MCKESSON CORP
Form 10-K
May 24, 2018
Table of Content

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2018
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 CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	94-3207296
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Post Street, San Francisco, California	94104
(Address of principal executive offices)	(Zip Code)

(415) 983-8300
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
Common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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 x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 30, 2017, was approximately $32 billion.

Number of shares of common stock outstanding on April 30, 2018: 202,050,986

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION

TABLE OF CONTENTS

Table of Contents
McKESSON CORPORATION

PART I
Item 1. Business.
General
McKesson Corporation ("McKesson," the "Company," or "we" and other similar pronouns), currently ranked 6th on the FORTUNE 500, is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information technology. We partner with manufacturers, providers, pharmacies, governments and other organizations in healthcare to help provide the right medicines, medical products and healthcare services to the right patients at the right time, safely and cost-effectively.
The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.
Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act,") are available free of charge on our website (www.mckesson.com under the "Investors — Financial Information — SEC Filings" caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC" or the "Commission"). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.
The public may also read or copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is www.sec.gov.
Business Segments
Through the end of 2018, we operated our business through two reportable segments: McKesson Distribution Solutions ("MDS") and McKesson Technology Solutions ("MTS").

Our Distribution Solutions segment distributes brand, generic, specialty, biosimilar and over-the-counter ("OTC") pharmaceutical drugs and other healthcare-related products worldwide. This segment provides practice management, technology, clinical support and business solutions to community-based oncology and other specialty practices. This segment also provides solutions for manufacturers including offering multiple distribution channels and clinical trial access to our network of oncology physicians. It also provides medical-surgical supply distribution, equipment, logistics, and other services to healthcare providers within the United States. Additionally, this segment operates retail pharmacy chains in Europe and Canada, and supports independent pharmacies within North America and Europe. It also sells financial, operational and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services.

Our Technology Solutions segment provides clinical, financial and supply chain management solutions to healthcare organizations and owns approximately 70% equity interest in a joint venture, Change Healthcare Holdings, LLC ("Change Healthcare"), which was formed in the fourth quarter of 2017.

Distribution Solutions segment:

Our Distribution Solutions segment consists of the following businesses: North America pharmaceutical distribution and services, International pharmaceutical distribution and services and Medical-Surgical distribution and services.

North America pharmaceutical distribution and services

Our North America pharmaceutical distribution and services business is the largest pharmaceutical distributor in the United States with more than 40,000 customers and is comprised of the following business units: U.S. Pharmaceutical Distribution, McKesson Specialty Health, McKesson Canada and McKesson Prescription Technology Solutions ("MRxTS").

Table of Contents
McKESSON CORPORATION

U.S. Pharmaceutical Distribution

This business is the largest pharmaceutical distributor in the United States with more than 40,000 customers. This business supplies brand, generic, specialty, biosimilar and OTC pharmaceutical drugs and other healthcare-related products to customers throughout the United States and Puerto Rico through three primary customer channels: (1) Retail national accounts which includes national and regional chains, food and drug combinations, mail order pharmacies and mass merchandisers; (2) Independent retail pharmacies; and (3) Institutional healthcare providers such as hospitals, health systems, integrated delivery networks and long-term care providers. This business also provides solutions and services to pharmaceutical manufacturers. This business provides secondary distribution of generics and medical supplies and consulting services. We also source generic pharmaceutical drugs through our joint sourcing entity, ClarusONE Sourcing Services, LLP ("ClarusONE"), which was formed in 2017.

Our U.S. pharmaceutical distribution business operates and serves customer locations in all 50 states and Puerto Rico through a network of 27 distribution centers, as well as a primary redistribution center, two strategic redistribution centers and two repackaging facilities. We invest in technology and other systems at all of our distribution centers to enhance safety and reliability and product availability. For example, we offer McKesson Connect℠, an internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. We make extensive use of technology as an enabler to ensure customers have the right products at the right time in the right place.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs, enhance service accuracy and safety. We provide solutions to our customers including supply management technology, world-class marketing programs, managed care, repackaging products and services to help them meet their business and quality goals. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The major customer groups of our U.S. Pharmaceutical Distribution business can be categorized as: retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts: We provide business solutions that help retail national account customers increase revenues and profitability. Solutions include:

- Central Fill℠ — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.
- Redistribution Centers — Two facilities totaling over 750,000 square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologics. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.
- McKesson SynerGx® — Generic pharmaceutical purchasing program and inventory management that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing and one-stop shopping.
- RxPak℠ — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.
- Inventory Management — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.
- ExpressRx Track™ — Pharmacy automation solution featuring state-of-the-art robotics, upgraded imaging and expanded vial capabilities, and industry-leading speed and accuracy in a small footprint.

Table of Contents
McKESSON CORPORATION

Independent Retail Pharmacies: We provide managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

- Health Mart® — Health Mart® is a national network of more than 4,800 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees support for managed care contracting, branding and local marketing solutions, the Health Mart private label line of products, merchandising solutions and programs for enhanced patient support.
- Health Mart Atlas® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.
- McKesson Reimbursement Advantage℠ ("MRA") — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.
- McKesson OneStop Generics® — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, competitive pricing and one-stop shopping.
- Sunmark® — Complete line of more than 600 products that provide independent retail pharmacies with value-priced alternatives to national brands.
- FrontEdge™ — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.
- McKesson Sponsored Clinical Services ("SCS") Network — Access to patient-support services that allows pharmacists to earn service fees and to develop stronger patient relationships.

Institutional Healthcare Providers: We provide electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies and deliver better patient care. Solutions include:

- Fulfill-Rx℠ — Ordering and inventory management system that empowers hospitals to optimize the often complicated processes related to unit-based cabinet replenishment and inventory management.
- Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.
- SKY Packaging — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY Packaging enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.
- McKesson Plasma and Biologics — A full portfolio of plasma-derivatives and biologic products. In the second quarter of 2018, we acquired BDI Pharma, LLC ("BDI").
- McKesson OneStop Generics® — Described above.

McKesson Specialty Health ("MSH")

Our MSH business provides a range of services and solutions to oncology and other specialty practices operating in communities across the country, to pharmaceutical and biotechnology suppliers who manufacture specialty drugs and vaccines, and to payers and hospitals. This business is focused on three core business lines: Manufacturer Solutions, Practice Management and Provider Solutions.

Table of Contents
McKESSON CORPORATION

Manufacturer Solutions: This business helps manufacturers accelerate the approval and successful commercialization of specialty pharmaceuticals across the product life cycle. Our offerings include supply chain services, including specialty pharmacy services and third-party logistics ("3PL"), provider and patient engagement programs, clinical trial support, patient assistance programs, reimbursement services and analytics. In addition, we help manufacturers minimize reimbursement challenges while offering affordable, safe access to therapies through Risk Evaluation and Mitigation Strategies ("REMS") programs.

In the fourth quarter of 2018, we completed our acquisition of RxCrossroads, a provider of tailored services to pharmaceutical and biotechnology manufacturers. RxCrossroads is headquartered in Louisville, Kentucky. This acquisition enhances our end-to-end solutions for manufacturers of branded, specialty, generic and biosimilar drugs, including comprehensive patient support services, custom pharmacy solutions and third-party logistics. In addition, this acquisition will add plasma logistics to our manufacturer solutions, complementing the Company's established customer-facing plasma offerings. This is a continuation of our strategy to achieve better patient outcomes through efficiency and coordination across the supply chain, and throughout the patient journey.

Practice Management: This business provides a variety of solutions, including practice operations, healthcare information technology, revenue cycle management and managed care contracting solutions, evidence-based guidelines and quality measurements to support U.S. Oncology Network, one of the nation's largest networks of physician-led, integrated, community-based oncology practices dedicated to advancing high-quality, evidence-based cancer care. We also support U.S. Oncology Research, one of the nation's largest research networks, specializing in oncology clinical trials.

Provider Solutions: This business offers community specialists (oncologists, rheumatologists, ophthalmologists, urologists, neurologists and other specialists) an extensive set of customizable products and services designed to strengthen core practice operations, enhance value-based care delivery and expand their service offering to patients. Tools and services include specialty drug distribution and group purchasing organization ("GPO") services, technology solutions, practice consulting services, and vaccine distribution, including our exclusive distributor relationship with the Centers for Disease Control and Prevention's ("CDC") Vaccines for Children program. Community-based physicians in this business line have broad flexibility and discretion to select the products and commitment levels that best meet their practice needs. In the second quarter of 2018, we acquired intraFUSION, Inc. ("intraFUSION") of Houston, Texas, which provides management services to physician office infusion centers.

When we classify a pharmaceutical product or service as "specialty," we consider the following factors: diseases requiring complex treatment regimens such as cancer and rheumatoid arthritis; plasma and biologics products; ongoing clinical monitoring requirements, high-cost, special handling, storage and delivery requirements and, in some cases, exclusive distribution arrangements. Our use of the term "specialty" to define a portion of our distribution business may not be comparable to that used by other industry participants, including our competitors.

McKesson Canada

McKesson Canada is one of the largest wholesale distributors and pharmacy retailers in Canada.

The wholesale business delivers their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions in Canada through a network of 13 distribution centers and provides logistics and distribution services for manufacturers. Beyond wholesale pharmaceutical logistics and distribution, McKesson Canada provides automation solutions to its retail and hospital customers. McKesson Canada also provides health information exchange solutions that streamline clinical and administrative communication. Through specialty solutions and services, McKesson Canada works with health care providers, manufacturers and payers to help patients with complex diseases by improving access to life-saving treatments.

The retail business operates approximately 450 owned pharmacies under the Rexall Health brand in Canada where we provide patients with greater choice and access, integrated pharmacy care and industry-leading service levels. We also provide retail banner services that help independent pharmacists compete and grow through innovative services and operations support. In the second quarter of 2018, we expanded our support for Canadian banners to more than 2,400 independent pharmacies by adding more than 300 independent pharmacies in Quebec, Canada, with our acquisition of the Uniprix Group.

6

Table of Contents
McKESSON CORPORATION

MRxTS
This business is comprised of McKesson Pharmacy Technology and Services, RelayHealth Pharmacy and CoverMyMeds. This business supports our customers, including physicians, with a comprehensive, expanded portfolio of solutions designed to help them drive business growth, realize greater business efficiencies, deliver high-quality care, enhance medication adherence and safety, and more effectively connect with other participants in the pharmaceutical supply chain. MRxTS focuses on customers across the pharmacy industry, including manufacturers, payers, providers, retail pharmacies, hospital pharmacies and government agencies.

International pharmaceutical distribution and services
Our International pharmaceutical distribution and services business provides distribution and services to wholesale, institutional and retail customers in 13 European countries where we own, partner or franchise with retail pharmacies, as further described below. The business consists of Pharmacy Solutions and Consumer Solutions.

Our Pharmacy Solutions business delivers pharmaceutical and other healthcare-related products to pharmacies across Europe. This business functions as a vital link connecting manufacturers to retail pharmacies. This business supplies medicines to patients by procuring pharmaceuticals approved in each country as well as supplying other products sold in pharmacies. Pharmaceutical and other healthcare-related products are stored at regional wholesale branches using technology-enabled management systems. Our European business leverages its scale and provides innovative and effective medical care services to create enhanced customer value.

Our Consumer Solutions business serves patients and consumers in European countries directly through over 2,000 of our own pharmacies and over 7,000 participant pharmacies operating under brand partnership arrangements. In addition, this business includes outpatient dispensing and homecare arrangements mainly in the United Kingdom (“U.K.”). This business provides traditional prescription pharmaceuticals, non-prescription products and medical services and operates under the Lloyds Pharmacy brand in Belgium, Ireland, Italy, Sweden and the U.K.. In addition, we partner with independent pharmacies under our franchise program.

Medical-Surgical distribution and services
Our Medical-Surgical distribution and services business provides medical-surgical supply distribution, logistics and other services to healthcare providers, including physicians’ offices, surgery centers, extended care facilities, hospital reference labs, and homecare and occupational health sites. Through a network of distribution centers within the U.S., we offer more than 275,000 national brand products plus McKesson’s own line of high-quality medical-surgical products. As a leading distributor of products and solutions to the full range of alternate-site healthcare facilities, we care for our customers so they can care for their patients. We serve our customers across the continuum of care to help improve efficiencies, profitability and compliance while promoting better patient outcomes. Our comprehensive portfolio of medical-surgical products helps our customers increase revenue with the right product mix. With 85% of patient visits happening beyond the hospital, each of these sites has unique needs and challenges. We serve more than 200,000 medical practices, including physician offices, surgery centers, seven of the top ten urgent care center chains and more than 1,800 community health centers. We develop customized plans to address the clinical support needs of our customers, including tackling reimbursements, reducing administrative burdens, and training and educating clinical staff.

On April 25, 2018, we entered into a definitive agreement to purchase Medical Specialties Distributors LLC, a leading national distributor of infusion and medical-surgical supplies as well as provider of biomedical services to alternate site and home health providers.

Technology Solutions Segment
Our Technology Solutions segment consists of our equity investment in Change Healthcare and our Enterprise Information Solutions (“EIS”) business.

Table of Contents
McKESSON CORPORATION

Equity investment in Change Healthcare:
On March 1, 2017, we finalized a contribution agreement ("Contribution Agreement") with Change Healthcare Holdings, Inc. ("Change"), a Delaware corporation, and others including shareholders of Change to form a joint venture, Change Healthcare. Under the terms of the Contribution Agreement, we contributed the majority of our McKesson Technology Solutions businesses ("Core MTS Business") to Change Healthcare. In exchange for the contribution, we own approximately 70% of the joint venture with the remaining equity ownership held by Change shareholders. We retained our RelayHealth Pharmacy ("RHP") and EIS businesses. Our investment in Change Healthcare is accounted for using the equity method of accounting. Change Healthcare is a healthcare technology company that leverages software and analytics, network solutions, and technology-enabled services to enable better patient care, choice, and outcomes at scale. We transferred our RHP business to our MDS segment, effective April 1, 2017.
Refer to Financial Note 2, "Healthcare Technology Net Asset Exchange" to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.
EIS:
This business provided clinical and financial information systems for healthcare organizations including professional services, workflow management and supply chain management solutions.
On October 2, 2017, we sold our EIS business to a third party. We received net cash proceeds of $169 million after $16 million of assumed net debt by the third party. We recognized a pre-tax gain of $109 million (after-tax gain of $30 million) upon the disposition of this business in the third quarter of 2018.
Fiscal 2019 Operating Segments
As previously disclosed in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2017 and December 31, 2017, the executive who was our segment manager of the Distribution Solutions segment retired from the Company in January 2018. As a result, the Company's chief operating decision maker ("CODM") evaluated our management and operating structure. In connection with the completion of this evaluation in the first quarter of 2019, our operating structure is realigned, and we will report our financial results in three reportable segments on a retrospective basis commencing in the first quarter of 2019: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure will be included in Other. Other primarily consists of McKesson Canada, McKesson Prescription Technology Solutions and our equity method investment in Change Healthcare. The segment changes will reflect how our CODM allocates resources and assesses performance commencing in the first quarter of 2019. Refer to Financial Note 28, "Segments of Business" to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.
Business Combinations, Investments, Discontinued Operations and Divestitures
We have undertaken additional strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future. These initiatives are detailed in Financial Notes 2, 5, 6 and 7, "Healthcare Technology Net Asset Exchange," "Divestitures," "Business Combinations" and "Discontinued Operations" to the consolidated financial statements appearing in this Annual Report on Form 10-K.
Competition
Our two reportable segments, Distribution Solutions and Technology Solutions, face highly competitive global environments with strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, these segments face competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. In all areas, key competitive factors include price, quality of service, breadth of product lines, innovation and, in some cases, convenience to the customer.

Table of Contents
McKESSON CORPORATION

Patents, Trademarks, Copyrights and Licenses

McKesson and its subsidiaries hold patents, copyrights, trademarks and trade secrets related to McKesson products and services. We pursue patent protection for our innovation, and obtain copyrights covering our original works of authorship, when such protection is advantageous. Through these efforts, we have developed a portfolio of patents and copyrights in the U.S. and worldwide. In addition, we have registered or applied to register certain trademarks and service marks in the U.S. and in foreign countries.

We believe that, in the aggregate, McKesson's confidential information, patents, copyrights, and trademarks are important to its operations and market position, but we do not consider any of our businesses to be dependent upon any one patent, copyright, trademark, or trade secret, or any family or families of the same. We cannot guarantee that our intellectual property portfolio will be sufficient to deter misappropriation, theft, or misuse of our technology, nor that we can successfully enjoin infringers. We periodically receive notices alleging that our products or services infringe on third party patents and other intellectual property rights. These claims may result in McKesson entering settlement agreements, paying damages, discontinuing use or sale of accused products, or ceasing other activities. While the outcome of any litigation or dispute is inherently uncertain, we do not believe that the resolution of any of these infringement notices would have a material adverse impact on our results of operation.

We hold inbound licenses for certain intellectual property that is used internally, and in some cases, utilized in McKesson's products or services. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and services, we believe, based upon past experience and industry practice, such licenses generally can be obtained on commercially reasonable terms. We believe our operations and products and services are not materially dependent on any single license or other agreement with any third party.

Other Information about the Business

Customers: During 2018, sales to our ten largest customers, including GPOs accounted for approximately 51.7% of our total consolidated revenues. Sales to our largest customer, CVS Health ("CVS"), accounted for approximately 19.9% of our total consolidated revenues. At March 31, 2018, trade accounts receivable from our ten largest customers were approximately 24.9% of total trade accounts receivable. Accounts receivable from CVS were approximately 16.4% of total trade accounts receivable. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivable balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than 6% of our purchases in 2018. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers are generally sound. The ten largest suppliers in 2018 accounted for approximately 41% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have an adverse impact on our gross profit margin.

Research and Development: Research and development ("R&D") costs were $125 million, $341 million and $392 million during 2018, 2017 and 2016. Development expenditures in 2017 and 2016 were primarily incurred by our MTS segment. R&D costs were lower in 2018 due to the 2017 contribution of the majority of our MTS businesses. Additional information regarding our development activities is included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Environmental Regulation: Our operations are subject to regulations under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur

substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws.

Table of Contents
McKESSON CORPORATION

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 24, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2018 and is not expected to be material in the next year.

Employees: On March 31, 2018, we employed approximately 78,000 employees, including approximately 20,000 part-time employees.

Financial Information About Foreign and Domestic Operations: Certain financial information relating to foreign and domestic operations is included in Financial Note 28, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K. See “Risk Factors” in Part I, Item 1A below for information regarding risks associated with our foreign operations.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II of this report and the “Risk Factors” in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intend or “estimates,” or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed in Item 1A of Part I of this report under “Risk Factors.” The reader should not consider the list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein and in other information contained in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors

The risks described below could have a material adverse impact on our financial position, results of operations, liquidity and cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material. The reader should not consider this list to be a complete statement of all risks and uncertainties.

Table of Contents
McKESSON CORPORATION

Changes in the United States healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Many of our products and services are intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry in the United States has changed significantly in an effort to enhance efficiencies, reduce costs and improve patient outcomes. These changes have included cuts in Medicare and Medicaid reimbursement levels, changes in the basis for payments, shifting away from fee-for-service and towards value-based payments and risk-sharing models, increases in the use of managed care and consolidation in the healthcare industry. We expect the healthcare industry in the United States to continue to change and for healthcare delivery models to evolve in the future.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. Additionally, if we experience disruptions in our supply of generic drugs, our margins could be adversely affected. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have a material adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide. However, failure to successfully renew these contracts in a timely and favorable manner could have a material adverse impact on our results of operations. Certain distribution business agreements we entered into with manufacturers continue to have pharmaceutical price inflation as a component of our compensation. Consequently, our results of operations could be adversely affected if the frequency or magnitude of pharmaceutical price increases or decreases, which we do not control. In addition, we distribute generic pharmaceuticals, which can be subject to both price deflation and price inflation. Our generic pharmaceutical sourcing program has benefited from the joint sourcing entity, ClarusONE. If ClarusONE does not continue to be successful, our margins could be adversely affected. Our Distribution Solutions segment experienced weaker pharmaceutical pricing trends over the last three years. Continued volatility in the availability, pricing trends or reimbursement of these generic drugs, or significant fluctuations in the nature, frequency and magnitude of generic pharmaceutical launches, could have a material adverse impact on our results of operations. Additionally, any future changes in branded and generics drug pricing could be significantly different than our projections.

Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution of its legal challenge over the branded product's patent. To the extent we source, contract manufacture, and distribute such generic products, the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

The healthcare industry is highly regulated, and further regulation of our distribution businesses and technology products and services could impose increased costs, negatively impact our profit margins and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations.

Healthcare Fraud: We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud, waste and abuse. Local, state and federal governments continue to strengthen their position and scrutiny over practices involving fraud, waste and abuse affecting Medicare, Medicaid and other government healthcare programs. Our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws and regulations on fraud and abuse, which among other things: (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or to induce the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored

healthcare programs; (2) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs; and (3) prohibit the knowing submission of a false or fraudulent claim for payment to, and knowing retention of an overpayment by, a federal healthcare program such as Medicare and Medicaid. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. The regulations may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could become liable for damages and suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Table of Contents
McKESSON CORPORATION

Reimbursements: Both our profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals, medical treatments and related services, or changing the methodology by which reimbursement levels are determined. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the "Affordable Care Act"), signed into law in 2010, revised, subject to rulemaking, the federal upper limits ("FUL") for Medicaid reimbursement for multiple source generic drugs available for purchase by retail community pharmacies on a nationwide basis. On February 1, 2016, the Centers for Medicare and Medicaid Services ("CMS") published the Covered Outpatient Drugs final rule. The final rule, with limited exceptions, establishes the FUL to be 175% of the weighted average (determined on the basis of utilization across a drug molecule when multiple sources are available) of the most recently reported monthly average manufacturer price ("AMP"). Additionally, the final rule established actual acquisition cost as the basis by which states should determine their ingredient cost reimbursement, addressed the sufficiency of dispensing fees to reflect the cost of the pharmacist's professional services and cost to dispense drugs to Medicaid beneficiaries, and clarified that states are required to evaluate the sufficiency of both ingredient cost and professional dispensing fee when proposing changes to either component. Use of the revised AMP-based FUL may result in a reduction in the Medicaid reimbursement rates to our customers for certain pharmaceuticals, which could indirectly impact the prices that we can charge our customers and cause corresponding declines in our profitability.
The federal government may adopt measures that could reduce Medicare and/or Medicaid spending, or impose additional requirements on healthcare entities. For example, under the terms of the Budget Control Act of 2011, an automatic 2% reduction of Medicare program payments for all healthcare providers became generally effective for services provided on or after April 1, 2013. This automatic reduction is known as "sequestration." Medicare generally reimburses physicians for Part B drugs at the rate of average sales price ("ASP") plus 6%. The implementation of sequestration pursuant to the Budget Control Act of 2011 has effectively reduced reimbursement below the ASP plus 6% level for the duration of sequestration (which lasts through fiscal 2024 in the absence of additional legislation). On September 20, 2017, CMS issued a request for information seeking recommendations for payment models, which could include prescription drug models under Medicare Parts B and D and state Medicaid programs. CMS noted its interest in drug pricing and value-based purchasing models involving "novel arrangements between plans, manufacturers, and stakeholders across the supply chain." Additionally, CMS published a proposed rule on July 20, 2017 that would cut Medicare outpatient hospital reimbursement for separately payable drugs (other than vaccines) purchased through the 340B drug pricing program at ASP minus 22.5% (with certain exceptions), rather than ASP plus 6%. CMS finalized this rule on November 1, 2017. As another example, the Medicare Access and CHIP Reauthorization Act ("MACRA"), signed into law in April 2015, seeks to reform Medicare reimbursement policy for physician fee schedule services and adopts a series of policy changes affecting a wide range of providers and suppliers. Most notably, MACRA repeals the statutory Sustainable Growth Rate formula, which has called for cuts in Medicare rates in recent years, but which Congress routinely stepped in to override the full application of the formula. Instead, after a period of stable payment updates, MACRA links physician payment updates to quality and value measurements and participation in alternative payment models. MACRA also extends certain expiring Medicare and other health policy provisions, including extending the Children's Health Insurance Program. Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both. We cannot predict what alternative or additional deficit reduction initiatives or Medicare payment reductions, if any, will ultimately be enacted into law, or the timing or affect any such initiatives or reductions will have on us.
There can be no assurance that the preceding changes would not have a material adverse impact on our results of operations.
Operating, Security and Licensure Standards: We are subject to the operating and security standards of the Drug Enforcement Administration ("DEA"), the U.S. Food and Drug Administration ("FDA"), various state boards of pharmacy, state health departments, the U.S. Department of Health and Human Services ("HHS"), the CMS and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, FDA, HHS, CMS, various state boards of pharmacy, state

health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product development, manufacture, distribution, and sale. For example, we are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding, distribution, and disposal of controlled substances.

As part of these operating, security and licensure standards, we regularly receive requests for information and occasionally subpoenas from government authorities. In some instances, these can lead to monetary penalties and/or license revocation. In January 2017, we reached an agreement with the DEA and Department of Justice pursuant to which we paid the sum of $150 million to settle all potential administrative and civil claims relating to investigations about the Company’s suspicious order reporting practices for controlled substances. The DEA is suspending, on a staggered basis for limited periods of time, McKesson’s DEA registrations to distribute certain controlled substances from four McKesson distribution centers.

Table of Contents
McKESSON CORPORATION

Although we have enhanced our procedures to ensure compliance, there can be no assurance that a regulatory agency or tribunal would conclude that our operations are compliant with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could lead to litigation and have a material adverse impact on our results of operations.

Pedigree Tracking: There have been increasing efforts by Congress and state and federal agencies, including state boards of pharmacy and departments of health and the FDA, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system, otherwise known as pedigree tracking. In November 2013, Congress passed and the President signed into law the Drug Quality and Security Act ("DQSA"). The DQSA establishes federal standards requiring supply-chain stakeholders to participate in an electronic, interoperable, lot-level prescription drug track and trace system. The law also preempts state drug pedigree requirements. The DSQA also establishes new requirements for drug wholesale distributors and third-party logistics providers, including licensing requirements in states that had not previously licensed such entities.

In addition, the Food and Drug Administration Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include track-and-trace or authentication technologies, such as radio frequency identification devices, 2D data matrix barcodes and other similar technologies. On March 26, 2010, the FDA released the Serialized Numerical Identifier ("SNI") guidance for manufacturers who serialize pharmaceutical packaging. We expect to be able to accommodate these SNI regulations in our distribution operations. The DQSA and other pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have a material adverse impact on our results of operations.

Privacy: There are numerous federal and state laws and regulations related to the privacy and security of personal information. In particular, regulations promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establish privacy and security standards that limit the use and disclosure of individually identifiable health information (known as "protected health information") and require the implementation of administrative, physical and technological safeguards to protect the privacy of protected health information and ensure the confidentiality, integrity and availability of electronic protected health information. We are directly subject to certain provisions of the regulations as a "Business Associate" through our relationships with customers. We are also directly subject to the HIPAA privacy and security regulations as a "Covered Entity" with respect to our operations as a healthcare clearinghouse, specialty pharmacy and medical surgical supply business.

The privacy regulations established under HIPAA also provide patients with rights related to understanding and controlling how their protected health information is used and disclosed. To the extent permitted by applicable privacy regulations and our contracts with our customers, we may use and disclose protected health information to perform our services and for other limited purposes, such as creating de-identified information. Other uses and disclosures, such as marketing communications, require written authorization from the individual or must meet an exception specified under the privacy regulations. Determining whether protected health information has been sufficiently de-identified to comply with the HIPAA privacy standards and our contractual obligations may require complex factual and statistical analyses and may be subject to interpretation.

If we are unable to properly protect the privacy and security of protected health information entrusted to us, we could be found to have breached our contracts with our customers. Further, if we fail to comply with applicable HIPAA privacy and security standards, we could face civil and criminal penalties. HHS performs compliance audits of Covered Entities and Business Associates and enforces the HIPAA privacy and security standards. HHS has become an increasingly active regulator and has signaled its intention to continue this trend. HHS has the discretion to impose penalties without being required to attempt to resolve violations through informal means, such as implementing a

corrective action plan. HHS enforcement activity can result in financial liability and reputational harm, and responses to such enforcement activity can consume significant internal resources. In addition to enforcement by HHS, state attorneys general are authorized to bring civil actions seeking either injunctions or damages in response to violations that threaten the privacy of state residents. Although we have implemented and maintain policies and processes to assist us in complying with these regulations and our contractual obligations, we cannot provide assurance regarding how these regulations will be interpreted, enforced or applied to our operations. In addition to the risks associated with enforcement activities and potential contractual liabilities, our ongoing efforts to comply with evolving laws and regulations at the federal and state level might also require us to make costly system purchases and/or modifications from time to time.

Table of Contents
McKESSON CORPORATION

Healthcare Reform: The Affordable Care Act ("ACA") significantly expanded health insurance coverage to uninsured Americans and changed the way healthcare is financed by both governmental and private payers. While certain provisions of the ACA took effect immediately, others have delayed effective dates or require further rulemaking action or regulatory guidance by governmental agencies to implement and/or finalize (e.g. nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage). Further, as a result of the November 2016 U.S. presidential election, there are continued uncertainties associated with efforts to change or repeal certain provisions of the ACA or other healthcare reforms, and we cannot predict their full effect on the Company at this time. A top legislative priority of the new presidential administration and Congress may be significant reform of the ACA, as discussed above. While there is currently a substantial lack of clarity around the likelihood, timing and details of any such policies and reforms, such policies and reforms may have a material adverse impact on our results of operations.

FDA Regulation of Medical Software: The FDA has increasingly focused on the regulation of medical software and health information technology products as medical devices under the federal Food, Drug and Cosmetic Act. For example, in February 2015, the FDA issued guidance to inform manufacturers and distributors of medical device data systems that it did not intend to enforce compliance with regulatory controls that apply to medical device data systems, medical image storage devices, and medical image communication devices. If the FDA chooses to regulate more of our products as medical devices, or subsequently changes or reverses its guidance regarding not enforcing regulatory controls for certain medical device products, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any additional FDA regulations governing health information technology products, once issued, may increase the cost and time to market of new or existing products or may prevent us from marketing our products. In December 2016, Congress passed and the President signed into law the 21st Century Cures Act. The 21st Century Cures Act changes the way health IT would be regulated by the FDA. The bill also carves most health IT products out of the FDA's jurisdiction, but includes a clawback provision that would enable FDA to regulate products on a case-by-case basis if it determined they pose a risk to patient safety.

Medical Billing and Coding: Medical billing, coding and collection activities are governed by numerous federal and state civil and criminal laws. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have a material adverse impact on our results of operations.

Our foreign operations subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial position and results of operations.

We have operations based in, and we source and contract manufacture pharmaceutical and medical-surgical products in, a number of foreign countries. Moreover, in Europe, McKesson Europe AG ("McKesson Europe"), formerly known as Celesio AG, operates as a wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sector.

Our foreign operations expose us to a number of risks including changes in trade protection laws, policies and measures and other regulatory requirements affecting trade and investment; changes in licensing regimes for pharmacies; unexpected regulatory, social, political, or economic changes in a specific country or region; changes in intellectual property, privacy and data protection; import/export regulations and trade sanctions in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes, labor strikes, acts of war or terrorism and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. We may also be affected by potentially adverse tax consequences and difficulties associated with repatriating cash generated or held abroad.

On June 23, 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, which proposed exit (and the political, economic and other uncertainties it has raised) has exacerbated and may

further exacerbate many of the risks and uncertainties described above. Negotiations on withdrawal and post-exit arrangements likely will be complex and protracted, and there can be no assurance regarding the terms, timing or consummation of any such arrangements. The proposed withdrawal could, among other potential outcomes, adversely affect the tax, tax treaty, currency, operational, legal and regulatory regimes to which our businesses in the region are subject. The withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union and significantly disrupt trade between the United Kingdom and the European Union and other parties. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the United Kingdom and the other economies in which we operate. There can be no assurance that any or all of these events will not have a material adverse effect on our results of operations.

In addition, foreign operations are also subject to risks of violations of laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar regulations in foreign jurisdictions. The U.K. Bribery Act, for example, prohibits both domestic and international bribery, as well as bribery across both private and public sectors. An organization that fails to prevent bribery committed by anyone associated with the organization can be charged under the U.K. Bribery Act unless the organization can establish the defense of having implemented adequate procedures to prevent bribery. Failure to comply with these laws could subject us to civil and criminal penalties that could have a material adverse impact on our financial position and results of operations.

We also may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including but not limited to: (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities; (2) inability to increase production capacity commensurate with demand or the failure to predict market demand; (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements, physical limitations, or scarce or inadequate resources that could impact continuous supply; and (4) damage to our reputation due to real or perceived quality issues. For example, the FDA has conducted investigations and banned certain generics manufacturers from selling certain raw materials and drug ingredients in the U.S. from overseas plants due to quality issues. Difficulties in manufacturing or access to raw materials could result in production shutdowns, product shortages and other similar delays in product manufacturing that could have a material adverse impact on our financial position and results of operations.

Changes in the Canadian healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Provincial governments in Canada provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs. Provincial governments in Canada have introduced significant changes in recent years in an effort to reduce the costs of publicly funded health programs. For instance, to reduce the cost for taxpayers, provincial governments have taken and will continue to take steps to reform the rules regarding the sale of generic drugs. These changes include increased powers of investigation, reporting and enforcement for provincial regulatory agencies, the significant lowering of prices for generic pharmaceuticals and, in some provinces, changes to the allowable amounts of professional allowances paid to pharmacists by generic manufacturers and the tendering of generic molecules on provincial drug formularies. These reforms may adversely affect the distribution of drugs as well as the pricing for prescription drugs for the Company’s operations in Canada. Additional provinces have implemented or are considering similar changes, which would also lower pharmaceutical pricing and service fees. Individually or in combination, such changes in the Canadian healthcare environment may significantly reduce our Canadian revenue and operating profit.

General European economic conditions, together with austerity measures being taken by certain European governments, could have a material adverse impact on our results of operations.

A slowdown within the European economy could affect our business in Europe by reducing the prices our customers may be able or willing to pay for our products and services. A slowdown may also reduce the demand for our products. Either of these could result in a material adverse impact on our results of operations.

In addition, in many European countries the government provides or subsidizes healthcare to consumers and regulates pharmaceutical prices, patient eligibility, and reimbursement levels to control costs for the government-sponsored healthcare system. In recent years, in response to the recessionary environment and financial crisis in Europe, a number of European governments, including the government in the United Kingdom in the past year, have announced or implemented austerity measures to reduce healthcare spending and constrain overall government expenditures. These measures, which include efforts aimed at reforming healthcare coverage and reducing healthcare costs, continue to exert pressure on the pricing of and reimbursement timelines for pharmaceuticals and may cause our customers to purchase fewer of our products and services and reduce the prices they are willing to pay.

Countries with existing healthcare-related austerity measures may impose additional laws, regulations, or requirements on the healthcare industry. In addition, European governments that have not yet imposed

healthcare-related austerity measures may impose them in the future. New austerity measures may be similar to or vary from existing austerity measures and could have a material adverse impact on our results of operations.

Table of Contents

Changes in the European regulatory environment regarding privacy and data protection regulations could have a material adverse impact on our results of operations.

In Europe, beginning May 25, 2018, we are subject to the General Data Protection Regulation, which requires EU member states to impose restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States. We may also face audits or investigations by one or more foreign government agencies relating to our compliance with these regulations that could result in the imposition of penalties or fines. The EU member state regulations establish several obligations that organizations must follow with respect to use of personal data, including a prohibition on the transfer of personal information from the EU to other countries whose laws do not protect personal data to an adequate level of privacy or security. In addition, certain member states have adopted more stringent data protection standards. The costs of compliance with, and other burdens imposed by, such laws, regulations and policies that are applicable to us may limit the use and adoption of our products and solutions and could have a material adverse impact on our results of operations.

Our results of operations, which are stated in U.S. dollars, could be adversely impacted by fluctuations in foreign currency exchange rates.

We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollar. Changes in foreign currency exchange rates could have a significant adverse impact on our financial results that are reported in the U.S. dollar. We are also exposed to foreign currency exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies.

We may from time to time enter into foreign currency contracts or other derivative instruments intended to hedge a portion of our foreign currency exchange rate risks. Additionally, we may use foreign currency borrowings to hedge some of our foreign currency exchange rate risks. These hedging activities may not completely offset the adverse financial effects of unfavorable movements in foreign currency exchange rates during the time the hedges are in place.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Integration of acquisitions involves a number of significant risks, including the diversion of management’s attention to the assimilation of the operations of businesses we have acquired; difficulties in the integration of operations and systems; the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; accounting, regulatory or compliance issues that could arise, including internal control over financial reporting; and challenges retaining the customers of the combined businesses. Further, acquisitions may have a material adverse impact on our operating results if unanticipated expenses or charges to earnings were to occur, including unanticipated depreciation and amortization expenses over the useful lives of certain assets acquired, as well as costs related to potential impairment charges, assumed litigation and unknown liabilities. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable and is subject to potential volatility in the credit markets. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

Achieving the anticipated benefits of any acquisition is subject to a number of risks and uncertainties, including foreign exchange fluctuations, challenges of managing new domestic or international operations, and whether we can ensure continued performance or market growth of products and services. The integration process is subject to a number of uncertainties and no assurance can be given that the anticipated benefits of any transaction will be realized or, if realized, the timing of its realization. It is possible that the integration process could take longer than anticipated, and could result in the loss of employees, the disruption of each company’s ongoing businesses, processes and systems, or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements. Any of these events could adversely affect our ability to achieve the anticipated benefits of an acquisition and which could have a material adverse impact on our results of operations.

Any significant diversion of management’s attention away from the ongoing businesses, and any difficulties encountered in the acquisition, transition and integration process, could adversely affect our financial results.

Moreover, the failure to achieve the anticipated benefits of a transaction could result in increased costs or decreases in the amount of expected revenues, and could adversely affect our future business, financial position and operating results. Events outside of our control, including changes in regulations and laws, as well as economic trends, could also adversely affect our ability to realize the expected benefits from a transaction.

Table of Contents
McKESSON CORPORATION

Our results of operations could be impacted if our investment in Change Healthcare fails to perform as expected.
On March 1, 2017, McKesson contributed the majority of its Core MTS Business and Change contributed substantially all of its businesses, excluding its pharmacy switch and prescription routing businesses, to form a joint venture, Change Healthcare. The purpose of the transaction was to create a new healthcare information technology company, bringing together the complementary strengths of the contributed assets to provide software and analytics, network solutions and technology-enabled services that will help customers obtain actionable insights, exchange mission-critical information, control costs, optimize revenue opportunities, increase cash flow and effectively navigate the shift to value-based healthcare. Change Healthcare is jointly governed by McKesson and Change. Operating a business under joint governance of unaffiliated, controlling members could lead to conflicts of interest or deadlocks on important and time-sensitive operational, financial or strategic decisions, and will require additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. If we are unable to manage our joint venture relationship and to realize the strategic and financial benefits that we expect, including an initial public offering of Change Healthcare, such inability to manage the relationship or realize benefits may have a material adverse impact on our results of operations.
Our business and results of operations could be impacted if we fail to manage and complete divestitures.
We regularly evaluate our portfolio in order to determine whether an asset or business may no longer help us meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also experience greater dissynergies than expected, and the impact of the divestiture on our revenue growth may be larger than projected. After reaching an agreement with a buyer, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals, which, if not satisfied or obtained, may prevent us from completing the sale. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could have a material adverse impact on our results of operations.
We are subject to legal and regulatory proceedings that could have a material adverse impact on our financial position and results of operations.
From time to time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal and regulatory proceedings involving false claims, healthcare fraud and abuse, antitrust, class actions, commercial, employment, environmental, intellectual property, licensing, tort and other various claims. For example, the Company is a defendant in many cases alleging claims related to the distribution of controlled substances to pharmacies, often together with other pharmaceutical wholesale distributors and pharmaceutical manufacturers and retail pharmacy chains named as defendants. The Company has been served with many complaints, often brought by governmental entities (including counties and municipalities) that allege violations of controlled substance laws and various other statutes in addition to common law claims, including negligence and public nuisance, and seek monetary damages and equitable relief. Some states and other governmental entities have indicated that they are considering filing similar suits. All such legal proceedings are inherently unpredictable, and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary payments. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.
The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management’s time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with

unresolved legal proceedings could harm our business and reputation.

Table of Contents

Competition and industry consolidation may erode our profit.

Our Distribution Solutions segment (and commencing in first quarter of 2019, our reportable segments including U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions, Medical-Surgical Solutions and Other) faces a highly competitive global environment with strong competition from international, national, regional and local full-line, short-line and specialty distributors, service merchandisers, self-warehousing chain drug stores, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. In all areas, key competitive factors include price, quality of service, breadth of product lines, innovation and, in some cases, convenience to the customer.

In addition, in recent years, the healthcare industry has been subject to increasing consolidation. As a result, a small number of very large pharmaceutical suppliers could control a significant share of the market. Accordingly, we could depend on fewer suppliers for our products and therefore we may be less able to negotiate price terms with suppliers. Many of our customers, including healthcare organizations that purchase our products and services, have also consolidated to create larger enterprises with greater market power. If this consolidation trend continues among our customers, suppliers and competitors, it could reduce the number of market participants and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. It would also increase counter-party credit risk as the number of market participants decreases. In addition, when our customers combine, they often consolidate infrastructure including IT systems, which in turn may erode the diversity of our customer and revenue base.

Our McKesson Prescription Technology Solutions business experiences substantial competition from many companies, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

These competitive pressures and industry consolidation could have a material adverse impact on our results of operations.

A material reduction in purchases or the loss of a large customer or group purchasing organization, as well as substantial defaults in payment by a large customer or group purchasing organization, could have a material adverse impact on our financial position and results of operations.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2018, sales to our ten largest customers, including group purchasing organizations (“GPOs”) accounted for approximately 51.7% of our total consolidated revenues. Sales to our largest customer, CVS Health (“CVS”), accounted for approximately 19.9% of our total consolidated revenues. At March 31, 2018, trade accounts receivable from our ten largest customers were approximately 24.9% of total trade accounts receivable. Accounts receivable from CVS were approximately 16.4% of total trade accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or GPO could have a material adverse impact on our financial position, results of operations and liquidity.

We generally sell our products and services to customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which may in turn materially reduce our revenue growth and cause a material decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may also affect our customers’ ability to obtain credit to finance their business under acceptable terms, which in turn may materially reduce our revenue growth and cause a decrease in our profitability.

18

Table of Contents

Contracts with foreign and domestic government entities and their agencies pose additional risks relating to future funding and compliance.

Contracts with foreign and domestic government entities and their agencies are subject to various uncertainties, restrictions and regulations, including oversight audits by various government authorities. Government contracts also are exposed to uncertainties associated with funding. Contracts with the U.S. federal government, for example, are subject to the uncertainties of Congressional funding. Governments are typically under no obligation to maintain funding at any specific level, and funds for government programs may even be eliminated. As a result, our government clients may terminate our contracts for convenience or decide not to renew our contracts with little or no prior notice. The loss of such contracts could have a material adverse impact on our results of operations.

In addition, because government contracts are subject to specific procurement regulations and a variety of other socio-economic requirements, we must comply with such requirements. For example, for contracts with the U.S. federal government, with certain exceptions, we must comply with the Federal Acquisition Regulation, the U.S. False Claims Act, the Procurement Integrity Act, the Buy American Act and the Trade Agreements Act. We must also comply with various other domestic and foreign government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These regulations and requirements affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. Government contracts also contain terms that expose us to higher levels of risk and potential liability than non-government contracts.

We also are subject to government audits, investigations, and oversight proceedings. For example, government agencies routinely review and audit government contractors to determine whether contractors are complying with specific contractual or legal requirements. If we violate these rules or regulations, fail to comply with a contractual or other requirement, or do not satisfy an audit, a variety of penalties can be imposed by a government including monetary damages and criminal and civil penalties. In addition, any of our government contracts could be terminated or we could be suspended or debarred from all government contract work. The occurrence of any of these actions could harm our reputation and could have a material adverse impact on our results of operations.

Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We have developed contingency plans to address infectious disease scenarios and the potential impact on our operations, and we will continue to update these plans as necessary. However, there can be no assurance that these plans will be effective in eliminating the negative impact of any such diseases on the Company’s operating results. We may be required to suspend operations in some or all of our locations, which could have a material adverse impact on our financial position and results of operations.

We rely on sophisticated computer systems to perform our business operations. Although we, our customers and our external service providers use a variety of security measures to protect our and their computer systems, a failure or compromise of our, our customers’ or our external service providers’ computer systems from a cyberattack, natural disaster, or malfunction may result in material adverse operational and financial consequences.

Our business relies on the secure electronic transmission, storage, and hosting of sensitive information, including personally identifiable information, protected health information, financial information and other sensitive information relating to our customers, company and workforce. We routinely process, store and transmit large amounts of data in our operations, including sensitive personal information, protected health information, financial information, and confidential information relating to our business or third parties. Some of the data that we process, store and transmit may travel outside of the United States. Additionally, we outsource some important IT functions to external service providers worldwide.

Our industry is subject to various evolving federal, state and international data and security laws and regulations, which impose operational costs to achieve compliance. Any failure to comply with these laws and regulations could result in regulatory enforcement activity and fines. In addition, compliance with these requirements could require

changes in business practices, complicate our operations, and increase our oversight needs.

Table of Contents
McKESSON CORPORATION

The constant evolution of cyberattacks has caused us to spend more time and money to deal with increasingly sophisticated attacks. Despite our implementation of a variety of physical, technical and administrative security measures, our, our customers' and our external service providers' computer systems could be subject to cyberattacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other global companies, we and our customers have experienced threats to data and systems, including malware and ransomware attacks, unauthorized access, system failures, and disruptions.

A failure or compromise of our, our customers' or our external service providers' computer systems may result in business disruption or jeopardize the confidential, proprietary, and sensitive information processed, stored, and transmitted through such computer systems. Such an event may result in significant damage to our reputation, financial losses, litigation, increased costs, regulatory penalties, notification costs, remediation expenses, customer attrition, brand impairment, or other business harm. These risks may increase in the future as we continue to expand our internet and mobile strategies and to build an integrated digital enterprise.

We could experience losses or liability not covered by insurance.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have a material adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing and administration of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses and the provision of products that assist clinical decision making and relate to patient medical histories and treatment plans. If customers or individuals assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit our liability to customers by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract, such as a claim directly by a patient. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have a material adverse impact on our results of operations.

Transactions like our acquisitions of McKesson Europe and Rexall Health expose us to additional risks related to providing pharmacy services. Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as with respect to improper filling of prescriptions, labeling of prescriptions, adequacy of warnings, unintentional distribution of counterfeit drugs and expiration of drugs. Although we maintain liability insurance, the coverage may not be adequate to protect us against future claims. If our insurance coverage proves to be inadequate or unavailable, or we suffer reputational harm as a result of an error or omission, it could have a material adverse impact on our results of operations.

Proprietary protections may not be adequate, and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop products or services that are equivalent or superior to ours. In addition, despite protective measures, we may be subject to unauthorized use of our technology due to copying, reverse-engineering or other infringement. Although we believe that our products and services do not infringe the proprietary rights of third parties, from time to time third parties have asserted infringement claims against us, and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing products or services, obtain a license or cease

selling or using the products or services that contain the infringing elements. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement products or services could have a material adverse impact on our results of operations.

Table of Contents

System errors or failures of our products or services to conform to specifications could cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.

The software and technology services that we sell or operate are complex. As with complex systems offered by others, our software and technology services may contain errors, especially when first introduced. For example, some of our systems are intended to provide information to healthcare professionals in the course of delivering patient care. Therefore, users of our software and technology services have a greater sensitivity to errors than the general market for software products. If clinicians' use of our software and technology services leads to faulty clinical decisions or injury to patients, we could be subject to claims or litigation by our customers, clinicians or patients. In addition, such failures could damage our reputation and could negatively affect future sales.

Failure of a customer's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Various risks could interrupt customers' access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (1) power loss and telecommunications failures; (2) fire, flood, hurricane and other natural disasters; (3) software and hardware errors, failures or crashes; and (4) cyberattacks, computer viruses, hacking and other similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change controls, information security procedures, and continued development and enhancement of our cyber security, but our precautions may not protect against all risks. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. If customers' access is interrupted from failure or breach of our operational or information security systems, or those of our contractors or third-party service providers, we could suffer reputational harm or be exposed to liabilities arising from the unauthorized and improper use or disclosure of confidential or proprietary information. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

We may be required to record a significant charge to earnings if our goodwill, intangible and other long-lived assets, or investments become impaired.

We are required under U.S. generally accepted accounting principles ("GAAP") to test our goodwill for impairment annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible and other long-lived assets for impairment when events or changes in circumstances, such as a divestiture, indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible and other long-lived assets may not be recoverable include slower growth rates, the loss of a significant customer, or divestiture of a business or asset for less than its carrying value. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible and other long-lived assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management's estimates, judgments and assumptions used in assessing recoverability of goodwill, intangible and other long-lived assets. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, a deterioration in the

U.S. and global financial markets, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge.

Table of Contents
McKESSON CORPORATION

Our investment in Change Healthcare represents the fair value of our 70% equity interest in Change Healthcare upon closing. We may experience declines in its fair value. A decline in the fair value of our Change Healthcare investment may require that we review the carrying value for potential impairment, and such review could result in an impairment charge to our consolidated statements of operations.

Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time to time, legislation may be enacted that could adversely affect our tax positions. There can be no assurance that our effective tax rate and the resulting cash flow will not be adversely affected by these changes in legislation. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was enacted and contains significant changes to U.S. income tax law. Effective in 2018, the 2017 Tax Act reduces the U.S. statutory tax rate from 35% to 21%. Effective in 2019, it creates new taxes focused on foreign-sourced earnings and related-party payments. In addition, we were subject to a one-time transition tax in 2018 on accumulated foreign subsidiary earnings not previously subject to U.S. income tax. The SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017, which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. We have made reasonable estimates of the effects and recorded provisional amounts in our consolidated financial statements for the year ended March 31, 2018, in accordance with SAB 118. The U.S. Treasury Department and IRS have not yet issued regulations with respect to the 2017 Tax Act. Due to the potential for changes to tax laws and regulations or changes to the interpretation thereof (including regulations and interpretations pertaining to the 2017 Tax Act), the ambiguity of tax laws and regulations, the subjectivity of factual interpretations, the complexity of our intercompany arrangements, uncertainties regarding the geographic mix of earnings in any particular period, and other factors, material adjustments to our tax estimates impact our provision for income taxes and our earnings per share, as well as our cash flows, in the period in which any such adjustments are made. Refer to Financial Note 10, “Income Taxes,” to the accompanying consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

The tax laws and regulations of the various countries where we have major operations are extremely complex and subject to varying interpretations. For example, we operate in various countries that collect value added taxes (“VAT”). The determination of the manner in which a VAT applies to our foreign operations is subject to varying interpretations arising from the complex nature of the tax laws and regulations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge. Even if we are successful in maintaining our positions, we may incur significant expense in defending challenges to our tax positions by tax authorities that could have a material impact on our financial position and results of operations.

In addition, as jurisdictions enact legislation to implement the recommendations of the recently concluded base erosion and profit shifting project undertaken by the Organization for Economic Cooperation and Development or as a result of the European Commission’s investigations into illegal state aid, changes to long-standing tax principles may result which could adversely impact our tax expense and cash flows.

Volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, or decreased liquidity and increased costs in the commercial paper market, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future. Although we believe that our operating cash flow, financial assets, 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, there can be no assurance that volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

22

Table of Contents
McKESSON CORPORATION

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms, may have a material adverse impact on our results of operations and cash flow.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our consolidated financial statements.

Our consolidated financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt, such as the amended guidance for leases, may require changes to the current accounting treatment that we apply to our consolidated financial statements and may require us to make significant changes to our systems. Such changes could result in a material adverse impact on our financial position and results of operations.

We could face significant liability if we withdraw from participation in one or more multiemployer pension plans in which we participate, or if one or more multiemployer plans in which we participate is underfunded.

We participate in various multiemployer pension plans. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make additional cash contributions to the plans in installments. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan's funding of vested benefits. The multiemployer plans could have significant unfunded vested liabilities. Such underfunding may increase in the event other employers become insolvent or withdraw from the applicable plan or upon the inability or failure of withdrawing employers to pay their withdrawal liability. In addition, such underfunding may increase as a result of lower than expected returns on pension fund assets or other funding deficiencies. The occurrence of any of these events could have a material adverse impact on our consolidated financial position, results of operations or cash flows.

We may not realize the expected benefits from our restructuring and business process initiatives.

From time to time, the Company may enter into restructuring and business process initiatives. In April 2018, the Company announced a multi-year strategic growth initiative focused on creating innovative new solutions that improve patient care delivery and drive incremental profit growth. The initiative includes a comprehensive review of the Company's operations and cost structure, designed to increase efficiency, accelerate execution and improve long-term performance. In March 2016, the Company also committed to a restructuring plan to lower its operating costs ("Cost Alignment Plan"). The Cost Alignment Plan primarily consists of a reduction in workforce and business process initiatives that will be substantially implemented prior to the end of 2019. These types of initiatives could yield unintended consequences such as distraction of our management and employees, business disruption, attrition beyond any planned reduction in workforce, inability to attract or retain key personnel, and reduced employee productivity which could negatively affect our business, sales, financial condition and results of operations. Moreover, our restructuring and business process initiatives result in charges and expenses that impact our operating results. We cannot guarantee that the activities under any restructuring and business initiative will result in the desired efficiencies and estimated cost savings.

We may experience difficulties with outsourcing and similar third-party relationships.

Our ability to conduct our business might be negatively impacted if we experience difficulties with outsourcing and managing similar third-party relationships. We outsource certain business and administrative functions and rely on third parties to perform certain services on our behalf. If we fail to develop, implement and monitor our outsourcing strategies, such strategies prove to be ineffective or fail to provide expected cost savings, or our third-party providers fail to perform as anticipated, we may experience operational difficulties and increased costs may adversely affect the

results of our operations.

Table of Contents
McKESSON CORPORATION

Moreover, we utilize contractors and employees located outside of the United States to assist us in performing services or providing support for our customers. Certain of these resources may have access to personal information, including protected health information. Some of our customers have contractually limited or may seek to limit our ability to use our offshore resources which may increase our costs due to concerns regarding potential misuse of this information. Further, Congress and a number of states have considered legislation that would restrict the transmission of personal information of United States residents offshore. Some proposals impose liability on healthcare businesses resulting from misuse or prohibited transmission of personal information to individuals or entities outside the United States and may require the prior consent of the identifiable patient. Congress also has considered establishing a private civil cause of action enabling an individual to recover damages sustained as a result of a violation of these proposed restrictions. If our ability to utilize offshore resources is limited by our customers or legislative action, the work currently being performed offshore may be done at a lower margin or at a loss and we may be subject to sanctions if we are unable to comply with new legislative requirements. Use of offshore resources may increase our risk of violating data security and privacy obligations to our customers, which could adversely affect our results of operations.

We may face risks associated with our retail expansion.

In recent years, we have expanded our retail operations through a number of acquisitions. As we expand our retail footprint, we may face risks that are different from those we currently encounter. Our expansion into additional retail markets, such as those in Europe and Canada, could result in increased competitive, merchandising and distribution challenges. We may encounter difficulties in attracting customers to our retail locations due to a lack of customer familiarity with our brands and our lack of familiarity with local customer preferences and seasonal differences in the market. Our ability to expand successfully will depend on acceptance of our retail store experience by customers, including our ability to design our stores in a manner that resonates locally and to offer the correct product assortment to appeal to consumers. Furthermore, our continued growth in the retail sector may strain relations with certain of our distribution customers who also compete in the retail pharmacy sector. There can be no assurance that our retail locations will be received as well as, or achieve net sales or profitability levels consistent with, our projected targets or be comparable to those of our existing stores in the time periods estimated by us, or at all. If our retail expansion fails to achieve, or unable to sustain, acceptable net sales and profitability levels, our business, results of operations and growth prospects may be materially adversely affected.

Our retail stores may require additional management time and attention. Failure to properly supervise the operation and maintain the consistency of the customer experience in those retail stores could result in loss of customers and potentially adversely affect our results of operations.

We may be unable to keep existing retail store locations or open new retail locations in desirable places, which could materially adversely affect our results of operations.

We may be unable to keep existing retail locations or open new retail locations in desirable places in the future. We compete with other retailers and businesses for suitable retail locations. Local land use, local zoning issues, environmental regulations and other regulations may affect our ability to find suitable retail locations and also influence the cost of leasing or buying them. We also may have difficulty negotiating real estate leases for new stores, renewing real estate leases for existing stores or negotiating purchase agreements for new sites on acceptable terms. In addition, construction, environmental, zoning and real estate delays may negatively affect retail location openings and increase costs and capital expenditures. If we are unable to keep up our existing retail store locations or open new retail store locations in desirable places and on favorable terms, our results of operations could be materially adversely affected.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Because of the nature of our principal businesses, our plant, warehousing, retail pharmacies, office and other facilities are operated in widely dispersed locations, primarily throughout North America and Europe. The warehouses and retail pharmacies are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 22, “Lease Obligations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION

Item 3. Legal Proceedings.
Certain legal proceedings in which we are involved are discussed in Financial Note 24, “Commitments and Contingent Liabilities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.
Item 4. Mine Safety Disclosures.
Not applicable.

Table of Contents
McKESSON CORPORATION

Executive Officers of the Registrant

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors ("Board") following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant and Business Experience
John H. Hammergren	59	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company — 22 years.
Britt J. Vitalone	49	Executive Vice President and Chief Financial Officer since January 2018; Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical from July 2014 to December 2017; Senior Vice President and Chief Financial Officer, U.S. Pharmaceutical and Specialty Health from October 2017 to December 2017; Senior Vice President of Corporate Finance and M&A Finance from March 2012 to June 2014. Service with the Company — 12 years.
Jorge L. Figueredo	57	Executive Vice President, Human Resources since May 2008. Service with the Company — 10 years.
Kathleen D. McElligott	62	Executive Vice President, Chief Information Officer and Chief Technology Officer since July 2015; Chief Information Officer and Vice President, Information Technology, Emerson Electric from 2010 to July 2015. Service with the Company — 2 years.
Bansi Nagji	53	Executive Vice President, Corporate Strategy and Business Development since February 2015; Principal, Deloitte Consulting, LLP and Global Leader, Monitor Deloitte (which was formed by the global merger of Monitor Group with Deloitte) from January 2013 to February 2015; President, Monitor Group from July 2012 to January 2013; Partner, Monitor Group from 2001 to January 2013. Service with the Company — 3 years.
Lori A. Schechter	56	Executive Vice President, General Counsel and Chief Compliance Officer since June 2014; Associate General Counsel from January 2012 to June 2014; Litigation Partner, Morrison & Foerster LLP from January 1995 to December 2011. Service with the Company — 6 years.

Table of Contents
McKESSON CORPORATION

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information: The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE").

The following table sets forth the high and low sales prices for our common stock as reported on NYSE for each quarterly period of the two most recently completed fiscal years:

	2018		2017	
	High	Low	High	Low
First quarter	$169.29	$133.82	$188.43	$154.33
Second quarter	$168.87	$145.13	$199.43	$163.57
Third quarter	$164.29	$134.25	$166.78	$114.53
Fourth quarter	$178.86	$137.10	$153.07	$134.17

(b) Holders: The number of record holders of the Company's common stock at March 31, 2018 was approximately 5,619.

(c) Dividends: In July 2017, the Company's quarterly dividend was raised from $0.28 to $0.34 per common share for dividends declared on or after such date by the Company's Board of Directors (the "Board"). The Company declared regular cash dividends of $1.30 and $1.12 per share in the years ended March 31, 2018 and 2017.

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.

(d) Securities Authorized for Issuance under Equity Compensation Plans: Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.

(e) 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 any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

During the last three years, our share repurchases were transacted through both open market transactions and ASR programs with third-party financial institutions.

In May and October 2015, the Board authorized the repurchase of up to $500 million and $2 billion of the Company's common stock.

In 2016, we repurchased 4.5 million of the Company's shares for $854 million through open market transactions at an average price per share of $192.27. In February 2016, we entered into an ASR program with a third-party financial institution to repurchase $650 million of the Company's common stock. The ASR program was completed during the fourth quarter of 2016 and we repurchased 4.2 million shares at an average price per share of $154.04. During 2016, we completed the May 2015 share repurchase authorization. At March 31, 2016, $1.0 billion remained available for future authorized repurchases of the Company's common stock under the October 2015 authorization.

In 2016, we retired 115.5 million or $7.8 billion of the Company's treasury shares previously repurchased. Under the applicable state law, these shares resume the status of authorized and unissued shares upon retirement. In accordance with our accounting policy, we allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. Accordingly, our retained earnings and additional paid-in capital were reduced by $6.4 billion and $1.5 billion during 2016.

In October 2016, the Board authorized the repurchase of up to $4.0 billion of the Company's common stock.

Table of Contents
McKESSON CORPORATION

In 2017, we repurchased 14.1 million of the Company's shares for $2.0 billion through open market transactions at an average price per share of $140.96. In March 2017, we entered into an ASR program with a third-party financial institution to repurchase $250 million of the Company's common stock. As of March 31, 2017, we had received 1.4 million shares under this program. This ASR program was completed in April 2017 and we received 0.3 million additional shares. The total number of shares repurchased under this ASR program was 1.7 million shares at an average price per share of $143.19. During 2017, we completed the October 2015 share repurchase authorization. The total authorization outstanding for repurchases of the Company's common stock was $2.7 billion at March 31, 2017.
In 2018, we repurchased 3.5 million of the Company's shares for $500 million through open market transactions at an average price per share of $144.43. In June 2017, August 2017 and March 2018, we entered into three separate ASR programs with third-party financial institutions to repurchase $250 million, $400 million and $500 million of the Company's common stock. As of March 31, 2018, we completed and received a total of 1.5 million shares under the June 2017 ASR program and a total of 2.7 million shares under the August 2017 ASR program. In addition, we received 2.5 million shares representing the initial number of shares due in March 2018 and an additional 0.5 million shares in April 2018 under the March 2018 ASR program. The total number of shares to be ultimately repurchased by the Company under the March 2018 ASR program will be determined at the completion of the program based on the average daily volume-weighted average price of the Company's common stock during this program, less a discount. The program is anticipated to be completed during the first quarter of 2019. The total authorization outstanding for repurchase of the Company's common stock was $1.1 billion at March 31, 2018.
In May 2018, the Board authorized the repurchase of up to $4.0 billion of the Company's common stock. The total authorization outstanding for repurchases of the Company's common stock was increased to $5.1 billion.
The following table provides information on the Company's share repurchases during the fourth quarter of 2018:

	Share Repurchases [1]			
(In millions, except price per share)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
January 1, 2018 - January 31, 2018	—	$ ——	——	$ 1,846
February 1, 2018 - February 28, 2018	0.7	152.00	0.7	1,734
March 1, 2018 - March 31, 2018	3.5	155.87 [2]	3.5	1,096
Total	4.2		4.2	

(1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax-withholding obligations in connection with employee equity awards.

(2) The average price paid per share computation includes the initial share settlement of 2.5 million shares from the March 2018 ASR program, of which the actual average price of shares will be determined at the termination of the program.

Table of Contents
McKESSON CORPORATION

(f) Stock Price Performance Graph*: The following graph compares the cumulative total stockholder return on the Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the S&P 500 Health Care Index. The S&P 500 Health Care Index was selected as a comparator because it is generally available to investors and broadly used by other companies in the same industry.

	March 31,					
	2013	2014	2015	2016	2017	2018
McKesson Corporation	$100.00	$164.63	$211.91	$148.16	$140.65	$133.64
S&P 500 Index	$100.00	$121.86	$137.37	$139.82	$163.83	$186.75
S&P 500 Health Care Index	$100.00	$129.24	$163.09	$154.64	$172.57	$192.01

* Assumes $100 invested in McKesson Common Stock and in each index on March 31, 2013 and that all dividends are reinvested.

Table of Contents
McKESSON CORPORATION

Item 6. Selected Financial Data.
FIVE-YEAR HIGHLIGHTS

	As of and for the Years Ended March 31,				
(In millions, except per share data and ratios)	2018	2017	2016	2015	2014
Operating Results					
Revenues	$208,357	$198,533	$190,884	$179,045	$137,392
Percent change	4.9 %	4.0 %	6.6 %	30.3 %	12.4 %
Gross profit	$11,184	$11,271	$11,416	$11,411	$8,352
Income from continuing operations before income taxes [2]	239	6,891	3,250	2,657	2,171
Income (loss) after income taxes					
Continuing operations [2]	292	5,277	2,342	1,842	1,414
Discontinued operations	5	(124)	(32)	(299)	(156)
Net income	297	5,153	2,310	1,543	1,258
Net (income) loss attributable to noncontrolling interests [1]	(230)	(83)	(52)	(67)	5
Net income attributable to McKesson Corporation [2]	67	5,070	2,258	1,476	1,263
Financial Position					
Working capital	$451	$1,336	$3,366	$3,173	$3,221
Days sales outstanding for: [3]					
Customer receivables	25	27	28	26	29
Inventories	30	30	32	31	33
Drafts and accounts payable	60	61	59	54	54
Total assets	$60,381	$60,969	$56,523	$53,870	$51,759
Total debt, including capital lease obligations	7,880	8,545	8,114	9,844	10,594
Total McKesson stockholders' equity[4]	9,804	11,095	8,924	8,001	8,522
Payments for property, plant and equipment	405	404	488	376	278
Acquisitions, net of cash and cash equivalents acquired	2,893	4,237	40	170	4,634
Common Share Information					
Common shares outstanding at year-end	202	211	225	232	231
Shares on which earnings per common share were based					
Diluted	209	223	233	235	233
Basic	208	221	230	232	229
Diluted earnings (loss) per common share attributable to McKesson Corporation [5]					
Continuing operations	$0.30	$23.28	$9.84	$7.54	$6.08
Discontinued operations	0.02	(0.55)	(0.14)	(1.27)	(0.67)
Total	0.32	22.73	9.70	6.27	5.41
Cash dividends declared	270	249	249	226	214
Cash dividends declared per common share	1.30	1.12	1.08	0.96	0.92
Book value per common share [5] [6]	48.53	52.58	39.66	34.49	36.89
Market value per common share - year-end	140.87	148.26	157.25	226.20	176.57

Supplemental Data

Debt to capital ratio [7]	40.6	%	39.2	%	43.6	%	50.3	%	55.4	%
Average McKesson stockholders' equity[8]	$11,016		$9,282		$8,688		$8,703		$7,803	
Return on McKesson stockholders' equity[9]	0.6	%	54.6	%	26.0	%	17.0	%	16.2	%

Table of Contents
McKESSON CORPORATION

Footnotes to Five-Year Highlights:

(1) Primarily reflects guaranteed dividends for 2015 and annual recurring compensation for 2016, 2017 and 2018 that McKesson became obligated to pay to the noncontrolling shareholders of McKesson Europe upon the effectiveness of the Domination Agreement in December 2014. 2018 and 2017 also include net income attributable to third-party equity interests in our consolidated entities including Vantage and ClarusONE Sourcing Services LLP, which was formed in 2017.

(2) 2018 includes non-cash goodwill impairment charges (pre-tax and after-tax) of $1,738 million for our McKesson Europe and Rexall Health reporting units. 2017 includes a pre-tax gain of $3,947 million ($3,018 million after-tax) from the contribution of our Core MTS Business in connection with Healthcare Technology Net Asset Exchange.

(3) Based on year-end balances and sales or cost of sales for the last 90 days of the year.

(4) Excludes noncontrolling and redeemable noncontrolling interests.

(5) Certain computations may reflect rounding adjustments.

(6) Represents McKesson stockholders' equity divided by year-end common shares outstanding.

(7) Ratio is computed as total debt divided by the sum of total debt and McKesson stockholders' equity excluding accumulated other comprehensive income (loss).

(8) Represents a five-quarter average of McKesson stockholders' equity.

(9) Ratio is computed as net income attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity.

Table of Contents

McKESSON CORPORATION
FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 ("McKesson," the "Company," or "we" and other similar pronouns) together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. 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.

Certain statements in this report constitute forward-looking statements. See Item 1 - Business - Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements; also see Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition and results of operations.

We conduct our business through two reportable segments: McKesson Distribution Solutions ("MDS") and McKesson Technology Solutions. Refer to Financial Note 28, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K for a description of these segments.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

RESULTS OF OPERATIONS
Overview:

(Dollars in millions, except per share data and ratios)	Years Ended March 31,			Change	
	2018	2017	2016	2018	2017
Revenues	$208,357	$198,533	$190,884	5 %	4 %
Gross Profit	$11,184	$11,271	$11,416	(1)%	(1)%
Gross Profit Margin	$5.37	$5.68	$5.98	(31) bp	(30) bp
Operating Expenses					
Operating Expenses	$(8,263)	$(7,801)	$(7,771)	6 %	— %
Goodwill impairment charges	(1,738)	(290)	—	499	NM
Restructuring and asset impairment charges	(567)	(18)	(203)	3,050	(91)
Gains from sales of businesses	109	—	103	NM	NM
Gain on healthcare technology net asset exchange, net	37	3,947	—	(99)	NM
Total Operating Expenses	$(10,422)	$(4,162)	$(7,871)	150 %	(47)%
Loss from Equity Method Investment in Change Healthcare	$(248)	$—	$—	NM	NM
Loss on Debt Extinguishment	$(122)	$—	$—	NM	NM
Income from Continuing Operations Before Income Taxes	$239	$6,891	$3,250	(97)%	112 %
Income Tax Benefit (Expense)	53	(1,614)	(908)	(103)	78
Income from Continuing Operations	292	5,277	2,342	(94)	125
Income (Loss) from Discontinued Operations, Net of Tax	5	(124)	(32)	(104)	288
Net Income	297	5,153	2,310	(94)	123
Net Income Attributable to Noncontrolling Interests	(230)	(83)	(52)	177	60
Net Income Attributable to McKesson Corporation	$67	$5,070	$2,258	(99)%	125 %
Diluted Earnings (Loss) Per Common Share Attributable to McKesson Corporation					
Continuing Operations	$0.30	$23.28	$9.84	(99)%	137 %
Discontinued Operations	0.02	(0.55)	(0.14)	(104)	293
Total	$0.32	$22.73	$9.70	(99)%	134 %
Weighted Average Diluted Common Shares	209	223	233	(6)%	(4)%

bp - basis points
NM - not meaningful

Revenues for 2018 and 2017 increased 5% and 4% compared to the same periods a year ago primarily due to market growth, reflecting growing drug utilization and price increases, our business acquisitions and expanded business with existing customers within our North America pharmaceutical distribution businesses. These increases for 2018 and 2017 were partially offset by price deflation associated with brand to generic drug conversion and loss of customers and for 2018 also by the contribution of the majority of our McKesson Technology Solutions businesses (“Core MTS Business”) to a joint venture in March 2017, as further discussed below.

33

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Gross profit and gross profit margin decreased in 2018 and 2017 compared to the same periods a year ago. The decrease for 2018 was primarily due to the contribution of the Core MTS Business, significant government reimbursement reductions in the United Kingdom ("U.K."), the competitive sell-side environment and weaker pharmaceutical manufacturer pricing trends. These decreases in 2018 were partially offset by market growth, procurement benefits realized through the joint sourcing entity, ClarusONE Sourcing Services LLP ("ClarusONE"), higher last-in, first-out ("LIFO") credits and our business acquisitions.

Gross profit and gross profit margin decreased in 2017 primarily due to weaker pharmaceutical manufacturer pricing trends, the competitive sell-side pricing environment, our mix of business and lower compensation from a branded pharmaceutical manufacturer from our U.S. Pharmaceutical distribution business. These decreases for 2017 were partially offset by our business acquisitions, LIFO inventory credits, higher cash receipts from antitrust legal settlements and higher procurement benefits. Gross profit for 2017 and 2016 benefited from $144 million and $76 million of cash receipts representing our share of antitrust legal settlements. LIFO credits were $99 million and $7 million in 2018 and 2017 and LIFO charges were $244 million in 2016. LIFO credits were higher in 2018 compared to 2017 due to higher net effect of price declines, partially offset by the lower inventory level. LIFO expense was recognized in 2016 primarily due to net effects of price increases.

Our Distribution Solutions segment experienced weaker pharmaceutical manufacturer pricing trends over the last three years.

On March 1, 2017, we contributed our Core MTS Business to the newly formed joint venture, Change Healthcare, LLC ("Change Healthcare") under the terms of a contribution agreement entered into between McKesson and Change Healthcare Holdings, Inc. ("Change") and others including shareholders of Change. We retained our RelayHealth Pharmacy ("RHP") and Enterprise Information Solutions ("EIS") businesses. The RHP business was transferred to our MDS segment, effective April 1, 2017, and the EIS business was sold to a third party in the third quarter of 2018. We accounted for this transaction as a sale of the Core MTS Business and a subsequent purchase of a 70% interest in the newly formed joint venture. Refer to Financial Note 2, "Healthcare Technology Net Asset Exchange," to the accompanying consolidated financial statements appearing in this Annual Report on Form 10 K for additional information.

Total operating expenses increased in 2018 and decreased in 2017 compared to the same periods a year ago primarily due to a pre-tax gain of $3,947 million (after-tax gain of $3,018 million) recognized in 2017 from the contribution of the Core MTS Business.

2018 total operating expenses also increased due to:

- Total non-cash goodwill impairment charges (pre-tax and after-tax) of $1,738 million for our McKesson Europe AG ("McKesson Europe") and Rexall Health reporting units, as further described below. The charges were recorded within our Distribution Solutions segment. There were no tax benefits associated with these goodwill impairment charges.
- Non-cash pre-tax long-lived asset impairment charges of $446 million ($410 million after-tax) and pre-tax restructuring charges of $74 million ($67 million after-tax) primarily representing employee severance and lease exit costs for our McKesson Europe business;
- Higher expenses due to our business acquisitions; and
- Pre-tax charitable contribution expense of $100 million ($64 million after-tax) to a public benefit California foundation ("Foundation"), as further described below.

These increases in 2018 total operating expenses were partially offset by a pre-tax gain of $109 million (after-tax gain of $30 million) from the 2018 third quarter sale of our EIS business in our Technology Solutions segment.

Excluding the gain on Healthcare Technology Net Asset Exchange, 2017 total operating expenses increased primarily due to a non-cash pre-tax goodwill impairment charge of $290 million ($282 million after-tax) related to our EIS business within our Technology Solutions segment and higher expenses due to our business acquisitions. 2017 total operating expenses benefited from lower restructuring charges and cost savings associated with a cost alignment plan implemented in the fourth quarter of 2016 and ongoing expense management efforts.

34

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Our investment in Change Healthcare is accounted for using the equity method of accounting. During 2018, we recorded our proportionate share of loss from Change Healthcare of $248 million under the caption, “Loss from Equity Method Investment in Change Healthcare,” in our consolidated statements of operations. We recorded our proportionate share of a provisional net benefit recognized by Change Healthcare from the enactment of the December 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) of $76 million primarily due to a reduction in future applicable tax rate.

In the fourth quarter of 2018, we recognized a pre-tax loss of $122 million ($78 million after-tax) on debt extinguishment related to our February 2018 tender offers to redeem a portion of our existing outstanding long-term debt. Refer to Financial Note 16, “Debt and Financing Activities,” to the accompanying consolidated financial statements appearing in this Annual Report on Form 10 K for additional information.

Income from continuing operations before income taxes decreased in 2018 and increased in 2017 compared to the same periods a year ago primarily due to the pre-tax gain recognized in 2017 from the contribution of the Core MTS Business. Income from continuing operations before income taxes decreased in 2018 also due to the goodwill impairment charges within our Distribution Solutions segment, the restructuring and asset impairment charges, our proportionate share of loss from our equity method investment in Change Healthcare and loss on debt extinguishment.

Our reported income tax benefit rate was 22.2% in 2018 and income tax expense rates were 23.4% and 27.9% in 2017 and 2016. Fluctuations in our reported income tax rates are primarily due to change in tax laws, including the recently enacted 2017 Tax Act, the impact of nondeductible impairment charges and varying proportions of income attributable to foreign countries that have income tax rates different from the U.S. rate.

During 2018, as a result of the 2017 Tax Act, we have recognized a provisional tax benefit of $1,324 million due to the re-measurement of certain deferred taxes to the lower U.S. federal tax rate and a provisional tax expense of $457 million for the one-time tax imposed on certain accumulated earnings and profits (“E&P”) of our foreign subsidiaries. Refer to Financial Note 10, “Income Taxes,” to the accompanying consolidated financial statements appearing in this Annual Report on Form 10 K for additional information.

Loss from discontinued operations, net of tax, for 2017 includes an after-tax loss from discontinued operations of $113 million resulting from the 2017 first quarter sale of our Brazilian pharmaceutical distribution business.

Net income attributable to McKesson Corporation was $67 million, $5,070 million and $2,258 million in 2018, 2017 and 2016 and diluted earnings per common share attributable to McKesson Corporation from continuing operations were $0.30, $23.28 and $9.84. Diluted income (loss) per common share attributable to McKesson Corporation from discontinued operations were $0.02, ($0.55) and ($0.14) in 2018, 2017 and 2016. Additionally, our 2018 diluted earnings per share reflect the cumulative effects of share repurchases.

Foundation

During the fourth quarter of 2018, the Foundation was established to provide opioid education to patients, caregivers, and providers, address policy issues, and increase patient access to life-saving treatments. In March 2018, we made a pledge to the Foundation and incurred a pre-tax charitable contribution expense of $100 million ($64 million after-tax) for 2018, which was recorded in operating expenses within Corporate Expenses. The pledge is binding and enforceable and is expected to be paid in the first quarter of 2019.

Goodwill Impairments

McKesson Europe: In 2018, we recorded total non-cash pre-tax and after-tax charges of $1,283 million to impair the carrying value of goodwill for our McKesson Europe reporting unit.

During the second quarter of 2018, our McKesson Europe reporting unit had a decline in its estimated future cash flows, primarily in our United Kingdom ("U.K.") retail business, driven by significant government reimbursement reductions affecting retail pharmacy economics across the U.K. market. As a result, we performed the interim impairment test in the second quarter of 2018 and recorded a non-cash goodwill impairment charge of $350 million (pre-tax and after-tax). During the fourth quarter of 2018, this reporting unit had a further decline in its estimated future cash flows driven by weakening script growth projections in our U.K. business and by a more competitive environment in France. Based on the annual goodwill impairment test, we recorded non-cash charges of $933 million (pre-tax and after-tax) in the fourth quarter of 2018 to impair this reporting unit's goodwill balance. The discount rates and terminal growth rates were 7.5% and 1.25% for the 2018 second quarter interim test and 8.0% and 1.25% for the 2018 annual test, compared to 7.0% and 1.5% in our 2017 annual impairment test. At March 31, 2018, this reporting unit had a remaining goodwill balance of $1,851 million.
Rexall Health: As a result of the 2018 annual impairment test, we recognized a non-cash goodwill impairment charge (pre-tax and after-tax) of $455 million in 2018. During the fourth quarter of 2018, this reporting unit had a decline in its estimated future cash flows primarily driven by significant generics reimbursement reductions across Canada and minimum wage increases in multiple provinces which can only be partially mitigated through the business' cost saving efforts. The discount rate and terminal growth rate used in the annual impairment testing were 10.0% and 2.0%. At March 31, 2018, the Rexall Health reporting unit had no remaining goodwill related to our acquisition of Rexall Health.

Other risks, expenses and future developments that we were unable to anticipate as of the testing dates in 2018 may require us to further revise the estimated future cash flows, which could adversely affect the fair value of our reporting units in future periods. As a result, we may be required to record additional impairment charges. Refer to Financial Note 3, "Goodwill Impairment Charges," to the accompanying consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Restructuring and Asset Impairments

McKesson Europe: Due to the previously described decline in future estimated cash flows related to our U.K. retail business, we also recorded total non-cash pre-tax charges of $189 million ($157 million after-tax) to impair the carrying value of certain intangible assets (primarily pharmacy licenses) and store assets during the second quarter of 2018. Additionally, during the fourth quarter of 2018, due to further declines in estimated future cash flows in our European business, we also recorded a non-cash pre-tax charge of $257 million ($253 million after-tax) to impair the carrying value of certain intangible assets (primarily customer relationships) and capitalized software assets.

On September 29, 2017, we committed to a restructuring plan, which primarily consists of the closures or sales of underperforming retail stores in the U.K. and a reduction in workforce. The plan is expected to be substantially implemented prior to the first half of 2019. As part of this plan, we recorded pre-tax restructuring charges of $74 million ($67 million after-tax) in operating expenses during 2018 primarily representing employee severance and lease exit costs.

Refer to Financial Note 4, "Restructuring and Asset Impairment Charges," to the accompanying consolidated financial statements appearing in this Annual Report on Form 10-K for more information.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Revenues:

(Dollars in millions)	Years Ended March 31, 2018	2017	2016	Change 2018	2017
Distribution Solutions					
North America pharmaceutical distribution & services	$174,186	$164,832	$158,469	6 %	4 %
International pharmaceutical distribution & services	27,320	24,847	23,497	10	6
Medical-Surgical distribution & services	6,611	6,244	6,033	6	3
Total Distribution Solutions	208,117	195,923	187,999	6	4
Technology Solutions - products and services	240	2,610	2,885	(91)	(10)
Total Revenues	$208,357	$198,533	$190,884	5 %	4 %

Revenues increased 5% and 4% in 2018 and 2017 compared to the same periods a year ago primarily driven by our Distribution Solutions segment.

Distribution Solutions

North America pharmaceutical distribution and services revenues increased over the last two years primarily due to market growth, reflecting growing drug utilization, price increases, higher revenues associated with our acquisitions and expanded business with existing customers. These increases were partially offset by price deflation associated with brand to generic drug conversion and loss of customers.

International pharmaceutical distribution and services revenues increased 10% and 6% in 2018 and 2017. Excluding foreign currency effects, revenues increased 5% in 2018 and 11% in 2017 primarily due to our business acquisitions and market growth.

Medical-Surgical distribution and services revenues increased over the last two years primarily due to market growth.

Technology Solutions

Technology Solutions revenues for 2018 and 2017 decreased primarily due to the 2017 fourth quarter contribution of the Core MTS Business to form the Change Healthcare joint venture, the April 2017 transition of our RHP business to our Distribution Solutions segment and the 2018 third quarter sale of our EIS business. As a result, this segment’s 2018 revenues included only our EIS business.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Gross Profit:

	Years Ended March 31,			Change	
(Dollars in millions, except ratios)	2018	2017	2016	2018	2017
Gross Profit					
Distribution Solutions [1]	$11,064	$9,856	$9,948	12 %	(1)%
Technology Solutions	120	1,415	1,468	(92)	(4)
Total	$11,184	$11,271	$11,416	(1)%	(1)%
Gross Profit Margin					
Distribution Solutions	5.32 %	5.03 %	5.29 %	29 bp	(26)bp
Technology Solutions	50.00	54.21	50.88	(421)	333
Total	5.37	5.68	5.98	(31)	(30)

bp - basis points

(1) Distribution Solutions segment's gross profit includes LIFO credits of $99 million and $7 million in 2018 and 2017 and LIFO charges of $244 million in 2016. Gross profit for 2017 and 2016 also includes $144 million and $76 million of net cash proceeds representing our share of antitrust legal settlements.

Gross profit and gross profit margin decreased in 2018 and 2017 compared to the same periods a year ago. The decreases in 2018 were primarily due the previously described contribution of our Core MTS Business to Change Healthcare.

Distribution Solutions

Distribution Solutions segment's gross profit increased 12% in 2018 and decreased 1% in 2017. As a percentage of revenues, gross profit increased by 29 bp in 2018 and decreased by 26 bp in 2017.

Gross profit and gross profit margin for 2018 increased compared to the same period a year ago primarily due to market growth, procurement benefits realized through ClarusONE, higher LIFO inventory credits, our business acquisitions and the transfer of our RHP business from our Technology Solutions segment. These increases were partially offset by significant government reimbursement reductions in the U.K., the competitive sell-side pricing environment, weaker pharmaceutical manufacturer pricing trends and our mix of business. Gross profit and gross profit margin for 2017 decreased primarily due to weaker pharmaceutical manufacturer pricing trends, the competitive sell-side pricing environment and lower compensation from a branded pharmaceutical manufacturer in our U.S. Pharmaceutical distribution business, partially offset by LIFO inventory credits, higher cash receipts representing our share of antitrust legal settlements, higher procurement benefits and our business acquisitions. Gross profit also reflects the impact of recent customer consolidation activities.

Our Distribution Solutions segment experienced weaker pharmaceutical manufacturer pricing trends over the last three years.

Our LIFO inventory credits were $99 million and $7 million in 2018 and 2017 and LIFO charges were $244 million in 2016. Our North America distribution business uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The business' practice is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the net 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 net impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Our annual LIFO charge or credit is affected by 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

or expense. LIFO credits were higher in 2018 compared to 2017 due to higher net effect of price declines, partially offset by lower inventory level. LIFO expense was recognized in 2016 primarily due to net effects of price increases. As of March 31, 2018 and 2017, pharmaceutical inventories at LIFO did not exceed current replacement cost.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Technology Solutions

Technology Solutions segment's gross profit decreased in 2018 and 2017. Gross profit and gross profit margin for 2018 decreased primarily due to the 2017 fourth quarter contribution of the Core MTS Business, the transfer of our RHP business to our Distribution Solutions segment and the 2018 third quarter sale of our EIS business. As a result, this segment's 2018 gross profit and gross profit margin included only our EIS business.

Gross profit for 2017 decreased due to one less month of gross profit from the Core MTS Business, which was contributed to the joint venture on March 1, 2017. Gross profit margin for 2017 increased primarily due to a decline in hospital software revenues, lower severance charges, ongoing cost management efforts and the prior year sales of businesses, partially offset by a lower margin from our hospital software business. Gross profit margin for 2017 also benefited from lower depreciation and amortization expenses related to the Core MTS Business' assets, which were classified as held for sale since the second quarter of 2017. Depreciation and amortization related to the long-lived assets ceased as of the date they were determined as held for sale.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Operating Expenses, Other Income, Net and Loss from Equity Method Investment:

	Years Ended March 31,			Change	
(Dollars in millions, except ratios)	2018	2017	2016	2018	2017
Operating Expenses					
Distribution Solutions					
Operating Expenses [1]	$7,648	$6,540	$6,280	17 %	4 %
Goodwill impairment charges	1,738	—	—	NM	NM
Restructuring and asset impairment charges	567	19	156	2,884	(88)
Total Distribution Solutions	9,953	6,559	6,436	52 %	2 %
Technology Solutions					
Operating Expenses [2]	42	858	1,002	(95)%	(14)%
Gains from sales of businesses	(109)	—	(51)	NM	NM
Gain on healthcare technology net asset exchange, net	(37)	(3,947)	—	(99)	NM
Goodwill impairment charge	—	290	—	NM	NM
Total Technology Solutions	(104)	(2,799)	951	(96)%	(394)%
Corporate	573	402	484	43	(17)
Total	$10,422	$4,162	$7,871	150 %	(47)%
Operating Expenses as a Percentage of Revenues					
Distribution Solutions	4.78 %	3.35 %	3.42 %	143 bp	(7) bp
Technology Solutions	(43.33)	(107.24)	32.96	NM	NM
Total	5.00	2.10	4.12	290	(202)
Other Income, Net					
Distribution Solutions	$120	$64	$41	88 %	56 %
Technology Solutions	1	1	2	-	(50)
Corporate	9	25	15	(64)	67
Total	$130	$90	$58	44 %	55 %
Loss from Equity Method Investment in Change Healthcare - Technology Solutions	$248	$—	$—	NM	NM

bp - basis points
NM - not meaningful

(1) The amounts exclude the goodwill impairment charges and restructuring and asset impairment charges. 2016 includes a pre-tax gain of $52 million from the 2016 third quarter sale of our ZEE Medical business.

(2) The amounts exclude the gain from sale of business, gain on healthcare technology net asset exchange, net, and goodwill impairment charge.

Operating Expenses

Total operating expenses increased in 2018 and decreased in 2017 compared to the same periods a year ago primarily due to the gain recognized from the 2017 fourth quarter contribution of the Core MTS Business.

Distribution Solutions

Distribution Solutions segment’s total operating expenses increased 52% for 2018 and 2% for 2017 compared to the same periods a year ago. Excluding foreign currency effects, operating expenses increased 47% for 2018 and 5% for 2017.

40

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Total operating expenses increased in 2018 compared to 2017 primarily due to:

- Non-cash goodwill impairment charges (pre-tax and after-tax) of $1,283 million for our McKesson Europe reporting unit and $455 million for our Rexall Health reporting unit;
- Non-cash pre-tax long-lived asset impairment charges of $446 million ($410 million after-tax) and pre-tax restructuring charges of $74 million ($67 million after-tax) for our McKesson Europe business;
- Non-cash charges of $33 million (pre-tax and after-tax) to impair the carrying value of certain intangible assets (primarily customer relationships) for our Rexall Health business. The impairment was primarily due to the decline in the estimated future cash flows from certain pharmacies of Rexall Health's business, driven primarily by generics reimbursement reductions implemented across Canada; and
- Higher expenses due to our business acquisitions.

We expect to record total pre-tax restructuring charges of approximately $90 million to $130 million for our McKesson Europe business, of which $74 million of pre-tax charges were recorded through the end of 2018. Estimated remaining restructuring charges primarily consist of lease termination and other exit costs.

Total operating expenses increased in 2017 compared to 2016 primarily due to our acquisitions and higher acquisition-related expenses and intangible amortization, partially offset by lower restructuring charges and cost savings associated with the 2016 Cost Alignment Plan, ongoing expense management efforts and lower bad debt expense. Total operating expenses for 2016 include a pre-tax gain from the 2016 sale of a business.

Technology Solutions

Technology Solutions segment had operating credits of $104 million and $2,799 million in 2018 and 2017 primarily due to gains that offset operating expenses.

Total operating expenses for 2018 benefited from a pre-tax gain of $109 million (after-tax gain of $30 million) from the 2018 third quarter sale of our EIS business, a pre-tax credit of $46 million ($30 million after-tax) from the re-measurement of the liability related to a tax receivable agreement with Change Healthcare shareholders and a pre-tax gain of $37 million (after-tax gain of $22 million) representing the final net working capital and other adjustments from the 2017 Healthcare Technology Net Asset Exchange.

On August 1, 2017, we entered into an agreement with a third party to sell our EIS business for $185 million, subject to adjustments for net debt and working capital. On October 2, 2017, the transaction closed upon satisfaction of all closing conditions including the termination of the waiting period under U.S. antitrust laws. We received net cash proceeds of $169 million after $16 million of assumed net debt by the third party. We recognized a pre-tax gain of $109 million (after-tax gain of $30 million) upon the disposition of this business in the third quarter of 2018 within operating expenses in our Technology Solutions segment.

Total operating expenses for 2017 benefited from the pre-tax gain of $3,947 million (after-tax gain of $3,018 million) from the contribution of Core MTS Business, partially offset by a non-cash pre-tax goodwill impairment charge of $290 million ($282 million after-tax) for the EIS reporting unit, cost savings from the 2016 Cost Alignment Plan and ongoing cost management efforts and one less month of expenses from the Core MTS Business. Total operating expenses for 2016 include a pre-tax gain from the 2016 sale of a business.

Corporate

Corporate expenses increased 43% in 2018 compared to the prior year primarily due to a charitable contribution expense of $100 million ($64 million after-tax) to the Foundation and higher professional fees incurred for Corporate initiatives.

Corporate expenses decreased 17% in 2017 compared to the prior year primarily due to lower restructuring charges and cost savings associated with the 2016 Cost Alignment Plan, including lower compensation and benefit costs and

outside service fees. Corporate expenses for 2017 also benefited from a pre-tax gain of $15 million from the sale-leaseback transaction of our corporate headquarters building.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Other Income, Net: Other income, net for 2018 increased primarily due to a pre-tax gain of $43 million ($26 million after-tax) recognized from the sale of an equity method investment within our Distribution Solutions segment, partially offset by lower rental income for Corporate. Other income, net for 2017 increased primarily due to higher equity investment income within our Distribution Solutions segment.

Loss from Equity Method Investment in Change Healthcare: 2018 included our proportionate share of loss from Change Healthcare of $248 million, which primarily consisted of transaction and integration expenses incurred by the joint venture and fair value adjustments including amortization expenses associated with equity method intangible assets, partially offset by a tax benefit of $76 million primarily due to a reduction in the future applicable tax rate related to the 2017 Tax Act.

Acquisition-Related Expenses and Adjustments

Acquisition-related expenses, which included transaction and integration expenses directly related to business acquisitions and the gain on the Healthcare Technology Net Asset Exchange were $168 million, $(3,797) million and $114 million in 2018, 2017 and 2016. 2018 includes $37 million gain associated with the final net working capital and other adjustments from the Healthcare Technology Net Asset Exchange and our proportionate share of transaction and integration expenses incurred by Change Healthcare. 2017 includes a pre-tax gain of $3,947 million from the Healthcare Technology Net Asset Exchange. Expenses in 2018 were higher primarily due to our proportionate share of transaction and integration expenses incurred by Change Healthcare. Expenses in 2017 were higher primarily due to our business acquisitions of UDG, Vantage, Biologics and Rexall Health, partially offset by a decline in expenses associated with our February 2014 acquisition of McKesson Europe and February 2013 acquisition of PSS World Medical, Inc. (“PSSI”). Our integration of PSSI and McKesson Europe were substantially completed in 2017.

Acquisition-related expenses and adjustments were recorded as follows:

	Years Ended March 31,		
(Dollars in millions)	2018	2017	2016
Operating Expenses			
Gain on Change Healthcare Net Asset Exchange, net	$(37)	$(3,947)	$—
Transaction closing expenses	15	30	10
Restructuring, severance and relocation	36	25	—
Other	54	85	100
Total	68	(3,807)	110
Other Expenses [1]	100	10	4
Total Acquisition-Related Expenses and Adjustments	$168	$(3,797)	$114

(1) Fiscal 2018 includes our proportionate share of transaction and integration expenses incurred by Change Healthcare, excluding certain fair value adjustments, which was recorded within “Loss from Equity Method Investment in Change Healthcare”.

Acquisition-related expenses and adjustments by segment were as follows:

	Years Ended March 31,		
(Dollars in millions)	2018	2017	2016
Distribution Solutions	$99	$133	$112
Technology Solutions	60	(3,936)	—
Corporate	9	6	2
Total Acquisition-Related Expenses and Adjustments [1]	$168	$(3,797)	$114

(1) The amounts were recorded in operating expenses, other income, net and loss from equity method investment in Change Healthcare.

42

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Amortization Expenses of Acquired Intangible Assets

Amortization expenses of acquired intangible assets directly related to business acquisitions and the formation of the Change Healthcare joint venture were $792 million, $440 million and $423 million in 2018, 2017 and 2016. These expenses were primarily recorded in our operating expenses and in our proportionate share of loss from the equity method investment in Change Healthcare. Amortization expenses increased in 2018 primarily due to amortization expenses of equity method intangibles associated with the Change Healthcare joint venture and our acquisition of CMM. Amortization expenses increased in 2017 primarily due to our acquisitions of UDG, Biologics, Vantage and Rexall Health, partially offset by lower amortization expense related to Core MTS Business assets which were classified as held for sale since the 2017 second quarter.

Amortization expense by segment were as follows:

	Years Ended March 31,		
(Dollars in millions)	2018	2017	2016
Distribution Solutions	$503	$418	$389
Technology Solutions [(1)]	289	22	34
Total	$792	$440	$423

(1) Fiscal 2018 primarily represents amortization expenses of equity method intangibles associated with the Change Healthcare joint venture, which were recorded in our proportionate share of the loss from Change Healthcare.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Segment Operating Profit, Corporate Expenses, Net and Interest Expense:

	Years Ended March 31,			Change	
(Dollars in millions, except ratios)	2018	2017	2016	2018	2017
Segment Operating Profit (Loss) [1] [2]					
Distribution Solutions [3]	$1,231	$3,361	$3,553	(63)%	(5)%
Technology Solutions [4]	(23)	4,215	519	(101)	712
Subtotal	1,208	7,576	4,072	(84)	86
Corporate Expenses, Net [2] [5]	(564)	(377)	(469)	50	(20)
Loss on Debt Extinguishment	(122)	—	—	NM	NM
Interest Expense	(283)	(308)	(353)	(8)	(13)
Income From Continuing Operations Before Income Taxes	$239	$6,891	$3,250	(97)%	112 %
Segment Operating Profit (Loss) Margin					
Distribution Solutions	0.59 %	1.72 %	1.89 %	(113) bp	(17) bp
Technology Solutions	NM	161.49	17.99	NM	14,350

bp - basis points
NM - not meaningful

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

(2) In connection with the 2016 Cost Alignment Plan, we recorded pre-tax restructuring charges of $229 million in 2016. 2016 pre-tax charges were recorded as follows: $161 million, $51 million and $17 million within our Distribution Solutions segment, Technology Solutions segment and Corporate expenses, net.

(3) Distribution Solutions segment's operating profit for 2018 includes non-cash pre-tax goodwill impairment charges of $1,283 million for our McKesson Europe reporting unit and $455 million for our Rexall Health reporting unit. This segment's operating profit for 2018 also includes non-cash pre-tax long-lived asset impairment charges of $446 million and pre-tax restructuring charges of $74 million for our McKesson Europe business. 2016 includes a pre-tax gain of $52 million from the 2016 third quarter sale of our ZEE Medical business.

(4) Technology Solutions segment's operating profit for 2018 includes our proportionate share of loss from Change Healthcare of $248 million, partially offset by a pre-tax gain of $109 million from the 2018 third quarter sale of our EIS business. Operating profit for 2017 includes a pre-tax gain of $3,947 million recognized from the Healthcare Technology Net Asset Exchange, net of transaction and related expenses and a non-cash pre-tax charge of $290 million for goodwill impairment related to the EIS reporting unit. Operating profit for 2016 includes a pre-tax gain of $51 million recognized from the sale of our nurse triage business.

(5) Corporate expenses, net for 2018 include a pre-tax charitable contribution of $100 million to the Foundation.

Segment Operating Profit (Loss)

Distribution Solutions: Operating profit and operating profit margin decreased for 2018 compared to the same period a year ago primarily due to higher operating expenses as a percentage of revenues driven primarily by a goodwill impairment charges and restructuring and long-lived asset impairment charges related to our McKesson Europe and Rexall Health businesses. These decreases were partially offset by the improved gross profit margin primarily due to market growth within our North America distribution businesses, procurement benefits, our business acquisitions and higher LIFO credits. 2018 operating profit and operating profit margin were also unfavorably affected by government reimbursement reductions in the U.K. and the competitive sell-side pricing environment.

Operating profit margin decreased for 2017 primarily due to a decline in gross profit margin reflecting weaker pharmaceutical manufacturer pricing trends, the competitive sell-side pricing environment and lower compensation from a branded pharmaceutical manufacturer from our U.S. Pharmaceutical distribution business. Operating profit and

operating profit margin in 2017 benefited from LIFO credits, our acquisitions, lower restructuring charges and cost savings associated with the 2016 Cost Alignment Plan and higher cash receipts representing our share of antitrust legal settlements.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Technology Solutions: Operating profit decreased for 2018 primarily due to the 2017 contribution of our Core MTS Business and loss from the equity method investment in Change Healthcare. The decrease is partially offset by a gain from the sale of our EIS business. Operating profit and operating profit margin increased in 2017 primarily due to the gain from the 2017 contribution of the Core MTS Business, which was partially offset by the non-cash EIS goodwill impairment pre-tax charge of $290 million. 2017 operating profit benefited from lower restructuring charges and cost savings from the 2016 Cost Alignment Plan. Operating profit for 2017 was unfavorably affected by one less month of operating profit from the Core MTS business, which was contributed to Change Healthcare on March 1, 2017.
Corporate: Corporate expenses, net, increased for 2018 primarily due to higher operating expenses driven by a charitable contribution expense of $100 million, Corporate initiatives and lower other income compared to the same period a year ago. Corporate expenses, net, decreased in 2017 primarily due to lower restructuring charges and a pre-tax gain from a sale-leaseback transaction.
Loss on Debt Extinguishment: We recognized a pre-tax loss on debt extinguishment of $122 million ($78 million after-tax) primarily representing premiums related to our February 2018 tender offers to redeem a portion of our existing outstanding long-term debt.
Interest Expense: Interest expense over the last two years decreased primarily due to the refinancing of debt at lower interest rates, partially offset by an increase relating to the issuance of commercial paper. Interest expense fluctuates 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.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Income Taxes

During 2018, 2017 and 2016, our income tax benefit was $53 million and income tax expenses were $1,614 million and $908 million related to continuing operations. Our reported income tax benefit rate was 22.2% in 2018 and income tax expense rates were 23.4% and 27.9% in 2017 and 2016. Fluctuations in our reported income tax rates are primarily due to change in tax laws, including the recently enacted 2017 Tax Act, the impact of nondeductible impairment charges and varying proportions of income attributable to foreign countries that have income tax rates different from the U.S. rate.

Our reported income tax benefit rate for 2018 was favorably impacted by the 2017 Tax Act enacted on December 22, 2017. As a result of the 2017 Tax Act, we recognized a provisional tax benefit of $1,324 million due to the re-measurement of certain deferred taxes to the lower U.S. federal tax rate and a provisional tax expense of $457 million for the one-time tax imposed on certain accumulated E&P of our foreign subsidiaries.

Our reported income tax benefit rate for 2018 was unfavorably impacted by non-cash pre-tax charges totaling $1,738 million to impair the carrying value of goodwill related to our McKesson Europe and Rexall Health reporting units within our Distribution Solutions segment, given that no tax benefit was recognized for these charges. Our reported income tax expense rate for 2017 was unfavorably affected by a non-cash pre-tax charge of $290 million to impair the carrying value of goodwill related to our EIS business within our Technology Solutions segment given that the majority of this charge was not deductible for income tax purposes. Refer to Financial Note 3, “Goodwill Impairment Charges,” to the accompanying consolidated financial statements appearing in this Annual Report on Form 10 K for additional information.

On December 19, 2016, we sold various software relating to our Technology Solutions business between wholly owned legal entities within the McKesson group that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets that was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. An entity based in the U.S. was the recipient of the software and is entitled to amortize the fair value of the assets for book and tax purposes. For U.S. GAAP purposes, the tax benefit associated with the amortization of these assets is recognized over the tax lives of the assets. As a result, a net tax benefit of $137 million was recognized prior to the contribution of a portion of these assets to Change Healthcare as described in Financial Note 2, “Healthcare Technology Net Asset Exchange”. In 2018, a net tax benefit of $178 million was recognized associated with the amortization of the software.

In October 2016, amended guidance was issued to require entities to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amended guidance is effective for us commencing in the first quarter of 2019 on a modified retrospective basis. Upon adoption, the Company anticipates recording approximately $130 million to $160 million of deferred tax assets with a corresponding cumulative-effect increase to retained earnings in the beginning of the period of adoption on its consolidated financial statements for the tax consequences relating to the intra-entity transfer of software.

On March 1, 2017, we contributed assets to Change Healthcare as further described in Financial Note 2, “Healthcare Technology Net Asset Exchange”. While this transaction was predominantly structured as a tax free asset contribution for U.S. federal income tax purposes under Section 721(a) of the Internal Revenue Code, we recorded tax expense of $929 million on the gain. The tax expense was primarily driven by the recognition of a deferred tax liability on the excess book over tax basis in our equity investment in Change Healthcare.

Significant judgments and estimates are required in determining the consolidated income tax provision and evaluating income tax uncertainties. Although our major taxing jurisdictions include the U.S., Canada and the United Kingdom, we are subject to income taxes in numerous foreign jurisdictions. Our income tax expense, deferred tax assets and liabilities and uncertain tax liabilities reflect management’s best assessment of estimated current and future taxes to be paid. We believe that we have made adequate provision for all income tax uncertainties.

We signed the Revenue Agent’s Report from the U.S. Internal Revenue Service (“IRS”) relating to their audit of the fiscal years 2010 through 2012 on December 29, 2017. We file income tax returns in the U.S. federal jurisdiction,

various U.S. state and local jurisdictions and various foreign jurisdictions. We are subject to audit by the IRS for fiscal years 2013 through the current fiscal year. We are generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2010 through the current fiscal year.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Income (Loss) from Discontinued Operations, Net of Tax

Income (Losses) from discontinued operations, net of tax, were $5 million, ($124 million) and ($32 million) in 2018, 2017 and 2016.

Loss from discontinued operations, net for 2017 includes an after-tax loss of $113 million related to the sale of our Brazilian pharmaceutical distribution business within our Distribution Solutions segment, which we acquired through our February 2014 acquisition of McKesson Europe. In 2015, we committed to a plan to sell this business and the results of operations and cash flows for this business had been classified as discontinued operations since 2015. On May 31, 2016, we completed the sale of this business and recognized the loss primarily for the settlement of certain indemnification matters as well as the release of the cumulative translation losses. We made a payment of approximately $100 million related to the sale in 2017.

Refer to Financial Note 7, “Discontinued Operations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Net Income Attributable to Noncontrolling Interests: Net income attributable to noncontrolling interests for all periods presented includes the annual recurring compensation that we are obligated to pay to the noncontrolling shareholders of McKesson Europe under the domination and profit and loss transfer agreement (the “Domination Agreement”). In 2018 and 2017, net income attributable to noncontrolling interests also includes third-party equity interests in our consolidated entities including Vantage and ClarusONE Sourcing Services LLP, which was established between McKesson and Walmart, Inc. in 2017. Noncontrolling interests with redemption features, such as put rights, that are not solely within the Company’s control are considered redeemable noncontrolling interests. Redeemable noncontrolling interests are presented outside of Stockholders’ Equity on our consolidated balance sheet. Refer to Financial Note 11, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Net Income Attributable to McKesson Corporation: Net income attributable to McKesson Corporation was $67 million, $5,070 million and $2,258 million in 2018, 2017 and 2016 and diluted earnings per common share were $0.32, $22.73 and $9.70.

Weighted Average Diluted Common Shares Outstanding: Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 209 million, 223 million and 233 million for 2018, 2017 and 2016. Weighted average diluted common shares outstanding is affected by the exercise and settlement of share-based awards and in 2018 and 2017, and the cumulative effect of share repurchases.

Foreign Operations

Our foreign operations represented approximately 18%, 17% and 17% of our consolidated revenues in 2018, 2017 and 2016. Foreign operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. We conduct our business worldwide in local currencies including Euro, British pound sterling and Canadian dollar. As a result, the comparability of our results reported in U.S. dollars can be affected by changes in foreign currency exchange rates. In discussing our operating results, we may use the term “foreign currency effect”, which refers to the effect of changes in foreign currency exchange rates used to convert the local currency results of foreign countries where the functional currency is not the U.S. dollar. We present this information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. In computing foreign currency effect, we translate our current year results in local currencies into U.S dollars by applying average foreign exchange rates of the corresponding prior year periods, and we subsequently compare those results to the previously reported results of the comparable prior year periods in U.S. dollars. Additional information regarding our foreign operations is included in Financial Note 28, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Business Combinations

Recently Announced Business Acquisition

On April 25, 2018, we entered into a definitive agreement to purchase Medical Specialties Distributors LLC ("MSD") for $800 million, which will be funded from cash on hand. MSD is a leading national distributor of infusion and medical-surgical supplies as well as provider of biomedical services to alternate site and home health providers. The acquisition is subject to regulatory approval and expected to close during the first half of 2019. Upon closing, the financial results of MSD will be included in our consolidated statements of operations within our Medical-Surgical Solutions business.

Other Business Acquisitions

Refer to Financial Note 6, "Business Combinations," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Fiscal 2019 Operating Segments

As previously disclosed in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2017 and December 31, 2017, the executive who was our segment manager of the Distribution Solutions segment retired from the Company in January 2018. As a result, the Company's chief operating decision maker ("CODM") evaluated our management and operating structure. In connection with the completion of this evaluation in the first quarter of 2019, our operating structure is realigned, and we will report our financial results in three reportable segments on a retrospective basis commencing in the first quarter of 2019, as follows:

- U.S. Pharmaceutical and Specialty Solutions;
- European Pharmaceutical Solutions; and
- Medical-Surgical Solutions.

All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure will be included in Other. Other primarily consists of McKesson Canada, McKesson Prescription Technology Solutions and our equity method investment in Change Healthcare. The segment changes will reflect how our CODM allocates resources and assesses performance commencing in the first quarter of 2019. The segment changes will not affect the previously issued consolidated financial statements nor earnings per common share of McKesson for historical periods.

Strategic Growth Initiative

On April 25, 2018, the Company announced a multi-year strategic growth initiative, focused on creating innovative new solutions that improve patient care delivery and drive incremental profit growth. The initiative includes a comprehensive review of the Company's operations and cost structure, designed to increase efficiency, accelerate execution and improve long-term performance. As part of the preliminary phase of this initiative, in April 2018, we committed to a restructuring plan to optimize our operating model and cost structure which will be substantially implemented by the end of 2019. We expect to record total after-tax charges of approximately $150 million to $210 million during 2019. The charges under this plan primarily consist of employee severance, exit-related costs and other charges.

Fiscal 2019 Outlook

Information regarding the Company's fiscal 2019 outlook is contained in our Form 8-K dated May 24, 2018. This Form 8-K should be read in conjunction with the sections Item 1 - Business - Forward-Looking Statements and Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes general and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers’ financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. During 2018, sales to our ten largest customers, including group purchasing organizations (“GPOs”) accounted for approximately 51.7% of our total consolidated revenues. Sales to our largest customer, CVS Health (“CVS”), accounted for approximately 19.9% of our total consolidated revenues. At March 31, 2018, trade accounts receivable from our ten largest customers were approximately 24.9% of total trade accounts receivable. Accounts receivable from CVS were approximately 16.4% of total trade accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with GPOs, each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. The accounts receivables balances are with individual members of the GPOs, and therefore no significant concentration of credit risk exists. A material default in payment, a material reduction in purchases from these or any other large customers, or the loss of a large customer or GPO could have a material adverse impact on our financial position, results of operations and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2018 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant increase in our allowance for doubtful accounts as a percentage of net revenue in the foreseeable future.

At March 31, 2018, trade and notes receivables were $14,480 million prior to allowances of $187 million. In 2018, 2017 and 2016, our provision for bad debts was $44 million, $93 million and $113 million. At March 31, 2018 and 2017, the allowance as a percentage of trade and notes receivables was 1.3% and 1.7%. An increase or decrease of a hypothetical 0.1% in the 2018 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately $14 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst-case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

Inventories: Prior to 2018, we reported inventories at the lower of cost or market ("LCM"). Effective in the first quarter of 2018, we report inventories at the lower of cost or net realizable value, except for inventories determined using the LIFO method. Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the LIFO method. The majority of the cost of inventories held in foreign locations is based on weighted average purchase price using the first-in, first-out method ("FIFO"). Rebates, cash discounts and other incentives received from vendors relating to the purchase or distribution of inventory are considered as product discounts and are accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories, net were $16,310 million and $15,278 million at March 31, 2018 and 2017.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

The LIFO method was used to value approximately 63% and 70% of our inventories at March 31, 2018 and 2017. If we had used the FIFO method of inventory valuation, inventories would have been approximately $906 million and $1,005 million higher than the amounts reported at March 31, 2018 and 2017. These amounts are equivalent to our LIFO reserves. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. We recognized net LIFO credits of $99 million and $7 million in 2018 and 2017 and net LIFO charges of $244 million in 2016 within our consolidated statements of operations. A LIFO charge is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory.

We believe that the average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, our LIFO inventory is valued at the lower of LIFO or market. As of March 31, 2018 and 2017, inventories at LIFO did not exceed market.

In determining whether inventory valuation allowance is required, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We write down inventories which are considered excess and obsolete as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that once control of a business is obtained, 100% of the assets acquired and liabilities assumed, including amounts attributed to noncontrolling interests, be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows associated with each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives. Refer to Financial Note 6, "Business Combinations," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information regarding our acquisitions.

Goodwill and Long-Lived Assets: As a result of acquiring businesses, we have $10,924 million and $10,586 million of goodwill at March 31, 2018 and 2017, $4,102 million and $3,665 million of intangible assets, net at March 31, 2018 and 2017. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include significant declines in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or a component, one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

In 2018, we elected to early adopt on a prospective basis, the amended guidance that simplifies goodwill impairment testing by eliminating the second step of the impairment test. The one-step impairment test under the amended guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, if any.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

To estimate the fair value of our reporting units, we use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow ("DCF") model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate expected rate of return. In addition, we compare the aggregate of the reporting units' fair values to our market capitalization as further corroboration of the fair values.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. Judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any material changes in key assumptions, including failure to meet business plans, negative changes in government reimbursement rates, deterioration in the U.S. and global financial markets, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may decrease the projected cash flows or increase the discount rates and could potentially result in an impairment charge. For example, some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for both the guideline companies and the reporting unit, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and for the income approach, the required rate of return used in the DCF method, which reflects capital market conditions and the specific risks associated with the business. Under the income approach, the fair value estimates in the goodwill impairment analysis are highly sensitive to the discount rates used in the discounting of expected cash flows attributable to the reporting units. The discount rates are the weighted average cost of capital measuring the reporting unit's cost of debt and equity financing weighted by the percentage of debt and percentage of equity in a company's target capital. The unsystematic risk premium is an input factor used in calculating discount rate that specifically addresses uncertainty related to the reporting units' future cash flow projections. Increases in the unsystematic risk premium increases the discount rate.

In 2016, we concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. In 2017, we recorded a non-cash charge to impair the carrying value of our EIS reporting unit's goodwill. In 2018, we recorded non-cash charges to impair the carrying value of goodwill balance for our McKesson Europe and Rexall Health reporting units. Refer to Financial Note 3, "Goodwill Impairment Charges" to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Commencing in the first quarter of 2019, our operating structure will be realigned into three reportable segments, U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to be reportable segments are combined into Other.

This change in our operating segment structure will result in two new reporting units within the European Pharmaceutical Solutions segment. As a result, we will be required to perform a goodwill impairment test for the impacted new reporting units immediately before and after the segment change. While we believe the assumptions used in our 2018 impairment analysis are reasonable and representative of expected results for our 2018 reporting unit structure, we may recognize an additional goodwill impairment charge immediately after the segment change as the reassigned carrying values of the reporting units may exceed their respective estimated fair values. We are currently evaluating the impact and are unable to reasonably estimate the additional goodwill impairment charge upon the segment change. At March 31, 2018, the total remaining goodwill balance for these two reporting units was $1,851 million.

A further decrease in the estimated future cash flows, an increase in the discount rate and/or a decrease in the terminal growth rate, could also result in an additional goodwill impairment charge for these reporting units.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Currently, all of our intangible and other long-lived assets are amortized or depreciated based on the pattern of their economic consumption or on a straight-line basis over their estimated useful lives, ranging from one to 38 years. We review intangible assets for impairment at an asset group level whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability of intangible assets is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. During 2018, we performed an impairment test of intangible and other long-lived assets, and recognized non-cash asset impairment charges of $479 million pre-tax ($443 million after-tax) for McKesson Europe and Rexall Health businesses to impair the carrying value of certain intangible and other long-lived assets. We utilized an income approach (DCF method) or a combination of an income approach and a market approach for estimating the fair value of intangible assets. The fair value of the intangible assets is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company specific information. There were no material impairments of intangibles and other long-lived assets in 2017 or 2016 within our continuing operations. Our ongoing consideration of all the factors described previously could result in further impairment charges in the future, which could adversely affect our net income. Refer to Financial Note 4, “Restructuring and Asset Impairment Charges” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2018 and 2017, supplier reserves were $227 million and $201 million. The final outcome of any outstanding claims may differ from our estimate. All of the supplier reserves at March 31, 2018 and 2017 pertain to our Distribution Solutions segment. An increase or decrease in the supplier reserve as a hypothetical 0.1% of trade payables at March 31, 2018 would result in an increase or decrease in the cost of sales of approximately $32 million in 2018. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management’s best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our tax expense and cash flows could be materially impacted.

In addition, the calculation of our tax liabilities includes estimates for uncertainties in the application of complex new tax regulations across multiple global jurisdictions where we conduct our operations. For example, on December 22, 2017, the U.S. government enacted comprehensive new tax legislation referred to as the 2017 Tax Act. The 2017 Tax Act makes broad and complex changes to the U.S. tax code. Although our accounting for the impact of the 2017 Tax Act is incomplete, we have made estimates based on management judgment and recorded provisional amounts. Refer to Financial Note 10, “Income Taxes,” to the accompanying consolidated financial statements appearing in this Annual Report on Form 10 K for additional information.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

We recognize liabilities for tax and related interest for issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. If our current estimate of tax and interest liabilities is less than the ultimate settlement, an additional charge to income tax expense may result. If our current estimate of tax and interest liabilities is more than the ultimate settlement, a reduction to income tax expense may be recognized.

Loss Contingencies: We are subject to various claims, including claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided.

Disclosure is also provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the potential loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

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 issuance, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, we may access the long-term debt capital markets from time to time.

Net cash flow provided from operating activities was $4,345 million in 2018 compared to $4,744 million in 2017 and $3,672 million in 2016. Operating activities for 2018 were primarily affected by a decrease in receivables primarily due to timing of receipts and loss of customers and increases in drafts and accounts payable reflecting longer payment terms for certain purchases. Operating activities for 2017 and 2016 were primarily affected by an increase in drafts and accounts payable reflecting longer payment terms for certain purchases and increases in receivables primarily associated with our revenue growth. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers 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 2017 and 2016 included cash generated from our Core MTS business. Operating activities for 2017 were also affected by $150 million of settlement payment.

Net cash used in investing activities was $1,522 million in 2018 compared to $3,796 million in 2017 and $1,557 million in 2016. Investing activities for 2018 include $2,893 million of net cash payments for acquisitions, including $1.3 billion and $724 million for our acquisitions of CoverMyMeds, LLC and RxCrossroads, $405 million and $175 million in capital expenditures for property, plant and equipment, and capitalized software, $374 million of net cash proceeds from sales of businesses and other assets and $126 million cash payment received related to the Healthcare Technology Net Asset Exchange.

Investing activities for 2017 included $4,237 million of net cash payments for acquisitions including $2.1 billion for our acquisition of Rexall Health, $1,228 million of net payments received on Healthcare Technology Net Asset

Exchange, $404 million and $158 million in capital expenditures for property, plant and equipment, and capitalized software, and $206 million of net cash proceeds from sales of businesses and equity investments. Investing activities for 2016 included $40 million of net cash payments for acquisitions, $488 million and $189 million in capital expenditures for property, plant and equipment, and capitalized software, and $210 million of cash proceeds from sales of our automation business and an equity investment.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Financing activities utilized $3,084 million, $2,069 million and $3,453 million of cash in 2018, 2017 and 2016.
Financing activities for 2018 include cash receipts of $20,542 million and payments of $20,725 million from short-term borrowings (primarily commercial paper). We received cash from long-term debt issuances of $1,522 million and made repayments on long-term debt of $2,287 million in 2018. Financing activities in 2018 also include $1,650 million of cash paid for stock repurchases, $262 million of dividends paid and $112 million of payments for debt extinguishments.
Financing activities for 2017 include cash receipts of $8,294 million and payments of $8,124 million from short-term borrowings. We received cash from long-term debt issuances of $1,824 million and made repayments on long-term debt of $1,601 million in 2017. Financing activities in 2017 also include $2,250 million of cash paid for stock repurchases and $253 million of dividends paid.
Financing activities for 2016 include cash receipts of $1,561 million and payments of $1,688 million from short-term borrowings. We made repayments on long-term debt of $1,598 million in 2016. Financing activities in 2016 also include $1,504 million of cash paid for stock repurchases and $244 million of dividends paid.
The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.
The Board authorized the repurchase of the Company's common stock up to $4 billion in October 2016. In 2016, we repurchased 8.7 million of our shares through a combination of an ASR program and open market transactions. In 2017, we repurchased 14.1 million of our shares through open market transactions and 1.4 million of our shares through an ASR program. We received 0.3 million additional shares in April 2017 for the 2017 ASR program. In 2018, we repurchased 3.5 million of our shares through open market transactions and 6.7 million of our shares through ASR programs. We received an additional 0.5 million shares in April 2018 under the March 2018 ASR program.

	Years Ended March 31,		
(In millions, except per share data)	2018	2017	2016
Number of shares repurchased [1]	10.5	15.5	8.7
Average price paid per share	$151.06[2]	$141.16	$173.64
Total value of shares repurchased [1]	$1,650	$2,250	$1,504

(1) Excludes shares surrendered for tax withholding.
(2) The average price paid per share computation includes the initial share settlement of 2.5 million shares from the March 2018 ASR program, of which the actual average price of shares will be determined at the termination of the program in the first quarter of 2019.

At March 31, 2018, the total authorization outstanding was $1.1 billion available under the October 2016 share repurchase plan for future repurchases of the Company's common stock. In May 2018, the Board authorized the repurchase of up to $4.0 billion of the Company's common stock. The total authorization outstanding for repurchases of the Company's common stock was increased to $5.1 billion.
We believe that our 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 continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Selected Measures of Liquidity and Capital Resources:

	March 31,		
(Dollars in millions, except ratios)	2018	2017	2016
Cash and cash equivalents	$2,672	$2,783	$4,048
Working capital	451	1,336	3,366
Debt to capital ratio [1]	40.6 %	39.2 %	43.6 %
Return on McKesson stockholders' equity[2]	0.6	54.6	26.0

(1) Ratio is computed as total debt divided by the sum of total debt and McKesson stockholders' equity, which excludes noncontrolling and redeemable noncontrolling interests and accumulated other comprehensive income (loss).

(2) Ratio is computed as net income attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity, which excludes noncontrolling and redeemable noncontrolling interests.

Cash equivalents, which are available-for-sale, are carried at fair value. Cash equivalents are primarily invested in AAA rated prime and U.S. government money market funds denominated in U.S. dollars, overnight repurchase agreements collateralized by U.S. government securities, Canadian government securities and/or securities that are guaranteed or sponsored by the U.S. government and an AAA rated prime money market fund denominated in British pound sterling.

The remaining cash and cash equivalents are deposited with several financial institutions. 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.

Working capital primarily includes cash and cash equivalents, receivables and inventories net of drafts and accounts payable, short-term borrowings, current portion of long-term debt, deferred revenue and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is 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 decreased at March 31, 2018 compared to March 31, 2017 primarily due to increases in drafts and accounts payable and a decrease in receivables, partially offset by an increase in inventories. Consolidated working capital decreased at March 31, 2017 compared to March 31, 2016 primarily due to a decrease in the cash and cash equivalents balance and an increase in drafts and accounts payable and deferred tax liabilities, partially offset by increases in receivables.

Our debt to capital ratio increased for 2018 primarily due to a decrease in stockholders' equity and decreased for 2017 primarily due to an increase in stockholders' equity.

In July 2017, the Company's quarterly dividend was raised from $0.28 to $0.34 per common share for dividends declared on or after such date by the Board. Dividends were $1.30 per share in 2018, $1.12 per share in 2017 and $1.08 per share in 2016. 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. In 2018, 2017 and 2016, we paid total cash dividends of $262 million, $253 million and $244 million. Additionally, as required under the Domination Agreement, we are obligated to pay an annual recurring compensation amount of €0.83 per McKesson Europe share (effective January 1, 2015) to the noncontrolling shareholders of McKesson Europe.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Contractual Obligations:
The table and information below presents our significant financial obligations and commitments at March 31, 2018:

(In millions)	Total	Years Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt [1]	$7,880	$1,129	$690	$1,037	$5,024
Other [2] [3]	666	230	229	62	145
Off balance sheet					
Interest on borrowings [4]	2,090	223	396	355	1,116
Purchase obligations [5]	4,369	4,356	9	4	—
Operating lease obligations [6]	3,072	502	826	610	1,134
Other [7]	338	178	25	28	107
Total	$18,415	$6,618	$2,175	$2,096	$7,526

(1) Represents maturities of the Company's long-term obligations including an immaterial amount of capital lease obligations.

(2) Includes our estimated benefit payments, including assumed executive lump sum payments, for the unfunded benefit plans and minimum funding requirements for the pension plans. Actual lump sum payments could significantly differ from the estimated amounts depending on the timing of executive retirements and the lump sum interest rate in effect upon retirement. The estimated benefit payments do not reflect the potential effect of the termination of the U.S. defined benefit pension plan approved by the Company's Board of Directors on May 23, 2018. Refer to Financial Note 30, "Subsequent Events" to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

(3) Includes our contingent consideration liability relating to our business acquisition and a pledge payable to a public benefit California foundation.

(4) Primarily represents interest that will become due on our fixed rate long-term debt obligations.

(5) A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and outsourcing service agreements.

(6) Represents minimum rental payments for operating leases.

(7) Includes agreements under which we have guaranteed the repurchase of our customers' inventory and our customers' debt in the event these customers are unable to meet their obligations to those financial institutions.

The contractual obligations table above excludes the following obligations:
At March 31, 2018, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately $970 million. The ultimate amount and timing of any related future cash settlements cannot be predicted with reasonable certainty.
At March 31, 2018, we had a $90 million noncurrent liability payable to Change Healthcare shareholders associated with a tax receivable agreement entered into in connection with Healthcare Technology Net Asset Exchange. The amount is based on certain estimates and could become payable in periods after a disposition of our investment in Change Healthcare.
Our banks and insurance companies have issued $259 million of standby letters of credit and surety bonds at March 31, 2018. These were issued on our behalf and are mostly related to our customer contracts and to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

The carrying value of redeemable noncontrolling interests related to McKesson Europe was $1.46 billion at March 31, 2018, which exceeded the maximum redemption value of $1.35 billion. The balance of redeemable noncontrolling interests is reported at the greater of its carrying value or its maximum redemption value at each reporting date. Upon the effectiveness of the Domination Agreement on December 2, 2014, the noncontrolling shareholders of McKesson Europe received a put right that enables them to put their McKesson Europe shares to McKesson at €22.99 per share, which price is increased annually for interest in the amount of 5 percentage points above a base rate published semiannually by the German Bundesbank, less any compensation amount or guaranteed dividend already paid ("Put Amount"). The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. The ultimate amount and timing of any future cash payments related to the Put Amount are uncertain.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Continued)

Additionally, we are 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, which became effective in December 2014. The Compensation Amount is recognized ratably during the applicable annual period. The Domination Agreement does not have an expiration date and can be terminated by McKesson without cause in writing no earlier than March 31, 2020.

Refer to Financial Note 11, "Redeemable Noncontrolling Interests and Noncontrolling Interests," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

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 are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions. Detailed information regarding our debt and financing activities is included in Financial Note 16, "Debt and Financing Activities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 26, "Related Party Balances and Transactions," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

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 consolidated financial statements appearing in this Annual Report on Form 10-K.

Table of Contents
McKESSON CORPORATION
FINANCIAL REVIEW (Concluded)

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates.

Our cash and cash equivalents balances earn interest at variable rates. At March 31, 2018 and 2017, we had $2.7 billion and $2.8 billion and in cash and cash equivalents. The effect of a hypothetical 50 bp increase in the underlying interest rate on our cash and cash equivalents, net of short-term borrowings and variable rate debt, would have resulted in a favorable impact to earnings in 2018 and 2017 of approximately $10 million and $19 million.

Foreign exchange risk: We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on our financial results that are reported in U.S. dollars. We are also exposed to foreign exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies.

We have certain foreign exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. The forward contracts and cross-currency swaps are designated to reduce the income statement effects from fluctuations in foreign exchange rates and have been designated as cash flow hedges. These programs reduce but do not entirely eliminate foreign exchange risk.

As of March 31, 2018 and 2017, the effect of a hypothetical adverse 10% change in the underlying foreign currency exchange rates would have impacted the fair value of our foreign exchange contracts by approximately $458 million and $357 million. However, our risk management programs are designed such that the potential loss in value of these risk management portfolios described above would be largely offset by changes in the value of the underlying exposure. Refer to Financial Note 20, “Hedging Activities,” for more information on our foreign currency forward contracts and cross-currency swaps.

The selected hypothetical change in interest rates and foreign currency exchange rates does not reflect what could be considered the best or worst case scenarios.

Table of Contents
McKESSON CORPORATION

Item 8. Financial Statements and Supplementary Data
INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Table of Contents
McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2018.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2018. This audit report appears on page 61 of this Annual Report on Form 10-K.

May 24, 2018

/s/ John H. Hammergren
John H. Hammergren
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Britt J. Vitalone
Britt J. Vitalone
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Table of Contents
McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the stockholders and the Board of Directors of McKesson Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended March 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
San Francisco, California
May 24, 2018

We have served as the Company's auditor since 1968.

Table of Contents

McKESSON CORPORATION

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

	Years Ended March 31,		
	2018	2017	2016
Revenues	$208,357	$198,533	$190,884
Cost of Sales	(197,173)	(187,262)	(179,468)
Gross Profit	11,184	11,271	11,416
Operating Expenses			
Selling, distribution and administrative expenses	(8,138)	(7,460)	(7,379)
Research and development	(125)	(341)	(392)
Goodwill impairment charges	(1,738)	(290)	—
Restructuring and asset impairment charges	(567)	(18)	(203)
Gains from sales of businesses	109	—	103
Gain on healthcare technology net asset exchange, net	37	3,947	—
Total Operating Expenses	(10,422)	(4,162)	(7,871)
Operating Income	762	7,109	3,545
Other Income, Net	130	90	58
Loss from Equity Method Investment in Change Healthcare	(248)	—	—
Loss on Debt Extinguishment	(122)	—	—
Interest Expense	(283)	(308)	(353)
Income from Continuing Operations Before Income Taxes	239	6,891	3,250
Income Tax Benefit (Expense)	53	(1,614)	(908)
Income from Continuing Operations	292	5,277	2,342
Income (Loss) from Discontinued Operations, Net of Tax	5	(124)	(32)
Net Income	297	5,153	2,310
Net Income Attributable to Noncontrolling Interests	(230)	(83)	(52)
Net Income Attributable to McKesson Corporation	$67	$5,070	$2,258
Earnings (Loss) Per Common Share Attributable to McKesson Corporation			
Diluted			
Continuing operations	$0.30	$23.28	$9.84
Discontinued operations	0.02	(0.55)	(0.14)
Total	$0.32	$22.73	$9.70
Basic			
Continuing operations	$0.30	$23.50	$9.96
Discontinued operations	0.02	(0.55)	(0.14)
Total	$0.32	$22.95	$9.82
Weighted Average Common Shares			
Diluted	209	223	233
Basic	208	221	230

See Financial Notes

Table of Contents

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended March 31,		
	2018	2017	2016
Net Income	$297	$5,153	$2,310
Other Comprehensive Income (Loss), Net of Tax			
Foreign currency translation adjustments arising during the period	624	(632)	113
Unrealized gains (losses) on cash flow hedges arising during the period	(30)	(19)	9
Retirement-related benefit plans	15	(8)	50
Other Comprehensive Income (Loss), Net of Tax	609	(659)	172
Comprehensive Income	906	4,494	2,482
Comprehensive (Income) Attributable to Noncontrolling Interests	(415)	(4)	(72)
Comprehensive Income Attributable to McKesson Corporation	$491	$4,490	$2,410

See Financial Notes

Table of Contents

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	March 31,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$2,672	$2,783
Receivables, net	17,711	18,215
Inventories, net	16,310	15,278
Prepaid expenses and other	443	672
Total Current Assets	37,136	36,948
Property, Plant and Equipment, Net	2,464	2,292
Goodwill	10,924	10,586
Intangible Assets, Net	4,102	3,665
Equity Method Investment in Change Healthcare	3,728	4,063
Other Noncurrent Assets	2,027	3,415
Total Assets	$60,381	$60,969
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities		
Drafts and accounts payable	$32,177	$31,022
Short-term borrowings	—	183
Deferred revenue	63	346
Current portion of long-term debt	1,129	1,057
Other accrued liabilities	3,316	3,004
Total Current Liabilities	36,685	35,612
Long-Term Debt	6,751	7,305
Long-Term Deferred Tax Liabilities	2,804	3,678
Other Noncurrent Liabilities	2,625	1,774
Commitments and Contingent Liabilities (Note 24)		
Redeemable Noncontrolling Interests	1,459	1,327
McKesson Corporation Stockholders' Equity		
Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 800 shares authorized at March 31, 2018 and 2017, 275 and 273 shares issued at March 31, 2018 and 2017	3	3
Additional Paid-in Capital	6,188	6,028
Retained Earnings	12,986	13,189
Accumulated Other Comprehensive Loss	(1,717)	(2,141)
Other	(1)	(2)
Treasury Stock, at Cost, 73 and 62 shares at March 31, 2018 and 2017	(7,655)	(5,982)
Total McKesson Corporation Stockholders' Equity	9,804	11,095
Noncontrolling Interests	253	178
Total Equity	10,057	11,273
Total Liabilities, Redeemable Noncontrolling Interests and Equity	$60,381	$60,969

See Financial Notes

Table of Contents

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2018, 2017 and 2016
(In millions, except per share amounts)

	McKesson Corporation Stockholders' Equity									
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury		Noncontrolling Interests	Total Equity
	Shares	Amount					Common Shares	Amount		
Balances, March 31, 2015	384	$ 4	$ 6,968	$ (7)	$ 12,705	$ (1,713)	(152)	$ (9,956)	$ 84	$ 8,085
Issuance of shares under employee plans	3	—	123				(1)	(109)		14
Share-based compensation			130							130
Tax benefit related to issuance of shares under employee plans			117							117
Other comprehensive income						152				152
Net income					2,258				8	2,266
Repurchase of common stock							(9)	(1,504)		(1,504)
Retirement of common stock	(116)	(1)	(1,493)		(6,354)		116	7,848		—
Cash dividends declared, $1.08 per common share					(249)					(249)
Other				5					(8)	(3)
Balances, March 31, 2016	271	$ 3	$ 5,845	$ (2)	$ 8,360	$ (1,561)	(46)	$ (3,721)	$ 84	$ 9,008
Issuance of shares under employee plans	3	—	125					(61)		64
Share-based compensation			110							110
Tax benefit related to issuance of shares under employee plans					7					7
Acquisition of Vantage									89	89
Other comprehensive loss						(580)				(580)
Net income					5,070				39	5,109
Repurchase of common stock			(50)				(16)	(2,200)		(2,250)
Cash dividends declared, $1.12 per common share					(249)					(249)
Other	(1)		(2)	—	1				(34)	(35)
Balances, March 31, 2017	273	$ 3	$ 6,028	$ (2)	$ 13,189	$ (2,141)	(62)	$ (5,982)	$ 178	$ 11,273
	2	—	126					(59)		67

Issuance of shares under employee plans										
Share-based compensation			67							67
Payments to noncontrolling interests									(98)	(98)
Other comprehensive income						424				424
Net income					67				187	254
Repurchase of common stock			(36)				(11)	(1,614)		(1,650)
Exercise of put right by noncontrolling shareholders of McKesson Europe			3							3
Cash dividends declared, $1.30 per common share					(270)					(270)
Other				1					(14)	(13)
Balances, March 31, 2018	275	$ 3	$ 6,188	$ (1)	$ 12,986	$ (1,717)	(73)	$ (7,655)	$ 253	$ 10,057

See Financial Notes

Table of Contents

McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended March 31,		
	2018	2017	2016
Operating Activities			
Net income	$297	$5,153	$2,310
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	303	324	281
Amortization	648	586	604
Gain on Healthcare Technology Net Asset Exchange, net	(37)	(3,947)	—
Goodwill and other asset impairment charges	2,217	290	8
Loss from equity method investment in Change Healthcare	248	—	—
Deferred taxes	(868)	882	64
Share-based compensation expense	69	115	123
Charges (credits) associated with last-in-first-out inventory method	(99)	(7)	244
Loss (gain) from sales of businesses and equity investments	(169)	94	(103)
Other non-cash items	(2)	88	108
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	1,175	(762)	(1,957)
Inventories	(458)	320	(1,251)
Drafts and accounts payable	271	2,070	3,302
Deferred revenue	(143)	(87)	(120)
Taxes	671	146	(78)
Settlement payment	—	(150)	—
Other	222	(371)	137
Net cash provided by operating activities	4,345	4,744	3,672
Investing Activities			
Payments for property, plant and equipment	(405)	(404)	(488)
Capitalized software expenditures	(175)	(158)	(189)
Acquisitions, net of cash and cash equivalents acquired	(2,893)	(4,237)	(40)
Proceeds from sale of businesses and other assets, net	374	206	210
Payments received on Healthcare Technology Net Asset Exchange, net	126	1,228	—
Restricted cash for acquisitions	1,469	(506)	(939)
Other	(18)	75	(111)
Net cash used in investing activities	(1,522)	(3,796)	(1,557)
Financing Activities			
Proceeds from short-term borrowings	20,542	8,294	1,561
Repayments of short-term borrowings	(20,725)	(8,124)	(1,688)
Proceeds from issuances of long-term debt	1,522	1,824	—
Repayments of long-term debt	(2,287)	(1,601)	(1,598)
Payments for debt extinguishments	(112)	—	—
Common stock transactions:			
Issuances	132	120	123
Share repurchases, including shares surrendered for tax withholding	(1,709)	(2,311)	(1,612)
Dividends paid	(262)	(253)	(244)
Other	(185)	(18)	5

Net cash used in financing activities	(3,084)	(2,069)	(3,453)
Effect of exchange rate changes on cash and cash equivalents	150	(144)	45
Net decrease in cash and cash equivalents	(111)	(1,265)	(1,293)
Cash and cash equivalents at beginning of year	2,783	4,048	5,341
Cash and cash equivalents at end of year	$2,672	$2,783	$4,048
Supplemental Cash Flow Information			
Cash paid for:			
Interest	$298	$315	$337
Income taxes, net of refunds	$144	$587	$923