesale distribution support across various therapeutic categories and temperature ranges to biopharma customers throughout the product lifecycle.

The Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers, including physician offices, surgery centers, nursing homes, hospital reference labs, and home health care agencies. This segment offers more than 285,000 national brand medical-surgical products as well as McKesson's own line of high-quality products through a network of distribution centers within the U.S.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The International segment includes the Company's operations in Europe and Canada, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. The Company's operations in Europe provide distribution and services to wholesale, institutional, and retail customers in nine European countries where it owns, partners, or franchises with retail pharmacies and operates through two businesses: Pharmaceutical Distribution and Retail Pharmacy. The Company's Canadian operations deliver vital medicines, supplies, and information technology solutions throughout Canada and includes Rexall Health retail pharmacies. In the second quarter of fiscal 2022, the Company entered into an agreement to sell the E.U. disposal group which closed on October 31, 2022. International segment assets at September 30, 2022 were \$9.6 billion, a decrease from the end of fiscal 2022 primarily due to the completed sale of the U.K. disposal group in April 2022 and unfavorable effects of foreign currency exchange fluctuations. Refer to Financial Note 2, "Business Acquisitions and Divestitures," for more information.

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

(In millions)	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Segment revenues ⁽¹⁾				
U.S. Pharmaceutical	\$ 60,059	\$ 53,411	\$ 117,006	\$ 103,430
Prescription Technology Solutions	1,018	932	2,084	1,813
Medical-Surgical Solutions	2,843	3,124	5,435	5,652
International	6,237	9,109	12,786	18,355
Total revenues	<u>\$ 70,157</u>	<u>\$ 66,576</u>	<u>\$ 137,311</u>	<u>\$ 129,250</u>
Segment operating profit (loss) ⁽²⁾				
U.S. Pharmaceutical ⁽³⁾	\$ 896	\$ 760	\$ 1,592	\$ 1,442
Prescription Technology Solutions	120	128	264	232
Medical-Surgical Solutions ⁽⁴⁾	299	296	555	371
International ⁽⁵⁾	(37)	(146)	(43)	(93)
Subtotal	1,278	1,038	2,368	1,952
Corporate expenses, net ⁽⁶⁾	21	(360)	(18)	(663)
Loss on debt extinguishment ⁽⁷⁾	—	(191)	—	(191)
Interest expense	(55)	(45)	(100)	(94)
Income from continuing operations before income taxes	<u>\$ 1,244</u>	<u>\$ 442</u>	<u>\$ 2,250</u>	<u>\$ 1,004</u>

- (1) Revenues from services on a disaggregated basis represent less than 1% of the U.S. Pharmaceutical segment's total revenues, less than 37% of the RxTS segment's total revenues, less than 3% of the Medical-Surgical Solutions segment's total revenues, and less than 8% of the International segment's total revenues. The International segment reflects foreign revenues. Revenues for the remaining three reportable segments are derived in the U.S.
- (2) Segment operating profit (loss) includes gross profit, net of total operating expenses, as well as other income, net, for the Company's reportable segments.
- (3) The Company's U.S. Pharmaceutical segment's operating profit includes the following:
 - a gain of \$142 million for the three and six months ended September 30, 2022 related to the exit of one of the Company's investments in equity securities in July 2022 for proceeds of \$179 million, which is reflected within "Other income, net" in the Company's Condensed Consolidated Statements of Operations;
 - credits related to the last-in, first-out ("LIFO") method of accounting for inventories of \$23 million for each of the three months ended September 30, 2022 and 2021, and \$36 million and \$46 million for the six months ended September 30, 2022 and 2021, respectively; and
 - cash receipts for the Company's share of antitrust legal settlements of \$34 million and \$46 million for the three and six months ended September 30, 2021, respectively.
- (4) The Company's Medical-Surgical Solutions segment's operating profit for the six months ended September 30, 2021 includes \$164 million of inventory charges on certain personal protective equipment and other related products.

McKESSON CORPORATION
FINANCIAL NOTES (CONCLUDED)
(UNAUDITED)

- (5) The Company's International segment's operating loss includes the following:
- charges of \$143 million and \$237 million for the three and six months ended September 30, 2022, respectively, and charges of \$342 million for the three and six months ended September 30, 2021, to remeasure the assets and liabilities of the E.U. disposal group to fair value less costs to sell and, in fiscal 2022, to impair certain assets, including internal-use software that will not be utilized in the future, as discussed in more detail in Financial Note 2, "Business Acquisitions and Divestitures;" and
 - a gain of \$59 million for the three and six months ended September 30, 2021 related to the sale of the Company's Canadian health benefit claims management and plan administrative services business.
- (6) Corporate expenses, net includes the following:
- gains of \$166 million and \$272 million for the three and six months ended September 30, 2022, respectively, and charges of \$149 million for the three and six months ended September 30, 2021, primarily related to the effect of accumulated other comprehensive loss components from the E.U. disposal group, as discussed in more detail in Financial Note 2, "Business Acquisitions and Divestitures;"
 - charges of \$112 million and \$186 million for the three and six months ended September 30, 2021, respectively, related to the Company's estimated liability for opioid-related claims, as discussed in more detail in Financial Note 12, "Commitments and Contingent Liabilities;"
 - charges of \$9 million and \$36 million for the three months ended September 30, 2022 and 2021, respectively, and charges of \$28 million and \$71 million for the six months ended September 30, 2022 and 2021, respectively, of opioid-related costs, primarily litigation expenses;
 - restructuring charges of \$19 million and \$81 million for the three and six months ended September 30, 2021, respectively, primarily due to the transition to a partial remote work model for certain employees; and
 - net gains (losses) of \$(3) million and \$97 million for three months ended September 30, 2022 and 2021, respectively, and \$(25) million and \$104 million for the six months ended September 30, 2022 and 2021, respectively, associated with certain of the Company's equity investments.
- (7) Loss on debt extinguishment for the three and six months ended September 30, 2021 consists of a charge of \$191 million related to the Company's July 2021 tender offer to redeem a portion of its existing debt, as discussed in more detail in Financial Note 8, "Debt and Financing Activities."

McKESSON CORPORATION
FINANCIAL REVIEW
(UNAUDITED)

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

INDEX TO MANAGEMENT’S DISCUSSION AND ANALYSIS

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GENERAL

Management’s discussion and analysis of financial condition and results of operations, referred to as the “Financial Review,” is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of McKesson Corporation together with its subsidiaries (collectively, the “Company,” “McKesson,” “we,” “our,” or “us,” and other similar pronouns). This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying financial notes in Item 1 of Part I of this Quarterly Report on Form 10-Q (“Quarterly Report”) and in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended March 31, 2022 previously filed with the Securities and Exchange Commission on May 9, 2022 (“2022 Annual Report”).

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

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

Overview of our Business:

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

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

McKESON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

The following summarizes our four reportable segments. Refer to Financial Note 14, “Segments of Business,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for further information regarding our reportable segments.

- **U.S. Pharmaceutical** is a reportable segment that distributes branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs and other healthcare-related products. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices. In addition, the segment sells financial, operational, and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing, technological, and other services.
- **Prescription Technology Solutions** is a reportable segment that combines automation and our ability to navigate the healthcare ecosystem to connect pharmacies, providers, payers, and biopharma companies to address patients’ medication access, affordability, and adherence challenges to help people get the medicine they need to live healthier lives.
- **Medical-Surgical Solutions** is a reportable segment that provides medical-surgical supply distribution, logistics, and other services to healthcare providers in the United States (“U.S.”).
- **International** is a reportable segment that includes our operations in Europe and Canada, bringing together non-U.S.-based drug distribution services, specialty pharmacy, retail, and infusion care services. During fiscal 2022, we entered into agreements to sell certain of our businesses in the European Union (“E.U.”) and our retail and distribution businesses in the United Kingdom (“U.K.”), as well as completed the sale of our Austrian business. In April 2022, we completed the sale of our retail and distribution businesses in the U.K. These divestitures are further described in the “*European Divestiture Activities*” section below.

European Divestiture Activities

On July 5, 2021, we entered into an agreement to sell certain of our businesses in the E.U. located in France, Italy, Ireland, Portugal, Belgium, and Slovenia, along with our German headquarters and wound-care business, part of a shared services center in Lithuania, and our ownership stake in a joint venture in the Netherlands (“E.U. disposal group”) to the PHOENIX Group for a purchase price of €1.2 billion (or, approximately \$1.2 billion) adjusted for certain items, including cash, net debt and working capital adjustments, and reduced by the value of the noncontrolling interest held by minority shareholders of McKesson Europe AG (“McKesson Europe”) at the transaction closing date. For the three and six months ended September 30, 2022, we recorded net gains of \$23 million and \$35 million, respectively, and for the three and six months ended September 30, 2021, we recorded charges of \$491 million in total operating expenses to remeasure the assets and liabilities of our E.U. disposal group to fair value less costs to sell. The fiscal 2022 charges also included impairments of certain internal-use software that will not be utilized in the future, prior to adjusting the E.U. disposal group as a whole, and a \$226 million loss related to the accumulated other comprehensive income balances associated with our E.U. disposal group. The transaction closed on October 31, 2022 and we received net cash proceeds of \$892 million after the adjustments listed above.

On April 6, 2022, we completed the previously announced sale of our retail and distribution businesses in the U.K. (“U.K. disposal group”) to Aurelius Elephant Limited for a purchase price of £110 million (or, approximately \$144 million), including certain adjustments. As part of the transaction, we divested net assets of \$615 million and released \$731 million of accumulated other comprehensive loss.

As of September 30, 2022, we had \$2.8 billion of assets and \$2.0 billion of liabilities classified as “Assets held for sale” and “Liabilities held for sale,” respectively, in the Condensed Consolidated Balance Sheet related to our E.U. disposal group described above. Refer to Financial Note 2, “Business Acquisitions and Divestitures,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information.

McKESSEON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Executive Summary:

The following summary provides highlights and key factors that impacted our business, operating results, financial condition, and liquidity for the three and six months ended September 30, 2022.

- On November 1, 2022, we completed our acquisition of Rx Savings Solutions, LLC (“RxSS”) to expand on connecting biopharma and payer services to patients. RxSS is a prescription price transparency and benefit insight company that offers affordability and adherence solutions to health plans and employers. Transaction consideration included a payment of approximately \$600 million made upon closing and a maximum of \$275 million of contingent consideration based on RxSS’ financial performance through calendar year 2025. The financial results of RxSS will be reported within our RxTS segment as of the acquisition date in the third quarter of fiscal 2023;
- On October 31, 2022, we completed a transaction with HCA Healthcare, Inc. (“HCA”) to form an oncology research business, combining McKesson’s U.S. Oncology Research (“USOR”) and HCA’s Sarah Cannon Research Institute (“SCRI”), to advance cancer care and increase access to oncology clinical research. Transaction consideration included the transfer of full ownership interest in USOR to the combined business and \$173 million of cash paid to HCA. The financial results of the combined business, in which we have a 51% controlling financial interest, will be reported within our U.S. Pharmaceutical segment as of the acquisition date in the third quarter of fiscal 2023. Separately, on October 31, 2022, we acquired Genospace, SCRI’s personalized medicine platform. Genospace is a leading innovator in precision medicine and clinical trial matching and will enhance McKesson’s oncology data and analytics capabilities;
- On October 31, 2022, we completed the sale of our E.U. disposal group and received net cash proceeds of \$892 million, as discussed in further detail in the “*European Divestitures Activities*” section above;
- In July 2022, we exited one of our investments in equity securities within our U.S. Pharmaceutical segment for proceeds of \$179 million and recognized a gain of \$142 million within other income, net during the second quarter of fiscal 2023;
- McKesson continues to play a leading role in the fight against the pandemic disease caused by the SARS-CoV-2 coronavirus (“COVID-19”). For a more in-depth discussion of how COVID-19 impacted our business, operations, financial results, and outlook, refer to the COVID-19 section of “*Trends and Uncertainties*” included below;
- For the three months ended September 30, 2022 compared to the prior year, revenues increased by 5%, gross profit decreased by 8%, total operating expenses decreased by 30%, and other income, net increased by 26%. For the six months ended September 30, 2022 compared to the prior year, revenues increased by 6%, gross profit decreased by 4%, total operating expenses decreased by 25%, and other income, net increased by 4%. Refer to the “*Overview of Consolidated Results*” section below for an analysis of these changes;
- Diluted earnings per common share from continuing operations attributable to McKesson Corporation increased 278% to \$6.46 and 143% to \$11.71 for the three and six months ended September 30, 2022 compared to the prior year, respectively, primarily driven by year over year favorability from fair value remeasurements of our E.U. disposal group since it was classified as held for sale in July 2022 and a lower share count due to the cumulative effect of share repurchases; and
- We returned \$1.6 billion of cash to shareholders during the six months ended September 30, 2022 through \$1.5 billion of common stock repurchases both under an accelerated share repurchase (“ASR”) program completed in August 2022 as well as through open market transactions and \$139 million of dividend payments. In July 2022, our Board of Directors (the “Board”) approved an increase of \$4.0 billion in the authorization for repurchases of McKesson’s common stock and raised our quarterly dividend from \$0.47 to \$0.54 per common share. The total remaining authorization outstanding for repurchases of the Company’s common stock at September 30, 2022 was \$5.8 billion.

Trends and Uncertainties:**Legislative Developments**

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 (the “IR Act”). Among other provisions, the IR Act includes a 15% corporate minimum tax, a 1% excise tax on certain repurchases of an entity’s own common stock after December 31, 2022, and various drug pricing reforms. Based on our preliminary assessment, we do not currently expect the IR Act to have a material impact on our results of operations, financial position, or cash flows in the foreseeable future; however, we will continue to evaluate the full impact of these legislative changes.

McKESSEON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

The Impact of Inflationary and Global Events

Our business and results of operations, financial condition, and liquidity are impacted by broad economic conditions including inflation, increased competition for talent, and disruption of the supply chain, as well as by political or civil unrest or military action, including indirect results such as commodity price increases from the conflict between Russia and Ukraine (“Russo-Ukrainian War”). Cost inflation generally affects us by increasing transportation, operational, and other administrative costs associated with our business operations which we might not be able to fully pass along to our customers. Although it is difficult to predict the impact that these factors may have on our business in the future, they did not have a material impact on our results of operations, financial condition, or liquidity for the three and six months ended September 30, 2022.

COVID-19

COVID-19 has continued to evolve since it was declared a global pandemic by the World Health Organization on March 11, 2020. We continue to evaluate the nature and extent of the ongoing impacts of COVID-19 on our business, operations, and financial results. Refer to Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II of our 2022 Annual Report for additional disclosure of trends and uncertainties due to COVID-19. The disclosures below include significant updates that occurred during the first half of fiscal 2023 and the financial impacts compared to fiscal 2022.

Our Role in the Distribution of COVID-19 Vaccines and Ancillary Supply Kits

As a diversified healthcare services leader, we are well positioned to respond to the COVID-19 pandemic in the U.S., Canada, and Europe. We work closely with national and local governments, agencies, and industry partners to ensure that available supplies, including personal protective equipment (“PPE”), and medicine reach our customers and their patients.

In December 2020, we began distributing certain COVID-19 vaccines in support of the U.S. government through a contract with the Centers for Disease Control and Prevention (“CDC”). In July 2022, we renewed our relationship with the CDC, under which we serve as a centralized distributor of COVID-19 vaccines and ancillary supplies used to administer vaccines. The results of operations related to our vaccine distribution are reflected in our U.S. Pharmaceutical segment. We also extended our contract to manage the assembly, storage, and distribution of ancillary supply kits as directed by the Department of Health and Human Services (“HHS”), the results of which are reflected in our Medical-Surgical Solutions segment.

McKesson Canada and McKesson Europe support governments and public health entities through distributing COVID-19 vaccines and administering them in pharmacies as well as distributing COVID-19 tests and certain PPE.

Trends in our Business

We observed stability in prescription volumes within our U.S. Pharmaceutical segment and patient visits in our primary care business within our Medical-Surgical Solutions segment during the three and six months ended September 30, 2022 compared to the same prior year periods. The contributions from COVID-19 tests and our vaccine and related kitting distribution programs have decreased year over year primarily driven by lower demand.

Impacts to our Supply Chain

We continue to monitor and address the COVID-19 pandemic impacts on our supply chain. Although the availability of various products is dependent on our suppliers, their locations, and the extent to which they are impacted by the COVID-19 pandemic, we proactively work with manufacturers, industry partners, and government agencies to meet the needs of our customers. During the first half of fiscal 2023, we had an increase in supply chain costs primarily related to transportation and labor; however, this did not materially impact our results of operations for the three and six months ended September 30, 2022. As potential shortages or disruptions of any products are identified, we address supply continuity which includes securing additional products when available, sourcing back-up products when needed, and following allocation procedures to maintain and protect supply as much as possible. We utilize business continuity action planning to maintain and protect operations across all locations and facilities.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Impact to our Results of Operations, Financial Condition, and Liquidity

For the three months ended September 30, 2022, COVID-19 tests and the kitting and distribution of ancillary supplies for COVID-19 vaccines in our Medical-Surgical Solutions segment contributed approximately \$227 million and \$65 million to segment revenues and segment operating profit, respectively, and for the three months ended September 30, 2021, contributed approximately \$545 million and \$93 million to segment revenues and segment operating profit, respectively. For the six months ended September 30, 2022, the contribution was approximately \$428 million and \$114 million to segment revenues and segment operating profit, respectively, and for the six months ended September 30, 2021, the contribution was approximately \$868 million to segment revenues and including total inventory charges that are further described below, increased our segment operating profit by approximately 1%.

The distribution of COVID-19 vaccines in our U.S. Pharmaceutical segment decreased during the second quarter and first half of fiscal 2023 when compared to the same prior year periods. The contribution was less than 10% to segment operating profit for each of the three and six months ended September 30, 2022 and 2021. The financial impact from our COVID-19 response efforts in the International segment during the three and six months ended September 30, 2022 and 2021 was not material to our consolidated or segment operating results.

Additionally, we recorded inventory charges totaling \$164 million on certain PPE and other related products in our Medical-Surgical Solutions segment during the six months ended September 30, 2021. We have taken measures to mitigate risks for market price volatility and changes to anticipated customer demand that may require additional write-downs in future periods of other PPE and related product categories.

Excluding the prior year inventory charges on certain PPE and other related products for the six months ended September 31, 2021 mentioned above, these COVID-19 related items had a net unfavorable impact on consolidated income from continuing operations before income taxes for the three and six months ended September 30, 2022 compared to the same prior year periods, primarily driven by lower demand for COVID-19 tests as well as COVID-19 vaccines and related ancillary supply kits.

During the three and six months ended September 30, 2022 and 2021, we maintained appropriate labor and overall vendor supply levels and experienced no material impacts to our liquidity or net working capital due to the COVID-19 pandemic.

Opioid-Related Litigation and Claims

We are a defendant in many legal proceedings asserting claims related to the distribution of controlled substances (opioids) in federal and state courts throughout the U.S., and in Puerto Rico and Canada. The plaintiffs in these actions have included state attorneys general, county and municipal governments, tribal nations, hospitals, health and welfare funds, third-party payors, and individuals.

The Company and two other national pharmaceutical distributors (collectively “Distributors”) settled with 46 of 49 eligible states and their participating subdivisions, as well as the District of Columbia and all eligible territories (collectively, “Settling Governmental Entities”) effective on April 2, 2022 (“Settlement”). Under the Settlement, the Distributors will pay the Settling Governmental Entities up to approximately \$19.5 billion over 18 years, with up to approximately \$7.4 billion to be paid by the Company for its 38.1% portion. Consent judgments have been entered in all participating states and territories, and approximately 2,000 cases have been dismissed pursuant to the Settlement. A minimum of 85% of the Settlement payments must be used by state and local governmental entities to remediate the opioid epidemic. Most of the remaining percentage relates to plaintiffs’ attorneys’ fees and costs, and is payable over a shorter time period. Under the Settlement, the Distributors will establish a clearinghouse to consolidate their controlled-substance distribution data, which will be available to the settling U.S. states to use as part of their anti-diversion efforts. The Settlement provides that the Distributors do not admit liability or wrongdoing and do not waive any defenses.

The Settlement only addresses the claims of attorneys general of U.S. states and territories and political subdivisions in participating states and territories. Governmental entities not participating in the Settlement may continue to pursue their claims. The states of Alabama, Oklahoma and Washington chose not to participate in the Settlement, but, since the announcement of the Settlement, we have reached separate agreements with the attorneys general of these states to settle the claims of the states and their subdivisions. The Distributors previously settled with the Cherokee Nation and reached an agreement to settle the claims of federally recognized Native American Tribes.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Our total estimated liability for opioid-related claims was \$7.3 billion as of September 30, 2022, of which \$703 million was included in “Other accrued liabilities” for the amount estimated to be paid within the next twelve months, and the remaining liability was included in “Long-term litigation liabilities” in our Condensed Consolidated Balance Sheet.

Although the vast majority of opioid claims have been brought by governmental entities in the U.S., the Company is also a defendant in cases brought in the U.S. by private plaintiffs, such as hospitals, health and welfare funds, third-party payors, and individuals, as well as four cases brought in Canada (three by governmental or tribal entities and one by an individual). These claims, and those of private individuals or entities generally, are not included in the Settlement or in the charges recorded by the Company, described above. The Company believes it has valid legal defenses in these matters and intends to mount a vigorous defense.

Because of the many uncertainties associated with ongoing opioid-related litigation matters, we are not able to reasonably estimate the upper or lower ends of the range of ultimate possible loss for all opioid-related litigation matters. In light of the uncertainty, the amount of any ultimate loss may differ materially from the amount accrued.

Notwithstanding the Settlement, we also continue to prepare for trial in pending matters. We believe that we have valid defenses to the claims pending against us and, absent an acceptable settlement, intend to vigorously defend against all such claims. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity, or results of operations. Refer to Financial Note 12, “Commitments and Contingent Liabilities,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information.

Risks and Forward-Looking Information

Recent events such as the COVID-19 pandemic, the Russo-Ukrainian War, and associated economic impacts have disrupted the global economy and exacerbated uncertainties inherent in estimates, judgments, and assumptions used in our forecasts. We have experienced and may experience difficulties in sourcing products and changes in costs and pricing due to the effects of these events on supply chains. Our participation in government-sponsored vaccination distribution and related ancillary supply kit programs with the CDC and HHS exposes us to various uncertainties, such as the scope and length of related agreements and the amount of COVID-19 vaccines and ancillary supply kits that we are contracted to distribute, which could materially impact our future financial performance. Additionally, we periodically review our intangible and other long-lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Key assumptions and estimates about future values in our impairment assessments can be affected by a variety of factors, including the impacts of socio-political events on industry and economic trends as well as on our business strategy and internal forecasts. Impairment charges have been recognized in prior periods due to the impact from the COVID-19 pandemic. Material changes to key assumptions and estimates could decrease the projected cash flows or increase the discount rates that could potentially result in future impairment charges. Refer to Item 1A - Risk Factors in Part I of our 2022 Annual Report for a discussion of risk factors that could cause our actual results to differ materially from our projections.

McKESSEON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

RESULTS OF OPERATIONS

Overview of Consolidated Results:

	Three Months Ended September 30,			Six Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
<i>(Dollars in millions, except per share data)</i>						
Revenues	\$ 70,157	\$ 66,576	5 %	\$ 137,311	\$ 129,250	6 %
Gross profit	3,095	3,352	(8)	6,118	6,384	(4)
<i>Gross profit margin</i>	<i>4.41 %</i>	<i>5.03 %</i>	<i>(62) bp</i>	<i>4.46 %</i>	<i>4.94 %</i>	<i>(48) bp</i>
Total operating expenses	\$ (1,971)	\$ (2,813)	(30) %	\$ (3,958)	\$ (5,277)	(25) %
<i>Total operating expenses as a percentage of revenues</i>	<i>2.81 %</i>	<i>4.23 %</i>	<i>(142) bp</i>	<i>2.88 %</i>	<i>4.08 %</i>	<i>(120) bp</i>
Other income, net	\$ 175	\$ 139	26 %	\$ 190	\$ 182	4 %
Loss on debt extinguishment	—	(191)	(100)	—	(191)	(100)
Interest expense	(55)	(45)	22	(100)	(94)	6
Income from continuing operations before income taxes	1,244	442	181	2,250	1,004	124
Income tax expense	(271)	(132)	105	(470)	(158)	197
<i>Reported income tax rate</i>	<i>(21.8) %</i>	<i>(29.9) %</i>	<i>810 bp</i>	<i>(20.9) %</i>	<i>(15.7) %</i>	<i>(520) bp</i>
Income from continuing operations	\$ 973	\$ 310	214 %	\$ 1,780	\$ 846	110 %
Loss from discontinued operations, net of tax	(6)	—	—	(4)	(3)	33
Net income	967	310	212	1,776	843	111
Net income attributable to noncontrolling interests	(41)	(43)	(5)	(82)	(90)	(9)
Net income attributable to McKesson Corporation	\$ 926	\$ 267	247 %	\$ 1,694	\$ 753	125 %
Diluted earnings (loss) per common share attributable to McKesson Corporation						
Continuing operations	\$ 6.46	\$ 1.71	278 %	\$ 11.71	\$ 4.82	143 %
Discontinued operations	(0.04)	—	—	(0.03)	(0.02)	50
Total	\$ 6.42	\$ 1.71	275 %	\$ 11.68	\$ 4.80	143 %
Weighted-average diluted common shares outstanding	144.1	155.8	(8) %	145.0	156.9	(8) %

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

bp - basis points

McKESON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Revenues

Revenues increased for the three and six months ended September 30, 2022 compared to the same prior year periods primarily due to market growth in our U.S. Pharmaceutical segment. Market growth includes growing drug utilization, price increases, and newly launched products, partially offset by price deflation associated with branded to generic drug conversion. This revenue growth was partially offset by lower revenues in our International segment driven by the completed divestiture of our U.K. disposal group in April 2022 and unfavorable effects of foreign currency exchange fluctuations.

Gross Profit

Gross profit decreased for the three and six months ended September 30, 2022 compared to the same prior year periods primarily in our International segment driven by the completed divestiture of our U.K. disposal group in April 2022 and unfavorable effects of foreign currency exchange fluctuations. For the six months ended September 30, 2022, this was partially offset by an increase in gross profit in our Medical-Surgical Solutions segment due to prior year inventory charges on certain PPE and other related products and favorability in our primary care business. Gross profit for the six months ended September 30, 2022 was also favorably impacted by growth of specialty pharmaceuticals in our U.S. Pharmaceutical segment as well as increased volume with new and existing customers in our RxTS segment.

Last-in, first-out ("LIFO") inventory credits were \$23 million for each of the three months ended September 30, 2022 and 2021, and \$36 million and \$46 million for the six months ended September 30, 2022 and 2021, respectively. LIFO credits were lower in the first half of fiscal 2023 compared to the same prior year period primarily due to higher expected brand inflation. Our U.S. Pharmaceutical business uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The business' practice is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price related inventory losses. A LIFO expense is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Our quarterly LIFO credit is based on our estimates of the annual LIFO credit which is impacted by expected changes in year-end inventory quantities, product mix, and manufacturer pricing practices, which may be influenced by market and other external factors. Changes to any of the above factors could have a material impact to our annual LIFO credit. The actual valuation of inventory under the LIFO method is calculated at the end of the fiscal year.

In October 2022, we received proceeds of \$129 million related to our share of an antitrust settlement. A lawsuit was filed against a brand manufacturer alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. We were not a named party to the litigation but were a member of the class of those who purchased directly from the pharmaceutical manufacturer. We will recognize a gain in that amount within "Cost of sales" in the Condensed Consolidated Statement of Operations in the third quarter of fiscal 2023 related to the settlement within our U.S. Pharmaceutical segment.

Total Operating Expenses

A summary of the components of our total operating expenses for the three and six months ended September 30, 2022 and 2021 is as follows:

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

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

	Three Months Ended September 30,			Six Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
<i>(Dollars in millions)</i>						
Selling, distribution, general, and administrative expenses	\$ 1,950	\$ 2,669	(27) %	\$ 3,909	\$ 4,901	(20) %
Claims and litigation charges, net	(9)	112	108	(4)	186	102
Restructuring, impairment, and related charges, net	30	32	(6)	53	190	(72)
Total operating expenses	\$ 1,971	\$ 2,813	(30) %	\$ 3,958	\$ 5,277	(25) %
Percent of revenues	2.81 %	4.23 %	(142) bp	2.88 %	4.08 %	(120) bp

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

bp - basis points

For the three and six months ended September 30, 2022, total operating expenses and total operating expenses as a percentage of revenues decreased compared to the same prior year periods. Total operating expenses were impacted by the following significant items:

- SDG&A for the three and six months ended September 30, 2022 reflects lower operating expenses due to the completed divestiture of our U.K. disposal group in April 2022;
- SDG&A for the three and six months ended September 30, 2022 includes gains of \$23 million and \$35 million, respectively, and for the three and six months ended September 30, 2021 includes charges of \$491 million to remeasure the assets and liabilities of our E.U. disposal group to fair value less costs to sell. The fiscal 2022 charges also includes impairments of individual assets, such as certain internal-use software that will not be utilized in the future. The fiscal 2022 remeasurement adjustment includes a \$226 million loss related to the accumulated other comprehensive income balances associated with our E.U. disposal group;
- SDG&A for the for the three and six months ended September 30, 2021 includes a gain of \$59 million related to the sale of our Canadian health benefit claims management and plan administrative services business;
- SDG&A for the three months ended September 30, 2022 and 2021 includes charges of \$9 million and \$36 million, respectively, and for the six months ended September 30, 2022 and 2021 includes charges of \$28 million and \$71 million, respectively, of opioid-related costs, primarily litigation expenses;
- Claims and litigation charges, net for fiscal 2023 was not material and for the three and six months ended September 30, 2021 includes \$112 million related to our estimated liability for opioid-related claims of government entities, including Native American tribes. Claims and litigation charges, net for the six months ended September 30, 2021 also includes a charge of \$27 million related to an agreement to settle opioid-related claims with the State of New York and its participating subdivisions, including Nassau and Suffolk Counties, and a charge of \$47 million related to our estimated liability for a comprehensive proposed agreement to settle opioid-related claims of participating states, their political subdivisions, and other governmental entities. Refer to the Opioid-Related Litigation and Claims section of "Trends and Uncertainties" for further discussion;
- Restructuring, impairment, and related charges, net for fiscal 2023 was not material and for the three and six months ended September 30, 2021 includes charges of \$15 million and \$110 million, respectively, related to our transition to a partial remote work model approved during the first quarter of fiscal 2022 as further described below; and
- Total operating expenses were favorably impacted by foreign currency exchange fluctuations for the three and six months ended September 30, 2022.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Goodwill Impairment

We evaluate goodwill for impairment on an annual basis and at an interim date, if indicators of potential impairment exist. We voluntarily changed our annual goodwill impairment testing date from October 1st to April 1st to align with the change in timing of our annual long-term planning process. This change was not material to our consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charge. Refer to Financial Note 7, “Goodwill and Intangible Assets, Net,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information.

The annual impairment testing performed in fiscal 2023 and fiscal 2022 did not indicate any impairment of goodwill and no goodwill impairment charges were recorded during the three and six months ended September 30, 2022 and 2021. However, other risks, expenses, and future developments, such as additional government actions, increased regulatory uncertainty, and material changes in key market assumptions limit our ability to estimate projected cash flows, which could adversely affect the fair value of various reporting units in future periods, including our McKesson Canada reporting unit within our International segment, where the risk of a material goodwill impairment is higher than other reporting units.

Restructuring Initiatives and Long-Lived Asset Impairments

During the first quarter of fiscal 2022, we approved an initiative to increase operational efficiencies and flexibility by transitioning to a partial remote work model for certain employees. This initiative primarily included the rationalization of our office space in North America. Where we ceased using office space, we exited the portion of the facility no longer used. We also retained and repurposed certain other office locations. We recorded charges of \$15 million and \$110 million for the three and six months ended September 30, 2021, respectively, primarily related to lease right-of-use and other long-lived asset impairments, lease exit costs, and accelerated depreciation and amortization. This initiative was substantially complete in fiscal 2022 and remaining costs we recorded and expect to record under this initiative are not material.

Refer to Financial Note 3, “Restructuring, Impairment, and Related Charges, Net,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for further information on our restructuring initiatives.

Other Income, Net

Other income, net increased for the three and six months ended September 30, 2022 compared to the same prior year periods primarily due to a gain of \$142 million recognized in July 2022 related to the exit of one of our investments in equity securities held within our U.S. Pharmaceutical segment.

This was partially offset by prior year net gains from our equity investments held within Corporate of \$97 million and \$104 million recognized for the three and six months ended September 30, 2021, respectively, compared to net losses of \$3 million and \$25 million recognized for the three and six months ended September 30, 2022, respectively.

We are a party to a certain tax receivable agreement (“TRA”) entered into as part of the formation of the joint venture with Change Healthcare Inc. (“Change”), from which McKesson has since exited. The TRA generally requires Change to pay McKesson 85% of the net cash tax savings realized, or deemed to be realized, by Change resulting from the amortization allocated to Change by the joint venture. In October 2022, Change exercised its right pursuant to the TRA to terminate the agreement. We received \$126 million in the third quarter of fiscal 2023 due to early termination of the TRA, which will result in a gain within “Other income, net” in the Condensed Consolidated Statements of Operations within Corporate.

Loss on Debt Extinguishment

The loss on debt extinguishment recorded for the three and six months ended September 30, 2021 of \$191 million includes premiums of \$182 million as well as the write-off of unamortized debt issuance costs and transaction fees incurred of \$9 million, and was driven by our July 2021 tender offer to redeem a portion of our existing debt. Refer to Financial Note 8, “Debt and Financing Activities,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information.

McKESSEON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Interest Expense

Interest expense increased for the three and six months ended September 30, 2022 compared to the same prior year periods, which includes unfavorable impacts from changes in our derivative portfolio as a result of our European divestiture activities. This was partially offset by a decrease in interest expense driven by lower existing debt due to our tender offer in late July 2021. Interest expense may fluctuate based on timing, amounts, and interest rates of term debt repaid and new term debt issued, as well as amounts incurred associated with financing fees.

Income Tax Expense

For the three months ended September 30, 2022 and 2021, we recorded an income tax expense of \$271 million and \$132 million, respectively. For the six months ended September 30, 2022 and 2021, we recorded income tax expense of \$470 million and \$158 million, respectively. Our reported income tax rates were 21.8% and 29.9% for the three months ended September 30, 2022 and 2021, respectively, and 20.9% and 15.7% for the six months ended September 30, 2022 and 2021, respectively. Fluctuations in our reported income tax rates are primarily due to non-cash charges related to remeasuring the value of our E.U. disposal group held for sale, changes in our business mix of earnings between various taxing jurisdictions, and discrete tax benefits recognized in the quarters. Refer to Financial Note 4, “Income Taxes,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the three and six months ended September 30, 2022 and 2021 primarily represents ClarusONE Sourcing Services LLP, Vantage Oncology Holdings, LLC, and the accrual of the annual recurring compensation amount of €0.83 per McKesson Europe share that McKesson was obligated to pay to the noncontrolling shareholders of McKesson Europe under the December 2014 domination and profit and loss transfer agreement (the “Domination Agreement”). Noncontrolling interests with redemption features, such as put rights, that are not solely within our control are considered redeemable noncontrolling interests. Refer to the “*Selected Measures of Liquidity and Capital Resources*” section of this Financial Review and Financial Note 5, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for more information on changes to our redeemable and noncontrolling interests that occurred during the first quarter of fiscal 2022.

Net Income Attributable to McKesson Corporation

Net income attributable to McKesson Corporation was \$926 million and \$267 million for the three months ended September 30, 2022 and 2021, respectively, and \$1.7 billion and \$753 million for the six months ended September 30, 2022 and 2021, respectively. Diluted earnings per common share attributable to McKesson Corporation was \$6.42 and \$1.71 for the three months ended September 30, 2022 and 2021, respectively, and \$11.68 and \$4.80 for the six months ended September 30, 2022 and 2021, respectively.

Weighted-Average Diluted Common Shares Outstanding

Diluted earnings per common share were calculated based on a weighted-average number of shares outstanding of 144.1 million and 155.8 million for the three months ended September 30, 2022 and 2021, respectively, and 145.0 million and 156.9 million for the six months ended September 30, 2022 and 2021, respectively. Weighted-average diluted shares outstanding for the three and six months ended September 30, 2022 decreased from the same prior year periods primarily due to the cumulative effect of share repurchases.

McKESON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Overview of Segment Results:

Segment Revenues:

	Three Months Ended September 30,			Six Months Ended September 30,		
(Dollars in millions)	2022	2021	Change	2022	2021	Change
Segment revenues						
U.S. Pharmaceutical	\$ 60,059	\$ 53,411	12 %	\$ 117,006	\$ 103,430	13 %
Prescription Technology Solutions	1,018	932	9	2,084	1,813	15
Medical-Surgical Solutions	2,843	3,124	(9)	5,435	5,652	(4)
International	6,237	9,109	(32)	12,786	18,355	(30)
Total revenues	\$ 70,157	\$ 66,576	5 %	\$ 137,311	\$ 129,250	6 %

U.S. Pharmaceutical

Three Months Ended September 30, 2022 vs. 2021

U.S. Pharmaceutical revenues for the three months ended September 30, 2022 increased \$6.6 billion or 12% compared to the same prior year period. Within the segment, sales to pharmacies and institutional healthcare providers increased \$6.4 billion and sales to specialty practices and other, which reflects the results for the distribution of COVID-19 vaccines, increased \$235 million. Overall, these increases were primarily due to market growth, including growth in specialty pharmaceuticals driven by higher volumes from retail national account customers, and branded pharmaceutical price increases, partially offset by branded to generic drug conversions.

Six Months Ended September 30, 2022 vs. 2021

U.S. Pharmaceutical revenues for the six months ended September 30, 2022 increased \$13.6 billion or 13% compared to the same prior year period. Within the segment, sales to pharmacies and institutional healthcare providers increased \$13.0 billion and sales to specialty practices and other, which reflects the results for the distribution of COVID-19 vaccines, increased \$550 million. Overall, these increases were primarily due to market growth, including growth in specialty pharmaceuticals driven by higher volumes from retail national account customers, and branded pharmaceutical price increases, partially offset by branded to generic drug conversions.

Prescription Technology Solutions

Three Months Ended September 30, 2022 vs. 2021

RxTS revenues for the three months ended September 30, 2022 increased \$86 million or 9% compared to the same prior year period due to increased volumes with new and existing customers primarily in our third-party logistics and wholesale distribution services as well as higher technology service revenues.

Six Months Ended September 30, 2022 vs. 2021

RxTS revenues for the six months ended September 30, 2022 increased \$271 million or 15% compared to the same prior year period due to increased volumes with new and existing customers primarily in our third-party logistics and wholesale distribution services as well as higher technology service revenues.

Medical-Surgical Solutions

Three Months Ended September 30, 2022 vs. 2021

Medical-Surgical Solutions revenues for the three months ended September 30, 2022 decreased \$281 million or 9% compared to the same prior year period. Within the segment, sales to primary care and extended care customers decreased \$227 million and \$8 million, respectively. The decrease in our primary care business was driven by lower sales of COVID-19 tests, partially offset by underlying core business growth. Other sales declined \$46 million driven by lower contribution from the kitting and distribution of ancillary supply kits used to administer COVID-19 vaccines.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Six Months Ended September 30, 2022 vs. 2021

Medical-Surgical Solutions revenues for the six months ended September 30, 2022 decreased \$217 million or 4% compared to the same prior year period. Within the segment, sales to primary care customers decreased \$140 million and sales to extended care customers increased \$2 million. The decrease in our primary care business was driven by lower sales of COVID-19 tests, partially offset by underlying core business growth. Other sales declined \$79 million driven by lower contribution from the kitting and distribution of ancillary supply kits used to administer COVID-19 vaccines.

International

Three Months Ended September 30, 2022 vs. 2021

International revenues for the three months ended September 30, 2022 decreased \$2.9 billion or 32% compared to the same prior year period. Within the segment, foreign currency exchange fluctuations were unfavorable by \$633 million and sales in Europe declined by \$2.5 billion, partially offset by increased sales in Canada of \$231 million. Excluding the unfavorable effects of foreign currency exchange fluctuations, revenues for this segment decreased 25% largely due to the completed divestitures of our U.K. disposal group in April 2022 and Austrian business in January 2022.

Six Months Ended September 30, 2022 vs. 2021

International revenues for the six months ended September 30, 2022 decreased \$5.6 billion or 30% compared to the same prior year period. Within the segment, foreign currency exchange fluctuations were unfavorable by \$1.2 billion and sales in Europe declined by \$4.8 billion, partially offset by increased sales in Canada of \$400 million. Excluding the unfavorable effects of foreign currency exchange fluctuations, revenues for this segment decreased 24% largely due to the completed divestitures of our U.K. disposal group in April 2022 and Austrian business in January 2022.

Segment Operating Profit (Loss) and Corporate Expenses, Net:

(Dollars in millions)	Three Months Ended September 30,		Change	Six Months Ended September 30,		Change
	2022	2021		2022	2021	
Segment operating profit (loss) ⁽¹⁾						
U.S. Pharmaceutical ⁽²⁾	\$ 896	\$ 760	18 %	\$ 1,592	\$ 1,442	10 %
Prescription Technology Solutions	120	128	(6)	264	232	14
Medical-Surgical Solutions ⁽³⁾	299	296	1	555	371	50
International ⁽⁴⁾	(37)	(146)	(75)	(43)	(93)	(54)
Subtotal	1,278	1,038	23	2,368	1,952	21
Corporate expenses, net ⁽⁵⁾	21	(360)	106	(18)	(663)	(97)
Loss on debt extinguishment ⁽⁶⁾	—	(191)	(100)	—	(191)	(100)
Interest expense	(55)	(45)	22	(100)	(94)	6
Income from continuing operations before income taxes	\$ 1,244	\$ 442	181 %	\$ 2,250	\$ 1,004	124 %
Segment operating profit (loss) margin						
U.S. Pharmaceutical	1.49 %	1.42 %	7 bp	1.36 %	1.39 %	(3) bp
Prescription Technology Solutions	11.79	13.73	(194)	12.67	12.80	(13)
Medical-Surgical Solutions	10.52	9.48	104	10.21	6.56	365
International	(0.59)	(1.60)	101	(0.34)	(0.51)	17

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

bp - basis points

(1) Segment operating profit (loss) includes gross profit, net of total operating expenses, as well as other income, net, for our reportable segments.

(2) Operating profit for our U.S. Pharmaceutical segment includes the following:

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

- a gain of \$142 million related to the exit of one of our investments in equity securities in July 2022 for the three and six months ended September 30, 2022; and
 - cash receipts for our share of antitrust legal settlements of \$34 million and \$46 million for the three and six months ended September 30, 2021, respectively.
- (3) Operating profit for our Medical-Surgical Solutions segment for the six months ended September 30, 2021 includes \$164 million of inventory charges on certain PPE and other related products.
- (4) Operating loss for our International segment includes the following:
- charges of \$143 million and \$237 million for the three and six months ended September 30, 2022, respectively, and charges of \$342 million for the three and six months ended September 30, 2021, to remeasure the assets and liabilities of our E.U. disposal group to fair value less costs to sell and, in fiscal 2022, to impair certain assets, including internal-use software that will not be utilized in the future; and
 - a gain of \$59 million for the three and six months ended September 30, 2021 related to the sale of our Canadian health benefit claims management and plan administrative services business.
- (5) Corporate expenses, net includes the following:
- gains of \$166 million and \$272 million for the three and six months ended September 30, 2022, respectively, and charges of \$149 million for the three and six months ended September 30, 2021, primarily related to the effect of accumulated other comprehensive loss components from our E.U. disposal group;
 - charges of \$112 million and \$186 million for the three and six months ended September 30, 2021, respectively, related to our estimated liability for opioid-related claims;
 - charges of \$9 million and \$36 million for the three months ended September 30, 2022 and 2021, respectively, and charges of \$28 million and \$71 million for the six months ended September 30, 2022 and 2021, respectively, of opioid-related costs, primarily litigation expenses;
 - restructuring charges of \$19 million and \$81 million for the three and six months ended September 30, 2021, respectively, primarily due to the transition to a partial remote work model for certain employees; and
 - net gains (losses) of \$(3) million and \$97 million for three months ended September 30, 2022 and 2021, respectively, and \$(25) million and \$104 million for the six months ended September 30, 2022 and 2021, respectively, associated with certain of our equity investments.
- (6) Loss on debt extinguishment for the three and six months ended September 30, 2021 consists of a charge of \$191 million related to our July 2021 tender offer to redeem a portion of our existing debt.

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FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

U.S. PharmaceuticalThree Months Ended September 30, 2022 vs. 2021

Operating profit for this segment increased for the three months ended September 30, 2022 compared to the same prior year period primarily due to a gain recognized from the exit of one of our investments in equity securities in July 2022 and growth in specialty pharmaceuticals, partially offset by net cash proceeds received in the prior year representing our share of antitrust legal settlements.

Six Months Ended September 30, 2022 vs. 2021

Operating profit for this segment increased for the six months ended September 30, 2022 compared to the same prior year period primarily due to a gain recognized from the exit of one of our investments in equity securities in July 2022 and growth in specialty pharmaceuticals. This was partially offset by net cash proceeds received in the prior year representing our share of antitrust legal settlements and a decrease in the contribution from our COVID-19 vaccine distribution program.

Prescription Technology SolutionsThree Months Ended September 30, 2022 vs. 2021

Operating profit for this segment decreased for the three months ended September 30, 2022 compared to the same prior year period primarily due to higher operating expenses related to annual support of customer programs.

Six Months Ended September 30, 2022 vs. 2021

Operating profit for this segment increased for the six months ended September 30, 2022 compared to the same prior year period primarily driven by increased volumes with new and existing customers due to growth in our access, affordability, and adherence solutions.

Medical-Surgical SolutionsThree Months Ended September 30, 2022 vs. 2021

Operating profit for this segment was flat for the three months ended September 30, 2022 compared to the same prior year period. Operating profit increased due to favorability in our core primary care business, which was offset by lower sales of COVID-19 tests.

Six Months Ended September 30, 2022 vs. 2021

Operating profit for this segment increased for the six months ended September 30, 2022 compared to the same prior year period largely due to prior year inventory charges on certain PPE and other related products.

InternationalThree Months Ended September 30, 2022 vs. 2021

Operating loss for this segment improved for the three months ended September 30, 2022 compared to the same prior year period largely due to a decrease in fair value remeasurement charges related to our E.U. disposal group, partially offset by a gain recognized in the prior year from the sale of our Canadian health benefit claims management and plan administrative services business.

Six Months Ended September 30, 2022 vs. 2021

Operating loss for this segment improved for the six months ended September 30, 2022 compared to the same prior year period due to a decrease in fair value remeasurement charges related to our E.U. disposal group and the cessation of depreciation and amortization expenses from its assets classified as held for sale, as well as lower restructuring expenses due to optimization programs in Canada. This was partially offset by unfavorable impacts from the completed divestitures of our Austrian business and U.K. disposal group as well as a gain recognized in the prior year from the sale of our Canadian health benefit claims management and plan administrative services business.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Corporate Expenses, Net

Three Months Ended September 30, 2022 vs. 2021

Corporate expenses, net decreased for the three months ended September 30, 2022 compared to the same prior year period primarily due to year over year favorability from the fair value remeasurement of our E.U. disposal group, which includes the effect of accumulated other comprehensive loss components, and lower charges related to our estimated liability for opioid-related claims, partially offset by prior year net gains recognized from our equity investments.

Six Months Ended September 30, 2022 vs. 2021

Corporate expenses, net decreased for the six months ended September 30, 2022 compared to the same prior year period primarily due to year over year favorability from the fair value remeasurement of our E.U. disposal group, which includes the effect of accumulated other comprehensive loss components, lower charges related to our estimated liability for opioid-related claims, and prior year restructuring charges for the transition to a partial remote work model for certain employees. This was partially offset by lower net gains recognized from our equity investments.

Business Combinations

Refer to Financial Note 2, “Business Acquisitions and Divestitures,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for our disclosures on business combinations.

New Accounting Pronouncements

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

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FINANCIAL REVIEW (CONTINUED)
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FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

We expect our available cash generated from operations and our short-term investment portfolio, together with our existing sources of liquidity from our credit facilities and commercial paper program, will be sufficient to fund our short-term and long-term capital expenditures, working capital, and other cash requirements. We remain adequately capitalized with access to liquidity from our \$4.0 billion revolving credit facility. At September 30, 2022, we were in compliance with all debt covenants, and believe we have the ability to continue to meet our debt covenants in the future.

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

<i>(Dollars in millions)</i>	Six Months Ended September 30,		Change
	2022	2021	
Net cash provided by (used in):			
Operating activities	\$ 166	\$ 170	\$ (4)
Investing activities	116	(157)	273
Financing activities	(1,753)	(3,894)	2,141
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	24	18	6
Change in cash, cash equivalents, and restricted cash classified within Assets held for sale ⁽¹⁾	470	—	470
Net change in cash, cash equivalents, and restricted cash	\$ (977)	\$ (3,863)	\$ 2,886

- (1) This change reflects a reversal of cash, cash equivalents, and restricted cash previously classified within assets held for sale at March 31, 2022 as part of the U.K. disposal group and is offset by cash outflows primarily related to the settlement of liabilities which is reflected in operating activities. Refer to Financial Note 2, "Business Acquisitions and Divestitures," to the accompanying condensed consolidated financial statements included in this Quarterly Report for further information.

Operating Activities

Operating activities provided cash of \$166 million and \$170 million during the six months ended September 30, 2022 and 2021, respectively. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers, inventory purchases, and payments to vendors. Additionally, working capital is primarily a function of sales and purchase volumes, inventory requirements, and vendor payment terms.

Operating activities for the six months ended September 30, 2022 were affected by net income adjusted for non-cash items and changes in receivables, drafts and accounts payables, and inventories classified as held for sale. Refer Financial Note 2, "Business Acquisitions and Divestitures," to the accompanying condensed consolidated financial statements included in this Quarterly Report for further information on our European divestiture activities. Operating activities for the six months ended September 30, 2022 were affected by increases in drafts and accounts payable of \$2.3 billion, receivables of \$1.9 billion, and inventories of \$1.5 billion, all primarily driven by higher revenues and timing. Our litigation liabilities also decreased by \$915 million due to payments made during the first half of fiscal 2023 associated with the Settlement and separate settlement agreements of opioid-related claims of participating states, subdivisions, and Native American tribes.

Operating activities for the six months ended September 30, 2021 were affected by increases in drafts and accounts payable of \$1.4 billion, receivables of \$2.3 billion, and inventories of \$1.2 billion, all primarily due to timing and higher revenues. Other non-cash items for the six months ended September 30, 2021 includes non-cash inventory charges totaling \$164 million on certain PPE and other related products in our Medical-Surgical Solutions segment.

Investing Activities

Investing activities provided cash of \$116 million and used cash of \$157 million during the six months ended September 30, 2022 and 2021, respectively. Investing activities for the six months ended September 30, 2022 reflects proceeds from sales of businesses and investments of \$496 million, including \$202 million of cash from the completed divestiture of our U.K. disposal group in April 2022 and \$179 million of cash from the exit of one our investments in equity securities in July 2022. Investing activities for the six months ended September 30, 2022 and 2021 includes \$222 million and \$279 million, respectively, in capital expenditures for property, plant, and equipment, and capitalized software.

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FINANCIAL REVIEW (CONTINUED)
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Financing Activities

Financing activities used cash of \$1.8 billion and \$3.9 billion during the six months ended September 30, 2022 and 2021, respectively. Financing activities for the six months ended September 30, 2022 and 2021 includes \$1.5 billion and \$1.3 billion of cash paid for share repurchases, respectively, as well as \$139 million and \$134 million of cash paid for dividends, respectively. Financing activities also includes cash receipts and repayments of \$100 million and \$3.0 billion for the six months ended September 30, 2022 and 2021, respectively, for short-term borrowings, primarily commercial paper. Cash used for other financing activities generally includes shares surrendered for tax withholding and payments to noncontrolling interests.

Financing activities for the six months ended September 30, 2021 includes a payment of \$1.0 billion to purchase shares of McKesson Europe through exercises of a put right option by noncontrolling shareholders. The put right option expired on June 15, 2021 as further described below. In July 2021, we completed a cash tender offer and paid an aggregate consideration of \$1.1 billion to redeem certain notes with a principal amount of \$922 million and also redeemed our 0.63% Euro-denominated notes with a principal amount of €600 million (or, approximately \$709 million) prior to the maturity date of August 17, 2021 using cash on hand. This resulted in total repayments of long-term debt during the six months ended September 30, 2021 of \$1.8 billion, including \$184 million of cash paid for premiums and transaction fees. This was partially offset by the issuance of long-term debt in August 2021 from a public offering of 1.30% notes due August 15, 2026 for proceeds received of \$498 million, which was utilized for general corporate purposes.

Share Repurchase Plans

The Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, through ASR programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company's stock price, corporate and regulatory requirements, restrictions under the Company's debt obligations, and other market and economic conditions. The ASR programs discussed below were designed to comply with Rule 10b5-1(c).

In May 2022, we entered into an ASR program with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. The total number of shares repurchased under this ASR program was 3.1 million shares at an average price per share of \$321.05. We received 2.6 million shares as the initial share settlement, and in August 2022, we received an additional 0.5 million shares upon the completion of this ASR program.

In February 2022, we entered into an ASR program with a third-party financial institution to repurchase \$1.5 billion of the Company's common stock. The total number of shares repurchased under this ASR program was 5.1 million shares at an average price per share of \$295.16. We received 4.8 million shares as the initial share settlement in the fourth quarter of fiscal 2022, and in May 2022, we received an additional 0.3 million shares upon the completion of this ASR program.

In May 2021, we entered into an ASR program with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. The total number of shares repurchased under this ASR program was 5.2 million shares at an average price per share of \$193.22. We received 4.3 million shares as the initial share settlement, and in August 2021, we received an additional 0.9 million shares upon the completion of this ASR program.

During the three and six months ended September 30, 2022, we repurchased 1.5 million of the Company's shares of common stock for \$524 million through open market transactions at an average price per share of \$355.75, of which \$40 million was accrued within "Other accrued liabilities" in the Company's Condensed Consolidated Balance Sheets for share repurchases that were executed in late September 2022 and settled in early October 2022. During the three and six months ended September 30, 2021, we repurchased 1.4 million of the Company's shares of common stock for \$280 million through open market transactions at an average price per share of \$203.20, of which \$16 million was accrued within "Other accrued liabilities" in the Company's Condensed Consolidated Balance Sheets for the period ended September 30, 2021 for share repurchases that were executed in late September 2021 and settled in early October 2021.

In July 2022, the Board approved an increase of \$4.0 billion in the authorization for repurchase of McKesson's common stock. The total remaining authorization outstanding for repurchases of the Company's common stock at September 30, 2022 was \$5.8 billion.

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FINANCIAL REVIEW (CONTINUED)
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Selected Measures of Liquidity and Capital Resources

<i>(Dollars in millions)</i>	September 30, 2022		March 31, 2022	
Cash, cash equivalents, and restricted cash	\$	2,958	\$	3,935
Working capital		(1,909)		(2,235)
Debt to capital ratio ⁽¹⁾		113.2 %		114.5 %

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

Cash equivalents, which are readily convertible to known amounts of cash, are carried at fair value. Cash equivalents are primarily invested in AAA-rated U.S. government money market funds and overnight deposits with financial institutions. Deposits with financial institutions are primarily denominated in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, Canadian dollars, and British pound sterling. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Our cash and cash equivalents balance as of September 30, 2022 and March 31, 2022 included approximately \$921 million and \$1.5 billion of cash held by our subsidiaries outside of the U.S., respectively. Our primary intent is to utilize this cash for foreign operations for an indefinite period of time. Although the majority of cash held outside the U.S. is available for repatriation, doing so could subject us to foreign withholding taxes and state income taxes. Following enactment of the 2017 Tax Cuts and Jobs Act, the repatriation of cash to the U.S. is generally no longer taxable for federal income tax purposes.

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

Consolidated working capital improved at September 30, 2022 compared to March 31, 2022 primarily due to increases in receivables, inventory, and net assets classified as held for sale related to our European divestiture activities, partially offset by an increase in drafts and accounts payable and a decrease in cash and cash equivalents.

Our debt to capital ratio decreased for the six months ended September 30, 2022 due to a decrease in our foreign currency denominated notes driven by foreign currency remeasurement and an improvement in our stockholder's deficit driven by net income for the year-to-date period, partially offset by share repurchases.

In July 2022, we raised our quarterly dividend from \$0.47 to \$0.54 per common share for dividends declared on or after such date by the Board. We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon our future earnings, financial condition, capital requirements, and other factors.

Redeemable Noncontrolling Interests

Our previously recognized redeemable noncontrolling interests primarily related to our consolidated subsidiary, McKesson Europe. Under the Domination Agreement, the noncontrolling shareholders of McKesson Europe had a right to put ("Put Right") their shares at €22.99 per share, increased annually for interest in the amount of five percentage points above a base rate published semi-annually by the German Bundesbank, less any compensation amount or guaranteed dividend already paid by McKesson ("Put Amount"). During the six months ended September 30, 2021, we paid \$1.0 billion to purchase 34.5 million shares of McKesson Europe through exercises of the Put Right by the noncontrolling shareholders, which reduced the balance of our redeemable noncontrolling interests.

The Put Right expired on June 15, 2021, at which point the remaining shares owned by the minority shareholders, valued at \$287 million, were transferred from redeemable noncontrolling interests to noncontrolling interests and as a result, we no longer have redeemable noncontrolling interests presented in our condensed consolidated balance sheets at September 30, 2022 or March 31, 2022. Our noncontrolling interest in McKesson Europe was included in the sale of our E.U. disposal group.

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Additionally, we were obligated to pay an annual recurring compensation of €0.83 per McKesson Europe share (the “Compensation Amount”) to the noncontrolling shareholders of McKesson Europe under the Domination Agreement. The Compensation Amount was recognized ratably during the applicable annual period. The Domination Agreement does not expire, but it may be terminated at the end of any fiscal year by giving at least six months’ advance notice.

Refer to Financial Note 5, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying condensed consolidated financial statements included in this Quarterly Report for additional information on redeemable noncontrolling interests.

Credit Resources

We fund our working capital requirements primarily with cash and cash equivalents as well as short-term borrowings from our credit facilities and commercial paper issuances. Funds necessary for future debt maturities and our other cash requirements, including any completed and anticipated acquisitions, or future payments that may be made related to our total estimated litigation liability of \$7.3 billion as of September 30, 2022 payable under the terms of various settlement agreements for opioid-related claims, are expected to be met by existing cash balances, cash flow from operations, existing credit sources, and other capital market transactions. Long-term debt markets and commercial paper markets, our principal sources of capital after cash flow from operations, are open and accessible to us should we decide to access those markets. Detailed information regarding our debt and financing activities is included in Financial Note 8, “Debt and Financing Activities,” to the accompanying condensed consolidated financial statements included in this Quarterly Report.

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

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Some of these statements can be identified by the use of terminology such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “projects,” “plans,” “estimates,” or the negative of these words and other comparable terminology. The discussion of financial trends, strategy, plans, assumptions, or intentions may also include forward-looking statements. Readers should not place undue reliance on forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by law, we undertake no obligation to update or revise our forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they include, but are not limited to, factors described in the Risk Factors discussion in Item 1A of Part I of our most recently filed Annual Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We believe there has been no material change in our exposure to risks associated with fluctuations in interest and foreign currency exchange rates as disclosed in our 2022 Annual Report.

Item 4. Controls and Procedures.

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of the end of the period covered by this quarterly report, and our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

There were no changes in our "internal control over financial reporting" (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that occurred during the three months ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth in Financial Note 12, “Commitments and Contingent Liabilities,” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, and in Financial Note 18, “Commitments and Contingent Liabilities,” to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2022, is incorporated herein by reference. Disclosure of an environmental proceeding with a governmental agency generally is included only if we expect monetary sanctions in the proceeding to exceed \$1 million, unless otherwise material.

Item 1A. Risk Factors.

Other than factual updates discussed in this Quarterly Report on Form 10-Q, there have been no material changes for the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our 2022 Annual Report on Form 10-K.

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

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase (“ASR”) programs, or by combinations of such methods, any of which may use pre-arranged trading plans that are designed to meet the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company’s stock price, corporate and regulatory requirements, restrictions under the Company’s debt obligations, and other market and economic conditions. The ASR program discussed below was designed to comply with Rule 10b5-1(c).

Refer to Financial Note 13, “Stockholders' Equity (Deficit),” to the accompanying condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a full discussion of the Company’s share repurchases for the three and six months ended September 30, 2022 and 2021.

The following table provides information on the Company’s share repurchases during the three months ended September 30, 2022:

	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(In millions, except price per share)</i>				
July 1, 2022 – July 31, 2022	—	\$ —	—	\$ 6,278
August 1, 2022 – August 31, 2022 ⁽²⁾	1.1	342.93	1.1	6,076
September 1, 2022 – September 30, 2022	0.9	351.32	0.9	5,754
Total	2.0		2.0	

(1) This table does not include the value of equity awards surrendered to satisfy tax withholding obligations or forfeitures of equity awards.

(2) In May 2022, the Company entered into an ASR program with a third-party financial institution to repurchase \$1.0 billion of the Company’s common stock. The total number of shares repurchased under this ASR program was 3.1 million shares at an average price per share of \$321.05. The Company received 2.6 million shares as the initial share settlement, and in August 2022, the Company received an additional 0.5 million shares upon the completion of this ASR program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits identified in parentheses below are on file with the SEC and are incorporated by reference as exhibits hereto.

Exhibit Number	Description
10.1*	McKesson Corporation 2022 Stock Plan, effective July 22, 2022 (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-8 filed with the SEC on July 27, 2022).
31.1†	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the McKesson Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity (Deficit), (v) Condensed Consolidated Statements of Cash Flows, and (vi) related Financial Notes.
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

† Filed herewith.

†† Furnished herewith.

McKESSON CORPORATION

SIGNATURES

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

McKESSON CORPORATION

Date: November 1, 2022

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

McKESSON CORPORATION

Date: November 1, 2022

/s/ Napoleon B. Rutledge Jr.

Napoleon B. Rutledge Jr.

Senior Vice President and Controller

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

I, Brian S. Tyler, certify that:

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

Date: November 1, 2022

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

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

I, Britt J. Vitalone, certify that:

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

Date: November 1, 2022

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

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

In connection with the quarterly report of McKesson Corporation (the “Company”) on Form 10-Q for the quarterly period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

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

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

November 1, 2022

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

November 1, 2022

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

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